

TOWN OF FORT MYERS BEACH, FLORIDA
GENERAL-PURPOSE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
SEPTEMBER 30, 2001

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**INDEPENDENT AUDITORS' REPORT ON
GENERAL-PURPOSE FINANCIAL STATEMENTS**

Honorable Mayor and Town Council
Town of Fort Myers Beach
Fort Myers Beach, Florida

We have audited the accompanying general-purpose financial statements of the Town of Fort Myers Beach, Florida (the "Town"), as of and for the year ended September 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Fort Myers Beach, Florida, as of September 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2001, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The combining special revenue fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the Town of Fort Myers Beach, Florida. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general-purpose financial statements taken as a whole.

Schultz, Chaipel & Co., LLP
Schultz, Chaipel & Co., L.L.P.
November 21, 2001

Account Groups		Totals (Memorandum Only)	Component Unit	Totals (Memorandum Only)
General Fixed Assets	General Long-Term Debt	Primary Government	Public Works Services, Inc.	Reporting Entity
\$ -	\$ -	\$ 9,674,115	\$ -	\$ 9,674,115
-	-	-	394,002	394,002
-	-	356,353	-	356,353
-	-	-	57,759	57,759
-	-	73,844	-	73,844
-	-	71,967	-	71,967
-	-	145,923	147,674	293,597
-	-	108,446	-	108,446
3,728,909	-	3,728,909	3,298,387	7,027,296
-	48,223	48,223	-	48,223
<u>\$ 3,728,909</u>	<u>\$ 48,223</u>	<u>\$ 14,207,780</u>	<u>\$ 3,897,822</u>	<u>\$ 18,105,602</u>

\$ -	\$ -	\$ 39,644	\$ -	\$ 39,644
-	-	486	23,600	24,086
-	-	71,967	-	71,967
-	-	-	227,611	227,611
-	-	-	123,044	123,044
-	-	951,158	-	951,158
-	-	-	3,600,000	3,600,000
-	8,449	8,449	-	8,449
-	39,774	39,774	-	39,774
-	48,223	1,111,478	3,974,255	5,085,733

3,728,909	-	3,728,909	-	3,728,909
-	-	-	(76,433)	(76,433)
-	-	9,367,393	-	9,367,393
<u>3,728,909</u>	<u>-</u>	<u>13,096,302</u>	<u>(76,433)</u>	<u>13,019,869</u>
<u>\$ 3,728,909</u>	<u>\$ 48,223</u>	<u>\$ 14,207,780</u>	<u>\$ 3,897,822</u>	<u>\$ 18,105,602</u>

TOWN OF FORT MYERS BEACH
 COMBINED STATEMENT OF REVENUES , EXPENDITURES AND
 CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
 For the Year Ended September 30, 2001

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Primary Government
REVENUES				
Taxes	\$ 1,707,258	\$ 700,415	\$ -	\$ 2,407,673
Licenses and permits	11,795	16,550	-	28,345
Intergovernmental	725,654	40,467	-	766,121
Charges for services	592	39,962	-	40,554
Fines	28,098	-	-	28,098
Miscellaneous				
Special assessments	-	53,632	-	53,632
Interest	152,226	232,128	-	384,354
Contributions and donations	26,970	-	-	26,970
Settlements	-	2,000,000	-	2,000,000
Other	8,348	11,701	-	20,049
Total revenues	<u>2,660,941</u>	<u>3,094,855</u>	<u>-</u>	<u>5,755,796</u>
EXPENDITURES				
Current				
General government	1,197,900	865	-	1,198,765
Public safety	72,865	5,450	-	78,315
Physical environment	5,816	-	-	5,816
Transportation	49,063	277,890	-	326,953
Economic environment	124,209	2,029	-	126,238
Culture/Recreation	523,517	152,168	-	675,685
Total expenditures	<u>1,973,370</u>	<u>438,402</u>	<u>-</u>	<u>2,411,772</u>
Excess revenues over expenditures	<u>687,571</u>	<u>2,656,453</u>	<u>-</u>	<u>3,344,024</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	982,732	68,810	1,051,542
Operating transfers (out)	(963,535)	(88,007)	-	(1,051,542)
Total other financing sources (uses)	<u>(963,535)</u>	<u>894,725</u>	<u>68,810</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(275,964)	3,551,178	68,810	3,344,024
FUND BALANCES, October 1, 2000	<u>3,527,254</u>	<u>2,564,925</u>	<u>(68,810)</u>	<u>6,023,369</u>
FUND BALANCES, September 30, 2001	<u>\$ 3,251,290</u>	<u>\$ 6,116,103</u>	<u>\$ -</u>	<u>\$ 9,367,393</u>

The accompanying notes are an integral part of these financial statements.

**TOWN OF FORT MYERS BEACH
 COMBINED STATEMENT OF REVENUES , EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 (NON-GAAP BUDGETARY BASIS) - GENERAL FUND
 For the Year Ended September 30, 2001**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Taxes	\$ 2,117,445	\$ 2,407,673	\$ 290,228
Licenses and permits	20,000	28,345	8,345
Intergovernmental	710,585	766,121	55,536
Charges for services	42,100	40,554	(1,546)
Fines	8,000	28,098	20,098
Miscellaneous			
Special assessments	37,000	53,632	16,632
Impact fees	25,000	172,855	147,855
Interest	242,000	384,354	142,354
Contributions and donations	34,200	26,970	(7,230)
Settlement	-	2,000,000	2,000,000
Other	12,000	20,049	8,049
Total revenues	<u>3,248,330</u>	<u>5,928,651</u>	<u>2,680,321</u>
EXPENDITURES			
Administrative costs	724,377	712,873	11,504
Service center	504,200	533,778	(29,578)
Parks and recreation	650,400	649,552	848
Capital improvements	1,400,100	149,439	1,250,661
DRA/CRA	37,454	51,884	(14,430)
LPA	184,000	111,373	72,627
Contractual services	267,600	202,873	64,727
Committees	27,500	-	27,500
Contingencies and reserves	469,112	-	469,112
Total expenditures	<u>4,264,743</u>	<u>2,411,772</u>	<u>1,852,971</u>
Excess of revenues over (under) expenditures	(1,016,413)	3,516,879	827,350
FUND BALANCES, October 1, 2000	<u>2,036,413</u>	<u>5,954,599</u>	<u>3,918,186</u>
FUND BALANCES, September 30, 2001	<u>\$ 1,020,000</u>	<u>\$ 9,471,478</u>	<u>\$ 4,745,536</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF FORT MYERS BEACH
STATEMENT OF REVENUE , EXPENSES AND
CHANGES IN EQUITY-DISCRETLY PRESENTED COMPONENT UNIT
For the Period April 16, 2001 (Date of Inception) to September 30, 2001

OPERATING REVENUE

Water utility revenue \$ 235,702

OPERATING EXPENSES

Bulk water 149,162

Depreciation expense 31,868

Interest expense 23,600

Management fees 95,423

Professional services 13,338

Total operating expenses 313,391

Operating loss (77,689)

NON-OPERATING REVENUE

Interest income 1,256

Net loss (76,433)

ACCUMULATED DEFICIT, April 16, 2001 (Date of Inception) -

ACCUMULATED DEFICIT, September 30, 2001 \$ (76,433)

The accompanying notes are an integral part of these financial statements.

TOWN OF FORT MYERS BEACH
STATEMENT OF CASH FLOWS - DISCRETELY PRESENTED COMPONENT UNIT
For the Period April 16, 2001 (Date of Inception) to September 30, 2001

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating loss	\$ (77,689)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	31,868
Net (increase) decrease in:	
Receivables	(57,759)
Due from other governments	(147,674)
Net increase (decrease) in:	
Contracts and accounts payable	23,600
Due to other governments	227,611
Customer deposits	<u>123,044</u>
Net cash provided by operating activities	<u>123,001</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from loan payable	3,600,000
Acquisition of capital assets	<u>(3,330,255)</u>
Net cash provided by capital and related financing activities	<u>269,745</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest received	<u>1,256</u>
Net cash provided by investing activities	<u>1,256</u>
Net increase in cash	394,002

CASH, April 16, 2001 (date of inception) -

CASH, end of year \$ 394,002

The accompanying notes are an integral part of these financial statements.

TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
September 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Town of Fort Myers Beach, Florida (the "Town"), was incorporated pursuant to Chapter 95-494 Laws of Florida. The Town is governed by an elected five-member Town Council, and provides the following services: recreation, planning and zoning, and general and administrative services.

Governmental Accounting Standards Board (GASB) Statement Number 14, *Financial Reporting Entity* requires the financial statements of the Town (the primary government) to include its component units, if any. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable.

Component Units

Blended Component Unit

The Town of Fort Myers Beach Community Redevelopment Agency (CRA) is included in the Town's reporting entity because of the significance of the operational and financial relationships with the Town. This component unit has the same governing body as the Town, and is accounted for in a special revenue fund.

Discrete Component Unit

The Town of Fort Myers Beach Public Works Services, Inc. (the "Company") is a not-for-profit corporation, which provides potable water to the residents within the Town of Fort Myers Beach. The Town's Council acts as the Board of Directors of the Company. The Town of Fort Myers Beach Public Works, Inc. is reported as a discrete component unit of the Town.

A complete financial statement of the Fort Myers Beach Public Works Service, Inc. can be obtained at:

Fort Myers Beach Public Works Services, Inc.
2523 Estero Boulevard
Fort Myers Beach, Florida 33931

Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies used in the preparation of these general-purpose financial statements.

TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
September 30, 2001

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Summary of Significant Accounting Policies (Continued)

(a) Fund accounting

The accounts of the Town are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, by type, in the financial statements. The following fund types and account groups are used by the Town:

Governmental Fund Types

General Fund - The General Fund is the general operating fund of the Town. It accounts for all financial resources, except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for revenue from sources that are restricted by law for specific purposes.

Capital Projects Fund - The Capital Projects Fund was used to account for revenue and expenses related to capital improvements for the Town.

Proprietary Fund Types

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Account Groups

General Fixed Assets - This account group is used to account for all fixed assets of the Town other than fixed assets accounted for in proprietary funds.

General Long-Term Debt - This account group is used to account for all the long-term liabilities of the Town other than amounts payable from proprietary funds.

TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
September 30, 2001

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Summary of Significant Accounting Policies (Continued)

(b) Measurement focus

Governmental Fund Types - The General, Special Revenue and Capital Projects Funds are accounted for on a "spending" or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on the balance sheets. Accordingly, the reported undesignated fund balances (net current assets) are considered a measure of available, spendable or appropriable resources. Governmental fund type operating statements present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Proprietary Fund Types - The enterprise fund is accounted for on an "economic resources" measurement focus. Accordingly, all assets and liabilities are included on the balance sheet, and the reported accumulated deficit (total reported assets less total reported liabilities) provide an indication of the economic worth of the fund. Operating statements for proprietary fund types report increases (revenues) and decreases (expenses) in total economic net worth.

Account Groups - The General Long-Term Debt Account Group and the General Fixed Assets Account Group are concerned only with the measurement of financial position. Account groups are not involved with the measurement of the results of operations. Long-term obligations, which are not intended to be financed through proprietary funds, are accounted for in the General Long-Term Debt Account Group. Fixed assets, which are not used in proprietary operations, are accounted for in the General Fixed Assets Account Group.

(c) Basis of accounting

Basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The general-purpose financial statements for the Governmental Fund Types have been prepared on the modified accrual basis. The modification in such method from the accrual basis is that revenue is recorded when it becomes measurable and available to finance operations of the current year. Taxpayer-assessed income, gross receipts and taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time.

TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
September 30, 2001

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Summary of Significant Accounting Policies (Continued)

(c) Basis of accounting (Continued)

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on general long-term debt, if any, are recognized when due; and (2) expenditures are not divided between years by the recording of prepaid expenditures.

The proprietary funds are accounted for by using the accrual basis of accounting. Under this method, revenues are recognized when they are earned; expenses are recognized when they are incurred. Pursuant to Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Town has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

(d) Budgets and budgetary accounting

The Town follows these procedures in establishing the legally adopted budgetary data for the general-purpose financial statements:

1. On or before July 15 of each year, the Town Manager is to submit to the Town Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of a resolution required by Town Charter and as required by the State of Florida.
4. Budgets are adopted on a basis consistent with generally accepted accounting principles except as discussed in Note 8. The level of control whereby expenditures cannot exceed appropriations is at the fund level. No supplemental appropriations were made during the fiscal year.

TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
September 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Summary of Significant Accounting Policies (Continued)

(e) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not presently employed by the Town because it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

(f) Cash equivalents

The Company considers highly liquid investments, including those held as restricted assets, with maturities of three months or less when purchased to be cash equivalents.

(g) Fixed assets

Fixed assets used in governmental fund types of the Town are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the Town.

The Town follows a capitalization policy that calls for the capitalization of all fixed assets that have costs of \$500 or more and useful lives in excess of one year.

Property, plant, and equipment used in proprietary fund type operations are recorded at cost, or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets.

TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
 September 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Summary of Significant Accounting Policies (Continued)

(g) Fixed assets (Continued)

The useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Distribution lines	15
Booster stations	25

(h) Estimates

Management of the Town has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principals generally accepted in the United States of America. Actual results could differ from those estimates.

(i) Impact fees

The Town has levied impact fees on new construction within the Town. The intent of the fee is for growth within the Town to pay for capital improvements needed due to such growth. The fees are collected by Lee County and remitted to the Town. The fees are refundable if not expended within 10 years (Road Impact Fees) or 6 years (Park Impact Fees) from the date of collection. The Town, therefore, records these fees as deferred revenue until the date of expenditure at which time they are recognized as revenue.

(j) Compensated absences

Full-time employees may accumulate vacation and medical leave. The Town's policy allows employees to accumulate up to 320 hours of vacation leave. There is no limit on the number of medical leave hours an employee may accumulate. Upon separation from employment, an employee will be paid for all accumulated vacation leave (up to 320 hours) and one-half of the medical leave hours accumulated.

Vacation and medical leave that is expected to be liquidated with expendable available resources is reported as an expenditure and a liability of the General Fund. Amounts not expected to be liquidated with expendable available resources are reported in the general long-term debt account group. No expenditure is reported for these amounts.

TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
September 30, 2001

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Summary of Significant Accounting Policies (Continued)

(k) Long-term obligations

The Town reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the enterprise fund.

(l) Interfund transactions

The following is a description of the basic types of interfund transactions made during the year and the related accounting policy:

- Transfers of financial resources between funds are recognized in the funds affected in the period in which the interfund receivables and payables arise.
- The Town considers interfund receivables (due from other funds) and interfund liabilities (due to other funds) to be loan transactions to and from other funds to cover temporary cash needs.
- During the course of normal operations, the Town had numerous transactions between funds to provide services and construct assets. These transactions are generally reflected as operating transfers.

(m) Total columns on combined statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with accounting principles generally accepted in the United States of America. Nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
September 30, 2001

NOTE 2 - PROPERTY TAXES

Property taxes are levied after normal adoption of the Town's budget and become due and payable on November 1 of each year. Discounts are allowed for payment of property taxes before March 1 of the following year. On April 1, any unpaid taxes become delinquent. If the taxes are still unpaid in May, tax certificates are then offered for sale to the general public. The billing and collection of all property taxes is performed for the Town by the Lee County Tax Collector. Taxes are recognized as revenue when levied to the extent that they result in current receivables.

Key dates in the property tax cycle (latest date, where appropriate) are as follows:

- | | |
|-----------------|---|
| July 1 | ◆ Assessment roll validated |
| September 30 | ◆ Millage resolution approved and taxes levied following certificate of assessment roll |
| October 1 | ◆ Beginning of fiscal year for which tax is to be levied |
| November 1 | ◆ Property taxes due and payable (levy date) with various discount provisions through March 1 |
| April 1 | ◆ Taxes become delinquent |
| Prior to June 1 | ◆ Tax certificates sold by Lee County |

The Town Council levied ad valorem taxes at a millage rate of \$1.0961 per \$1,000 (1.0961 mils) of the 2000 net taxable value of real property located within the Town.

NOTE 3 - CASH AND INVESTMENTS

Deposits

All Town depositories are financial institutions designated by the State Treasurer as qualified public depositories. Chapter 280 of the Florida Statutes (Florida Security for Public Deposits Act) provides procedures for public deposits to insure deposits in banks and savings and loans are collateralized as public funds.

TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
September 30, 2001

NOTE 3 - CASH AND INVESTMENTS (Continued)

When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss thereof. Chapter 280 defines deposits as time deposit accounts, demand deposit accounts, and certificates of deposit. The carrying amount of the Town's deposits was \$9,674,115 and the bank balance \$9,699,321, including an overnight repurchase agreement of \$9,427,000 as of September 30, 2001. Bank balances, excluding the overnight repurchase agreement, were insured up to federal depository insurance limits with the excess balance being uninsured and uncollateralized. Overnight repurchase agreements are uninsured and uncollateralized. All depositories used by the Town are banks designated as qualified depositories by the State Treasurer.

Investments

The Town is authorized to invest in the following:

- (1) Local Government Surplus Funds Trust Fund (State Board of Administration investment pool);
- (2) An intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- (3) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- (4) Savings accounts in, or certificates of deposit of, any bank or savings association incorporated under the laws of the State of Florida or organized under the laws of the United States doing business and situated in the State of Florida, that have been designated by the Treasurer of the State of Florida as a qualified depository;
- (5) Direct obligations of the United States Treasury; and
- (6) Federal agencies and instrumentalities.

There were no violations to this policy during the fiscal year.

The Town's investments at September 30, 2001, consisted of deposits with the State Board of Administration Local Government Surplus Funds Trust Fund (SBA) and Florida Municipal Investment Trust (FMIT) administered by the Florida League of Cities, Inc. The Town had \$298,320 invested with the SBA and \$58,033 with the FMIT at September 30, 2001.

TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
September 30, 2001

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments (Continued)

The SBA is an external 2A7-Like Investment Pool. The investment with the SBA is stated at amortized cost, which approximates fair value. The fair value of the investment was the same as amortized cost at September 2000. The fair value of the position in the SBA is the same as the value of the pool shares.

The SBA is under the regulatory oversight of the State of Florida. As of September 30, 2001, the SBA contained floating rate notes totaling approximately \$2.018 billion at cost. These derivative instruments, whose market value can fluctuate based on changes in interest rates, represented approximately 3 percent of total SBA investments and were purchased by the SBA to add relative value to the SBA portfolio.

The Florida Municipal Investment Trust (FMIT) allows local governments to pool their surplus funds and invest in a variety of portfolios designed to achieve economies of scale and enhanced purchasing power within a frame-work of prudent investment parameters. The Town has placed its investment in the 1-3 year Intermediate High Quality Bond Fund. The investment with FMIT is stated at fair value.

The State Board of Administration and the Florida Municipal Investment Trust are not categorized, as they are not evidenced by securities that exist in physical or book entry form.

Discrete Component Unit

Deposits

At September 30, 2001, the carrying amount and bank balance of the Company's deposits was \$394,002. Bank balances were insured up to federal depository insurance limits with the excess balance being uninsured and uncollateralized.

TOWN OF FORT MYERS BEACH
 NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
 September 30, 2001

NOTE 4 - ACCOUNTS RECEIVABLES

Discrete Component Unit

At September 30, 2001, accounts receivable consisted of the following:

	Gross Accounts Receivable	Less Allowance for Doubtful Accounts	Net Accounts Receivable
Billed	\$11,661	\$ -	\$11,661
Unbilled	<u>46,098</u>	<u>-</u>	<u>46,098</u>
Total	<u>\$57,759</u>	<u>\$ -</u>	<u>\$57,759</u>

NOTE 5 - RESTRICTED ASSETS

Discrete Component Unit

Restricted assets of the Company represent monies required to be restricted for debt service under the terms of outstanding loan agreement and customer deposits.

Assets restricted for debt service are for the payment of bond principal and interest and bond reserve requirements. Customer deposits are advance payments held until certain criteria are met.

The assets were restricted for the following purposes at September 30, 2001:

Debt service	\$270,607
Customer deposits	<u>123,395</u>
Total	<u>\$394,002</u>

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of September 30, 2001, is as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General	<u>\$25,563</u>	<u>\$ 1,090</u>
Special revenue		
Gas tax	46,404	-
Palmetto/Easy Street	-	45,314
Time square	<u>-</u>	<u>25,563</u>
	<u>46,404</u>	<u>70,877</u>
Total	<u>\$71,967</u>	<u>\$71,967</u>

TOWN OF FORT MYERS BEACH
 NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
 September 30, 2001

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

The summary of changes in general fixed assets for the year ended September 30, 2001 is as follows:

	Balance October 1, 2000	<u>Additions</u>	<u>Deletions</u>	Balance September 30, 2001
Land	\$1,635,131	\$ -	\$ -	\$1,635,131
Buildings	1,734,624	-	-	1,734,624
Improvements other than buildings	53,397	-	-	53,397
Furniture & equipment	254,814	50,943	-	305,757
Vehicles	-	-	-	-
	<u>\$3,677,966</u>	<u>\$50,943</u>	<u>\$ -</u>	<u>\$3,728,909</u>

Discrete Component Unit

Property, plant, and equipment at September 30, 2001, consisted of the following:

	Balance April 16, 2001 (Date of Inception)	<u>Additions</u>	<u>Deletions</u>	Balance September 30, 2001
Land	\$ -	\$ 305,000	\$ -	\$ 305,000
South Booster Station	-	325,030	-	325,030
North Booster Station	-	67,870	-	67,870
Distribution Lines	-	<u>2,632,355</u>	-	<u>2,632,355</u>
	-	3,330,255	-	3,330,255
Less: accumulated depreciation	-	<u>(31,868)</u>	-	<u>(31,868)</u>
Total	<u>\$ -</u>	<u>\$3,298,387</u>	<u>\$ -</u>	<u>\$3,298,387</u>

TOWN OF FORT MYERS BEACH
 NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
 September 30, 2001

NOTE 8 - DIFFERENCE BETWEEN BUDGETED AND ACTUAL RESULTS

The Town adopts budgets on a basis consistent with generally accepted accounting principles (GAAP) except as follows:

Budgetary Fund Classification (Perspective difference) Financial Statement Fund Types	<u>General Fund</u>	<u>Special Revenue Funds</u>
Excess of revenues over expenditures (GAAP basis)-Budgetary classifications	\$3,516,879	\$ -
Reclassifications and other adjustments:		
Impact fees received (deferred under GAAP)	(172,855)	-
To reclassify excess of revenues over expenditures into financial statement fund types (perspective differences)	<u>(2,656,453)</u>	<u>2,656,453</u>
Excess of revenues over expenditures (GAAP basis)	<u>\$ 687,571</u>	<u>\$2,656,453</u>

NOTE 9 - LONG-TERM OBLIGATIONS

The following is a summary of changes in general long-term debt for the year ended September 30, 2001:

General long-term debt payable October 1, 2000	\$36,770
Payments on capital lease obligations	(5,259)
Increase in accrued compensated absences	<u>16,712</u>
General long-term debt payable at September 30, 2001	<u>\$48,223</u>

The Town is the lessee of equipment under a capital lease expiring January 15, 2003. Capital leases are defined as leases that transfer benefits and risks of ownership to the lessee. The equipment acquired through the capital lease is reported in the General Fixed Asset Account Group. The capitalized lease payable at September 30, 2001, amounted to \$8,449. The obligation is collateralized by equipment and has annual installments of \$7,080, including interest at 15.35%.

TOWN OF FORT MYERS BEACH
 NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
 September 30, 2001

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of September 30, 2001.

<u>Year Ending September 30,</u>	<u>Amount</u>
2002	\$7,080
2003	<u>2,360</u>
Total minimum lease payments	9,440
Less: Amount representing interest	<u>991</u>
Present value of net minimum lease payments	<u>\$8,449</u>

Discrete Component Unit

Note payable at September 30, 2001, consisted of the following:

\$3,600,000 note payable to a financial institution, bearing interest at 4 percent, collateralized by a lien on and a pledge of the net revenues of the Town of Fort Myers Beach Public Works Services, Inc. Additionally, the Town of Fort Myers Beach, Florida, has guaranteed the note with a pledge of its non-Ad-Valorem revenues.

The following is a summary of note payable transactions of the Company for the period April 16, 2001, date of inception, to September 30, 2001:

Notes payable at April 16, 2001 (Date of Inception)	\$ -
Debt issued	<u>3,600,000</u>
Notes payable at September 30, 2001	<u>\$3,600,000</u>

Annual Maturities of Long - Term Debt

The annual debt service requirements on the note payable at September 30, 2001, were as follows:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ -	\$ 95,200	\$ 95,200
2003	180,000	140,400	320,400
2004	<u>3,420,000</u>	<u>177,120</u>	<u>3,597,120</u>
Total	<u>\$3,600,000</u>	<u>\$412,720</u>	<u>\$4,012,720</u>

**TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
September 30, 2001**

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

Loan Agreement

The loan agreement contains various covenants including such items as debt service coverage, reporting requirements, and maintenance of facilities. Management has received a waiver from the financial institution relating to the debt service coverage requirement due to the limited time the Company has been in operation. Management believes that it has complied, in all material respects, with the other covenants of the loan agreement.

The Company has agreed to fix, establish, and maintain such rates as will provide that earnings, before depreciation and interest expense, divided by the interest expense will be between 100% and 120%.

NOTE 10 - DEFICIT FUND BALANCES

Palmetto/Easy Street – The current accumulated fund deficit of \$44,838 is a result of the assessments being collected over a period of ten years. The Town expects the deficit to be recovered in subsequent years when the assessments are paid.

NOTE 11 - RETIREMENT PLAN

The Town sponsors a defined contribution pension plan that covers all employees. Contributions to the Plan are based on ten percent of the employee's annual compensation. For the year ended September 30, 2001, contributions to the Plan totaled \$34,134.

NOTE 12 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Town participated in a public entity risk pool administered by Florida League of Cities, Inc. for general/professional liability, automobile, property and workers compensation. The Town pays an annual premium to the Florida League of Cities, Inc. for this insurance program. Participation in this risk pool is non-assessable. There were no significant reductions in insurance coverage in any of the past three fiscal years.

The Florida League of Cities, Inc. published a financial report for the year ended September 30, 2001, which can be obtained from the Florida League of Cities, Inc., Public Risk Service, 135 East Colonial Drive, Orlando, Florida 32853-0065.

TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
September 30, 2001

NOTE 12 - RISK MANAGEMENT (Continued)

The Town retains the risk of loss up to a deductible amount (ranging from \$0 to \$500) with the risk of loss in excess of this amount transferred to the pool with limits of liability of \$1,000,000 to \$3,000,000, per occurrence.

Discrete Component Unit

The Company is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Company participated in a public entity risk pool administered by Florida League of Cities, Inc. for general/professional liability, automobile, property and workers compensation. The Company pays an annual premium to the Florida League of Cities, Inc. for this insurance program. Participation in this risk pool is non-assessable.

The Florida League of Cities, Inc. published a financial report for the year ended September 30, 2001, which can be obtained from the Florida League of Cities, Inc., Public Risk Service, 135 East Colonial Drive, Orlando, Florida 32853-0065.

The Company retains the risk of loss up to a deductible amount (ranging from \$0 to \$500) with the risk of loss in excess of this amount transferred to the pool with limits of liability of \$1,000,000 to \$3,000,000, per occurrence.

NOTE 13 - SETTLEMENT

During the fiscal year, the Town of Fort Myers Beach entered a settlement agreement with Lee County, Florida, for amounts that had been received in prior years by Lee County regarding the Town's Community Redevelopment Agency. The settlement totaled \$2,000,000.

NOTE 14 - LEASES

The Town leases office facilities and other equipment under noncancelable operating leases. Total costs for such leases were \$66,685 for the year ended September 30, 2001. The future minimum lease payments for these leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2002	\$15,614
2003	<u>1,333</u>
Total	<u>\$16,947</u>

TOWN OF FORT MYERS BEACH
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
September 30, 2001

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Discrete Component Unit

On June 1, 2001, Woodard & Curran, Inc. was retained pursuant to a contract with the Company to provide for the operation and maintenance of the Company's water system. The term of the agreement is for a period of three years. Woodard & Curran, Inc. is to be compensated for actual costs (estimated to be \$274,000) plus certain adjustments and pass-through costs.

NOTE 16 - ECONOMIC DEPENDENCY

Discrete Component Unit

On August 3, 2001, a Bulk Water Agreement was entered with Lee County, Florida, to provide the Company with potable water. Lee County is currently the only source of the Company's potable water that it supplies to the residents of the Town of Fort Myers Beach. The Bulk Water Agreement is for twenty-five years. The current rate charged by Lee County is \$2.26 per 1,000 gallons which shall remain in effect until the County develops a County-wide Bulk Water rate or for two years, whichever occurs first. Per the agreement, the rate will not be less than \$2.26 nor more than \$2.50 per 1,000 gallons.

**TOWN OF FORT MYERS BEACH
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
September 30, 2001**

	<u>Gas Tax</u>	<u>Road Impact fee</u>	<u>CRA</u>
ASSETS			
Cash	\$ 3,032,678	\$ 806,286	\$ 1,926,181
Investments	58,033	-	-
Special assessments receivable	-	-	-
Due from other funds	46,404	-	-
Due from other governments	88,963	7,783	-
Total assets	<u>\$ 3,226,078</u>	<u>\$ 814,069</u>	<u>\$ 1,926,181</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable	\$ 21,748	\$ -	\$ -
Due to other funds	-	-	-
Deferred revenue	-	699,345	-
Total liabilities	<u>21,748</u>	<u>699,345</u>	<u>-</u>
EQUITY			
Fund balances			
Unreserved, undesignated (deficit)	<u>3,204,330</u>	<u>114,724</u>	<u>1,926,181</u>
Total equity	<u>3,204,330</u>	<u>114,724</u>	<u>1,926,181</u>
Total liabilities and equity	<u>\$ 3,226,078</u>	<u>\$ 814,069</u>	<u>\$ 1,926,181</u>

<u>Park Impact fee</u>	<u>Beach Nourishment</u>	<u>Palmetto/ Easy Street</u>	<u>Times Square</u>	<u>Totals</u>
\$ 115,287	\$ 904,360	\$ 475	\$ 164	\$ 6,785,431
-	-	-	-	58,033
-	-	44,714	29,130	73,844
-	-	-	-	46,404
-	-	-	-	96,746
<u>\$ 115,287</u>	<u>\$ 904,360</u>	<u>\$ 45,189</u>	<u>\$ 29,294</u>	<u>\$ 7,060,458</u>

\$ -	\$ -	\$ -	\$ -	\$ 21,748
-	-	45,314	25,563	70,877
<u>103,941</u>	<u>-</u>	<u>44,713</u>	<u>3,731</u>	<u>851,730</u>
<u>103,941</u>	<u>-</u>	<u>90,027</u>	<u>29,294</u>	<u>944,355</u>

<u>11,346</u>	<u>904,360</u>	<u>(44,838)</u>	<u>-</u>	<u>6,116,103</u>
<u>11,346</u>	<u>904,360</u>	<u>(44,838)</u>	<u>-</u>	<u>6,116,103</u>
<u>\$ 115,287</u>	<u>\$ 904,360</u>	<u>\$ 45,189</u>	<u>\$ 29,294</u>	<u>\$ 7,060,458</u>

TOWN OF FORT MYERS BEACH
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2001

	Gas Tax	Road Impact fee	CRA
REVENUES			
Taxes	\$ 700,415	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental	40,467	-	-
Charges for services	-	-	-
Miscellaneous			
Special assessments	-	-	-
Interest	127,068	42,701	28,282
Settlements	-	-	2,000,000
Other	11,701	-	-
Total revenues	<u>879,651</u>	<u>42,701</u>	<u>2,028,282</u>
EXPENDITURES			
Current			
General government	18	-	-
Public safety	5,450	-	-
Transportation	224,204	-	49,939
Economic environment	-	-	2,029
Culture/Recreation	-	-	-
Total expenditures	<u>229,672</u>	<u>-</u>	<u>51,968</u>
Excess revenues over expenditures	<u>649,979</u>	<u>42,701</u>	<u>1,976,314</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	37,454
Operating transfers (out)	(19,197)	-	-
Total other financing sources (uses)	<u>(19,197)</u>	<u>-</u>	<u>37,454</u>
Excess revenues and other financing sources over (under) expenditures	630,782	42,701	2,013,768
FUND BALANCES, October 1, 2000	<u>2,573,548</u>	<u>72,023</u>	<u>(87,587)</u>
FUND BALANCES, September 30, 2001	<u>\$ 3,204,330</u>	<u>\$ 114,724</u>	<u>\$ 1,926,181</u>

<u>Park Impact fee</u>	<u>Beach Nourishment</u>	<u>Palmetto/ Easy Street</u>	<u>Times Square</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ 700,415
-	-	-	16,550	16,550
-	-	-	-	40,467
-	-	-	39,962	39,962
-	-	8,647	44,985	53,632
4,633	29,414	-	30	232,128
-	-	-	-	2,000,000
-	-	-	-	11,701
<u>4,633</u>	<u>29,414</u>	<u>8,647</u>	<u>101,527</u>	<u>3,094,855</u>
228	54	125	440	865
-	-	-	-	5,450
-	-	3,747	-	277,890
-	-	-	-	2,029
-	-	-	152,168	152,168
<u>228</u>	<u>54</u>	<u>3,872</u>	<u>152,608</u>	<u>438,402</u>
<u>4,405</u>	<u>29,360</u>	<u>4,775</u>	<u>(51,081)</u>	<u>2,656,453</u>
-	875,000	19,197	51,081	982,732
-	-	(68,810)	-	(88,007)
-	<u>875,000</u>	<u>(49,613)</u>	<u>51,081</u>	<u>894,725</u>
4,405	904,360	(44,838)	-	3,551,178
<u>6,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,564,925</u>
<u>\$ 11,346</u>	<u>\$ 904,360</u>	<u>\$ (44,838)</u>	<u>\$ -</u>	<u>\$ 6,116,103</u>

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF GENERAL-PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor and Town Council
Town of Fort Myers Beach
Fort Myers Beach, Florida

We have audited the general-purpose financial statements of the Town of Fort Myers Beach, Florida (the "Town") as of and for the year ended September 30, 2001, and have issued our report thereon dated November 21, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting.

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Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Town in a separate letter dated November 21, 2001.

This report is intended solely for the information and use of the Town Council and management of the Town of Fort Myers Beach, Florida, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Schultz, Chaipel & Co., LLP

Schultz, Chaipel & Co., L.L.P.

November 21, 2001

MANAGEMENT LETTER

Honorable Mayor and Town Council
Town of Fort Myers Beach
Fort Myers Beach, Florida

We have audited the general-purpose financial statements of the Town of Fort Myers Beach, Florida (the "Town"), as of and for the fiscal year ended September 30, 2001, and have issued our report thereon dated November 21, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting dated November 21, 2001. Disclosures in this report, if any, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with provisions of Chapter 10.550, Rules of the Auditor General. Those rules (Section 10.554(1)(g)1.a.) require that we address in the management letter, if not already addressed in auditor's reports on compliance and internal controls whether or not inaccuracies, shortages, defalcations, fraud and/or violations of laws, rules, regulations and contractual provisions reported in the preceding annual financial audit report have been corrected. There were no inaccuracies, shortages, defalcations, fraud or violations of laws, rules, regulations, or contractual provisions reported in the preceding annual financial audit.

The Rules of the Auditor General (Section 10.554(1)(g)1.b.) require that we address in the management letter, if not already addressed in auditor's reports on compliance and internal controls whether or not recommendations made in the preceding annual financial audit report have been followed. The recommendations made in the preceding annual financial audit have been corrected.

The Rules of Auditor General (Section 10.554(1)(g)2.) require that we comment on whether or not the Town of Fort Myers Beach complied with Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Town complied with Section 218.415, Florida Statutes.

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The Rules of Auditor General (Section 10.554(1)(g)3.) require that we include any recommendations to improve the local governmental entities financial management, accounting procedures, and internal controls. Our recommendations are as follows:

CURRENT YEAR COMMENTS

Comment

There were several payroll related items that were noted during our testwork. They are as follows:

- There is currently an informal method of keeping track of employees' hours. There is no form of time sheet maintained by the Town's employees. The Office Manager keeps printouts of inter-office emails in the employee files documenting whether missed time in the office was for sick or vacation time. This "missed time" is completely on the observation of the Office Manager. The Office Manager notes that an employee is not in the office and emails them on whether they want to take sick or vacation time.
- Employees receive comp time for the many hours they work at Council Meetings. The employees keep track of their own comp time. There is no written documentation to support the time that they have earned. There is also currently no written policy regarding comp time.
- The payroll checks are issued one week before the payroll period has ended. The last check for the fiscal year ending September 30, 2001 was issued on September 28, 2001. This check was for the two-week period ending October 5, 2001. This results in employees being paid in advance.
- Vacation and sick time are accrued for the employees at the beginning of every month before it has been earned. For example, an employee receives eight hours at the beginning of September both in vacation and in sick time. They can take this vacation time or sick time during the month of September even though the employees will not have earned the vacation and sick time until the end of September. This is inconsistent with Section 10.3 of the Town's *Personnel Rules and Regulations*.

Some of these points have been brought before Council in past years. However, due to the fact that the Town has increased their number of employees, we feel that these items should again be brought to the attention of the Town Council.

Recommendation

Our recommendations for the payroll process are as follows:

- A formal payroll process is adopted and followed. Each employee of the Town should be required to maintain a daily timesheet.

- The Town should develop policies and procedures to be followed regarding comp time. There should be, at a minimum, a process for approving comp time that has been earned and some method of keeping track of the earned time.
- If the payroll checks are to continue being issued on Fridays, the paycheck should cover the payroll for the previous week rather than the upcoming week. This will avoid any disputes if an employee leaves unexpectedly or takes vacation or sick time for a period that has already been paid to them.
- Vacation and sick hours either should be accrued at the end of each month after the time has been earned.

We have noted that the Town began using Paychex, a payroll service, for the payroll beginning in January 2002. We believe that Paychex has already aided the Town in its payroll process. Transitioning to Paychex is also a perfect opportunity to resolve some of the points that we have mentioned above.

Comment

We noted that the Town does not maintain a perpetual fixed asset listing. Instead they update the listing at the end of the year by scanning the detailed general ledger for amounts above the capitalization limit of \$500 and then inputting the amount into their fixed asset software.

Recommendation

We recommend that the Town update their fixed asset listing when the item is purchased.

Comment

The supporting documentation for the calculation of the Times Square garbage assessment should be maintained in a more organized fashion. The documentation that does exist was not maintained within the Town's files but retained by the Project Manager at his home.

Recommendation

We recommend that each month when the calculation is prepared by the Town, a copy of the calculation should be kept in the file by the Project Manager and a copy of the calculation should be forwarded to the Accountant so she can keep the calculation in her files to support her billings of the assessments. It is also recommended that either the Town Manager or the Deputy Town Manager review the calculation before the invoices are sent to the customers.

The Rules of the Auditor General (Section 10.554(1)(g)4.) require disclosure in the management letter of the following matters if not already addressed in auditor's reports on compliance and internal controls: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention, of the auditor. Our audit disclosed no such matters required to be disclosed.

The Rules of the Auditor General (Section 10.554(1)(g)5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The Town discloses this information in the notes to the financial statements.

As required by the Rules of the Auditor General (Section 10.554(1)(g)6.a.), the scope of our audit included a review of the provisions of Sections 218.503(1), Florida Statutes, regarding financial emergencies. We determined that the Town is not in a state of financial emergency as a consequence of the conditions described in Section 218.503, Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(g)6.b.), we determined that the annual financial report of the Town for the fiscal year ended September 30, 2001, filed with the Department of Banking and Finance pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2001.

As required by the Rules of the Auditor General (Sections 10.554(1)(g)6.c. and 10.556), we applied financial condition assessment procedures. It is management's responsibility to monitor the Town's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This report is intended solely for the information and use of the Town Council, management of the Town of Fort Myers Beach and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Schultz, Chaipel & Co., LLP
Schultz, Chaipel & Co., L.L.P.
November 21, 2001

Town of Fort Myers Beach



Daniel L. Hughes
Mayor

Terry Cain
Vice-Mayor

Howard Rynearson
Seat 3

Bill Thomas
Seat 4

Bill VanDuzer
Seat 5

RESPONSE TO MANAGEMENT LETTER

January 2002
Schultz, Chaipel & Co.
Certified Public Accountants
Fort Myers, Florida

In response to the management letter regarding the audit of the financial statements of the Town of Fort Myers Beach for the 12 months ending September 30th 2001.

1. Employee issues; Because of the still limited size of the town staff the Office Manager has indicated a high level of comfort relative to the comings and goings of our employees. Because of the complex demanding nature of the various responsibilities of the staff, a more formal method of tracking hours may not be appropriate, warranted or efficient.

Comp time associated with attendance at Council Meetings is verifiable since each meeting is documented as part of the public record.

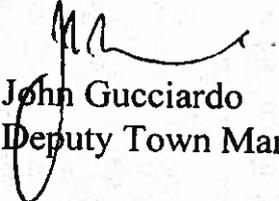
While the current payroll periods do allow for payment within a work period (as opposed to at the end of a work period) it is our understanding that through the current date, no employee has ever been compensated for time that they did not work for the Town.

As of January 1st of 2002 we have engaged a payroll service. It is our intention that one of the benefits of this service will be that the accrual of vacation and sick time will now be more consistent with the Personnel Rules and Regulations.



2. Fixed Assets; Last year, in response to comments about our fixed asset inventory we indicated that we would begin a process to allow for the annual audit of fixed assets using accounting software. We believe we have met this requirement. If the Council expresses a desire to see the audit completed on a semi-annual or other basis, we could certainly investigate that possibility.

3. Times Square Project; This project has been passed on to a variety of staff members over the years. This year, an eager and industrious new employee took over the project and attempted to familiarize himself with as many of the particulars of the project as possible. The comment about certain files having been transported to the Project Manager's home is noted and steps have been taken to remedy that situation.


John Gucciardo
Deputy Town Manager