

RESOLUTION NO. 06-2012

A RESOLUTION OF THE TOWN OF MALABAR, BREVARD COUNTY, FLORIDA, PROVIDING ACCEPTANCE OF THE ANNUAL AUDIT REPORT PROVIDED FOR FISCAL YEAR 2010/2011 BY THE AUDIT FIRM OF AVERETT WARMUS DURKEE OSBURN HENNING; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, In July, 2010 the Town approved a three-year extension to the audit contract with Warmus Durkee Osburn Henning; and

WHEREAS, an audit was conducted from November 2011 to January 2012, and all areas of the Town operations were tested; and

WHEREAS, a copy of such Audit Report is attached as Exhibit "A" to this resolution; and

WHEREAS, the Town Council is satisfied that the audit report accurately reflects the financial condition of the Town's finances for the FY ending September 30, 2011.

NOW, THEREFORE, BE IT RESOLVED BY THE TOWN COUNCIL OF THE TOWN OF MALABAR, BREVARD COUNTY, FLORIDA, that:

Section 1. The Town Council of Malabar, Brevard County, Florida, hereby ratifies, confirms, and certifies the annual audit report for the FY 2010/2011 attached to this resolution and identified as Exhibit "A".

Section 2. The final audit report shall be submitted to the Council at the next meeting.

Section 3. That a certified copy of this Resolution shall be delivered with the audit report to the State.

Section 4. This Resolution shall take effect immediately upon its adoption.

This Resolution was moved for adoption by Council Member Rivet. This motion was seconded by Council Member White and, upon being put to vote, the vote was as follows:

Council Member Carl Beatty	Aye
Council Member David White	Aye
Council Member Steven (Steve) Rivet	Aye
Council Member Jeffrey (Jeff) McKnight	Aye
Council Member Marisa Acquaviva	Excused

This Resolution was then declared to be duly passed and adopted this 2nd day of April, 2012.

TOWN OF MALABAR

By:

Thomas M. Eschenberg

Mayor Thomas M. Eschenberg

Approved as to Form and Content:

Karl Bohne

Karl Bohne, Jr., Town Attorney

ATTEST:

Debby K. Franklin

Debby K. Franklin, C.M.C.
Town Clerk/Treasurer

(seal)

March 1, 2012

To the Town Council and Mayor
Town of Malabar, Florida

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Town of Malabar, Florida (the "Town") for the year ended September 30, 2011. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 30, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements except as disclosed in the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Town's financial statements were:

Management's estimate of the lives of depreciable assets is based on estimated useful life. We evaluated the key factors and assumptions used to develop the lives of depreciable assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of compensated absence accruals is based on pay rates in effect and hours accumulated as recorded from payroll records. We evaluated the key factors and assumptions used to record the accruals in determining that it is reasonable in relation to the financial statements taken as a whole.

To the Town Council and Mayor
Town of Malabar, Florida
March 1, 2012
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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached passed adjusting journal entries schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The attached schedule of adjusting entries is a summary of all material adjustments detected as a result of the audit procedures that were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 1, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The Town has experienced deteriorating financial conditions caused by recurring operating losses in the water fund and prepayment of long-term obligations in the general fund.

To the Town Council and Mayor
Town of Malabar, Florida
March 1, 2012
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This information is intended solely for the use of the Town Council and Mayor and management of Town of Malabar, Florida and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Averett Warmus Durkee Osburn Henning

TOWN OF MALABAR, FLORIDA
FINANCIAL SECTION, REQUIRED
SUPPLEMENTARY INFORMATION, AND
SUPPLEMENTARY FINANCIAL REPORTS
COMPLIANCE SECTION
Year Ended September 30, 2011



**AVERETT
WARMUS
DURKEE
OSBURN
HENNING**

Certified Public Accountants and Business Advisers

TOWN OF MALABAR, FLORIDA

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Independent Auditors' Report

Honorable Mayor and Town Council
Town of Malabar, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Malabar, Florida (the "Town"), as of and for the year ended September 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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. 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, and each major fund of the Town of Malabar, Florida, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof 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 March 1, 2012, on our consideration of Town of Malabar, Florida's internal control over financial reporting and 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 7 and 29 through 30, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Averett Warmus Durkee Osburn Henning

Orlando, Florida
March 1, 2012

TOWN OF MALABAR, FLORIDA

Management's Discussion and Analysis Year Ended September 30, 2011

As management of the Town of Malabar, Florida (the "Town"), we offer readers of the Town's basic financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with the auditors' report, the basic financial statements, and the notes to the basic financial statements.

The Town implemented the Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" in fiscal year ended September 30, 2004. Under GASB 34, retroactive infrastructure reporting for small governments is optional. Town management has determined the cost of the additional reporting requirements for retroactive reporting of infrastructure outweighs the benefits to the Town and thus has elected not to retroactively implement this part of GASB 34.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$4,293,965 (*net assets*). Of this amount, \$199,849 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to residents and creditors.
- During the fiscal year, the Town's total net assets decreased by \$116,110 or by approximately 2.6%. This decrease is attributable to a decrease in ad valorem revenue of \$51,728 along with a net loss of \$63,201 in the Water Department.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund equity of \$791,524, a decrease of \$236,797 in comparison with the prior year. Of this amount \$334,457, is *available for spending* at the government's discretion (*unassigned fund balance*).

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Malabar, Florida's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Town include general government, public safety, physical environment, and culture and recreation. The business-type activities of the Town include the water fund.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain 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: governmental funds and proprietary funds.

TOWN OF MALABAR, FLORIDA

Management's Discussion and Analysis – Continued Year Ended September 30, 2011

Overview of the Financial Statements – Continued

Fund financial statements – Continued

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains two individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and the stormwater fund.

The Town adopts annual appropriated budgets for its general fund and its stormwater fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with each budget.

The basic governmental funds financial statements can be found on pages 11 and 12 of this report.

Proprietary fund. The Town maintains one enterprise fund. The *enterprise fund* is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses an enterprise fund to account for its water fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water fund, which is considered to be a major fund of the Town.

The basic proprietary fund financial statements can be found on pages 13 through 15 of this report.

Notes to the basic 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 to the basic financial statements can be found on pages 16 through 28 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budget to actual comparisons for the Town's general fund and its stormwater fund. Required supplementary information can be found on pages 29 and 30 of this report.

TOWN OF MALABAR, FLORIDA

**Management's Discussion and Analysis – Continued
Year Ended September 30, 2011**

Government-Wide Financial Analysis

The table below summarizes the statements of net assets:

Town of Malabar, Florida's Net Assets

	Governmental Activities		Business-Type Activities		Total		Amount Change	% Change
	September 30,		September 30,		September 30,			
	2011	2010	2011	2010	2011	2010		
Current	\$ 958,029	\$ 1,210,581	\$ (11,138)	\$ 2,926	\$ 946,891	\$ 1,213,507	\$ (266,616)	(22.0) %
Capital assets, net	<u>3,423,394</u>	<u>3,439,492</u>	<u>213,655</u>	<u>256,303</u>	<u>3,637,049</u>	<u>3,695,795</u>	<u>(58,746)</u>	<u>(1.6)</u>
Total assets	<u>4,381,423</u>	<u>4,650,073</u>	<u>202,517</u>	<u>259,229</u>	<u>4,583,940</u>	<u>4,909,302</u>	<u>(325,362)</u>	<u>(6.6)</u>
Long-term liabilities outstanding	89,956	289,942	-	-	89,956	289,942	(199,986)	(69.0)
Other liabilities	<u>166,505</u>	<u>182,260</u>	<u>33,514</u>	<u>27,025</u>	<u>200,019</u>	<u>209,285</u>	<u>(9,266)</u>	<u>(4.4)</u>
Total liabilities	<u>256,461</u>	<u>472,202</u>	<u>33,514</u>	<u>27,025</u>	<u>289,975</u>	<u>499,227</u>	<u>(209,252)</u>	<u>(41.9)</u>
Net assets:								
Invested in capital assets, net of related debt	3,423,394	3,229,836	213,655	256,303	3,637,049	3,486,139	150,910	4.3
Restricted	457,067	234,087	-	-	457,067	234,087	222,980	95.3
Unrestricted	<u>244,501</u>	<u>713,948</u>	<u>(44,652)</u>	<u>(24,099)</u>	<u>199,849</u>	<u>689,849</u>	<u>(490,000)</u>	<u>(71.0)</u>
Total net assets	<u>\$ 4,124,962</u>	<u>\$ 4,177,871</u>	<u>\$ 169,003</u>	<u>\$ 232,204</u>	<u>\$ 4,293,965</u>	<u>\$ 4,410,075</u>	<u>\$ (116,110)</u>	<u>(2.6) %</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Malabar, Florida, assets exceeded liabilities by \$4,293,965 at the close of the most recent fiscal year, a decrease of \$116,110 from the prior fiscal year.

The largest portion of the Town of Malabar, Florida's net assets (\$3,637,049 or 84.7%) reflects its investment in capital assets (e.g., land, buildings and improvements, infrastructure, and machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets, \$457,067, represents resources that are subject to external restrictions as to how they may be used. The remaining balance of *unrestricted net assets*, \$199,849, may be used to meet the government's ongoing obligations to residents and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in the three categories of net assets for the government as a whole and for its separate governmental funds but not for its business-type activities.

TOWN OF MALABAR, FLORIDA

**Management's Discussion and Analysis – Continued
Year Ended September 30, 2011**

Government-Wide Financial Analysis – Continued

Governmental and business-type activities. The table below summarizes the statements of activities.

Town of Malabar, Florida

Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total		Amount Change	% Change
	Year Ended September 30,		Year Ended September 30,		Year Ended September 30,			
	2011	2010	2011	2010	2011	2010		
Revenues:								
Program revenues:								
Charges for services	\$ 83,817	\$ 91,731	\$ 164,695	\$ 164,001	\$ 248,512	\$ 255,732	\$ (7,220)	(2.8) %
General revenues:								
Ad valorem taxes	347,687	399,415	-	-	347,687	399,415	(51,728)	(13.0)
Franchise fees	219,928	218,398	-	-	219,928	218,398	1,530	0.7
Utility taxes	228,365	235,346	-	-	228,365	235,346	(6,981)	(3.0)
Intergovernmental	518,133	446,427	-	-	518,133	446,427	71,706	16.1
Investment earnings	5,856	4,405	130	58	5,986	4,463	1,523	34.1
Other	33,369	48,156	-	-	33,369	48,156	(14,787)	(30.7)
Total revenues	1,437,155	1,443,878	164,825	164,059	1,601,980	1,607,937	(5,957)	(0.4)
Expenses:								
General government	522,944	503,162	-	-	522,944	503,162	19,782	3.9
Public safety — Fire	268,491	257,342	-	-	268,491	257,342	11,149	4.3
Physical environment	621,635	690,637	-	-	621,635	690,637	(69,002)	(10.0)
Culture and recreation	55,817	57,545	-	-	55,817	57,545	(1,728)	(3.0)
Interest	21,177	13,371	-	-	21,177	13,371	7,806	58.4
Water	-	-	228,026	216,919	228,026	216,919	11,107	5.1
Total expenses	1,490,064	1,522,057	228,026	216,919	1,718,090	1,738,976	(20,886)	(1.2)
Increase (Decrease) in Net Assets	(52,909)	(78,179)	(63,201)	(52,860)	(116,110)	(131,039)	14,929	(11.4)
Net Assets, beginning of year	4,177,871	4,256,050	232,204	285,064	4,410,075	4,541,114	(131,039)	(2.9)
Net Assets, end of year	\$ 4,124,962	\$ 4,177,871	\$ 169,003	\$ 232,204	\$ 4,293,965	\$ 4,410,075	\$ (116,110)	(2.6) %

Governmental activities. Key elements which resulted in the net decrease are as follows:

- Ad valorem taxes decreased in the general fund by \$51,728 compared to 2010 or (13.0%). The Town's millage rate was 1.6630 for both 2011 and 2010.
- Intergovernmental revenue increased by \$71,706 or 16.1%. There was an ARRA stimulus grant of approximately \$62,000 received in the current year that was not received in the prior year.
- Other revenue decreased by \$14,787 or (30.7%). Miscellaneous revenue decreased by approximately \$11,000 which is primarily related to a large decrease in Fire Department training revenues, decrease in insurance refunds and park rentals.
- General government expenses increased by \$19,782 or 3.9%, due to an increase of approximately \$34,000 for expenses related to ARRA projects and increases in professional services.
- Fire safety expenses increased by \$11,149 or 4.3%, due mainly to the increase in salaries.
- Physical environment expenses decreased by \$69,002 or (10.0%), due mainly to a reduction in salaries and a reduction in repair expenses in the current year.

Business-type activities. Business-type activities decreased the Town of Malabar, Florida's net assets by \$63,201. The decrease is mainly due to an increase in legal fees and repairs & maintenance.

TOWN OF MALABAR, FLORIDA

**Management's Discussion and Analysis – Continued
Year Ended September 30, 2011**

Government-Wide Financial Analysis – Continued

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Town of Malabar, Florida's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town of Malabar, Florida's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$791,524, a decrease of \$236,797 in comparison with the prior year. The decrease is due mainly to a decision by the Town Council to pay off all external debt of the Town in 2011.

The general fund is the chief operating fund of the Town of Malabar, Florida. At the end of the current fiscal year, unassigned fund balance of the general fund was \$334,457. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 19% of total general fund expenditures.

Proprietary fund. The Town of Malabar, Florida's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Total decrease in net assets for the enterprise fund statement was \$63,201.

General Fund Budgetary Highlights

The following information is presented to assist the reader in comparing actual results with budgetary amounts.

General fund revenues were \$209,406 less than budgeted amounts and expenditures were \$101,281 more than budgeted amounts. Stormwater fund revenues were \$164,801 less than budgeted amounts and stormwater expenditures were \$195,792 less than budgeted amounts.

Additional information on budgetary comparisons between the final budget and actual results can be found on pages 29 and 30 of this report.

Capital Assets and Debt Administration

Capital assets. The Town of Malabar, Florida's investment in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to \$3,637,049 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure, including water utility systems.

The table below summarizes the capital assets of the Town:

Town of Malabar, Florida

Capital Assets

	Governmental Activities		Business-Type Activities		Total		Amount Change	% Change
	September 30,		September 30,		September 30,			
	2011	2010	2011	2010	2011	2010		
Land	\$ 1,885,750	\$ 1,885,750	\$ -	\$ -	\$ 1,885,750	\$ 1,885,750	\$ -	- %
Buildings and Improvements	806,144	806,144	-	-	806,144	806,144	-	-
Machinery and Equipment	2,254,809	2,101,768	7,552	7,552	2,262,361	2,109,320	153,041	7.3
Infrastructure	846,136	756,630	598,517	598,517	1,444,653	1,355,147	89,506	6.6
Construction in Progress	-	1,700	-	-	-	1,700	(1,700)	(100.0)
Total at cost	5,792,839	5,551,992	606,069	606,069	6,398,908	6,158,061	240,847	3.9
Less Accumulated Depreciation	(2,369,445)	(2,112,500)	(392,414)	(349,765)	(2,761,859)	(2,462,265)	(299,594)	12.2
	<u>\$ 3,423,394</u>	<u>\$ 3,439,492</u>	<u>\$ 213,655</u>	<u>\$ 256,304</u>	<u>\$ 3,637,049</u>	<u>\$ 3,695,796</u>	<u>\$ (58,747)</u>	<u>(1.6) %</u>

TOWN OF MALABAR, FLORIDA

**Management's Discussion and Analysis – Continued
Year Ended September 30, 2011**

Capital Assets and Debt Administration – Continued

Capital assets – continued. Additional information on the Town of Malabar, Florida's capital assets can be found in Note 4 on pages 23 and 24 of this report.

Long-term obligations. At year end, the Town had \$89,956 in long-term obligations outstanding versus \$289,942 last year. This is a net decrease of 69.0%. There were no additions to long-term obligations in the current year. Repayments amounted to \$315,156. Additional information on the Town of Malabar, Florida's long-term obligations can be found in Note 9 on page 26 of this report.

Requests for Information

This financial report is designed to provide a general overview of the Town of Malabar, Florida's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Bonilyn Wilbanks, Town Administrator, Town of Malabar, Florida.

TOWN OF MALABAR, FLORIDA

Basic Financial Statements

- Government-Wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

TOWN OF MALABAR, FLORIDA

**Government-Wide Statement of Net Assets
September 30, 2011**

Assets	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 532,625	\$ 105,352	\$ 637,977
Receivables	72,766	7,321	80,087
Due From Other Governments	31,435	-	31,435
Prepaid Items	59,743	-	59,743
Restricted Cash	127,000	10,649	137,649
Internal Balances	134,460	(134,460)	-
	<u>958,029</u>	<u>(11,138)</u>	<u>946,891</u>
 Capital Assets:			
Capital assets, not being depreciated – land	1,885,750	-	1,885,750
Capital assets, being depreciated, net	1,537,644	213,655	1,751,299
Total capital assets	<u>3,423,394</u>	<u>213,655</u>	<u>3,637,049</u>
 Total Assets	<u>4,381,423</u>	<u>202,517</u>	<u>4,583,940</u>
Liabilities			
 Liabilities:			
Accounts payable	10,503	22,865	33,368
Accrued liabilities	12,705	-	12,705
Deferred revenue	143,297	-	143,297
Payable from restricted assets:			
Customer deposits	-	10,649	10,649
Long-term obligations:			
Due after one year	89,956	-	89,956
	<u>256,461</u>	<u>33,514</u>	<u>289,975</u>
 Total Liabilities	<u>256,461</u>	<u>33,514</u>	<u>289,975</u>
Net Assets			
 Investment in Capital Assets, Net of Related Debt	3,423,394	213,655	3,637,049
Restricted	457,067	-	457,067
Unrestricted	244,501	(44,652)	199,849
	<u>4,124,962</u>	<u>169,003</u>	<u>4,293,965</u>
 Total Net Assets	<u>\$ 4,124,962</u>	<u>\$ 169,003</u>	<u>\$ 4,293,965</u>

See accompanying notes.

TOWN OF MALABAR, FLORIDA

Government-Wide Statement of Activities
Year Ended September 30, 2011

Functions/Programs	Total Expenses	Program Revenues Charges for Services	Net Revenue (Expense) and Changes in Net Assets		
			Governmental Activities	Business-Type Activities	Total
Governmental Activities:					
General government	\$ 522,944	\$ 83,568	\$ (439,376)	\$ -	\$ (439,376)
Public safety - fire	268,491	249	(268,242)	-	(268,242)
Physical environment	621,635	-	(621,635)	-	(621,635)
Culture and recreation	55,817	-	(55,817)	-	(55,817)
Interest on long-term obligations	21,177	-	(21,177)	-	(21,177)
Total governmental activities	1,490,064	83,817	(1,406,247)	-	(1,406,247)
Business-Type Activities:					
Water fund	228,026	164,695	-	(63,331)	(63,331)
	\$ 1,718,090	\$ 248,512	(1,406,247)	(63,331)	(1,469,578)
General Revenues:					
Ad valorem taxes			347,687	-	347,687
Franchise fees			219,928	-	219,928
Utility taxes			228,365	-	228,365
Intergovernmental			518,133	-	518,133
Investment earnings			5,856	130	5,986
Miscellaneous			33,369	-	33,369
Total general revenues			1,353,338	130	1,353,468
Change in net assets			(52,909)	(63,201)	(116,110)
Net Assets, Beginning of Year			4,177,871	232,204	4,410,075
Net Assets, End of Year			\$ 4,124,962	\$ 169,003	\$ 4,293,965

See accompanying notes.

TOWN OF MALABAR, FLORIDA

**Balance Sheet
Government Funds
September 30, 2011**

Assets	<u>General Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
Cash and Cash Equivalents	\$ 532,625	\$ -	\$ 532,625
Receivables	72,766	-	72,766
Due From Other Governments	31,435	-	31,435
Prepaid Items	59,743	-	59,743
Restricted Cash	127,000	-	127,000
Due From Other Funds	<u>134,460</u>	<u>262,864</u>	<u>397,324</u>
Total Assets	<u>\$ 958,029</u>	<u>\$ 262,864</u>	<u>\$ 1,220,893</u>
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	\$ 10,503	\$ -	\$ 10,503
Accrued liabilities	12,705	-	12,705
Due to other funds	262,864	-	262,864
Deferred revenue	<u>143,297</u>	<u>-</u>	<u>143,297</u>
Total liabilities	<u>429,369</u>	<u>-</u>	<u>429,369</u>
Fund Equity:			
Fund balance:			
Nonspendable	59,743	-	59,743
Committed	134,460	262,864	397,324
Unassigned	<u>334,457</u>	<u>-</u>	<u>334,457</u>
Total fund equity	<u>528,660</u>	<u>262,864</u>	<u>791,524</u>
Total Liabilities and Fund Equity	<u>\$ 958,029</u>	<u>\$ 262,864</u>	<u>\$ 1,220,893</u>

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets:

Total fund balance – total governmental funds	\$ 791,524
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets of \$5,792,839, net of accumulated depreciation of \$2,369,445, are not financial resources and, therefore, are not reported in the funds.	3,423,394
• Long-term liabilities of \$89,956 are not due and payable in the current period and are not reported in the funds.	<u>(89,956)</u>
Net assets of governmental activities	<u>\$ 4,124,962</u>

See accompanying notes.

TOWN OF MALABAR, FLORIDA

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2011**

	<u>General Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Ad valorem taxes	\$ 347,687	\$ -	\$ 347,687
Franchise fees	219,928	-	219,928
Utility taxes	228,365	-	228,365
Licenses, permits, and fees	83,568	-	83,568
Intergovernmental revenue	454,333	63,800	518,133
Fines and forfeitures	249	-	249
Miscellaneous	39,225	-	39,225
Total revenues	<u>1,373,355</u>	<u>63,800</u>	<u>1,437,155</u>
Expenditures:			
Current operating:			
General government	450,274	32,809	483,083
Public safety – fire	213,376	-	213,376
Physical environment	460,788	-	460,788
Culture and recreation	45,025	-	45,025
Debt service:			
Principal	315,156	-	315,156
Interest and other charges	21,177	-	21,177
Capital outlay	240,847	-	240,847
Total expenditures	<u>1,746,643</u>	<u>32,809</u>	<u>1,779,452</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	(373,288)	30,991	(342,297)
Proceeds From Issuance of Other Financing Sources:			
Capital Leases	105,500	-	105,500
Excess (Deficit) of Revenues Over Expenditures and Other Financing Sources/Uses	(267,788)	30,991	(236,797)
Fund Balances, beginning of year	<u>796,448</u>	<u>231,873</u>	<u>1,028,321</u>
Fund Balances, end of year	<u>\$ 528,660</u>	<u>\$ 262,864</u>	<u>\$ 791,524</u>
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities:			
Net change in fund balances – total governmental funds			\$ (236,797)
Amounts reported for governmental activities in the statement of activities are different because:			
• 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 depreciation of \$256,945 exceeded capital outlays of \$135,347 in the current period.			(121,598)
• Issuance of long-term obligations (leases) provides current financial resources to governmental funds, while the repayment of principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on government-wide net assets. These amounts consist of:			
Capital lease principal repayments in the current year			
Change in long-term portion of compensated absences		\$ 315,156	
		(9,670)	
			305,486
Change in net assets of governmental activities			<u>\$ (52,909)</u>

See accompanying notes.

TOWN OF MALABAR, FLORIDA

**Statement of Net Assets
Proprietary Fund
September 30, 2011**

Assets	<u>Water Fund</u>
Current Assets:	
Cash and cash equivalents	\$ 105,352
Receivables	7,321
Restricted cash	10,649
Total current assets	<u>123,322</u>
Capital Assets:	
Infrastructure	598,517
Machinery and equipment	7,552
Total at cost	<u>606,069</u>
Less accumulated depreciation	(392,414)
Capital assets, net	<u>213,655</u>
Total Assets	\$ <u><u>336,977</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	\$ 22,865
Due to other funds	31,723
Advances from other fund	102,737
Payable from restricted assets:	
Customer deposits	<u>10,649</u>
Total Current Liabilities	<u>167,974</u>
Net Assets	
Investment in Capital Assets	213,655
Unrestricted	<u>(44,652)</u>
Total Net Assets	<u>169,003</u>
Total Liabilities and Net Assets	\$ <u><u>336,977</u></u>

See accompanying notes.

TOWN OF MALABAR, FLORIDA

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
Year Ended September 30, 2011

	<u>Water Fund</u>
Operating Revenues:	
User charges	\$ 152,346
Service and hook-up charges	10,506
Miscellaneous	1,843
Total operating revenues	<u>164,695</u>
Operating Expenses:	
Water and sewer charges	143,103
Professional services	28,975
Supplies and other expenses	12,120
Utilities	1,179
Depreciation	42,649
Total operating expenses	<u>228,026</u>
Operating Loss	(63,331)
Non-Operating Revenues:	
Interest income	<u>130</u>
Net Loss	(63,201)
Net Assets, Beginning of Year	<u>232,204</u>
Net Assets, End of Year	<u>\$ 169,003</u>

See accompanying notes.

TOWN OF MALABAR, FLORIDA

**Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2011**

	<u>Water Fund</u>
Cash Flows From Operating Activities:	
Receipts from customers and users	\$ 168,675
Payments to suppliers	<u>(182,528)</u>
Net cash used in operating activities	<u>(13,853)</u>
Cash Flows From Noncapital Financing Activities:	
Change in due from/to other funds	10,122
Increase in utility deposits	<u>3,639</u>
Net cash provided by noncapital financing activities	<u>13,761</u>
Cash Flows From Investing Activities:	
Investment earnings	<u>130</u>
Net cash provided by investing activities	<u>130</u>
Net Increase in Cash and Cash Equivalents	38
Cash and Cash Equivalents, Beginning of Year	<u>115,963</u>
Cash and Cash Equivalents, End of Year	<u>\$ 116,001</u>
Recorded in the Statement of Net Assets as Follows:	
Cash and cash equivalents	\$ 105,352
Restricted cash	<u>10,649</u>
	<u>\$ 116,001</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating loss	\$ (63,331)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	42,649
Changes in:	
Receivables	3,980
Accounts payable and accrued liabilities	<u>2,849</u>
Net Cash Used in Operating Activities	<u>\$ (13,853)</u>

See accompanying notes.

TOWN OF MALABAR, FLORIDA

Notes to the Basic Financial Statements September 30, 2011

1. Summary of Significant Accounting Policies:

A. Nature of Operations

The Town of Malabar, Florida (the "Town") was incorporated on December 19, 1962, under general law by referendum of voters on December 1, 1962, following Chapter 29576 of the Laws of Florida. The Town operates under a strong council form of government and provides the following services as authorized by its charter: public safety, highways and streets, sanitation, health and social services, culture, recreation, stormwater, improvements, planning and zoning, and general administrative services.

The Town complies with accounting principles generally accepted in the United States of America. The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting principles are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the Town's financial activities for the fiscal year ended September 30, 2011.

B. Financial Reporting Entity

The Town is a Florida municipal corporation with a five-member Town Council which acts as the legislative branch and a Town Administrator who is the chief executive officer of the Town. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town (the primary government). Using applicable GASB criteria, management has determined that the Town has no component units.

C. Reporting Model

Governmental Accounting Standards Board Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" requires the retroactive recording of infrastructure assets by 2008; however, small governments may elect not to retroactively record infrastructure. Management has decided not to retroactively implement the recording of infrastructure assets.

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF MALABAR, FLORIDA

Notes to the Basic Financial Statements – Continued September 30, 2011

1. Summary of Significant Accounting Policies – Continued:

E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures for claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *stormwater fund* is a special revenue fund used to account for the proceeds received in non-ad valorem collection for stormwater maintenance.

The government reports the following major proprietary fund:

The *water fund* accounts for the activities of the Town's Water Department.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund are charges to customers for sales and services. The Town also recognizes as operating revenue the option of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

TOWN OF MALABAR, FLORIDA

Notes to the Basic Financial Statements – Continued
September 30, 2011

1. Summary of Significant Accounting Policies – Continued:

F. Assets, Liabilities, and Net Assets or Equity

(1) Deposits – Cash and Cash Equivalents

Florida Statutes provide for risk sharing collateral pools by banks and savings and loan associations. These collateral pools collateralize local government deposits and certificates of deposit with the participating depositories. The Town’s demand deposits are placed in such authorized depositories.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town’s deposits may not be returned or the Town will not be able to recover collateral securities in the possession of an outside party. At September 30, 2011, the carrying amounts of the Town’s deposits were \$775,626 and the bank balances of the Town’s deposits were \$850,781. Bank balances were covered by certain levels of federal deposit insurance and the remainder was covered by pledged collateral as required by Florida Statutes. All collateral is pledged in the Town’s name and is held by a third-party financial institution.

Highly liquid financial instruments with an original maturity of three months or less at the time they are purchased by the Town are considered to be cash equivalents.

(2) Town of Malabar’s Investment Policies

Investment in State Pool

The Town of Malabar, Florida invests surplus funds in an external investment pool, the Local Government Surplus Funds Trust Fund (the “State Pool”). The State Pool is administered by the Florida State Board of Administration (“SBA”), who provides regulatory oversight. During the year, the SBA reported that the State Pool was exposed to potential risks due to indirect exposure in the sub-prime mortgage financial market. Consequently, the SBA placed some restrictions on how participants could access portions of their surplus funds and ultimately restructured the State Pool into two separate pools (“Florida PRIME” and “Fund B”).

The Florida PRIME has adopted operating procedures consistent with the requirements for a 2a-7 like fund. The Town of Malabar, Florida’s investment in the Florida PRIME is reported at amortized cost. The fair value of the position in the pool is equal to the value of the pool shares.

As a Fund B participant, the Town owns a share of the respective pool, not the underlying assets. The SBA’s interpretation in regards to Fund B is that it does not meet the requirements of an SEC 2a-7 like fund and, therefore, the fair value factor is derived by dividing the net asset value (including accrued payables) by total participant balances in the pool. At September 30, 2011, this factor was 0.75683855. Therefore, the Town has reduced its carrying value of its investments in Pool B by \$4,134.

At September 30, 2011, the Town’s investment in the State Pool consisted of:

	Fund	Fund	Total
Florida PRIME	\$ 9,829	\$ 4,127	\$ 13,956
Fund B	12,866	997	13,863
Total	\$ 22,695	\$ 5,124	\$ 27,819

The Town’s investment in the State Pool exposes it to credit risk and, for Fund B, interest rate risk.

TOWN OF MALABAR, FLORIDA

Notes to the Basic Financial Statements – Continued September 30, 2011

1. Summary of Significant Accounting Policies – Continued:

F. Assets, Liabilities, and Net Assets or Equity – Continued

(2) Town of Malabar's Investment Policies – Continued

(a) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Florida Statutes authorize the Town to invest in the State Pool, which is administered by the SBA; obligations of, or obligations the principal and interest of which are unconditionally guaranteed by the United States government; interest bearing time deposits or savings accounts in banks and savings and loans organized under laws of the United States; obligations of the Federal Farm Credit Banks, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, or obligations guaranteed by the Government National Mortgage Association; and obligations of the Federal National Mortgage Association. As of September 30, 2011, the State Pool was not rated by a nationally recognized rating agency.

The State Pool is not a registrant with the Securities and Exchange Commission ("SEC"); however, the SBA has adopted operating procedures consistent with the requirements for a 2a-7 like fund.

In accordance with the regulations of 2a-7 like funds, the method used to determine the participant's shares sold and redeemed is the amortized cost method. The amortized cost method is the same method used to report investments. Amortized cost includes accrued income and is a method of calculating an investment's value by adjusting its acquisition cost for the amortization of discount or premium over the period from purchase to maturity.

There is no requirement under Florida Statutes for any local government or state agency to involuntarily participate in the State Pool.

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Town's policy provides that to the extent practical, investments are to be matched to cash flow requirements.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investments in a single issuer.

(3) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." See Note 12 for details of interfund transactions, including receivables and payables at year end.

Management has determined that no allowance for doubtful accounts is required for the general fund receivables or amounts due from other governments.

Management evaluates the collectibility of its user charges receivable in the water fund based on a combination of factors, including analysis of historical trends, aging of receivables, write-off experience, amounts held as deposit, and identification of specific accounts known as collection problems. The results of the evaluation are used to estimate the allowance amount, and management has determined that no allowance for doubtful accounts is necessary at September 30, 2011. An account is charged-off when management determines a customer's inability to meet their financial obligations. This will occur after the water is shut off and the deposit is forfeited. Management did not write-off any accounts in fiscal year ended September 30, 2011. Management deemed no allowance is necessary.

TOWN OF MALABAR, FLORIDA

**Notes to the Basic Financial Statements – Continued
September 30, 2011**

1. Summary of Significant Accounting Policies – Continued:

F. Assets, Liabilities, and Net Assets or Equity – Continued

(4) Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Governmental Activities	Business-Type Activities
Buildings and improvements	5 – 50 years	N/A
Machinery and equipment	5 – 7 years	5 – 10 years
Infrastructure	7 – 20 years	7 – 20 years

(5) Deferred Revenue

Deferred revenue recorded in the governmental funds relates to fees received prior to September 30, 2011, that are for fiscal year 2012 local business tax.

(6) Compensated Absences

The Town's policy allows all full-time employees to accumulate unused sick leave on an unlimited basis and vacation leave up to forty-two and a half days. If an employee retires or terminates in good standing, they may sell back up to 240 hours of accrued sick leave. Once a year, employees who have over 144 hours of sick leave may convert 24 hours into vacation.

The Town accrues sick leave and vacation leave based on current compensation levels in accordance with accounting principles generally accepted in the United States of America. The entire compensated absences liability is reported on the government-wide financial statements.

(7) Fund Balances - Governmental Funds

Beginning with fiscal year 2011, the Town implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are not in nonspendable form (such as prepaids items) or are required to be maintained intact.

TOWN OF MALABAR, FLORIDA

Notes to the Basic Financial Statements – Continued September 30, 2011

1. Summary of Significant Accounting Policies – Continued:

F. Assets, Liabilities, and Net Assets or Equity – Continued

(7) Fund Balances - Governmental Funds – Continued

- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the Town itself, using its highest level of decision-making authority (i.e., Town Council). To be reported as committed, amounts cannot be used for any other purpose unless the Town takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the Town intends to use for a specific purpose. Intent can be expressed by the Town Council or by an official or body to which the Town Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the Town's governmental funds have been restated to reflect the above classifications.

The Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

In the general fund, the Town strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 20% of the actual GAAP basis expenditures and other financing sources and uses.

G. Stewardship, Compliance, and Accountability

Budgetary Information – The following procedures are used by the Town in legally adopting the budget for the general fund:

Legally Adopted Appropriated Budgets:

- Prior to August 1, the Town Administrator submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are held to obtain taxpayer comments.
- Prior to October 1, the budget is legally enacted through the passage of an ordinance.
- Only the Town Council is authorized to transfer budgeted amounts between departments.
- The budgets for the general fund and the stormwater fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- There were eight budget adjustments during the fiscal year ended September 30, 2011.
- There are no encumbrances outstanding at year end. All outstanding purchase orders are canceled and appropriations lapse at that time. Therefore, the Town did not report any fund balances reserved for encumbrances at year end.

TOWN OF MALABAR, FLORIDA

**Notes to the Basic Financial Statements – Continued
September 30, 2011**

1. Summary of Significant Accounting Policies – Continued:

G. Stewardship, Compliance, and Accountability – Continued

Budgetary Information – Continued

Legally Adopted Appropriated Budgets – Continued:

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Town Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Legally Authorized Nonappropriated Budgets:

A legally authorized nonappropriated budget is prepared for the enterprise fund. Only the Town Council is authorized to transfer budget amounts between line items of the authorized budget.

H. Estimates

The preparation of basic financial statements in accordance with the bases of accounting described in the previous paragraphs, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets or liabilities at the date of the basic financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

I. Subsequent Events

The Town has evaluated subsequent events through March 1, 2012, the date of which the financial statements were available to be issued.

2. Cash and Cash Equivalents:

Cash and cash equivalents at September 30, 2011, consist of the following:

	<u>Governmental Fund Type</u>	<u>Proprietary Fund Type</u>		<u>Financial Institution Balance</u>
	General Fund	Enterprise Fund	Total All Funds	
Unrestricted:				
Demand deposits	\$ 509,930	\$ 100,228	\$ 610,158	\$ 681,179
SBA	<u>22,695</u>	<u>5,124</u>	<u>27,819</u>	<u>31,953</u>
	532,625	105,352	637,977	713,132
Restricted:				
Demand deposits	<u>127,000</u> ¹	<u>10,649</u> ²	<u>137,649</u>	<u>137,649</u>
Total Cash and Cash Equivalents	<u>\$ 659,625</u>	<u>\$ 116,001</u>	<u>\$ 775,626</u>	<u>\$ 850,781</u>

¹ Restricted for road projects.

² Restricted for customer utility deposits.

TOWN OF MALABAR, FLORIDA

**Notes to the Basic Financial Statements – Continued
September 30, 2011**

3. Receivables and Due From Other Governments:

Receivables and due from other governments consists of the following at September 30, 2011:

	General Fund	Water Fund	Total
Receivables:			
Utility taxes	\$ 24,700	\$ -	\$ 24,700
Franchise fees	47,877	-	47,877
Other	189	-	189
User charges	-	7,321	7,321
Total receivables	\$ 72,766	\$ 7,321	\$ 80,087
Due from Other Governments:			
Brevard County, Florida	\$ 326	\$ -	\$ 326
State of Florida	31,109	-	31,109
Total due from other governments	\$ 31,435	\$ -	\$ 31,435

4. Capital Assets:

Capital asset activity for the year ended September 30, 2011, was as follows:

	Balance October 1, 2010	Additions	Transfers	Balance September 30, 2011
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,885,750	\$ -	\$ -	\$ 1,885,750
Total capital assets not being depreciated	1,885,750	-	-	1,885,750
Capital assets being depreciated:				
Buildings and improvements	806,144	-	-	806,144
Machines and equipment	2,101,768	153,041	-	2,254,809
Infrastructure	756,630	87,806	1,700	846,136
Construction in progress	1,700	-	(1,700)	-
Total capital assets being depreciated	3,666,242	240,847	-	3,907,089
Accumulated depreciation	(2,112,500)	(256,945)	-	(2,369,445)
Capital assets being depreciated, net	1,553,742	(16,098)	-	1,537,644
Government activities – capital assets, net	\$ 3,439,492	\$ (16,098)	\$ -	\$ 3,423,394

TOWN OF MALABAR, FLORIDA

**Notes to the Basic Financial Statements – Continued
September 30, 2011**

4. Capital Assets – Continued:

	<u>Balance October 1, 2010</u>	<u>Additions</u>	<u>Balance September 30, 2011</u>
Business-Type Activities:			
Capital assets being depreciated:			
Water lines and infrastructure	\$ 598,517	\$ -	\$ 598,517
Machinery and equipment	<u>7,552</u>	<u>-</u>	<u>7,552</u>
Total capital assets being depreciated	606,069	-	606,069
Accumulated depreciation	<u>(349,765)</u>	<u>(42,649)</u>	<u>(392,414)</u>
Capital assets being depreciated, net	<u>256,304</u>	<u>(42,649)</u>	<u>213,655</u>
Business-type activities – capital assets, net	<u>\$ 256,304</u>	<u>\$ (42,649)</u>	<u>\$ 213,655</u>

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

General Government	\$ 30,191
Public Safety	55,115
Physical Environment	160,847
Human Services	<u>10,792</u>
	<u>\$ 256,945</u>

5. Accounts Payable and Accrued Liabilities:

Accounts payable and accrued liabilities consist of the following at September 30, 2011:

	<u>Governmental Activities General Fund</u>	<u>Business-Type Activities Enterprise Fund</u>	<u>Government- Wide</u>
Accounts Payable:			
Vendors	\$ <u>10,503</u>	\$ <u>22,865</u>	\$ <u>33,368</u>
Accrued Liabilities:			
Salaries and benefits	\$ <u>12,705</u>	\$ <u>-</u>	\$ <u>12,705</u>

TOWN OF MALABAR, FLORIDA

**Notes to the Basic Financial Statements – Continued
September 30, 2011**

6. Ad Valorem Tax Revenues:

The Town levied a millage rate of \$1.6630 per \$1,000 of assessed value for the fiscal year 2011 and \$1.6630 for the fiscal year 2012. The County of Brevard, Florida, bills and receives payments for all property taxes levied by the Town. Payments are then remitted to the Town. Under the laws of Florida Chapter 74-430 (as amended by 85-381), the Town may not increase its millage by 10% without a vote from the residents of the Town.

Ad valorem taxes are levied on property values as of January 1 as assessed on July 1 with the millage rate established during September. The fiscal year for which taxes are levied begins October 1. Taxes are billed in October with a maximum discount available through November 30, and become delinquent April 1. Tax certificates are issued for delinquent taxes by May 31.

7. Employee Benefit Plans:

A. Defined Benefit Pension Plan

The Town has participated in the Florida Retirement System (“FRS”) since November 2003, a cost sharing, multiple employer, public employee defined benefit plan created to provide a retirement and survivors’ benefit program for participating public employees. Full-time and regular part-time employees participate in the FRS, which is administered by the State of Florida, Department of Administration, Division of Retirement. The FRS provides vesting of benefits after six years. Employees are eligible for normal retirement at age 62. Early retirement may be taken any time after ten years of service (eight years for elected county officials); however, there is a 5% benefit reduction for each year prior to normal retirement. Benefits are computed on the basis of age, average final compensation and service credit. Average final compensation is the average of the five highest fiscal years of earnings. The FRS also provides death and disability benefits, which are established by state statutes.

Florida Statutes Chapter 121, which may be amended by Florida Legislature, determines contribution rates for the various membership classes of the FRS. The FRS issues a publicly available financial report that includes financial statements, ten-year historical trend information and other required supplementary information. The complete financial report of the FRS may be obtained by writing Division of Retirement, 2639 North Monroe Street, Building C, Tallahassee, Florida 32399-1560; or by contacting Research & Education by email at rep@frs.state.fl.us, or by phone at 850-488-5706 or SUNCOM 278-5706.

The contribution rates in effect during the year ended September 30, 2011, are as follows (contribution rates are in agreement with the actuarially determined rates):

	<u>Employee</u>	<u>Employer</u>
Senior management	3%	6.27%
Regular employees	3%	4.91%
Special risk employees	3%	14.10%

Contributions to the FRS, for fiscal year ended September 30, 2011, were equal to the required contribution of the annual covered payroll. Contributions to the FRS for fiscal years ended September 30, 2011, 2010, and 2009 were \$51,421, \$48,069, and \$51,424, respectively.

TOWN OF MALABAR, FLORIDA

**Notes to the Basic Financial Statements – Continued
September 30, 2011**

8. Operating Leases as Lessor:

The Town entered into an agreement with PJ Development, Inc. on January 16, 2006, to lease a parcel of land for a cellular phone tower. The lease term is five years and the base rental payment is \$1,200 per month for the first carrier with an increase of \$200 per month for each non-government user of the cellular phone tower. The lease is renewable for five successive terms of five years each. The current term expires in 2016. The base rent can be increased by 15% on each five year anniversary of the lease. For the fiscal year ended September 30, 2011, the Town received \$15,660 in rental income under this agreement. The amount of minimum rentals to be received is as follows:

Fiscal Year		\$	
2012		16,560	
2013		16,560	
2014		16,560	
2015		16,560	
2016		<u>5,520</u>	
		<u>\$ 71,760</u>	

The carrying value of this land is not specifically identifiable.

9. Long-Term Obligations:

Changes in long-term obligations for the year ended September 30, 2011, were as follows:

	Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011
Compensated Absences	\$ 80,286	\$ 9,670	\$ -	\$ 89,956
Capital Leases	<u>209,656</u>	<u>105,500</u>	<u>(315,156)</u>	<u>-</u>
	<u>\$ 289,942</u>	<u>\$ 115,170</u>	<u>\$ (315,156)</u>	<u>\$ 89,956</u>

10. Risk Management:

The Town is exposed to various risks of loss related to torts; theft or, damage and destruction of assets, errors and omissions; and natural disasters. In order to limit its exposure to these risks, the Town is a participant in the Florida League of Cities (a not-for-profit corporation) self-insurance program for workers compensation, general and auto liability, and property insurance. The self-insurance program purchases excess and specific coverages from third party insurance carriers. Participants in the program are billed annually for their portion of the cost of the program adjusted for actual experience during the period of coverage. Participants are not retroactively assessed for unanticipated losses incurred by the program. Premiums paid by the Town during the year totaled \$56,002. There have been no significant reductions in insurance coverages during fiscal year 2011. Settled claims have not exceeded insurance coverage in any of the past three years.

TOWN OF MALABAR, FLORIDA

**Notes to the Basic Financial Statements – Continued
September 30, 2011**

11. Commitments, Contingencies, and Subsequent Events:

A. Litigation

During the ordinary course of its operations, the Town is party to various claims, legal actions, and complaints. Some of these matters are covered by the Town’s insurance program. Those which are not covered are handled by various law firms retained by the Town. Management does not believe that any such matters would have a material impact on the Town’s basic financial statements.

B. Grant Expenditures

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

12. Other Required Individual Fund Disclosures:

Accounting principles generally accepted in the United States of America require disclosure, as part of the basic financial statements, of certain information concerning individual funds including:

A. Interfund Transactions and Balances

Individual fund interfund receivable and payable balances at September 30, 2011, were:

	Interfund Receivables	Interfund Payables
Fund:		
Governmental funds:		
General fund	\$ 134,460	\$ 262,864
Stormwater	262,864	-
Proprietary fund – water fund	-	134,460
	\$ 397,324	\$ 397,324

B. Fund Balances

The Town’s fund balances are as follows at September 30, 2011:

	General Fund	Stormwater Fund	Total
Nonspendable:			
Prepays	\$ 59,743	\$ -	\$ 59,743
Total nonspendable	59,743	-	59,743
Committed:			
Advances to other funds	\$ 134,460	\$ 262,864	\$ 397,324
Total committed	134,460	262,864	397,324
Unassigned	334,457	-	334,457
Total fund balance	\$ 528,660	\$ 262,864	\$ 791,524

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF MALABAR, FLORIDA

**Schedule of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual – Governmental Funds
Year Ended September 30, 2011**

	General Fund				
	Original Budget	Budget Adjustments	Final Budget	Actual	Variance
Revenues:					
Ad valorem taxes	\$ 342,243	\$ -	\$ 342,243	\$ 347,687	\$ 5,444
Franchise fees	222,000	-	222,000	219,928	(2,072)
Utility taxes	222,808	-	222,808	228,365	5,557
Licenses, permits, and fees	113,638	-	113,638	83,568	(30,070)
Intergovernmental revenue	408,676	-	408,676	454,333	45,657
Fines and forfeitures	300	-	300	249	(51)
Interest	3,000	-	3,000	5,856	2,856
Miscellaneous	270,096	-	270,096	33,369	(236,727)
Total revenues	<u>1,582,761</u>	<u>-</u>	<u>1,582,761</u>	<u>1,373,355</u>	<u>(209,406)</u>
Expenditures:					
Current operating:					
General government	448,079	14,171	462,250	450,274	11,976
Public safety – fire	223,409	(9,292)	214,117	213,376	741
Physical environment	475,310	(14,355)	460,955	460,788	167
Culture and recreation	54,399	(254)	54,145	45,025	9,120
Debt service:					
Principal	116,224	203,240	319,464	315,156	4,308
Interest and other charges	18,744	8,650	27,394	21,177	6,217
Capital outlay	246,596	63,003	309,599	240,847	68,752
Total expenditures	<u>1,582,761</u>	<u>265,163</u>	<u>1,847,924</u>	<u>1,746,643</u>	<u>101,281</u>
Deficiency of Revenues Over Expenditures	<u>-</u>	<u>(265,163)</u>	<u>(265,163)</u>	<u>(373,288)</u>	<u>(108,125)</u>
Other Financing Sources:					
Capital Leases	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,500</u>	<u>105,500</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,500</u>	<u>105,500</u>
Deficiency of Revenues Over Expenditures	<u>-</u>	<u>(265,163)</u>	<u>(265,163)</u>	<u>(267,788)</u>	<u>(2,625)</u>
Fund Balances, Beginning of Year	<u>796,448</u>	<u>-</u>	<u>796,448</u>	<u>796,448</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 796,448</u>	<u>\$ (265,163)</u>	<u>\$ 531,285</u>	<u>\$ 528,660</u>	<u>\$ (2,625)</u>

Note: The Town Council approved a budget adjustment in August 2011 to pay off all existing external debt of the Town prior September 30, 2011. The Town Council reviewed the interest rates on this debt and the earnings on investments and decided to retire these obligations by reducing reserves.

TOWN OF MALABAR, FLORIDA

**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual –
Governmental Funds – Continued
Year Ended September 30, 2011**

	Stormwater Fund				
	Original Budget	Budget Adjustments	Final Budget	Actual	Variance
Revenues:					
Intergovernmental revenue	\$ 228,601	\$ -	\$ 228,601	\$ 63,800	\$ (164,801)
Total revenues	<u>228,601</u>	<u>-</u>	<u>228,601</u>	<u>63,800</u>	<u>(164,801)</u>
Expenditures:					
Current operating:					
General government	49,800	(2,000)	47,800	32,809	14,991
Capital outlay	178,801	2,000	180,801	-	180,801
Total expenditures	<u>228,601</u>	<u>-</u>	<u>228,601</u>	<u>32,809</u>	<u>195,792</u>
Excess of Revenues Over Expenditures	-	-	-	30,991	30,991
Fund Balances, Beginning of Year	<u>231,873</u>	<u>-</u>	<u>231,873</u>	<u>231,873</u>	<u>-</u>
Fund Balances, End of Year	<u>\$ 231,873</u>	<u>\$ -</u>	<u>\$ 231,873</u>	<u>\$ 262,864</u>	<u>\$ 30,991</u>

SUPPLEMENTARY FINANCIAL REPORTS COMPLIANCE SECTION

**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***

Honorable Mayor and Town Council
Town of Malabar, Florida

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Malabar, Florida (the "Town") as of and for the year ended September 30, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 1, 2012. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of auditors' findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of auditors' findings and recommendations (items A and B) to be significant deficiencies.

Honorable Mayor and Town Council
Town of Malabar, Florida

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 or other matters that are required to be reported under *Government Auditing Standards*.

The Town's responses to the findings identified in our audit is described in the accompanying schedule of auditors' findings and recommendations. We did not audit the Town's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Town, its management and specified legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Querett Warmus Durkee Osburn Henning

Orlando, Florida
March 1, 2012

TOWN OF MALABAR, FLORIDA

Auditors' Findings and Recommendations

A. General Fund Items:

2011-1. Finding:

The stormwater fund does not maintain a separate bank account and thus \$262,864 of stormwater funds reside in the general fund.

In addition, the Town has advanced the water fund \$134,460 (mainly to build a water line in 2002) as of September 30, 2011. This advance has been outstanding for over 10 years and is more like a permanent transfer.

Recommendation:

We recommend the Town Council review its policies to repay these advances to the stormwater and general fund. Furthermore the stormwater fund should establish policies to spend these resources in a manner and timetable consistent with stormwater issues in the Town.

Management Response:

The Town of Malabar is considering several stormwater projects that will require the use of these funds.

B. Water Fund Items:

2011-2. Finding:

The water fund lost \$63,331 from operations for fiscal year 2011 and has an unrestricted fund deficit of \$44,652.

Recommendation:

We recommend the Town Council evaluate its water operations including customer rate changes and implement measures to eliminate future operational losses.

Management's Response:

The Town's management is considering several options that include a study of the entire system to determine current and future requirements. Management believes it will present the findings to the Town Council before September 30, 2012.

TOWN OF MALABAR, FLORIDA

Prior Year Recommendations and Other Matters

Prior Year Recommendations:

<u>Prior Year Recommendation</u>	<u>Current Year Status</u>
2010 - A. Internal Control Related Matters	
1. Segregation of duties	Implemented
2010 - B. Water Fund Items:	
1. Subsidiary ledger did not reconcile to general ledger control	Implemented
2. Recurring operating loss	Not implemented – see current year item B

**Management Letter Required by Section 10.550 of the Rules
of the Auditor General of the State of Florida**

Honorable Mayor and Town Council
Town of Malabar, Florida

We have audited the financial statements of the Town of Malabar, Florida (the "Town"), as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated March 1, 2012.

We conducted our audit 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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in this report, which are dated March 1, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local government entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' report or schedule:

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial report except as noted in Prior Year Findings and Recommendations as item B-2.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of 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.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. There are no component units related to the Town.

Honorable Mayor and Town Council
Town of Malabar, Florida

- Section 10.554(1)(i)7., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions(s) met. In connection with our audit, we determined that the Town did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions(s) met. In connection with our audit, we determined that the Town did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Town for the fiscal year ended September 30, 2011, filed with the Florida 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 31, 2011. In connection with our audit, we determined that these two reports were in agreement.
- Section 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town 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. The Town Council reviewed interest rates on its external debt obligations and interest earnings on its cash equivalents and decided to pay off all external debt obligations in 2011. The total paid off approximately \$315,000 of capital leases in 2011. This caused a negative spike in several of the financial indicators.

The Town has experienced significant declines in cash and cash equivalents for the governmental funds. While the Town is not currently in a state of financial emergency as defined by Section 218.503, Florida Statutes, as there were financial indicators with favorable ratings, we believe that the results of the assessment, indicate that the Town's overall financial condition, specifically as it relates to the proprietary funds, is showing signs of decline, which, if not corrected, could result in a deteriorating financial condition.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the management and Town Council of the Town of Malabar, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than those specified parties.

Averett Warmus Durkee Osburn Henning

Orlando, Florida
March 1, 2012