

TOWN OF FORT MYERS BEACH, FLORIDA

BASIC FINANCIAL STATEMENTS

**AS OF AND FOR THE YEAR ENDED
SEPTEMBER 30, 2004**

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INDEPENDENT AUDITORS' REPORT

To the Council Members
Town of Fort Myers Beach
Fort Myers Beach, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fort Myers Beach, Florida (the Town) as of and for the year ended September 30, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these 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 audits 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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General fund, Gas Tax fund, and the CRA fund 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 April 14, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The supplemental financial information as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Additionally, the accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550 *Rules of the Auditor General* and is not a required part of the basic financial statements. The supplemental financial information and the schedule of expenditures of federal awards and state financial assistance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schultz, Chaipel & Co., LLP

Schultz, Chaipel & Co., LLP
April 14, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Town of Fort Myers Beach's financial statements is intended to provide a narrative introduction to the basic financial statements and an analytical overview of the Town's financial activities for the fiscal year ending September 30, 2004.

Since the Management's Discussions and Analysis is designed to focus on the current year's activities, resulting changes, and current known facts, please read it in conjunction with the Town's financial statements.

FINANCIAL HIGHLIGHTS

- At September 30, 2004, the assets of the Town of Fort Myers Beach exceeded its liabilities by \$16,421,639 (net assets). Of this amount, \$10,250,599 of unrestricted net assets may be used to meet the Town's ongoing obligations.
- The Town's total net assets increased by \$3,606,142.
- The Town of Fort Myers Beach's governmental funds reported combined ending fund balances of \$8,080,652 as of September 30, 2004. This is a decrease of \$374,242 over the September 30, 2003 ending fund balances.

USING THE BASIC FINANCIAL STATEMENTS

These basic financial statements consist of a series of financial statements.

Government-wide Financial Statements

The Statement of Net Assets (page 11) and the Statement of Activities (page 12) provide information about the activities of the Town as a whole. The Government-wide Financial Statements separate governmental from business-type activities but both are measured and reported on a full accrual basis using the economic resources measurement focus.

The Statement of Net Assets purpose is to be used as an indicator of the improvement of the financial position of the Town. Net assets is the difference between the Town's assets and liabilities.

The Statement of Activities presents information showing how the Town's net assets changed during the 2004 fiscal year. The statement reflect the expenses of a given function or segment, which are offset by program revenues. Program revenues are defined as charges for services, operating grants and contributions, and capital grants and contributions directly associated with a given function. Taxes are reported under general revenue.

Both of these financial statements distinguish primary types of functions of the Town as follows:

- Governmental activities – Most of the Town's primary functions are reported here, including culture/recreation, public works, streets and roads, planning and zoning, and general and administrative services. Major revenues supporting these activities are ad valorem taxes, gas taxes, communications services taxes, and intergovernmental revenues.

- **Business-type activities** – This column includes Public Works Services, a blended component unit which is used to account for the operation of the water system. The services are supported from user fees.

Fund Financial Statements

The Fund Financial Statements, which report by fund type, begin on page 13. The governmental funds measure and report activities using the current financial resources measurement focus and the modified accrual basis of accounting. Therefore, you will find the reconciliation on pages 13 and 15 that converts this data to an economic resources measurement focus and the accrual basis of accounting for use in the Government-wide Financial Statements. The Fund Financial Statements present information in more detail than the Government-wide Financial Statements.

The Town's major funds are presented in separate columns on the Fund Financial Statements. The funds that do not meet this criterion of a major fund are considered nonmajor funds and are combined into a single column, "Other Governmental Funds" on the Fund Financial Statements. The Governmental Accounting Standards Board (GASB) Statement No. 34 provides the authoritative guidance on the governmental reporting model.

A fund is a grouping of related accounts that is used to maintain financial control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories:

1. **Governmental funds** – account for most of the Town's tax-supported activities. Examples are the General Fund and the Gas Tax funds. These funds focus on how money flows into and out of the funds, and the balances left at year-end. The accounting method used is called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash, within a sixty-day period. The two criteria used are that the revenue is measurable and available.
2. **Proprietary funds** – are used to account for the business-type activities of the government. The Town's proprietary fund includes Public Works Services, a blended component unit. The proprietary fund uses full accrual basis accounting and the economic measurement focus. Fees or charges are the primary revenue service for the proprietary fund.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements. The notes can be found beginning on page 22.

AN OVERVIEW OF THE TOWN

Summary of Net Assets

The Town's total net assets as of September 30, 2004 were \$16,421,639. The Town's combined revenues, including charges for services, operating grants and contributions, capital grants and contributions, and taxes were \$10,888,988. The Town's total expenses were \$7,282,846. The increase to net assets was \$3,606,142. The following table reflects the condensed Statement of Net Assets for only the fiscal year ending September 30, 2004. Since this is the Town's first year implementing GASB Statement No. 34, comparative data for the previous year is not available. Comparisons will begin with the fiscal year ending September 30, 2005.

Town of Fort Myers Beach Summary of Net Assets

	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total Primary Government</i>
Current and other assets	\$ 10,020,447	\$ 2,303,935	\$ 12,324,382
Capital assets	<u>6,711,414</u>	<u>2,827,856</u>	<u>9,539,270</u>
Total assets	<u>16,731,861</u>	<u>5,131,791</u>	<u>21,863,652</u>
Current and other liabilities	1,078,350	680,724	1,759,074
Noncurrent liabilities	<u>82,939</u>	<u>3,600,000</u>	<u>3,682,939</u>
Total liabilities	<u>1,161,289</u>	<u>4,280,724</u>	<u>5,442,013</u>
Net assets:			
Invested in capital assets, net of related debt	6,711,414	(772,144)	5,939,270
Restricted	-	231,770	231,770
Unrestricted	<u>8,859,158</u>	<u>1,391,441</u>	<u>10,250,599</u>
Total net assets	<u>\$ 15,570,572</u>	<u>\$ 851,067</u>	<u>\$ 16,421,639</u>

The Town's largest portion of net assets, 62%, is unrestricted. These monies may be used to meet the Town's ongoing obligations to citizens and creditors. Restricted net assets of \$231,770 are subject to external restriction on how they may be used. The remaining 36% of net assets, \$5,939,270 represents the amount invested in capital assets, less the outstanding debt used to acquire those assets. The Town uses these assets to provide services to the citizens and therefore, these assets are not available for future spending. It should also be noted that other resources will be required to repay the outstanding debt on capital assets.

Summary of Changes in Net Assets

The following table is the condensed Statement of Activities, which shows the changes in net assets, for the fiscal year ended September 30, 2004. As this is the Town's first year of implementing GASB Statement No. 34, comparative data for the previous year is not available. Comparisons will begin with the fiscal year ending September 30, 2005.

**Town of Fort Myers Beach
Summary of Changes in Net Assets**

	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total Primary Government</i>
Revenues:			
Program revenues			
Charges for services	\$ 597,739	\$ 2,192,165	\$ 2,789,904
Operating grants and contributions	1,350,355	-	1,350,355
Capital grants and contributions	2,405,699	104,093	2,509,792
General revenues			
Property taxes	2,237,033	-	2,237,033
Gas taxes	375,153	-	375,153
Franchise fees	70,971	-	70,971
Communications services taxes	497,292	-	497,292
Intergovernmental revenues	808,102	-	808,102
Investment earnings	176,036	8,511	184,547
Miscellaneous	<u>57,191</u>	<u>8,648</u>	<u>65,839</u>
Total revenues	<u>8,575,571</u>	<u>2,313,417</u>	<u>10,888,988</u>
Expenses:			
General government	2,042,548	-	2,042,548
Public safety	875,085	-	875,085
Transportation	937,677	-	937,677
Economic environment	595,292	-	595,292
Culture/recreation	1,045,369	-	1,045,369
Public works	-	1,785,151	1,785,151
Interest on long term debt	<u>1,724</u>	<u>-</u>	<u>1,724</u>
Total expenses	<u>5,497,695</u>	<u>1,785,151</u>	<u>7,282,846</u>
Increase in net assets	3,077,876	528,266	3,606,142
Net assets - beginning	<u>12,492,696</u>	<u>322,801</u>	<u>12,815,497</u>
Net assets - ending	<u>\$ 15,570,572</u>	<u>\$ 851,067</u>	<u>\$ 16,421,639</u>

Governmental Activities

The table below presents the cost of each of the Town's largest programs as well as each program's net cost (total cost less program revenues), generated by the activities. The net cost represents the portion of each program that is supported by various taxes.

The cost of all governmental activities this fiscal year was \$5.5 million. This is the first year of GASB Statement No. 34 implementation, so comparisons will begin with the fiscal year ending September 30, 2005. As shown in the Statement of Activities (page 12), the net cost ultimately paid through taxes was \$1.1 million. The remaining \$4.4 million was provided by:

- Approximately \$600,000 in charges for services of which there were approximately \$200,000 in revenue from fines and forfeitures, approximately \$200,000 from parking facilities revenues, with the remainder from various fees for general government services.
- Approximately \$1.4 million in operating grants and contributions of which \$500,000 relates to both federal and state grants reimbursing the Town for expenses related to Hurricane Charley. The remaining \$900,000 includes monies from the Flood Mitigation grant, Congestion Pricing grant, Harbor Plan grant, and the Tourist Development Council grant for beach clean up.
- \$2.4 million in capital grants and contributions, of which \$2.2 million was a grant for the purchase of the Newton property.

**Town of Fort Myers Beach
Governmental Activities**

	<i>Total cost of services</i>	<i>Net cost (earnings) of services</i>
Public safety	\$ 875,085	\$ (377,662)
Transportation	937,677	(296,869)
Economic environment	595,292	158,568
Culture/recreation	1,045,369	1,355,916
General government	<u>2,044,272</u>	<u>(1,983,855)</u>
Totals	<u>\$ 5,497,695</u>	<u>\$ (1,143,902)</u>

Business-type Activities

Revenues of the Town's business-type activities totaled \$2,313,417. Operating expenses totaled \$1,785,151, which shows an increase in net assets of \$528,266.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are comprised of the general fund and special revenue funds. Governmental funds use the current financial resources measurement focus that provides information on the near-term inflows, outflows, and balances of spendable resources.

The *General Fund* is the chief operating fund of the Town. It is used to account for all financial resources, except those to be accounted for in another fund. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$4,253,362. The fund balance of the Town's general fund increased \$415,905 during the current fiscal year. The key factors for this increase are an increase in ad valorem tax revenue of approximately \$300,000 and an increase in communication services tax revenue of approximately \$100,000.

The *Gas Tax Fund* is used to account for gas taxes and other resources dedicated to road related projects. This fund has a total fund balance of \$3,409,198, all of which is dedicated for road improvements.

The *CRA Fund* is used to account for the tax increment factor levied on the benefiting properties within the defined district and the use of such funds. This fund has a total fund balance of \$555,453.

The *Old San Carlos MSBU Fund* is used to account for the special assessment levied on benefited property owners for improvements constructed by the Town. This fund has a total fund balance deficit of \$266,660. The Town expects the deficit to be recovered in subsequent years when the assessments are paid.

The *FEMA Fund* is used to account for debris removal, repairs and improvements to the Town as result of Hurricane Charley. This fund has a total fund balance deficit of \$820,430, which is a result of the revenue associated with accounts being deferred until received from the Federal Emergency Management Agency.

All other governmental funds are accounted for in the column entitled *Other Governmental Funds*.

Proprietary Funds

The Town's proprietary fund is used to account for activities for which a fee is charged to external users for services. This fund provides the same type of information found in the Governmental-wide Financial Statements, but in more detail.

BUDGETARY HIGHLIGHTS

The difference between the General fund's final budget and actual amounts equaled a \$1,845,301 increase in total revenues due primarily to the timing of grants received from the State for the Newton property purchase. The grant was anticipated to be received and budgeted in fiscal 2003. However, the actual closing on the Newton property and related grant funding occurred in fiscal 2004.

Actual expenditures were more than the final budgeted amount by \$1,486,499. The bulk of the difference relates to the purchase of the Newton Property, as discussed above.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The following table provides a comparative summary of capital assets (net of accumulated depreciation) by category.

**Town of Fort Myers Beach
Capital Assets
(net of depreciation)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 4,245,748	\$ 1,875,131	\$ 305,000	\$ 305,000	\$ 4,550,748	\$ 2,180,131
Buildings and leasehold improvements	1,939,378	1,623,773	-	-	1,939,378	1,623,773
Improvements other than buildings	44,920	48,722	2,513,813	2,688,582	2,558,733	2,737,304
Office furniture and equipment	68,956	35,739	9,043	3,012	77,999	38,751
Vehicles and other equipment	231,796	154,639	-	-	231,796	154,639
Infrastructure	123,716	-	-	-	123,716	-
Construction in progress	56,900	-	-	-	56,900	-
Total capital assets	<u>\$ 6,711,414</u>	<u>\$ 3,738,004</u>	<u>\$ 2,827,856</u>	<u>\$ 2,996,594</u>	<u>\$ 9,539,270</u>	<u>\$ 6,734,598</u>

The most significant increase in capital assets during the fiscal year was related to the purchase of the Newton Property, which cost approximately \$2.2 million.

Additional information on the Town's capital assets can be found in Note 9 to the financial statements.

Long-term Debt

As of September 30, 2004, the Town had \$3,682,939 in a note payable, capital lease, and compensated absences. The following table provides a breakdown:

**Town of Fort Myers Beach
Outstanding Debt**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Note payable	\$ -	\$ -	\$ 3,600,000	\$ 3,420,000	\$ 3,600,000	\$ 3,420,000
Capital lease	17,030	-	-	-	17,030	-
Compensated absences	65,909	60,107	-	-	65,909	60,107
Total capital assets	<u>\$ 82,939</u>	<u>\$ 60,107</u>	<u>\$ 3,600,000</u>	<u>\$ 3,420,000</u>	<u>\$ 3,682,939</u>	<u>\$ 3,480,107</u>

Additional information on the Town's long-term debt can be found in Note 10 to the financial statements.

ECONOMIC FACTORS AND NEXT FISCAL YEAR'S BUDGET

The State of Florida operates primarily using sales, gasoline and corporate income tax. Local governments (cities, counties and school boards) primarily rely on property and a limited array of permitted other taxes (sales, gasoline, communication services, etc.) and fees (franchise, occupational licensing, impact, etc.) for their governmental activities. There are a number of state-shared revenues and recurring and non-recurring (one-time) grants from both the state and federal governments.

The following factors were considered in preparing the Town's budget for the 2005 fiscal year.

- Due to an active storm season in late fiscal year 2004, the Town anticipated additional costs on various storm related tasks. These tasks included a continuation of debris removal, repair work to damaged infrastructure such as roads and drainage systems and the beach accesses, replacement of lost or damaged street signs, repair work to Town facilities, such as Town Hall, the Community Pool and the Newton Property. It is anticipated that 75% of this work will be done on a reimbursement basis (either reimbursable by FEMA, insurance or other third parties), but that the Town will be responsible for the remaining amounts.
- In anticipation of the 75% reimbursement from FEMA and our insurance partners, a Revenue line item was included in the 2005 budget for a projected amount of \$2,250,000.
- The Town's trolley program (Park and Ride) did well in fiscal year 2004 and plans have been made to continue the program in 2005. Additional costs for this program are reflected in the 2005 budget, along with additional funding for the Traffic Control and Sheriff's Office Service Enhancements.

Requests for Information

This financial report is designed to provide a general overview of the Town of Fort Myers Beach's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town of Fort Myers Beach, 2523 Estero Boulevard, Fort Myers Beach, Florida 33931.

TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,866,377	\$ 1,646,897	\$ 3,513,274
Investments	6,491,287	-	6,491,287
Due from other governments	1,265,189	-	1,265,189
Accounts receivable	-	386,807	386,807
Special assessments receivable	397,148	-	397,148
Internal balances	446	(446)	-
Restricted cash	-	257,760	257,760
Unamortized debt issuance costs	-	12,917	12,917
Capital assets (net of accumulated depreciation):			-
Land	4,245,748	305,000	4,550,748
Buildings and leasehold improvements	1,939,378	-	1,939,378
Improvements other than buildings	44,920	2,513,813	2,558,733
Office furniture and equipment	68,956	9,043	77,999
Vehicles and other equipment	231,796	-	231,796
Infrastructure	123,716	-	123,716
Construction in progress	56,900	-	56,900
Total assets	<u>16,731,861</u>	<u>5,131,791</u>	<u>21,863,652</u>
LIABILITIES			
Accounts payable and other accrued liabilities	310,149	4,027	314,176
Accrued interest payable	-	51,770	51,770
Due to other governments	-	429,051	429,051
Deferred revenue	768,201	-	768,201
Liabilities payable from restricted assets - customer deposits	-	195,876	195,876
Long-term liabilities:			-
Due within one year	8,087	180,000	188,087
Due in more than one year	74,852	3,420,000	3,494,852
Total liabilities	<u>1,161,289</u>	<u>4,280,724</u>	<u>5,442,013</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,711,414	(772,144)	5,939,270
Restricted for:			
Debt service	-	231,770	231,770
Unrestricted	8,859,158	1,391,441	10,250,599
Total net assets	<u>\$ 15,570,572</u>	<u>\$ 851,067</u>	<u>\$ 16,421,639</u>

The notes to the financial statements are an integral part of this financial statement.

TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2004

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			
				Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 2,042,548	\$ 60,417	\$ -	\$ (1,982,131)	\$ -	\$ (1,982,131)	
Public safety	875,085	-	497,423	(377,662)	-	(377,662)	
Transportation	937,677	472,046	168,762	(296,869)	-	(296,869)	
Economic environment	595,292	-	624,015	158,568	-	158,568	
Culture/Recreation	1,045,369	65,276	60,155	1,355,916	-	1,355,916	
Interest on long-term debt	1,724	-	-	(1,724)	-	(1,724)	
Total governmental activities	5,497,695	597,739	1,350,355	(1,143,902)	-	(1,143,902)	
Business-type activities:							
Water	1,785,151	2,192,165	-	-	511,107	511,107	
Total primary government	\$ 7,282,846	\$ 2,789,904	\$ 1,350,355	\$ (1,143,902)	\$ 511,107	\$ (632,795)	
General revenues:							
Property taxes, levied for general purposes				2,237,033	-	2,237,033	
Gas taxes				375,153	-	375,153	
Franchise fees				70,971	-	70,971	
Communications services taxes				497,292	-	497,292	
Intergovernmental revenues, not restricted to specific programs				808,102	-	808,102	
Investment earnings				176,036	8,511	184,547	
Miscellaneous				57,191	8,648	65,839	
Total general revenues				4,221,778	17,159	4,238,937	
Change in net assets				3,077,876	528,266	3,606,142	
Net assets - beginning				12,492,696	322,801	12,815,497	
Net assets - ending				\$ 15,570,572	\$ 851,067	\$ 16,421,639	

TOWN OF FORT MYERS BEACH, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2004

	General	Gas Tax	CRA	Old San Carlos MSBU	FEMA	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 457,427	\$ 850,046	\$ 104,856	\$ -	\$ -	\$ 454,048	\$ 1,866,377
Investments	2,872,905	2,150,940	517,888	-	-	949,554	6,491,287
Special assessments receivable	-	-	-	340,009	-	57,139	397,148
Due from other funds	893,290	359,176	266,660	-	-	-	1,519,126
Due from other governments	198,335	61,746	-	-	497,423	10,708	768,212
Total assets	4,421,957	3,421,908	889,404	340,009	497,423	1,471,449	11,042,150
LIABILITIES AND FUND BALANCES							
Liabilities:							
Account payable and accrued liabilities	91,833	12,710	11,724	-	120,025	8,271	244,563
Retainage payable	-	-	65,586	-	-	-	65,586
Due to other funds	76,762	-	256,641	266,660	700,405	218,658	1,519,126
Deferred revenue	-	-	-	340,009	497,423	294,791	1,132,223
Total liabilities	168,595	12,710	333,951	606,669	1,317,853	521,720	2,961,498
Fund balances:							
Unreserved, reported in:							
General fund	4,253,362	-	-	-	-	-	4,253,362
Special revenue funds	-	3,409,198	555,453	(266,660)	(820,430)	949,729	3,827,290
Total fund balances (deficit)	4,253,362	3,409,198	555,453	(266,660)	(820,430)	949,729	8,080,652
Total liabilities and fund balances	\$ 4,421,957	\$ 3,421,908	\$ 889,404	\$ 340,009	\$ 497,423	\$ 1,471,449	\$ 11,042,150

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

Fund balance totals:	\$ 8,080,652
Amounts reported for governmental activities in the statement of net asset are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital assets	7,223,340
Accumulated depreciation	<u>(511,926)</u> 6,711,414
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	861,445
Long-term liabilities, including capital lease payable, are not due and payable in the current period and therefore are not reported in the funds.	
Capital lease payable	(17,030)
Compensated absences	<u>(65,909)</u> (82,939)
Net assets of governmental activities	<u>\$ 15,570,572</u>

The notes to the financial statements are an integral part of this financial statement.

TOWN OF FORT MYERS BEACH, FLORIDA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the Fiscal Year Ended September 30, 2004

	General	Gas Tax	CRA	Old San Carlos MSBU	FEMA	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes							
Property	\$ 2,237,033	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,237,033
Gas	-	375,153	-	-	-	-	375,153
Franchise	70,971	-	-	-	-	-	70,971
Communications services	497,292	-	-	-	-	-	497,292
Licenses and permits	23,794	-	-	-	-	16,727	40,521
Intergovernmental revenues	3,828,290	225,141	-	-	-	-	4,053,431
Charges for services	215,344	-	-	-	-	96,254	311,598
Fines and forfeitures	170,365	-	-	-	-	26,706	197,071
Miscellaneous							
Special assessments/Impact fees	-	-	-	41,449	-	56,827	98,276
Interest	50,728	73,005	5,798	13,660	-	32,845	176,036
Other	16,074	-	-	-	575	-	16,649
Total revenues	7,109,891	673,299	5,798	55,109	575	229,359	8,074,031
EXPENDITURES							
Current							
General government	2,041,381	182	51,347	-	-	903	2,093,813
Public safety	51,646	2,110	-	-	821,005	-	874,761
Transportation	272,995	619,819	42,015	-	-	127,252	1,062,081
Economic environment	704,510	-	-	-	-	-	704,510
Culture/Recreation	3,598,668	-	24,398	-	-	105,348	3,728,414
Debt service							
Principal retirement	7,720	-	-	-	-	-	7,720
Interest and fiscal charges	1,724	-	-	-	-	-	1,724
Total expenditures	6,678,644	622,111	117,760	-	821,005	233,503	8,473,023
Excess (deficiency) of revenues over (under) expenditures	431,247	51,188	(111,962)	55,109	(820,430)	(4,144)	(398,992)
OTHER FINANCING SOURCES (USES)							
Proceeds from capital lease obligation	24,750	-	-	-	-	-	24,750
Operating transfer in	-	-	-	-	-	40,092	40,092
Operating transfers out	(40,092)	-	-	-	-	-	(40,092)
Total other financing sources (uses)	(15,342)	-	-	-	-	40,092	24,750
Net change in fund balances	415,905	51,188	(111,962)	55,109	(820,430)	35,948	(374,242)
Fund balances (deficit), October 1, 2003	3,837,457	3,358,010	667,415	(321,769)	-	913,781	8,454,894
Fund balances (deficit), September 30, 2004	\$ 4,253,362	\$ 3,409,198	\$ 555,453	\$ (266,660)	\$ (820,430)	\$ 949,729	\$ 8,080,652

The notes to the financial statements are an integral part of this financial statement.

TOWN OF FORT MYERS BEACH, FLORIDA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCES TO THE STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended September 30, 2004

Net change in Fund balances - total governmental funds		\$ (374,242)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>		
Capital Outlay	\$ 3,103,767	
Depreciation	<u>(130,357)</u>	2,973,410
<p>The issuance of long-term debt (e.g. capital lease obligations) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets.</p>		
Capital lease obligation entered during the year	(24,750)	
Principal debt payments	<u>7,720</u>	(17,030)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.</p>		
		501,540
<p>In the statement of activities, certain operating expenses—compensated absences (sick pay and vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This amount represents the increase in the accrual of compensated absences at 9/30/04 from 9/30/03.</p>		
		<u>(5,802)</u>
Change in net assets of governmental activities		<u>\$ 3,077,876</u>

The notes to the financial statements are an integral part of this financial statement.

TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended September 30, 2004

	Budgets		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 2,156,613	\$ 2,156,613	\$ 2,237,033	\$ 80,420
Franchise taxes	56,000	56,000	70,971	14,971
Communications services tax	300,000	300,000	497,292	197,292
Licenses and permits	15,500	15,500	23,794	8,294
Intergovernmental revenues	2,040,477	2,040,477	3,828,290	1,787,813
Charges for services	613,000	613,000	215,344	(397,656)
Fines and forfeitures	25,000	25,000	170,365	145,365
Miscellaneous				
Interest	50,000	50,000	50,728	728
Other	8,000	8,000	16,074	8,074
Total revenues	<u>5,264,590</u>	<u>5,264,590</u>	<u>7,109,891</u>	<u>1,845,301</u>
Expenditures				
Current				
General government	2,415,907	2,415,907	2,026,075	389,832
Public safety	56,500	56,500	51,646	4,854
Physical environment	10,000	10,000	-	10,000
Transportation	394,000	394,000	272,995	121,005
Economic environment	601,488	601,488	704,510	(103,022)
Culture/Recreation	1,689,500	1,689,500	3,598,668	(1,909,168)
Total expenditures	<u>5,167,395</u>	<u>5,167,395</u>	<u>6,653,894</u>	<u>(1,486,499)</u>
Excess revenues over expenditures	<u>97,195</u>	<u>97,195</u>	<u>455,997</u>	<u>358,802</u>
Other financing sources (uses)				
Operating transfers out	-	-	(40,092)	(40,092)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(40,092)</u>	<u>(40,092)</u>
Net change in fund balances	<u>\$ 97,195</u>	<u>\$ 97,195</u>	<u>\$ 415,905</u>	<u>\$ 318,710</u>

The notes to the financial statements are an integral part of this financial statement.

TOWN OF FORT MYERS BEACH, FLORIDA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GAS TAX
 For the Fiscal Year Ended September 30, 2004

	Budgets		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Gas taxes	\$ 665,000	\$ 665,000	\$ 375,153	\$ (289,847)
Intergovernmental	373,000	298,000	225,141	(72,859)
Miscellaneous				
Special assessments	7,000	7,000	-	(7,000)
Interest	40,000	40,000	73,405	33,405
Other	3,000	3,000	(400)	(3,400)
Total revenues	<u>1,088,000</u>	<u>1,013,000</u>	<u>673,299</u>	<u>(339,701)</u>
Expenditures				
Current				
General government	-	-	182	(182)
Public safety	25,000	25,000	2,110	22,890
Physical environment	50,000	50,000	20,098	29,902
Transportation	1,301,000	1,236,000	599,721	636,279
Total expenditures	<u>1,376,000</u>	<u>1,311,000</u>	<u>622,111</u>	<u>688,889</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>\$ (288,000)</u>	 <u>\$ (298,000)</u>	 <u>\$ 51,188</u>	 <u>\$ 349,188</u>

The notes to the financial statements are an integral part of this financial statement.

TOWN OF FORT MYERS BEACH, FLORIDA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 CRA
 For the Fiscal Year Ended September 30, 2004

	Budgets		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues				
Miscellaneous				
Special assessments	\$ 67,300	\$ 67,300	\$ -	\$ (67,300)
Interest	-	-	5,798	5,798
Total revenues	<u>67,300</u>	<u>67,300</u>	<u>5,798</u>	<u>(61,502)</u>
Expenditures				
Current				
General government	55,000	55,000	51,347	3,653
Transportation	350,000	350,000	42,015	307,985
Culture/Recreation	45,000	45,000	24,398	20,602
Total expenditures	<u>450,000</u>	<u>450,000</u>	<u>117,760</u>	<u>332,240</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (382,700)</u>	<u>\$ (382,700)</u>	<u>\$ (111,962)</u>	<u>\$ 270,738</u>

The notes to the financial statements are an integral part of this financial statement.

TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2004

ASSETS

Current assets

Cash	\$ 1,646,897
Accounts receivable, net	386,807
Restricted cash	<u>257,760</u>
Total current assets	<u>2,291,464</u>

Noncurrent assets

Unamortized debt issuance costs	12,917
Capital assets, net	<u>2,827,856</u>
Total noncurrent assets	<u>2,840,773</u>

Total assets	<u>5,132,237</u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Current liabilities

Payable from current assets:	
Note payable - current	180,000
Accrued interest	51,770
Accounts payable	4,027
Due to Lee County, Florida	429,051
Due to other funds	<u>446</u>
Total payable from current assets	665,294
Current liabilities payable from restricted assets:	
Customer deposits	<u>195,876</u>
Total current liabilities	861,170

Noncurrent liabilities

Note payable	<u>3,420,000</u>
Total liabilities	<u>4,281,170</u>

NET ASSETS

Invested in capital assets, net of related debt	(772,144)
Restricted for debt service	231,770
Unrestricted	<u>1,391,441</u>
Total net assets	<u>\$ 851,067</u>

The notes to the financial statements are an integral part of this financial statement.

TOWN OF FORT MYERS BEACH, FLORIDA
 STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 For the Fiscal Year Ended September 30, 2004

OPERATING REVENUE	
Water utility revenue	\$ 2,192,165
Total operating revenue	<u>2,192,165</u>
OPERATING EXPENSES	
Bulk water	1,070,759
Depreciation expense	202,355
Management fees	279,370
Repairs and maintenance	63,856
Power	26,515
Professional services	16,655
Office expenses	<u>6,502</u>
Total operating expenses	<u>1,666,012</u>
Operating income	<u>526,153</u>
NON-OPERATING REVENUE (EXPENSE)	
Interest income	8,511
Other income	8,648
Interest expense	<u>(119,139)</u>
Total non-operating expenses	<u>(101,980)</u>
Income before capital contributions	424,173
Capital contributions - connection fees	<u>104,093</u>
Change in net assets	528,266
TOTAL NET ASSETS, beginning of year	<u>322,801</u>
TOTAL NET ASSETS, end of year	<u><u>\$ 851,067</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF FORT MYERS BEACH, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Fiscal Year Ended September 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts form customers	\$ 2,206,973
Payments to suppliers and others	<u>(1,703,689)</u>
Net cash provided by operating activities	<u>503,284</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES**

Other receipts	<u>8,648</u>
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**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Loan proceeds	3,584,500
Principal paid on note	(3,420,000)
Interest paid on note	(133,186)
Capital contributions	139,133
Acquisition of capital assets	<u>(33,617)</u>
Net cash provided by capital and related financing activities	<u>136,830</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>8,511</u>
Net increase in cash	657,273

CASH, beginning of year	<u>1,247,384</u>
CASH, end of year (including restricted accounts)	<u>\$ 1,904,657</u>

Reconciliation of operating income to net cash provided by
operating activities

Operating income	\$ 526,153
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	202,355
Net (increase) decrease in:	
Receivables	(11,244)
Net increase (decrease) in:	
Accounts payable	(16,934)
Due to other governments	(223,098)
Customer deposits	<u>26,052</u>
Net cash provided by operating activities	<u>\$ 503,284</u>

The notes to the financial statements are an integral part of this financial statement.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Town of Fort Myers Beach, Florida (the "Town"), was incorporated pursuant to Chapter 95-494 Laws of Florida. The Town operates under a Town Manager form of government and is governed by an elected five-member Town Council. The Town Manager is appointed by a majority vote of the Council. The Town provides the following services: parks and recreation, public works, streets and roads, planning and zoning, water utility services, and general and administrative services.

Governmental Accounting Standards Board (GASB) Statement No. 14, *Financial Reporting Entity* (GASB No. 14) 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. Blended component units, although legally separate entities are, in substance, part of the government's operations and so the data from these units are combined with data of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the primary government.

Component Units

Blended Component Units

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. The CRA was established by the Lee Town Board of Town Commissioners pursuant to Resolution 90-07-21. The Town Council of The Town of Fort Myers Beach became the governing board of the CRA pursuant to the Town's Resolution 98-13. The CRA does not publish individual component unit financial statements.

The Town of Fort Myers Beach Public Works Services, Inc. ("Public Works Services") 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 rates and user charges and debt issuance authorizations are approved by the Town Council. The Town has guaranteed the outstanding note payable of the Public Works Services with a pledge of its non Ad Valorem revenues. Public Works Services is reported as an enterprise fund.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

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

A complete financial statement of Public Works Services can be obtained at:

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

Summary of Significant Accounting Policies

(a) Government-Wide and Fund Financial Statements

Effective October 1, 2003, the Town has implemented GASB Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34), No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 21 and No. 34*, No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation Number 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. The government-wide financial statements and the fund financial statements along with the notes to the financial statements comprise the basic financial statements.

The government-wide financial statements (the statement of net assets and the statement of activities) concentrate on the Town as a whole and do not emphasize fund types but rather a governmental or business-type classification, which are presented in separate columns. The governmental activities and business-type activities comprise the primary government. Neither fiduciary funds nor component units that are fiduciary in nature are included. General governmental and intergovernmental revenues support the governmental activities, whereas the business-type activities are primarily supported by user fees and charges for services. The purpose of the government-wide financial statements is to allow the user to be able to determine if the Town is in a better or worse financial position than the prior year.

The statement of activities reflects the expenses of a given function or segment, which are offset by program revenues. Program revenues are defined as charges for services, operating grants and contributions, and capital grants and contributions directly associated with a given function. Taxes are reported under general revenue.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

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

Summary of Significant Accounting Policies (Continued)

(a) Government-Wide and Fund Financial Statements (Continued)

The Town's major funds are presented in separate columns on the governmental fund financial statements and the proprietary fund financial statements. The definition of a major fund is one that meets certain criteria set-forth in GASB No. 34. The funds that do not meet the criteria of a major fund are considered non-major funds and are combined into a single column on the fund financial statements.

The effect of interfund activity has been removed from the government-wide financial statements.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of the Town are organized on the basis of funds, 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 or retained earnings, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

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

The government-wide financial statements are prepared on a full accrual basis using the economic resources measurement focus, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements have been met.

Proprietary funds record both operating and nonoperating revenues and expenses. Operating revenues are those that are obtained from the operations of the proprietary fund that include user fees. Non-operating revenues are not related to the operations of the proprietary fund and include interest earnings and other

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

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

Summary of Significant Accounting Policies (Continued)

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

miscellaneous nonoperating receipts. Operating expenses represent the cost of operations, which includes depreciation. Non-operating expenses are not related to operations such as interest expense.

Governmental fund financial statements are prepared on the modified accrual basis using the current financial resources measurement focus. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. The Town considers all revenues available if they are collected within sixty days after year-end. Primary revenues, such as property taxes, special assessments, intergovernmental revenues, charges for services, sales and franchise taxes, rents, and interest are treated as susceptible to accrual under the modified accrual basis and so have been recognized as revenues. Expenditures reported in governmental fund financial statements are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

An exception to this general rule includes principal and interest on general long-term debt, which is recognized when due.

The business-type activities reported in the government-wide financial statements and proprietary funds follow private sector standards issued prior to December 1, 1989, to the extent those standards do not conflict with Governmental Accounting Standards Board statements. However, pursuant to GASB No. 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.

When both restricted and unrestricted resources are available, restricted resources will be used first for incurred expenses, and then unrestricted as needed.

The Town reports the following major funds in the governmental fund financial statements:

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.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

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

Summary of Significant Accounting Policies (Continued)

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Gas Tax Fund is used to account for gas taxes and other resources dedicated to road related projects.

CRA Fund is used to account for the tax increment factor levied on the benefiting properties within the defined district and the use of such funds.

Old San Carlos MSBU is used to account for special assessment levied on benefited property owners for improvements constructed by the Town.

FEMA Fund was established to account for debris removal, repairs and improvements to the Town as a result of Hurricane Charley.

The Town reports the following major fund in the business-type fund financial statements:

Public Works Services Fund is used to account for the activities of the operation of the water system.

(c) Budgets and budgetary accounting

The Town follows the procedures enumerated below in establishing the legally adopted budgetary data reflected in the fund 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, including a Town Manager's message explaining the budget, for the fiscal year commencing the following October 1. The operating budget will include a complete financial plan of all Town funds and activities for the ensuing fiscal year.
2. The Town Council shall publish in one or more newspapers of general circulation the time and place of public hearings. Public hearings are then 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.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

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

Summary of Significant Accounting Policies (Continued)

(c) Budgets and budgetary accounting (Continued)

4. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America except as discussed in Note 3. A budget for the Old San Carols fund and the FEMA fund was not adopted.
5. Budget amounts, as shown in the fund financial statements, are as originally adopted and as finally amended by the Town Council. If, during the fiscal year, additional revenues become available for appropriation in excess of those estimated in the budget, the Town Council may make supplemental appropriations by resolution for the year up to the amount of such excess. There were no supplemental appropriations during the year.
6. The annual budgets serve as the legal authorization for expenditures. Expenditures cannot legally exceed the total amount budgeted for each fund. The Council must approve all budget amendments, which change the legally adopted total appropriation for a fund. Authority to transfer budget within a fund is delegated to the Town Council. Appropriations lapse at the fiscal year end.

(d) Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Cash consists of amounts in demand deposits and certificates of deposit. Investments consist of amounts on deposit with the Local Government Surplus Trust Fund, in money market funds and with the Florida Municipal Investment Trust.

The Town's investment policy allows management to invest any surplus funds in its control in the following:

1. The Local Government Surplus Trust Fund (LGSTF), or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Florida Statute, Chapter 163.01,
2. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency,
3. Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Florida Statutes, Chapter 280.02, and
4. Direct obligations of the United States Treasury.

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

Summary of Significant Accounting Policies (Continued)

(d) Assets, Liabilities, and Net Assets or Equity (Continued)

Cash and Investments (Continued)

For purposes of the statement of cash flows, the Town considers highly liquid investments, including those held as restricted assets, with maturities of three months or less when purchased to be cash equivalents.

Accounts Receivable

The accounts receivable of the Town are recorded net of allowance for doubtful accounts which generally is equivalent to the receivables that are over 60 days past due.

Special assessment receivables that are not expected to be collected in the current period are reported as deferred revenue in the governmental fund statements. Delinquent special assessments receivable are expected to be recovered, ultimately through liens.

Due From/Due To

Activity between funds during the year is recorded by transferring cash. However after September 30, cash can no longer move between funds. Therefore a "due from" and "due to" are used to record any activity representing current interfund loans. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statement of net assets as "internal balances".

Debt issuance costs

Debt issuance costs are deferred and amortized over the term of the related debt using the straight-line method, which approximates the effective interest method.

Capital Assets

Capital assets include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. As permitted by GASB No. 34, the Town has elected not to report infrastructure assets retroactively. Capital assets are recorded at cost if purchased or constructed. Donated fixed assets are recorded at their fair value at the date of donation.

TOWN OF FORT MYERS BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2004

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

Summary of Significant Accounting Policies (Continued)

(d) Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets (Continued)

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.

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

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. The ranges of the useful lives are as follows:

<u>Asset</u>	<u>Years</u>
Buildings	30-50
Improvements other than buildings	6-50
Equipment	3-35
Computer Equipment	3-10
Furniture	4-20
Vehicles & rolling stock	3-10
Distribution lines	15
Booster stations	25

Deferred Revenue

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. In the governmental funds, special assessments are deferred until collected.

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

Summary of Significant Accounting Policies (Continued)

(d) Assets, Liabilities, and Net Assets or Equity (Continued)

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.

The accumulated compensated absences are accrued when incurred in the government-wide financial statements. For the Governmental Funds, the amounts normally liquidated with expendable available financial resources are accrued in the individual funds and the remaining portion (the amount estimated to be used in subsequent fiscal years) is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Town to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 2 - PROPERTY TAXES

The billing and collection of all property taxes is performed for the Town by the Lee County, Florida, Tax Collector. Property taxes are levied after formal 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. Taxes are recognized as revenue when levied to the extent that they result in current receivables. 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 proceeds collected are remitted to the Town. There were no delinquent taxes or uncollected taxes at year end.

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, Florida Tax Collector

NOTE 3 - DIFFERENCE BETWEEN BUDGETED AND ACTUAL RESULTS

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

General Fund

Proceeds from a capital lease obligation were not budgeted, nor was the related expenditure for equipment.

The following adjustments were necessary to present this fund's actual data on a budgetary basis (Non-GAAP) for the fiscal year ended September 30, 2004:

TOWN OF FORT MYERS BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2004

NOTE 3 - DIFFERENCE BETWEEN BUDGETED AND ACTUAL RESULTS (Continued)

Excess of revenues over expenditures and other financing uses (GAAP basis)	\$ 415,905
Basis Difference:	
Other financing sources - proceeds from capital lease obligation	24,750
General government expenditures – capital outlay	<u>(24,750)</u>
Excess of revenues over expenditures (Non-GAAP basis)	\$ <u>415,905</u>

NOTE 4 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Finance Related Legal and Contractual Provisions

Management believes there were no violations of finance related legal and contractual provisions.

Deficit Fund Balances

Palmetto/Easy Street – The current accumulated fund deficit of \$24,282 is a result of the assessments being collected over a period of years. The Town expects the deficit to be recovered in subsequent years when the assessments are paid.

Beach Access – The current accumulated fund deficit of \$13,969 is a result of this parking program’s expenditures exceeding related program revenue. The Town expects the deficit to be recovered in subsequent years through a reduction of expenditures relating to this parking program.

NOTE 5 - CASH AND INVESTMENTS

Cash

Governmental Activities

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.

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

TOWN OF FORT MYERS BEACH, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2004

NOTE 5 - CASH AND INVESTMENTS (Continued)

Cash (Continued)

Governmental Activities (continued)

deposit accounts, and certificates of deposit. The carrying amount of the Town's deposits was \$1,866,377 and the bank balance was \$2,064,900 (including overnight repurchase agreements of \$1,110,000) as of September 30, 2004. These deposits, excluding the overnight repurchase agreement, were covered by federal depository insurance or by collateral pursuant to the Public Depository Security Act of the State of Florida (Chapter 280). The overnight repurchase agreements are uninsured and uncollateralized. All depositories used by the Town are banks designated as qualified public depositories by the State Treasurer.

Business-type Activities

At September 30, 2004, the carrying amounts of the Town's deposits were \$1,904,657 and the bank balances were \$2,220,836. The bank balances include \$1,845,000 at September 30, 2004, held in overnight repurchase agreements that are uninsured and uncollateralized. At September 30, 2004, the bank balance excluding the repurchase agreement was \$375,836, which was in excess of the federal depository insurance limits by \$75,836.

Investments

Governmental Activities

Town investments are made in accordance with the provisions of Section 218.415, Florida Statutes "Investment of Local Government Surplus Funds".

In accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the Town's investments are categorized as follows to give an indication of the level of risk assumed by the Town:

- Category 1: Includes investments that are insured or registered, or securities held by the Town or its agents in the Town's name, or held by the Town's agents in a Depository Trust Company custodial account.
- Category 2: Includes uninsured and unregistered investments held by a counterparty's trust department or agent in the Town's name.
- Category 3: Includes uninsured and unregistered investments for which securities are held by a counterparty, its trust department or agent, but not in the Town's name.

TOWN OF FORT MYERS BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2004

NOTE 5 - CASH AND INVESTMENTS (Continued)

Investments (Continued)

Governmental Activities (Continued)

The Town's investments at September 30, 2004, consisted of deposits with the State Board of Administration Local Government Surplus Funds Trust Fund (SBA), Florida Municipal Investment Trust (FMIT) administered by the Florida League of Cities, Inc., and SunTrust Bank. The Town had \$313,272 invested with the SBA, \$4,089,047 with the FMIT, and \$2,088,968 with SunTrust Bank at September 30, 2004.

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 position in the SBA is the same as the value of the pool shares.

The Florida Municipal Investment Trust (FMIT), an intergovernmental investment pool, 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 framework of prudent investment parameters. The investment with FMIT is stated at fair value.

Investments held by SunTrust are registered money market funds.

The investments listed above are not categorized for credit risk, as they are not evidenced by securities that exist in physical or book entry form.

NOTE 6 - ACCOUNTS RECEIVABLE

At September 30, 2004, accounts receivable consisted of the following:

	<u>Gross accounts receivable</u>	<u>Less allowance for doubtful accounts</u>	<u>Net accounts receivable</u>
Water	\$197,652	\$ 2,700	\$194,952
Sewer	201,655	9,800	191,855
Total	<u>\$399,307</u>	<u>\$12,500</u>	<u>\$386,807</u>

TOWN OF FORT MYERS BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2004

NOTE 7 - RESTRICTED ASSETS

Restricted assets represent monies restricted for the following purposes at September 30, 2004:

Capital improvements or debt service	\$ 47,473
Customer deposits	<u>210,287</u>
Total	<u><u>\$257,760</u></u>

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Receivables and Payables

Interfund balances for the year ended September 30, 2004, consisted of the following:

	<u>Purpose</u>	<u>Amount</u>
Due to: General Fund		
FEMA	Hurricane clean up expenses	\$ 700,405
Non major governmental funds	Operations	<u>192,885</u>
Total due to General Fund		<u>893,290</u>
Due to: Gas Tax Fund		
Non major governmental funds	Construction	25,773
General Fund	Operations	76,762
CRA	Construction	<u>256,641</u>
Total due to Gas Tax Fund		<u>359,176</u>
Due to: CRA Fund		
Old San Carlos MSBU	Construction	<u>266,660</u>
Total		<u>\$ 1,519,126</u>

Interfund Transfers

Interfund transfers for the year ended September 30, 2004, consisted of the following:

	<u>Transfers In:</u>	
<u>Transfers Out:</u>	<u>Times Square</u>	<u>Purpose</u>
General Fund	<u>\$ 40,092</u>	Operations

TOWN OF FORT MYERS BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2004

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2004 is as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,875,131	\$ 2,370,617	\$ -	\$ 4,245,748
Construction in Progress	-	56,900	-	56,900
Total capital assets not being depreciated	<u>1,875,131</u>	<u>2,427,517</u>	<u>-</u>	<u>4,302,648</u>
Capital assets being depreciated:				
Buildings and leasehold improvements	1,798,662	372,603	-	2,171,265
Improvements other than buildings	68,073	1,950	-	70,023
Office furniture and equipment	123,153	49,033	-	172,186
Vehicles and other equipment	254,554	127,941	-	382,495
Infrastructure	-	124,723	-	124,723
Total capital assets being depreciated	<u>2,244,442</u>	<u>676,250</u>	<u>-</u>	<u>2,920,692</u>
Less accumulated depreciation for:				
Buildings and leasehold improvements	174,889	56,998	-	231,887
Improvements other than buildings	19,351	5,752	-	25,103
Office furniture and equipment	87,414	15,816	-	103,230
Vehicles and other equipment	99,915	50,784	-	150,699
Infrastructure	-	1,007	-	1,007
Total accumulated depreciation	<u>381,569</u>	<u>130,357</u>	<u>-</u>	<u>511,926</u>
Total capital assets being depreciated, net	<u>1,862,873</u>	<u>545,893</u>	<u>-</u>	<u>2,408,766</u>
Total governmental activities capital assets, net	<u>\$ 3,738,004</u>	<u>\$ 2,973,410</u>	<u>\$ -</u>	<u>\$ 6,711,414</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 52,872
Public safety	324
Transportation	319
Economic environment	1,802
Culture/Recreation	75,040
	<u>\$ 130,357</u>

Restatements

Effective October 1, 2003, the Town removed certain costs that were incorrectly reported as capital assets. Net assets at the beginning of fiscal 2004 have been adjusted by \$9,955 to remove costs reported as capital assets that should have been expensed in the year incurred.

TOWN OF FORT MYERS BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2004

NOTE 9 - CAPITAL ASSETS (Continued)

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 305,000	\$ -	\$ -	\$ 305,000
Total capital assets not being depreciated	<u>305,000</u>	<u>-</u>	<u>-</u>	<u>305,000</u>
Capital assets being depreciated:				
Computer equipment	9,038	10,434	-	19,472
South booster station	328,250	-	-	328,250
North booster station	78,361	-	-	78,361
Distribution lines	2,704,766	23,183	-	2,727,949
Total capital assets being depreciated	<u>3,120,415</u>	<u>33,617</u>	<u>-</u>	<u>3,154,032</u>
Less accumulated depreciation for:				
Computer equipment	6,026	4,403	-	10,429
South booster station	28,169	13,321	-	41,490
North booster station	5,882	3,414	-	9,296
Distribution lines	388,744	181,217	-	569,961
Total accumulated depreciation	<u>428,821</u>	<u>202,355</u>	<u>-</u>	<u>631,176</u>
Total capital assets being depreciated, net	<u>2,691,594</u>	<u>(168,738)</u>	<u>-</u>	<u>2,522,856</u>
Total business-type activities capital assets, net	<u>\$ 2,996,594</u>	<u>\$ (168,738)</u>	<u>\$ -</u>	<u>\$ 2,827,856</u>

NOTE 10 - LONG-TERM OBLIGATIONS

Governmental Activities

Capital Lease Obligation Payable

The Town entered into a capital lease obligation to purchase a Mitsubishi truck. The agreement requires monthly payments of \$787 including interest at the rate of 10.13%. The obligation matures in September 2006. The balance of the obligation at September 30, 2004 was \$17,030.

The annual debt service requirements for the capital lease obligation payable as of September 30, 2004 are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 8,087	\$ 1,357	\$ 9,444
2006	8,943	501	9,444
	<u>\$ 17,030</u>	<u>\$ 1,858</u>	<u>\$ 18,888</u>

TOWN OF FORT MYERS BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

Governmental Activities, Continued

The changes in long-term obligations during fiscal year ended September 30, 2004 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loan Payable	\$ -	\$ 24,750	\$ (7,720)	\$ 17,030	\$ 8,087
Compensated Absences	60,107	5,802	-	65,909	-
	<u>\$ 60,107</u>	<u>\$ 30,552</u>	<u>\$ (7,720)</u>	<u>\$ 82,939</u>	<u>\$ 8,087</u>

Business-type Activities

Note payable at September 30, 2004, consisted of the following:

Note payable to a financial institution, bearing interest at 2.75 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 has guaranteed the note with a pledge of its non-Ad-Valorem revenues. The Note matures April 8, 2007.

\$3,600,000

Changes in Long - Term Obligations

The changes in long-term obligations for the year ended September 30, 2004 were as follows:

	October 1, 2003	Additions	Reductions	September 30, 2004	Due Within One Year
Note payable	<u>\$ 3,420,000</u>	<u>3,600,000</u>	<u>(3,420,000)</u>	<u>\$ 3,600,000</u>	<u>\$ 180,000</u>

The annual debt service requirements for the note payable as of September 30, 2004 are as follows:

TOWN OF FORT MYERS BEACH, FLORIDA
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2004

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

Business-type Activities, Continued

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 180,000	\$ 96,031	\$ 276,031
2006	180,000	90,977	270,977
2007	3,240,000	44,744	3,284,744
	<u>\$ 3,600,000</u>	<u>\$ 231,752</u>	<u>\$ 3,831,752</u>

Loan Agreement

The loan agreement contains various covenants including such items as debt service coverage, reporting requirements, and maintenance of facilities. Management believes that it has complied, in all material respects, with the covenants of the loan agreement.

The Town has agreed to fix, establish, and maintain such rates as will provide that annually the net revenue of the Town will be sufficient to pay operating and maintenance expenses and the principal and interest due on the note payable. For the year ended September 30, 2004, net revenues were sufficient to pay the required items.

NOTE 11 - 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 the public entity risk pool administered by the Florida League of Cities, Inc. for general/professional liability, property and workers compensation. The Town pays an annual premium to 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 the past two fiscal years. The amount of settlements did not exceed insurance coverage in each of the past three fiscal years.

The Florida League of Cities, Inc. published financial report for the year ended September 30, 2004, can be obtained from the Florida League of Cities, Inc., Public Risk Service, 135 East Colonial Drive, Orlando, Florida 32853-0065.

The Town retains the risk of loss up to a deductible amount (ranging from \$0 to \$250) 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 12 - RETIREMENT PLAN

The Town sponsors a defined contribution pension plan entitled the Town of Fort Myers Beach Pension Plan (the "Plan"). The Plan covers all employees and is administered by the Town. The Plan is a prototype money purchase plan sponsored by VALIC. The Plan can only be amended by VALIC. However, the Town as the Plan administrator can amend the terms within the relate Adoption Agreement, including employer contribution percentages. Contributions to the Plan are based on ten percent of the employee's annual compensation (15% for the Town Manager) and vest 100% to employee upon contribution to the Plan. For the year ended September 30, 2004, contributions to the Plan totaled \$74,195.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Town leases office facilities under noncancelable operating leases. Total costs for such leases were \$52,613 for the year ended September 30, 2004. The future minimum lease payments for these leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2005	\$54,135
2006	20,052
2007	<u>4,513</u>
	<u>\$78,700</u>

The Town has currently received grants, which are subject to special compliance requirements by the Grantor agency, which could result in disallowed expense amounts. These amounts constitute a contingent liability of the Town. The Town does not believe that any potential contingent liabilities are material.

The Town is a defendant in a lawsuit filed by a construction contractor for alleged nonpayment of change orders, nonpayment of additional work and for lost business. The suit asks for damages in excess of \$5 million. Management of the Town believes the contractor's suit is without merit and has filed a countersuit for lack of performance by the contractor. Management intends to vigorously defend its position.

On June 1, 2001, Woodard & Curran, Inc. was retained to provide for the operation and maintenance of the Town'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. The contract expired on May 31, 2004. This contract was extended until September 30, 2004 and was renewed in October 2004 for another three year period.

NOTE 14 - ECONOMIC DEPENDENCY

On August 3, 2001, a Bulk Water Agreement was entered with Lee County, Florida, to provide Public Works Services with potable water. Lee County is currently the only source

NOTE 14 - ECONOMIC DEPENDENCY (Continued)

of the Public Works Services' potable water that it supplies to the residents of the Town of Fort Myers Beach. The Bulk Water Agreement is for twenty-five years. Per the agreement, the rate charged by Lee County will not be less than \$2.26 or more than \$2.50 per 1,000 gallons. Effective October 1, 2002, Lee County raised its rate to \$2.46 per 1,000 gallons. Public Works Services revised its base rate effective October 1, 2002, to pass this increase to its customers.

NOTE 15 - HURRICANE CHARLEY

On August 13, 2004, the President of the United States declared Major Disaster No. FEMA-DR-1539-FL as a result of Hurricane Charley. Hurricane Charley caused damage to the Town's infrastructure and extensive damage to business and personal property of the citizens of the Town.

Federal assistance in the wake of disasters is coordinated by the Federal Emergency Management Agency (FEMA). Under the Public Assistance program, FEMA provides assistance for debris removal, implementation of emergency protective measures and permanent restoration of infrastructure. This program is based on a partnership between FEMA, state and local officials, with FEMA funding 90% of allowable expenses, the State of Florida 5% and the Town the remainder.

For certain types of facilities or areas, disaster assistance is the responsibility of a Federal agency other than FEMA. The Federal Highway Administration (FHWA) administers the Emergency Relief Program to assist with sign replacement, repairs and debris removal for roadways identified by FHWA. For the Town, Estero Boulevard was identified as such a roadway by FHWA.

The General Fund is used to account for the payroll and related benefits pertaining to Hurricane Charley. The FEMA Fund is used to account for the expenses, revenues, assets and liabilities for debris removal and repairs to Town properties and infrastructure related to Hurricane Charley. This includes expenses expected to be reimbursed by either FEMA or FHWA. At September 30, 2004, the Town incurred expenses totaling approximately \$850,000. The amount of the total cost for the clean up effort yet to be incurred was not calculable at September 30, 2004.

NOTE 16 - RESTATEMENTS

As a result of implementing GASB No. 34, the beginning net assets of the governmental activities were restated to include governmental capital assets and governmental long-term debt.

The financial information for the Town's component unit, Public Works Services, has been presented as a blended component in accordance with GASB No.14.

SUPPLEMENTAL FINANCIAL INFORMATION

TOWN OF FORT MYERS BEACH, FLORIDA
 COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS
 September 30, 2004

	Road Impact Fees	Park Impact Fees	Beach Renourishment	Palmetto/ Easy Street	Times Square	Beach Access	Totals
ASSETS							
Cash	\$ 141,609	\$ 154,860	\$ 2,027	\$ 1,492	\$ 11,819	\$ 142,241	\$ 454,048
Investments	-	-	949,554	-	-	-	949,554
Special assessments receivable	-	-	-	24,013	33,126	-	57,139
Due from other governments	7,347	3,361	-	-	-	-	10,708
Total assets	\$ 148,956	\$ 158,221	\$ 951,581	\$ 25,505	\$ 44,945	\$ 142,241	\$ 1,471,449

LIABILITIES AND FUND BALANCES (DEFICITS)

LIABILITIES

Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 8,271	\$ -	\$ 8,271
Due to other funds	-	-	-	25,774	36,674	156,210	218,658
Deferred revenue	127,935	142,843	-	24,013	-	-	294,791
Total liabilities	127,935	142,843	-	49,787	44,945	156,210	521,720

FUND BALANCES

Fund balances							
Unreserved, undesignated	21,021	15,378	951,581	(24,282)	-	(13,969)	949,729
Total fund balances (deficits)	21,021	15,378	951,581	(24,282)	-	(13,969)	949,729
Total liabilities and fund balances (deficits)	\$ 148,956	\$ 158,221	\$ 951,581	\$ 25,505	\$ 44,945	\$ 142,241	\$ 1,471,449

TOWN OF FORT MYERS BEACH, FLORIDA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - SPECIAL REVENUE FUNDS
For the Year Ended September 30, 2004

	Road Impact Fees	Park Impact Fees	Beach Renourishment	Palmetto/ Easy Street	Times Square	Beach Access	Totals
REVENUES							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	16,727	-	16,727
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	96,254	96,254
Fines and forfeitures	-	-	-	-	-	26,706	26,706
Miscellaneous	-	-	-	8,278	48,549	-	56,827
Special assessments/impact fees	866	1,415	27,665	2,899	-	-	32,845
Interest	866	1,415	27,665	11,177	65,276	122,960	229,359
Total revenues							
	866	1,415	27,665	11,177	65,276	122,960	229,359
EXPENDITURES							
Current							
General Government	-	283	600	-	20	-	903
Public Safety	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	127,252	127,252
Culture/Recreation	-	-	-	-	105,348	-	105,348
Total expenditures	-	283	600	-	105,368	127,252	233,503
Excess (deficiency) of revenues over (under) expenditures	866	1,132	27,065	11,177	(40,092)	(4,292)	(4,144)
OTHER FINANCING SOURCES							
Operating transfers in	-	-	-	-	40,092	-	40,092
Operating transfers (out)	-	-	-	-	-	-	-
Total other financing (uses)	-	-	-	-	40,092	-	40,092
Excess of revenues over (under) expenditures and other financing sources	866	1,132	27,065	11,177	-	(4,292)	35,948
FUND BALANCES (deficit), October 1, 2003	20,155	14,246	924,516	(35,459)	-	(9,677)	913,781
FUND BALANCES (deficit), September 30, 2004	\$ 21,021	\$ 15,378	\$ 951,581	\$ (24,282)	\$ -	\$ (13,969)	\$ 949,729

SINGLE AUDIT REPORTS

David L. Schultz, CPA,* ABV
Clifford Chaipel, CPA
Martin A. Redovan, CPA,* CVA
Russell T. Baker, CPA

SCHULTZ
CHAIPHEL
& CO. L.L.P.

* Regulated by the State of Florida

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

Certified Public Accountants

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fort Myers Beach, Florida (the Town) as of and for the year ended September 30, 2004, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated April 14, 2005. 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.

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 financial statements and not to provide assurance on the internal control over financial reporting. 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 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 April 14, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

This report is intended solely for the information and use of the Town Council and management of the Town of Fort Myers Beach, Florida, the Auditor General of the State of Florida and federal and state awarding agencies 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.
April 14, 2005
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 AND
CHAPTER 10.550 RULES OF THE AUDITOR GENERAL**

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

Compliance

We have audited the compliance of the Town of Fort Myers Beach (the "Town") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The Town's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program and state project is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550 Rules of the Auditor General. Those standards and OMB Circular A-133 and Chapter 10.550 Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state projects for the year ended September 30, 2004.

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Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program and state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550 Rules of the Auditor General.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program or a state project 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Town Council and management of the Town of Fort Myers Beach and federal and state awarding agencies 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.
April 14, 2005

TOWN OF FORT MYERS BEACH
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 AND STATE FINANCIAL ASSISTANCE
 For the Fiscal Year Ended September 30, 2004

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>Federal CFDA State CSFA Number</u>	<u>Federal or Pass-Through Contract Number</u>	<u>Expenditures</u>	<u>Transfers to Subrecipients</u>
U.S. Department of Transportation				
Federal Highway Administration				
<i>Passed through the Florida Department of Transportation</i>				
Highway Planning and Construction	20.205	AL304	\$ 168,762	
Highway Planning and Construction				
Hurricane Charley	20.205	H 1101	<u>335,814</u>	
			504,576	
Federal Emergency Management Agency				
<i>Passed through the Florida Department of Community Affairs</i>				
Public Assistance Grants				
Hurricane Charley FEMA-1539-DR-FL	97.036	FIPS No. 071-24150-00	161,609	
<i>Passed through the Florida Department of Community Affairs, Division of Emergency Management</i>				
Flood Mitigation Assistance Program	83.536	03FM09-46-02	389,852	389,852
U.S. Department of Housing and Urban Development				
<i>Passed through Lee County, Florida</i>				
Community Development Block Grant	14.218	2700	<u>33,534</u>	
Total Expenditures of Federal Awards			<u>\$ 1,089,571</u>	<u>\$ 389,852</u>
State of Florida				
Florida Department of Community Affairs				
Florida Forever Act	52.002	02-098-FF2	<u>1,290,879</u>	
Total Expenditures of State Financial Assistance			<u>\$ 1,290,879</u>	

See accompanying notes to the schedule of expenditures of federal awards and state financial assistance.

TOWN OF FORT MYERS BEACH
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
September 30, 2004

NOTE 1 - PURPOSE OF SCHEDULE

The Schedule of Expenditures of Federal Awards and State Financial Assistance (the Schedule) is a supplementary schedule to the Town's basic financial statements and is presented for purposes of additional analysis. The Schedule is required by Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and by Chapter 3A-5, Rules of the Florida Department of Banking and Finance, Florida Administrative Code, *Schedule of Expenditures of State Financial Assistance*.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Federal Financial Assistance - Pursuant to the Single Audit Act of 1984 (Public Law 98-502), the Single Audit Act Amendments of 1996 (Public Law 104-156), and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, that nonfederal entities receive or administer, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property interest subsidies, insurance, or direct appropriations.

State Financial Assistance - Pursuant to Florida Single Audit Act (Section 215.97, Florida Statutes) and Chapter 27D-1, Rules of the Executive Office of the Governor, Florida Administrative Code, state financial assistance is defined as assistance from state resources, not including federal financial assistance and state matching, provided to nonstate entities to carry out a state project. State Financial Assistance includes all types of state assistance as stated in the rules of the Executive Office of the Governor, established in consultation with the Comptroller and appropriate state agencies that provide state financial assistance. It includes state financial assistance provided directly by state awarding agencies or indirectly by recipients of state awards. It does not include procurement contracts used to buy goods or services from vendors.

Catalog of Federal Domestic Assistance - OMB Circular A-133 requires the Schedule to present the total expenditures for each of the Town's federal financial assistance programs as identified in the Catalog of Federal and Domestic Assistance (CFDA). Federal financial assistance programs that have not been assigned a CFDA number are indicated with an "N/A."

Catalog of State Financial Assistance - Chapter 3A-5, Rules of the Florida Department of Banking and Finance, Florida Administrative Code requires the Schedule to present the total state financial assistance expended for each individual state project as identified in the Catalog of State Financial Assistance (CSFA). The CSFA is a comprehensive listing of state projects. State financial assistance projects that have not been assigned a CSFA number are indicated with an "N/A."

TOWN OF FORT MYERS BEACH
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 AND STATE FINANCIAL ASSISTANCE
 September 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Type A and Type B Programs

The Single Audit Act Amendments of 1996, OMB Circular A-133 and *Rules of the Executive Office of the Governor* establish the levels of expenditures to be used in defining Type A and Type B federal and state financial assistance programs. Type A assistance programs for the Town are those programs that exceeded \$300,000 for federal assistance and \$300,000 for state projects for the year ended September 30, 2004.

Each nonstate entity that expends a total amount of state financial assistance equal to or in excess of \$500,000 in any fiscal year is required to have a state single audit for such fiscal year in accordance with the requirements of the Florida Single Audit Act (Section 215.97, Florida Statutes).

C. Reporting Entity

The Schedule includes all federal financial assistance programs and state projects administered by the Town of Fort Myers Beach and included in the Town's financial statements.

D. Basis of Accounting

Both federal and state financial assistance expenditures included in the Schedule are reported using the modified accrual basis of accounting and the accrual basis of accounting for enterprise funds as defined in Note 1(b) to the basic financial statements.

NOTE 3 - MATCH REQUIREMENT

The Town received financial assistance under grants and contracts requiring local match in the form of cash. A match amount is established at the time the financial assistance is awarded. However, this financial assistance is received on a reimbursement basis and can only be recognized to the extent of allowable costs.

For the fiscal year ended September 30, 2004 the Town had matching requirements as follows:

<u>Program Title/Contract #</u>	<u>Federal CFDA Number</u>	<u>Allowable Costs Requiring Match</u>	<u>Match Requirement Percent</u>	<u>Match Requirement Dollars</u>	<u>Cash Match Applied</u>
Highway Planning and Construction/AL304	20.205	\$ 216,675	20%	\$ 43,280	\$ 43,280
Flood Mitigation Assistance Program/03FM09-46-02	83.536	\$ 1,559,408	25%	\$ 389,852	\$ 389,852

TOWN OF FORT MYERS BEACH
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FEDERAL PROGRAMS AND STATE PROJECTS
 For the Year Ended September 30, 2004

Section I – Summary of Auditor’s Report

Financial Statements

Type of auditor’s report issued;

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards and State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditor’s report issued on compliance for major federal programs and state projects:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 or Chapter 10.550, Rules of the Auditor General?

_____ yes X no

TOWN OF FORT MYERS BEACH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL PROGRAMS AND STATE PROJECTS (Continued)
For the Year Ended September 30, 2004

Section IV – Findings and Questioned Costs – Major State Projects

Our audit did not disclose any matters required to be reported in accordance with Chapter 10.550, Rules of Auditor General.

Section V – Other Issues

There is no Summary Schedule of Prior Audit Findings (AG Rule 10.557(3)(d)5.) because there were no prior audit findings related to Federal Programs or State projects.

No corrective action plan is required (AG Rule 10.557(3)(d)6.) because there were no findings required to be reported under the Federal or Florida Single Audit Acts.

MANAGEMENT LETTER

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

We have audited the financial statements of the Town of Fort Myers Beach, Florida (the "Town"), as of and for the fiscal year ended September 30, 2004, and have issued our report thereon dated April 14, 2005.

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 Internal Control over Financial Reporting and on Compliance and Other Matters dated April 14, 2005. 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)(h)1.) require that we address in the management letter, if not already addressed in auditor's reports on internal controls over financial reporting and on compliance and other matters, or in the schedule of findings and questioned costs, a management letter shall include a statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual audit report. The significant findings or recommendations reported in the preceding annual financial audit have been updated and are repeated below under the caption *Prior Year Comments that Continue to Apply*.

The Rules of Auditor General (Section 10.554(1)(h)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.

The Rules of Auditor General (Section 10.554(1)(h)3.) require that we include any recommendations to improve the Town's financial management, accounting procedures, and internal controls. Our recommendations follow:

PRIOR YEAR COMMENTS THAT CONTINUE TO APPLY

03-01

Criteria: Special assessments for Old San Carlos (OSC) improvements should be billed timely and in the proper amounts in accordance with Town Resolution 02-24.

Condition: Billings have been prepared and sent late in both fiscal 2003 and 2004. Interest calculations have been incorrect due to deviation from payment schedule.

Cause: The invoicing process was late due to a lack of a tickler system for invoicing special assessments and no follow up by supervisory personnel.

Effect: The Town is not receiving interest revenue it is entitled to and the Town's cash flow is impacted by late payment of special assessments.

Recommendation: The Finance Director should send correct invoices to affected property owners timely. The Finance Director should inform the Town Manager of property owners who are late in making payment so that appropriate action can be taken. This holds true of all assessments, not just those for OSC.

A tickler system should be employed for all key dates relating to current and future special assessments. This calendar should be monitored by the Deputy Town Manager as well as the Finance Director.

03-02

Criteria: The expenses related to the contract with Central Parking System of Florida, Inc. for beach parking should be allocated to the General Fund and the Beach Access Fund in accordance with Town Council action at the April 7, 2003 Town Council meeting.

Condition: According to Town Council's approval of the contract with Central Parking System of Florida, Inc. on April 7, 2003, the monthly invoices from Central Parking are to be allocated between the General Fund and the Beach Access Fund. During the 2003 and 2004 fiscal year, the invoices were not allocated but were paid solely out of the General Fund.

Cause: A formal procedure does not exist to ensure the parties responsible for the project or activity and the Finance Director meet to determine the appropriate accounting required for the project or activity.

Effect: The General Fund over-subsidized the Beach Access parking. Internal financial reports were not accurate for management decision-making purposes.

Recommendation: For each new project or activity, the Department Director and the Finance Director should meet to discuss the objectives of the project or activity, its funding source and the proper expenditure accounts to be used.

CURRENT YEAR COMMENTS

04-01

Criteria – Timely reconciliations of bank statements are a key component of internal control.

Condition – The majority of the monthly bank reconciliations for fiscal 2004 were not prepared timely.

Effect – This reduces the effectiveness of internal control. In addition, the Town may not be able to recover erroneous items charged to its bank account if such items are not timely communicated to the bank.

Recommendation – The Deputy Town Manager should obtain and review the completed bank reconciliation from the Finance Director within three weeks of the receipt of the bank statement to assure timely preparation.

04-02

Criteria – The Town’s financial information should accurately reflect the use of Town resources across all funds.

Condition – The Town did not record all maintenance expenses associated with the Times Square MSBU in the Times Square MSBU fund.

Cause – In previous years, the Town used outside contractors to provide maintenance services for the Times Square area. The payments for these services were charged to the Times Square fund. In fiscal 2004, the Town hired several employees to provide maintenance services for the Town including the Times Square MSBU. None of the costs associated with these employees or supplies were allocated to the Times Square Fund.

Effect – The use of Town resources are not accurately reflected in the financial information used by management.

Recommendation – The Town should keep records expenses, including employee wages, relating to the maintenance of the Times Square MSBU paid by the General Fund. An allocation should be made to the Times Square special revenue fund for these expenses to accurately reflect the use of Town resources.

The Rules of the Auditor General (Section 10.554(1)(h)4.) state that, if not already addressed in auditor’s report on internal control over financial reporting and on compliance and other matters or in the schedule of findings and questioned costs, the management letter shall include, unless clearly inconsequential:

- (a) Violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or are likely to have occurred, and were discovered within the scope of the audit.
- (b) Improper or illegal expenditures discovered within the scope of the audit that may not materially affect the financial statements.
- (c) Deficiencies in internal control that are not reportable conditions, including but not limited to:
 - (1) Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
 - (2) Failures to properly record financial transactions.
 - (3) Other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention, of the auditor.

The results of our audit disclosed no such matters.

The Rules of the Auditor General (Section 10.554(1)(h)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)(h)6.a.), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. We determined that the Town has not met one or more of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.b.), we determined that the annual financial report of the Town for the fiscal year ended September 30, 2004, filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2004.

As required by the Rules of the Auditor General (Sections 10.554(1)(h)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.
April 14, 2005