

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TOWN OF PALM BEACH, FLORIDA

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005



Prepared by the Finance Department

Jane Struder, CPA
Finance Director

TOWN OF PALM BEACH, FLORIDA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2005

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INTRODUCTORY SECTION



TOWN OF PALM BEACH

Finance Department

March 10, 2006

The Honorable Mayor and Council
Town of Palm Beach
Palm Beach, Florida

The Comprehensive Annual Financial Report for the Town of Palm Beach's fiscal year ended September 30, 2005 is hereby submitted pursuant to Florida Statute 11.45. This document is the official comprehensive publication of the Town's financial position at September 30, 2005. This report was prepared by the Town's Finance Department. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Town. To the best of our knowledge and belief, the enclosed data are accurate in all material respects. They are reported in a manner designed to present fairly the financial position and results of operations on a government-wide and fund level. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

The Comprehensive Annual Financial Report (CAFR) consists of the following three sections:

1. The Introductory Section, which is unaudited, includes the Table of Contents, this Letter of Transmittal, the Certificate of Achievement for Excellence in Financial Reporting, a list of Town officials and the Town of Palm Beach's organizational chart;
2. The Financial Section includes the independent auditor's report, Management's Discussion and Analysis (MD&A), the Basic Financial Statements, Required Supplementary Information, and other Supplementary Information;
3. The Statistical Section, which is unaudited, includes financial and demographic information presented on a multi-year basis.

This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

THE TOWN OF PALM BEACH

The Town of Palm Beach, Florida, incorporated in 1911, is located on a barrier island in the eastern part of Palm Beach County, which ranks as one of the top growth areas in the State. Palm Beach is a unique, internationally famous residential community known for its distinctive architecture and landscaping, gracious homes and apartments, golf courses and clubs, and world famous stores and restaurants. The taxable value of properties within the Town provides appropriate support for the Town's authorized indebtedness.

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The Town of Palm Beach services a full-time resident population of 9,662 plus an estimated 15,000 additional seasonal residents (November to May), as well as numerous visitors and other individuals who are employed on the island.

The Town is governed by an elected Mayor and a five-member Council. The Mayor's term is for two years. The five members of the Town Council are elected at large and serve overlapping two-year terms. The Town operates under the Council-Manager form of government. The Town Council appoints the Town Manager who serves as the Town's Chief Administrative Officer and is responsible for implementing the policies established by the Town Council. The Town has 406 employees, including 78 sworn police officers and 78 full-time firefighters.

The Town provides a full range of services. These services include police and fire protection, emergency medical services, sanitation services, recreational activities, the construction and maintenance of streets, storm water collection systems, sanitary sewer collection system and other infrastructure.

THE REPORTING ENTITY

The financial reporting entity includes all of the funds and account groups of the Town of Palm Beach. It includes all governmental organizations and activities for which the Town is considered to be financially accountable in accordance with Governmental Accounting Standards Board Statement No. 14.

ECONOMIC CONDITIONS AND OUTLOOK

The Town of Palm Beach is primarily a residential community. Commercial activities are restricted primarily to Town-service establishments including banks, retail shops, hotels and restaurants for the Town's permanent population and seasonal residents. There is no industrial development within the Town. Stringent zoning and land use regulations have limited development and over the long term, will preserve the Town's high quality residential character.

The Town maintains AAA ratings by both Moody's Investor Services and Standard & Poor's for General Obligation Debt. The primary source of revenue is property taxes. The increase in the Town's gross taxable value last year of 9% to \$9,132,547,880 helped the Town continue to provide services at a modest tax rate. Taxable value is expected to continue to increase due to continued real estate development and the strong increases in the market values of existing properties.

Median household income for the Town of Palm Beach is \$94,562, which is above the state and national average.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

For the Year

The Town of Palm Beach has made major steps in recent years toward strategic planning and goal driven management. A strategic plan was adopted by the Town Council in fiscal year 2003, which outlines a vision and 10 year plan for the Town. In FY2004 the Town embarked on a Key Results Measurement and Management program. This program is intended to strengthen accountability, enhance decision-making, improve customer satisfaction, assist in determining effective use of resources and support strategic planning and goal setting. In FY2004, each department developed mission statements and key result statements and the measurement methodology. The Key Results Measurement program was expanded during FY2005 to cascade the Key Result Measures and measurement methodology to all programs of the Town.

As part of the Town's strategic planning process, in FY2005, staff developed and implemented an organization vision and values statement. A Visioning Committee of 20 employees representing each department and every level of authority developed the draft vision and values statement which was reviewed by all Town employees and finalized.

During fiscal year 2005 the following other major accomplishments occurred:

- Town staff has prepared all necessary documentation to obtain FEMA reimbursements for Hurricanes Frances and Jeanne. FEMA reimbursements have been received for almost all projects.
- Many buildings were repaired as the result of Hurricanes Frances and Jeanne. These projects include: North Fire Station interior restoration in addition to a new roof; remediation work and interior restoration at Town Hall, the Public Works facility, and the Recreation Center Facility. Complete roof replacements were completed at the Police Department and the Recreation Center.
- The Town-wide storm drainage improvements continued. The D-4 Basin (Miraflores) was enhanced by the completion of an additional storm water pump station, D-3, at Tangier Avenue. This station will provide a significant improvement to the D-4 drainage basin that is bounded on the north by Via Linda and on the south by Wells Road. The D-8 pump station (Country Club Road) was 98% complete by fiscal year end. This project expanded the storm water pump station capacity from 54,000 GPM to 100,000 GPM near the intersection of Country Club Road and Slope Trail. The D-17 (Clarendon Avenue) stormwater pump station was completed which will relieve severe flooding due to high tides at the west end of Clarendon Avenue and Lake Park Drive.
- Construction was completed in December 2004, on a new central Fire-Rescue station. The total cost of the project was \$4,200,000. The new Fire-Rescue station includes the Town's Emergency Operations Center, the Employee's Fitness Center and the Police Mechanics' bay.
- Coordinated a Town-wide salary and benefits survey and implemented approved recommendations.
- Purchased a new police boat with donated funds for the Marine Patrol Unit and launched the new Marine Crime Watch program.
- Purchased and installed, with donated funds, a full-facility back-up generator for Seaview Park facilities. The generator allowed the Recreation Center to operate as a comfort station for the residents without power following Hurricane Wilma in October, 2005.
- The Town Dock security was improved with the addition of nine video cameras to monitor the dock entry gates, parking areas and provide a long shot of the main pier of each dock.
- Staff prepared an update to the Long Term Financial Plan. The plan contains the FY2006 budget as well as forecasts for FY2007 through FY2010. This plan will be updated annually as part of the budget process.

For the Future

Maintenance and expansion of the Town's general infrastructure (such as streets, oceanfront roadway protective seawalls, sanitary sewer collection system and storm drainage collection system) remains a major concern of the Town. To address this concern, the Town each year prepares a five-year Capital

Improvement Program that provides the framework for the development and maintenance of infrastructure to meet current and future needs.

The Capital Improvement Program also includes the Town's Comprehensive Coastal Management Plan, which addresses sand and shoreline management practices for the entire Atlantic Ocean shoreline of the Town.

The following are Town-wide goals that were adopted by the Town Council for fiscal year 2006.

- Continue the implementation of the Town's Coastal Management Plan, including construction of beach restoration projects at Reach 7 and at Mid-Town. Continue with expedited permitting for Reach 8 and construct it, too, if possible.
- Complete Royal Poinciana Way "Undergrounding" demonstration project and finalize a long-range plan to bury electric, telephone, and cable wires.
- Implement changes to the Town's zoning code and/or processes, to the extent that such changes are authorized by the Town Council after review and recommendations from the Planning and Zoning Commission, Town staff, and the Siemon and Larsen Report.
- Complete a Town-wide study of traffic and parking and develop a plan to improve traffic safety and flow both internally and externally (bridges and entrance roadways) and to improve parking utilization (and capacity, if necessary).
- Continue to develop, establish and enforce policies that limit negative impacts of construction projects on the quality of life in Palm Beach.

Other notable initiatives for fiscal year 2006 will include the following:

- Continue with proposed enhancements to the Town dock facilities and security systems to better serve the tenants and to meet anticipated future market demands.
- Finalize an implementation plan for the reconstruction of the Seaview tennis facility and the complete construction of two additional tennis courts at Phipps Ocean Park.
- Proceed with the first year of a multi-year program to upgrade the Town's software systems, including the preparation and issuance of an RFP.
- Proceed with the plans for relocation of the Planning, Zoning and Building Department and the renovation of Town Hall to improve the long-term space needs for Town operations.
- Complete a damage assessment system for the Town's GIS system that will help to manage information after storm events and allow Town officials to use the mapping functions to make decisions during the emergency.
- Implementation of a new Fire Prevention & Life Safety Program which will conduct fire inspections, technical inspections, building plan review, evening inspections of restaurants and bars and public education activities.

Financial Information

Please read the MD&A and the Notes to the Financial Statements for specific financial information.

Internal Controls: In developing and evaluating the Town's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding: 1) the safeguarding of assets against loss from

unauthorized use or disposition; and, 2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of an internal control system should not exceed the benefits likely to be derived, and that the evaluation of cost and benefits requires estimates and judgments by management.

Budgeting Controls: In addition, the Town maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions implied in the annual budget approved by the Town Council. Activities of the General Fund, Debt Service Funds, Capital Projects Funds, Internal Service Funds, and Enterprise Fund are included in the annual budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the Fund level. The Town also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Unencumbered amounts lapse at year-end. Open encumbrances for outstanding purchase orders are reported as a reservation of fund balance at September 30, 2005 and are re-appropriated as part of the following year's budget.

Cash Management: The Town invests its excess reserves with the State's Local Government Surplus Funds Trust Fund Investment Pool and the Florida League of Cities Investment Trust. As of September 30, 2005, the investments with the State Investment Pool totaled \$74,511,502 and the Florida League of Cities Investment Trust balance was \$28,660,820. The Town generated investment earnings of \$2,787,604 on all funds excluding pension trusts.

Risk Management: The Town is self-insured for group health. The Risk Management program and the Health Insurance program activities are accounted for in Internal Service Funds.

The Risk Management program is under the direction of the Town Manager's Office. Responsibility includes administration of the Town's property, liability and worker's compensation coverage and the related safety and loss control programs; claims investigation and administration including litigation strategies; contractual review regarding hold harmless, indemnification and insurance requirement of vendors, contractors, etc.; and comprehensive review of proposed legislation which could impact the Town from a loss control perspective. As part of the Risk Management Program, resources are being accumulated to meet potential losses.

The Health Insurance program consists of medical, dental, life, long-term disability, accidental death and dismemberment, supplemental life insurance, specific reinsurance, aggregate reinsurance, medical conversion, COBRA, network access fees, utilization review, consulting services, flexible spending program and claims administration. Work in this fund is performed under the direction of the Human Resource Director. In addition, legislation is continually reviewed as it can have either a direct or indirect impact on the program.

Proprietary Funds

Enterprise Operations: The Leisure Services Enterprise Fund includes the revenues and expenses relating to the operation of the Town Docks, the Par 3 Golf Course, tennis, and other recreation activities for youth and adults.

Fiduciary Funds: The Town maintains four fiduciary funds. These include the General Employees' Pension Trust Fund covering General and Lifeguard employees, the Police Officers' Retirement Trust Fund, the Firefighters' Retirement Trust Fund, and Kreisler Park Agency Fund.

Other Information

Independent Audit: State Statutes require an annual audit by independent certified public accountants. The accounting firm of Caler, Donten, Levine, Druker, Porter & Veil, P.A. performed this audit for fiscal year 2005. The auditor's report is included in the financial section of this report.

Awards: The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Palm Beach for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2004. This was the 17th consecutive year the Town has received this prestigious award.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The contents must conform to program standards. Such reports must satisfy both U.S. Generally Accepted Accounting Principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Town believes the current report continues to conform to the Certificate of Achievement Program requirements, and we are therefore submitting this year's report to the GFOA.

The Town also received the GFOA Award for Distinguished Budget Presentation for the Town's budget for the fiscal year ended September 30, 2005 and the Certificate of Achievement in Popular Annual Financial Reporting for the Town's Annual Report for fiscal year ended September 30, 2004.

Acknowledgements: The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the efficient and dedicated services of the entire staff of the Finance Department. Each member of the department has our genuine appreciation for the contributions made in the preparation of this report. We would also like to acknowledge the efforts of our independent auditors, Caler, Donten, Levine, Druker, Porter & Veil, P.A. for their professional work and assistance in producing this report.

We also express our appreciation to the Mayor and Town Council for their leadership and to the Citizens of Palm Beach for their support in ensuring the financial operations of the Town are conducted in a sound and conservative manner, thus assuring the Town a high level of financial security.

Respectfully submitted,



Peter B. Elwell
Town Manager



Jane Struder, CPA
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Palm Beach,
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



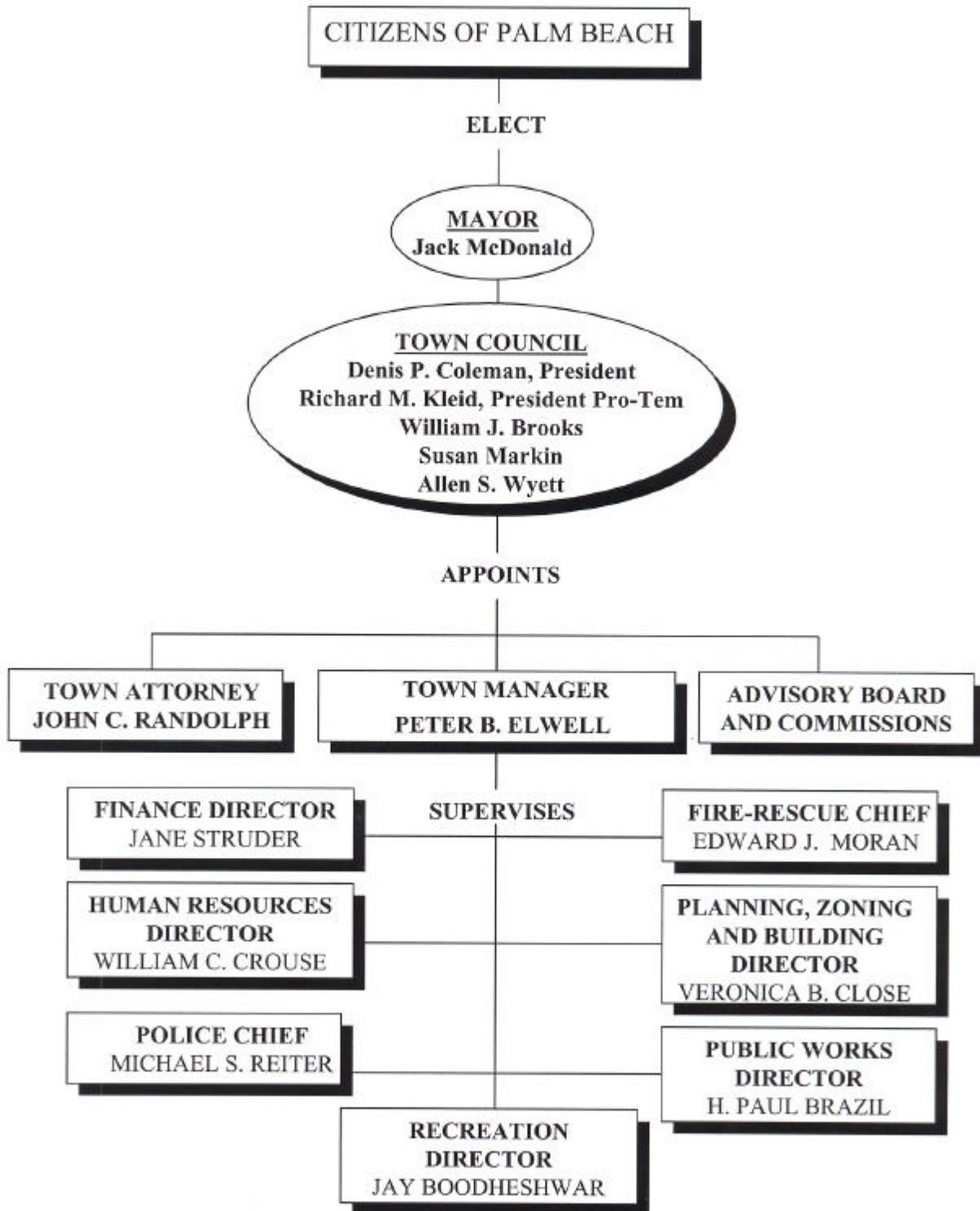
Carla E. Fudge

President

Jeffrey R. Emer

Executive Director

TOWN OF PALM BEACH ORGANIZATIONAL STRUCTURE



Note: Organizational structure as of February 7, 2006

FINANCIAL SECTION



CALER, DONTEN, LEVINE, DRUKER, PORTER & VEIL, P.A.

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MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

FLORIDA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

The Honorable Mayor and Members
of the Town Council
Town of Palm Beach
Palm 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 Palm Beach, Florida, as of and for the year ended September 30, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town of Palm Beach, Florida. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 of Palm Beach, Florida, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2006 on our consideration of the internal control over financial reporting of the Town of Palm Beach, Florida, 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 and budgetary comparison information on pages 3 through 12 and 54 through 58, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Palm Beach, Florida. The introductory section, combining and individual nonmajor fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 also not a required part of the basic financial statements of the Town of Palm Beach, Florida. The combining and individual nonmajor fund financial statements and schedules and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Caler, Donten, Levine,
Dunker, Porter & Veil, P.A.*

February 17, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Palm Beach, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town of Palm Beach for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-vi of this report.

The information contained within this Management's Discussion and Analysis (MD&A) is only a component of the entire financial statement report. Readers should take time to read and evaluate all sections of the report, including the Notes to Financial Statements and the Required Supplementary Information that is provided in addition to this MD&A.

Financial Highlights

1. The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$154,208,740 (net assets). Of this amount, \$90,905,302 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
2. At the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$71,720,747 a decrease of \$4,869,880 in comparison with the prior year. Approximately 27% of the total amount is available for spending at the Town's discretion (unreserved, undesignated fund balance).
3. At the end of the current fiscal year, unreserved fund balance for the general fund was \$24,761,271 or 51% of the general fund expenditures.
4. The Town's total government-wide revenue was \$66,642,911, while total expenses were \$57,632,726.
5. Governmental Activities generated \$62,730,509 in revenue (excluding transfers) with \$54,533,558 in expenses.
6. Business-type Activities generated \$3,912,402 in revenue (excluding transfers) with \$3,099,168 in expenses.
7. The Town's long-term debt decreased by \$3,945,877 during the current fiscal year.

Overview of the Financial Statements

The Town's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also includes other supplementary information in addition to the basic financial statements.

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

The *statement of net assets* presents information on all of the Town of Palm Beach'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 Town'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).

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

The Town's government-wide financial statements are presented on pages 13-15 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 of Palm Beach, 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 of Palm Beach can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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 Town's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and *governmental activities*.

The Town of Palm Beach maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund, capital improvement fund, and the beach restoration project fund all of which are considered major funds. Data for the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is presented in the form of *combining statements* elsewhere in this report.

The governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary funds. The Town of Palm Beach maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Palm Beach uses an enterprise fund to account for its leisure services activities including; the Town Docks, the Par 3 Golf Course, Tennis, and Adult and Youth recreational activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Town of Palm Beach's various functions. The Town of Palm Beach uses internal service funds to account for its self-insurance health fund and self-insurance risk fund.

Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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 Leisure Services Fund enterprise fund and both of the internal service funds, which are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the combining financial statements elsewhere in this report.

The proprietary fund financial statements can be found on pages 20-22 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town of Palm Beach's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary financial statements consist of a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

The Town's fiduciary fund financial statements are presented on pages 23-24.

Notes to 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 financial statements can be found on pages 25-53 of this report.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information containing a comparison between the Town's adopted budget and actual financial results for the general fund. The required supplementary information can be found on pages 54-58 of this report.

Combining financial statements referred to earlier in connection with nonmajor governmental funds, internal service funds and fiduciary funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 60-83 of this report.

Government-wide Financial Analysis

Net assets. On the following page, is a summary of the fiscal year 2005 Statement of Net Assets found on page 13 and comparative information for fiscal year 2004.

**Town of Palm Beach, Florida
Net Assets
September 30, 2005 and 2004**

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
ASSETS						
Current and other assets	\$110,949,571	\$115,506,101	\$ 5,035,159	\$ 3,823,384	\$115,984,730	\$119,329,485
Capital assets, net	<u>64,013,703</u>	<u>58,361,422</u>	<u>10,679,781</u>	<u>10,515,063</u>	<u>74,693,484</u>	<u>68,876,485</u>
Total assets	174,963,274	173,867,523	15,714,940	14,338,447	190,678,214	188,205,970
LIABILITIES						
Other liabilities						
Long-term liabilities outstanding	8,596,744	11,564,566	762,859	537,523	9,359,603	12,102,089
Total liabilities	<u>26,929,037</u>	<u>30,748,626</u>	<u>180,834</u>	<u>156,700</u>	<u>27,109,871</u>	<u>30,905,326</u>
	35,525,781	42,313,192	943,693	694,223	36,469,474	43,007,415
NET ASSETS						
Invested in capital assets, net of related debt	52,423,983	50,906,153	10,679,781	10,515,063	63,103,764	61,421,216
Restricted	199,674	250,907			199,674	250,907
Unrestricted	<u>86,813,836</u>	<u>80,397,271</u>	<u>4,091,466</u>	<u>3,129,161</u>	<u>90,905,302</u>	<u>83,526,432</u>
Total net assets	<u>\$139,437,493</u>	<u>\$131,554,331</u>	<u>\$ 14,771,247</u>	<u>\$ 13,644,224</u>	<u>\$154,208,740</u>	<u>\$145,198,555</u>

Net assets may serve over time as a useful indicator of a government's financial position. At September 30, 2005, the Town's assets exceeded liabilities by \$154,208,740. Net assets increased by \$9,010,185 as a result of a \$7,883,162 increase in governmental activities and an increase of \$1,127,023 in Business Type activities. Unrestricted net assets, the portion of net assets that can be used to finance the day-to-day operations of the Town, totaled \$90,905,302.

Net assets invested in capital assets (e.g., land, buildings, improvements other than buildings, equipment infrastructure and construction in progress) less any related debt used to acquire those assets that is still outstanding and any unspent bond proceeds total \$63,103,764. The Town of Palm Beach uses those capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Palm Beach's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the Town of Palm Beach reported positive balances in all categories of net assets for both governmental and business type activities.

Change in Net Assets: The table on the following page is a summary of the changes in net assets for the year ended September 30, 2005 as compared to September 30, 2004:

Town of Palm Beach, Florida
Changes in Net Assets
For the Fiscal Years Ended September 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 9,964,189	\$ 9,447,505	\$ 3,786,711	\$ 3,543,090	\$ 13,750,900	\$ 12,990,595
Operating grants and contributions	6,931,974	3,026,515			6,931,974	3,026,515
Capital grants and contributions	68,524	1,107,202			68,524	1,107,202
General revenue:						
Property taxes	35,539,136	32,778,331			35,539,136	32,778,331
Local option gas tax	222,226	219,755			222,226	219,755
Franchise fees	1,989,980	1,881,195			1,989,980	1,881,195
Utility service taxes	4,160,185	3,983,261			4,160,185	3,983,261
Intergovernmental	1,192,382	1,730,628			1,192,382	1,730,628
Investment earnings	2,661,913	1,676,047	125,691	56,939	2,787,604	1,732,986
Gains on sale of capital assets		1,677,593				1,677,593
Total revenue	<u>62,730,509</u>	<u>57,528,032</u>	<u>3,912,402</u>	<u>3,600,029</u>	<u>66,642,911</u>	<u>61,128,061</u>
Expenses						
General						
government	10,541,925	12,881,165			10,541,925	12,881,165
Public safety	27,865,411	22,872,573			27,865,411	22,872,573
Physical						
environment	12,267,718	11,851,242			12,267,718	11,851,242
Transportation	1,042,556	773,122			1,042,556	773,122
Culture and recreation	1,677,604	1,561,430			1,677,604	1,561,430
Interest on long-term debt	1,138,344	1,590,795			1,138,344	1,590,795
Leisure services			3,099,168	2,935,651	3,099,168	2,935,651
Total expenses	<u>54,533,558</u>	<u>51,530,327</u>	<u>3,099,168</u>	<u>2,935,651</u>	<u>57,632,726</u>	<u>54,465,978</u>
Increase in Net Assets						
Before Transfers	8,196,951	5,997,705	813,234	664,378	9,010,185	6,662,083
Transfers	(313,789)	(1,251,733)	313,789	1,251,733	0	0
Increase in net assets	<u>7,883,162</u>	<u>4,745,972</u>	<u>1,127,023</u>	<u>1,916,111</u>	<u>9,010,185</u>	<u>6,662,083</u>
Net Assets at beginning of year						
	<u>131,554,331</u>	<u>126,808,359</u>	<u>13,644,224</u>	<u>11,728,113</u>	<u>145,198,555</u>	<u>138,536,472</u>
Net Assets at end of year						
	<u>\$139,437,493</u>	<u>\$131,554,331</u>	<u>\$ 14,771,247</u>	<u>\$13,644,224</u>	<u>\$154,208,740</u>	<u>\$145,198,555</u>

The Town's combined net assets increased by \$9,010,185 or 6.2% during 2005. This improvement can be primarily attributed to governmental activities that increased \$7,883,162 or 6.0% of the total growth in net assets of the Town. The increase over the prior year is attributable to increased property tax revenue, improvement in investment returns, and anticipated grant revenue from FEMA for hurricane related expenses.

Financial Analysis

Governmental funds. The fund financial statements for the governmental funds are provided on pages 16 - 19. The focus of the Town of Palm Beach'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 Palm Beach's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the Town of Palm Beach's governmental funds reported combined ending fund balances of \$71,720,747, which decreased by \$4,869,880 from September 30, 2004. This decrease was primarily due to capital expenditures relating to drainage and beach renourishment projects.

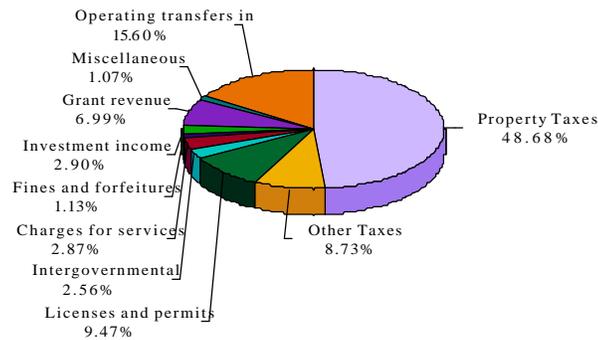
The following schedule presents a summary of all governmental fund revenue and other financing sources for the fiscal year ended September 30, 2005 and the amount and percentage of increases and decreases in relation to prior year revenues:

	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2004</u>	<u>Percent Increase (Decrease)</u>
Revenue				
Taxes	\$ 41,911,527	57.4%	\$ 3,048,985	7.8%
Licenses and permits	6,913,397	9.5%	796,909	13.0%
Intergovernmental	2,072,960	2.6%	145,491	7.5%
Charges for services	2,097,306	2.9%	43,128	2.1%
Fines and forfeitures	822,112	1.1%	(257,861)	(23.9)%
Investment income	2,119,210	2.9%	836,965	65.3%
Grant revenue	5,106,760	7.0%	2,386,742	87.7%
Miscellaneous	781,153	1.1%	(404,673)	(34.1)%
Other Financing Sources				
Operating transfers in	11,392,115	15.5%	1,630,852	16.7%
Proceeds from sale of capital assets	<u> </u>	<u> </u>	<u>(1,964,879)</u>	<u>(100.0)%</u>
Total Revenue and Other Financing Sources	<u>\$ 73,216,540</u>	<u>100.0%</u>	<u>\$ 6,261,659</u>	9.4%

The most significant changes in revenue and other financing sources were related to taxes, license and permit fees, fines and forfeitures, investment income, grant revenue and proceeds from sale of capital asset categories. The changes are described below:

- Property taxes increased due to increases in the taxable value of property and a stable millage rate.
- License and permit revenue increased due to increased revenue from building permits.
- Fines and forfeiture income declined from 2004 due to large collections of old parking ticket fine and penalty revenue received in 2004 after the hiring of a new collection agency. Revenue in 2005 stabilized and collections remain strong.
- Investment income increased due to higher returns on surplus funds.
- Grant revenue increased due to funding from FEMA for expenditures relating to Hurricanes Frances and Jeanne.
- Proceeds were received from the sale of Town owned property at Pike Road in FY2004. No Town owned property sales occurred in FY2005.

Revenues by Source Governmental Activities



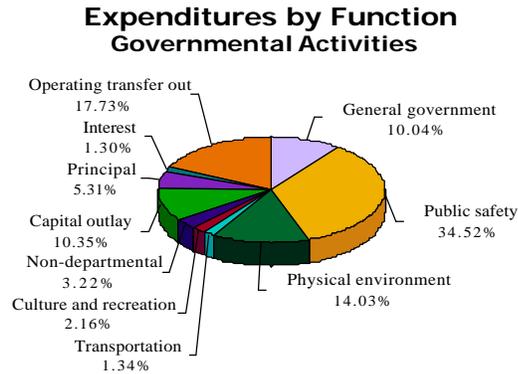
The following schedule presents a summary of all governmental funds expenditures and other financing uses for the fiscal year ended September 30, 2005 and the percentage of increases and decreases in relation to prior year amounts:

	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2004</u>	<u>Percent Increase (Decrease)</u>
Expenditures				
Current:				
General government	\$ 7,817,780	10.0%	\$ 1,170,224	17.6%
Public safety	27,088,862	34.5%	5,644,220	25.4%
Physical environment	10,928,714	14.0%	577,978	5.6%
Transportation	1,043,893	1.3%	274,148	35.6%
Culture and recreation	1,678,681	2.2%	117,251	7.5%
Non-departmental	2,510,033	3.2%	(2,312,894)	(47.9)%
Capital outlay	8,062,746	10.4%	434,775	5.7%
Debt Service:				
Principal	4,135,584	5.3%	310,295	8.1%
Interest	1,014,223	1.3%	(358,304)	(26.1)%
Other Financing Uses				
Operating transfer out	<u>13,805,904</u>	<u>17.8%</u>	<u>4,419,049</u>	47.1%
Total Expenditures and Other Financing Uses	<u>\$ 78,086,420</u>	<u>100.0%</u>	<u>\$ 10,276,752</u>	15.2%

Total expenditures increased 14.9% from FY2004. The reasons for the major increases and decreases are as follows:

- General government expenditures increased due to the hiring of two additional personnel, expenditures relating to Hurricanes Frances and Jeanne and expenditures relating to the current payment of compensated absence payouts.
- Public safety expenditures increased due to the hiring of one additional staff member in the fire-rescue department, emergency expenditures and increased overtime for police and fire-rescue personnel due to Hurricanes Frances and Jeanne, and increases in the Town's contribution to the public safety retirement systems.
- Physical environment costs increased due to overtime costs for response to and recovery from Hurricanes Frances and Jeanne and increased costs associated with the sand transfer plant.
- Transportation expenditures increased due to expenditures and overtime costs related to Hurricanes Frances and Jeanne.
- Culture and recreation expenditures increased due to an increase in the funding to the Four Arts Library.

- Non-departmental expenditures in FY2004 included hurricane expenditures. In FY2005, after further review, we classified the hurricane expenditures into public safety, therefore there was a significant decline in non-departmental expenditures and a significant increase in public safety expenditures.
- Capital outlay increased due to increased expenditures for drainage and Town facilities projects.
- Transfers out increased due to funding for the Town Hall renovation project, increased debt service, and funding a litigation payment in the Risk Fund.



General Fund. The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, *unreserved*, undesignated fund balance of the General Fund was \$19,580,424, while the total fund balance was \$25,974,588. The total fund balance of the General Fund decreased by \$320,094 due, in part, to the use of a designated reserve set up for the proceeds of the sale of the Pike Road property. General Fund revenue exceeded expenditures by \$9,494,495, due to higher than expected revenue relating to property taxes, franchise fees, permits, FEMA grant revenue and lower than expected expenditures due to budget controls. As a measure of the General Fund's liquidity, it is useful to compare unreserved fund balance to total General Fund expenditures. Unreserved fund balance represents 42% of total General Fund expenditures including transfers out.

The fund balance of the Capital Improvement Fund decreased from the prior year by \$1,347,559. This decrease resulted from expended funds for appropriated capital projects.

The fund balance of the Beach Restoration Project Fund decreased from the prior year by \$3,808,724. This decrease is a result of expenditures for beach renourishment projects and transfers out for debt service on the related bonds.

Other governmental funds which include special revenue funds, debt service funds and two capital projects funds (equipment replacement fund and Town facilities fund) had an increase in fund balance of \$606,497. This increase is due to transfers into the Town facilities fund for the renovation of Town hall.

Proprietary Funds. The Town of Palm Beach's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The enterprise fund of the Town consists of the Leisure Services Fund.

Unrestricted net assets of the Leisure Services Fund were \$4,091,466 at September 30, 2005. Net assets for this fund increased \$1,127,023, which is attributable to increased income for the marina and improved investment earnings.

General Fund Budgetary Highlights

The annual General Fund budget is adopted after two public hearings and approval of the Town Council. Any amendments that would exceed the original budget at the fund level would require a formal budget amendment requiring an ordinance and two readings by the Town Council. The General Fund appropriation was amended by \$4,563,660 during the year due to expenditures relating to hurricanes Frances and Jeanne and to transfer funds to the Risk Fund. Funds were also transferred from an appropriated General Fund contingency account to program accounts in the budget to provide for unanticipated expenditures in accordance with specific Town Council authorizations.

Capital Assets and Debt Administration

Capital Assets

Capital assets are those assets (fixed assets and infrastructure) that are used in the performance of the Town's functions. As of September 30, 2005, net capital assets of governmental activities totaled \$64,013,703 and the net capital assets of the business-type activities totaled \$10,679,781 (both net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure and construction in progress.

A summary of the Town of Palm Beach's capital assets (net of depreciation) can be found below. Additional information on the Town's capital assets can be found in Note C to the financial statements and on pages 81-83.

Town of Palm Beach						
Capital Assets						
September 30, 2005 and 2004						
	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Land	\$ 8,039,238	\$ 8,039,238	\$ 5,623,777	\$ 5,623,777	\$ 13,663,015	\$ 13,663,015
Construction in progress	16,918,121	11,645,577	505,090	158,328	17,423,211	11,803,905
Buildings	4,723,215	4,721,806	408,994	425,260	5,132,209	5,147,066
Improvements other than buildings	469,493	464,578	4,050,794	4,236,668	4,520,287	4,701,246
Equipment	5,744,957	5,107,962	91,126	71,030	5,836,083	5,178,992
Infrastructure	28,118,679	28,382,261	0	0	28,118,679	28,382,261
	<u>\$ 64,013,703</u>	<u>\$ 58,361,422</u>	<u>\$ 10,679,781</u>	<u>\$ 10,515,063</u>	<u>\$ 74,693,484</u>	<u>\$ 68,876,485</u>

Major capital projects completed during the fiscal year included the following:

- Storm drainage improvements include the completion of the D-17 storm water pump station at the west end of Clarendon Avenue and the installation of a collection system on Lake Park Drive from Clarendon Avenue to Vita Serena.
- General improvements to the sanitary sewerage system including replacement of 2800 feet of sanitary sewer force main on South Ocean Blvd from Royal Palm Way north to Barton Avenue and down Barton Avenue to within 200' of South County Road.
- Construction was completed and the new central Fire-Rescue station was dedicated in December, 2004.
- Capital improvements were made to Town facilities as a result of hurricane damage to the North Fire Station interior and roof, Police Station roof, and Recreation Center roof, Town Hall (north End) roof replacement.
- Landscape improvements were made to the Peruvian/South County Road Park.

Debt Administration

As of September 30, 2005, the Town had \$23,990,000 in bonds outstanding and \$263,838 in capital lease obligations totaling \$24,253,838 as compared to \$28,389,422 at September 30, 2004, a 15% decrease due to debt retirement in fiscal year 2005 including the final payment for the General Obligation bond. The debt outstanding as of the end of the fiscal year was secured by various revenue sources.

The debt position of the Town is summarized below and more fully explained in Note E to the financial statements.

Town of Palm Beach Outstanding Debt September 30, 2005 and 2004		
	<u>2005</u>	<u>2004</u>
General Obligation Bonds	\$ 0	\$ 680,000
Revenue Bonds	23,990,000	27,360,000
Capital Lease Obligations	<u>263,838</u>	<u>349,422</u>
Total	<u>\$ 24,253,838</u>	<u>\$ 28,389,422</u>

The Town of Palm Beach maintains an AAA General Obligation bond rating by both Moody's and Standard & Poor's.

Economic Factors and Next Year's Budgets and Rates

For fiscal year 2006 the Town Council adopted a General Fund budget of \$57,544,075 representing a 9.9% increase from FY2005. The increase is partially due to a one-time expenditure for the purchase of a police radio system and funding for traffic and parking improvement plan. In addition, 5.5 new positions were added to the budget, the Town's contribution to the retirement fund increased by \$718,274, health care costs increased by \$470,071 and funding for the first year of a multi-year program to upgrade the Town's software systems were included in the FY2006 budget. The taxable value increased by 12.41% in FY2006 and the Town's total millage rate decreased from 4.0287 to 3.9080 or 3%.

General economic conditions both nationally and in the State of Florida will require the Town to closely monitor revenue and expenditure trends. The Town has a stable property tax base. Property taxes represent 66% of the budgeted revenue of the Town. The balance of revenue comes from sales and use taxes, charges for Town services, licenses, permits and fines.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability. Questions concerning information provided in this report or requests for additional financial information should be directed to:

**Finance Department
Town of Palm Beach
360 South County Road
Palm Beach, FL 33480
561-838-5444
www.townofpalmbeach.com**

BASIC FINANCIAL STATEMENTS

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2005

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 44,473	\$ 2,299	\$ 46,772
Equity in pooled cash and investments	99,665,600	5,029,076	104,694,676
Accounts receivable, net of allowance for doubtful accounts of \$841,845	688,707	235	688,942
Grants receivable	2,202,435		2,202,435
Internal balances	(3,549)	3,549	0
Inventory	504,712		504,712
Prepays	22,099		22,099
Unamortized debt issue costs	255,444		255,444
Investment in joint venture	7,569,650		7,569,650
Capital assets			
Land	8,039,238	5,623,777	13,663,015
Construction in progress	16,918,121	505,090	17,423,211
Depreciable capital assets, net	39,056,344	4,550,914	43,607,258
Total assets	<u>174,963,274</u>	<u>15,714,940</u>	<u>190,678,214</u>
LIABILITIES			
Accounts payable	2,619,160	237,961	2,857,121
Accrued liabilities	4,088,581	13,207	4,101,788
Accrued interest payable	221,946		221,946
Customer deposits		181,300	181,300
Unearned revenue	1,667,057	330,391	1,997,448
Long-term debt			
Due within one year	3,589,637	72,204	3,661,841
Due in more than one year	23,339,400	108,630	23,448,030
Total liabilities	<u>35,525,781</u>	<u>943,693</u>	<u>36,469,474</u>
NET ASSETS			
Invested in capital assets, net of related debt	52,423,983	10,679,781	63,103,764
Restricted for:			
Debt service	31,611		31,611
Public safety	168,063		168,063
Unrestricted	86,813,836	4,091,466	90,905,302
Total net assets	<u>\$ 139,437,493</u>	<u>\$ 14,771,247</u>	<u>\$ 154,208,740</u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities				
General government	\$ 10,541,925	\$ 7,094,336	\$ 3,892,522	\$
Public safety	27,865,411	1,551,196	1,394,472	68,524
Physical environment	12,267,718	925,645	1,612,048	
Transportation	1,042,556	393,012		
Culture and recreation	1,677,604		32,932	
Interest on long-term debt	1,138,344			
Total governmental activities	54,533,558	9,964,189	6,931,974	68,524
Business-type activities				
Leisure services	3,099,168	3,786,711		
Total	\$ 57,632,726	\$ 13,750,900	\$ 6,931,974	\$ 68,524

General revenue

- Property taxes
- Local option gas tax
- Franchise fees
- Utility service taxes
- Intergovernmental not restricted to specific programs
- Investment income

Transfers

Total general revenue and transfers

Change in net assets

Net assets at October 1, 2004

Net assets at September 30, 2005

Net Revenue (Expenses) and
Changes in Net Assets

Governmental Activities	Business-type Activity	Total
\$ 444,933	\$	\$ 444,933
(24,851,219)		(24,851,219)
(9,730,025)		(9,730,025)
(649,544)		(649,544)
(1,644,672)		(1,644,672)
(1,138,344)		(1,138,344)
(37,568,871)	0	(37,568,871)
	687,543	687,543
(37,568,871)	687,543	(36,881,328)
35,539,136		35,539,136
222,226		222,226
1,989,980		1,989,980
4,160,185		4,160,185
1,192,382		1,192,382
2,661,913	125,691	2,787,604
(313,789)	313,789	0
45,452,033	439,480	45,891,513
7,883,162	1,127,023	9,010,185
131,554,331	13,644,224	145,198,555
<u>\$ 139,437,493</u>	<u>\$ 14,771,247</u>	<u>\$ 154,208,740</u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2005

	Major Governmental Funds				
	General Fund	Capital Improvement Fund	Beach Restoration Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,660	\$	\$	\$	\$ 2,660
Equity in pooled cash and investments	27,246,328	13,526,545	22,773,093	10,491,233	74,037,199
Accounts receivable	688,707				688,707
Grants receivable	1,762,626		439,809		2,202,435
Due from other funds	177,481			10,988	188,469
Inventory	504,712				504,712
Prepaid items	22,099				22,099
TOTAL ASSETS	\$ 30,404,613	\$ 13,526,545	\$ 23,212,902	\$ 10,502,221	\$ 77,646,281
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 1,105,352	\$ 879,898	\$ 232,254	\$ 200,539	\$ 2,418,043
Accrued liabilities	1,646,628	1,788			1,648,416
Due to other funds	10,988	166,530		14,500	192,018
Unearned revenue	1,667,057				1,667,057
TOTAL LIABILITIES	4,430,025	1,048,216	232,254	215,039	5,925,534
FUND BALANCES					
Reserved	1,213,317	2,839,440	2,535,985	4,557,000	11,145,742
Unreserved, designated for/reported in:					
Subsequent year's budget	1,070,000				1,070,000
Specific purposes	4,110,847	9,638,889	20,444,663		34,194,399
Capital projects funds				5,730,182	5,730,182
Unreserved, undesignated	19,580,424				19,580,424
	25,974,588	12,478,329	22,980,648	10,287,182	71,720,747
TOTAL LIABILITIES AND FUND BALANCES	\$ 30,404,613	\$ 13,526,545	\$ 23,212,902	\$ 10,502,221	\$ 77,646,281

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

September 30, 2005

Total Governmental Fund Balances	\$ 71,720,747
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	64,002,793
Investment in joint venture is not a financial resource and, therefore is not reported in the funds.	7,569,650
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	23,004,117
Deferred issue costs on long-term debt are not financial resources and therefore are not reported in the governmental funds.	255,444
Long-term liabilities, including accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Accrued interest payable	(221,946)
Compensated absences	(3,280,916)
Capital lease obligation	(263,838)
Revenue bonds payable	<u>(23,348,558)</u>
Net Assets of Governmental Activities	<u><u>\$ 139,437,493</u></u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended September 30, 2005

	Major Governmental Funds				
	General Fund	Capital Improvement Fund	Beach Restoration Project Fund	Other Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 41,300,780	\$	\$	\$ 610,747	\$ 41,911,527
Licenses and permits	6,913,397				6,913,397
Intergovernmental	2,072,960				2,072,960
Charges for services	2,097,306				2,097,306
Fines and forfeitures	811,038			11,074	822,112
Investment earnings	905,025	358,421	604,016	251,748	2,119,210
Grant revenue	3,938,012	764,601	404,147		5,106,760
Miscellaneous	191,326	315		589,512	781,153
Total revenue	<u>58,229,844</u>	<u>1,123,337</u>	<u>1,008,163</u>	<u>1,463,081</u>	<u>61,824,425</u>
Expenditures					
Current					
General government	7,661,978			155,802	7,817,780
Public safety	26,673,240	4,951		410,671	27,088,862
Physical environment	8,908,389	191,610	1,797,363	31,352	10,928,714
Transportation	1,041,420			2,473	1,043,893
Culture and recreation	1,678,681				1,678,681
Non-departmental	2,510,033				2,510,033
Capital outlay	162,506	4,378,245	1,251,549	2,270,446	8,062,746
Debt service					
Principal	85,584			4,050,000	4,135,584
Interest	13,518			1,000,705	1,014,223
Total expenditures	<u>48,735,349</u>	<u>4,574,806</u>	<u>3,048,912</u>	<u>7,921,449</u>	<u>64,280,516</u>
Revenue over (under) expenditures	9,494,495	(3,451,469)	(2,040,749)	(6,458,368)	(2,456,091)
Other Financing Sources (Uses)					
Transfers in	555,000	3,617,000		7,220,115	11,392,115
Transfers out	(10,369,589)	(1,513,090)	(1,767,975)	(155,250)	(13,805,904)
Total other financing sources (uses)	<u>(9,814,589)</u>	<u>2,103,910</u>	<u>(1,767,975)</u>	<u>7,064,865</u>	<u>(2,413,789)</u>
Net Change in Fund Balances	(320,094)	(1,347,559)	(3,808,724)	606,497	(4,869,880)
Fund balances at October 1, 2004	<u>26,294,682</u>	<u>13,825,888</u>	<u>26,789,372</u>	<u>9,680,685</u>	<u>76,590,627</u>
Fund balances at September 30, 2005	<u>\$ 25,974,588</u>	<u>\$ 12,478,329</u>	<u>\$ 22,980,648</u>	<u>\$ 10,287,182</u>	<u>\$ 71,720,747</u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

**Amounts reported for governmental activities in the statement of
activities are different because:**

Net change in fund balances-total governmental funds	\$ (4,869,880)
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives	
Expenditure for capital assets	8,062,746
Less current year depreciation	(2,348,332)
Net book value of asset disposals	(63,354)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds	
	363,381
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets of governmental activities.	
Repayments:	
General obligation debt	4,050,000
Capital lease payments	85,584
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
Compensated absences	(137,824)
Accrued interest	98,454
Amortization of bond issue costs	(72,153)
Amortization of loss on refunding	(236,470)
Amortization of bond premiums	86,048
Internal service funds are used by management to charge the costs of certain activities to individual funds	
The net income of the internal service funds is reported with governmental activities	<u>2,864,962</u>
Change in net assets of governmental activities	<u><u>\$ 7,883,162</u></u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

September 30, 2005

	Business-type Activities - Leisure Services Fund	Governmental Activities - Internal Service Funds
	<u>Fund</u>	<u>Funds</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,299	\$ 41,813
Equity in pooled cash and investments	5,029,076	25,628,401
Accounts receivable	235	
Due from other funds	6,076	
	<u>5,037,686</u>	<u>25,670,214</u>
Total current assets		
Noncurrent assets		
Capital assets		
Land	5,623,777	
Construction in progress	505,090	
Buildings	857,989	
Improvements other than buildings	6,044,235	
Equipment	314,288	19,360
	<u>13,345,379</u>	<u>19,360</u>
Less accumulated depreciation	(2,665,598)	(8,450)
Total capital assets, net of accumulated depreciation	<u>10,679,781</u>	<u>10,910</u>
Total assets	15,717,467	25,681,124
LIABILITIES		
Current liabilities		
Accounts payable	237,961	201,117
Accrued liabilities	13,207	2,465,165
Due to other funds	2,527	
Compensated absences payable	72,204	
Customer deposits	181,300	
Unearned revenue	330,391	
	<u>837,590</u>	<u>2,666,282</u>
Total current liabilities		
Noncurrent liability		
Compensated absences payable	108,630	10,725
Total liabilities	<u>946,220</u>	<u>2,677,007</u>
NET ASSETS		
Invested in capital assets	10,679,781	10,910
Unrestricted	4,091,466	22,993,207
Total net assets	<u>\$ 14,771,247</u>	<u>\$ 23,004,117</u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS

Year Ended September 30, 2005

	Business-type Activities - Leisure Services Fund	Governmental Activities - Internal Service Funds
	<u>Fund</u>	<u>Funds</u>
Operating revenue		
Golf fees and related revenue	\$ 813,566	\$
Marina fees and related revenue	2,617,839	
Charges for services	304,187	
Miscellaneous revenue	51,119	7,565,003
	<u>3,786,711</u>	<u>7,565,003</u>
Operating expenses		
Personal services	1,664,498	258,075
Contractual services	548,852	22,461
Facilities maintenance	61,916	
Equipment rental	49,591	
Materials and supplies	153,793	
Utilities	383,445	
Insurance and claims		6,823,047
Hurricane expenses		219,669
Depreciation	237,073	1,858
Other		17,634
	<u>3,099,168</u>	<u>7,342,744</u>
Operating income	687,543	222,259
Nonoperating revenue		
Investment earnings	<u>125,691</u>	<u>542,703</u>
Income before transfers	813,234	764,962
Transfers in	863,789	2,100,000
Transfers out	<u>(550,000)</u>	<u></u>
Change in net assets	1,127,023	2,864,962
Net assets at October 1, 2004	<u>13,644,224</u>	<u>20,139,155</u>
Net assets at September 30, 2005	<u>\$ 14,771,247</u>	<u>\$ 23,004,117</u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended September 30, 2005

	Business-type Activities - Leisure Services Fund	Governmental Activities - Internal Service Fund
	<u>Fund</u>	<u>Fund</u>
OPERATING ACTIVITIES		
Receipts from customers and users	\$ 3,835,232	\$ 7,565,003
Payments to employees	(1,669,797)	(260,198)
Payments to suppliers	(996,535)	(8,967,593)
Payments for interfund services used	(1,315)	(1,780)
	<u>1,167,585</u>	<u>(1,664,568)</u>
Net cash provided by (used in) operating activities		
NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	863,789	2,100,000
Transfers to other funds	(550,000)	
	<u>313,789</u>	<u>2,100,000</u>
Net cash provided by noncapital financing activities		
CAPITAL AND RELATED FINANCING ACTIVITY		
Acquisition of property and equipment	(401,791)	(3,079)
	<u>(401,791)</u>	<u>(3,079)</u>
Net cash used in capital and related financing activity		
INVESTING ACTIVITY		
Investment earnings received	125,691	542,703
	<u>125,691</u>	<u>542,703</u>
Net cash provided by investing activity		
Net increase in cash and cash equivalents	1,205,274	975,056
Cash and cash equivalents at October 1, 2004	3,826,101	24,695,158
	<u>5,031,375</u>	<u>25,670,214</u>
Cash and cash equivalents at September 30, 2005		
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 687,543	\$ 222,259
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	237,073	1,858
Changes in operating assets and liabilities:		
Decrease in accounts receivable	66	
Increase in due from other funds	(3,549)	
Decrease in prepaid items	824	
Increase in accounts payable	202,515	12,834
Decrease in accrued liabilities	(25,634)	(1,902,488)
Decrease in due to other funds	(3,842)	(1,780)
Increase in customer deposits	20,900	
Increase in unearned revenue	27,555	
Increase in compensated absences payable	24,134	2,749
	<u>1,167,585</u>	<u>(1,664,568)</u>
Net cash provided by (used in) operating activities		

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

September 30, 2005

	Pension Trust Funds	Kreusler Park Agency Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and short-term investments	\$ 2,193,582	\$
Equity in pooled cash and investments		16,498
Accrued interest and dividends receivable	372,815	
Due from State of Florida	594,624	
Investments, at fair value		
U.S. Government and Agency securities	13,190,637	
Domestic common stocks	24,539,288	
Common Stock Index Fund	14,476,302	
Domestic corporate bonds	10,652,742	
Equity in pooled investments	94,519,527	
Equity mutual fund	1,283,429	
Total investments	<u>158,661,925</u>	<u>0</u>
Total assets	161,822,946	16,498
LIABILITIES		
Accounts payable	171,397	16,498
Share account distribution payable	215,145	
DROP plan liability	1,232,919	
Total liabilities	<u>1,619,461</u>	<u>16,498</u>
NET ASSETS		
Held in trust for pension benefits (a schedule of funding progress is presented in Note G for the Pension Trust Funds)	<u>\$ 160,203,485</u>	<u>\$ 0</u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

Year Ended September 30, 2005

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions	
Employer	\$ 3,854,119
Employee	1,800,913
State	799,333
Total contributions	<u>6,454,365</u>
Investment income	
Net appreciation in fair value of investments	14,442,332
Interest income	1,935,903
Dividend income	698,758
	<u>17,076,993</u>
Less investment expense	627,101
Net investment income	<u>16,449,892</u>
Total additions	22,904,257
DEDUCTIONS	
Benefit payments	6,774,440
Share account distributions	215,145
Refunds	175,483
Administrative expense	254,801
Total deductions	<u>7,419,869</u>
Net increase	15,484,388
Net assets held in trust for pension benefits at October 1, 2004	<u>144,719,097</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT SEPTEMBER 30, 2005	<u><u>\$ 160,203,485</u></u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity: The Town of Palm Beach, Florida, (the "Town") was incorporated as a municipality in 1911. The Town Charter was enacted by the Legislature of the State of Florida by Special Acts 1917, Chapter 7683. Pursuant to authority granted by the Florida Constitution and Florida Statutes Chapter 165, the Town enacted its current charter by Town Ordinance No. 15-78 adopted on December 12, 1978 and approved by referendum held February 6, 1979. The Town is governed by an elected Mayor and Town Council, which appoints a Town Manager. The Town provides the following services: public safety, recreation, sanitation, streets and roads, planning and zoning, and general administrative services.

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision whether or not to include a potential component unit in the financial reporting entity was made by applying the criteria set forth in U.S. generally accepted accounting principles (GAAP). As defined by U.S. generally accepted accounting principles, the financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete. Based upon the application of these criteria, there were no component units to include within the Town's financial reporting entity.

Town of Palm Beach General Employees Pension Trust Fund: The Town administers the Town of Palm Beach General Employees Pension Trust Fund as a single-employer, public employees retirement system. The Plan is for the benefit of all general and lifeguard employees of the Town and is governed by a five member Board of Trustees. The Trustees consist of the Town Manager, two Town residents appointed by the Town Council, and two representatives elected from the general employees and lifeguards.

Town of Palm Beach Police Officers' Retirement Trust Fund: The Town administers the Town of Palm Beach Police Officers' Retirement Trust Fund as a single-employer, public employees retirement system. The Plan is for the benefit of Police employees of the Town and is governed by a five member Board of Trustees. The Trustees consist of one Town resident appointed by the Trustees, two Town residents appointed by the Town Council, and two representatives elected from the Police department.

Town of Palm Beach Firefighters' Retirement Trust Fund: The Town administers the Town of Palm Beach Firefighters' Retirement Trust Fund as a single-employer, public employees retirement system. The Plan is for the benefit of Fire-rescue employees of the Town and is governed by a five member Board of Trustees. The Trustees consist of one Town resident appointed by the Trustees, two Town residents appointed by the Town Council, and two representatives elected from the Fire-rescue department.

The Town is obligated to fund the Plans' costs based upon annual actuarial valuations. The Town Council is authorized to establish benefit levels and to approve the actuarial assumptions used in the determination of contribution levels. Accordingly, although the Town is not the trustee for the Plans, it is financially accountable and obligated for their operation and the Plans are included in the Town's financial reporting entity as fiduciary funds.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town participates in the following joint venture:

East Central Regional Wastewater Treatment Facility ("ECR")

In September 1992 the Town entered into a joint interlocal agreement (the "Agreement") with Palm Beach County and three municipalities (West Palm Beach, Riviera Beach and Lake Worth) whereby prior separate agreements were consolidated into a single unified agreement to establish rules and procedures for the operation and management of the existing East Central Regional Wastewater Treatment Facility in which each participating entity had a financial interest. ECR was created to receive, treat, and dispose of sewage generated within each municipality and the County. The initial term of the Agreement is for thirty years with a renewable term of thirty years. In the event ECR is sold or disposed of, proceeds of the sale or disposition shall be prorated among the entities, based on their reserve capacity as of the date of disposition. As of September 30, 2005, the Town had a 9.091% interest in ECR.

The Agreement provides for the establishment of a Governing Board (the "Board"), comprised of one representative from each entity participating in the Agreement, to administer ECR. Under the Agreement, the Board has the power to enter into contracts, employ personnel and enter into debt in accordance with Section 163.01(7) of Florida Statutes. In accordance with the Agreement, the City of West Palm Beach operates and manages ECR on behalf of the Board.

All costs of operating the ECR, excluding depreciation, are shared by each of the entities based on actual flows of wastewater. Costs associated with capital projects, renewal and replacement, and debt service are shared among the participating governments based on their pro-rata share of reserve capacity. Under the equity method, the Town recorded its initial investment at cost and records its ongoing financial interest as an adjustment to the investment in joint venture for its share of the following: any income or loss reported by ECR; depreciation and loss on disposal of ECR assets attributable to capital contributions; additional debt assumed for which the entities are obligated to repay; and capital and debt reserve contributions, including revenue earned by ECR on such contributions. The Town does not believe that the joint venture is accumulating significant financial resources or experiencing financial stress that may cause a future benefit or burden to the Town.

The latest available audited financial statements for ECR are for the fiscal year ending September 30, 2004. The Town believes that their investment in ECR, as recorded, is fairly stated. Complete financial statements for ECR may be obtained from the City of West Palm Beach, Finance Department, 200 Second Street, West Palm Beach, Florida 33402.

Based on a "Participatory Agreement" signed by all participants in April 1993, ECR constructed improvements amounting to approximately \$22,377,000, which was financed by the State of Florida, Department of Environmental Protection Revolving Loan Fund. Pledged revenue consisting of all fees and payments received by ECR will be used to repay the debt. As of September 30, 2005, the outstanding balance due to the State Loan Fund was \$13,323,328.

At September 30, 2005 the ECR participants and their respective interest in ECR were as follows:

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Participant	Reserve Capacity Percentages
City of West Palm Beach	30.909%
Palm Beach County	22.727%
City of Lake Worth	22.727%
City of Riviera Beach	14.546%
Town of Palm Beach	9.091%
	100.00%

For the fiscal year ended September 30, 2005, the Town paid the following amounts to ECR:

Operations	\$	490,159
Sewer disposal		304,228
Debt service		123,120
Renewal and replacement		240,912
Refunding loan		105,583
Fleet reserve		9,128
Central pump		72,279
	\$	1,345,409

Government-wide Financial Statements: The government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities and report information on all non-fiduciary activities of the Town. These statements include separate columns for the *governmental activities*, which are normally supported by taxes and intergovernmental revenue, and *business-type activities*, which rely primarily on fees and charges for support.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and business-type activities, which are presented as internal balances and eliminated in the Total Column. In the Statement of Activities, all interfund transactions have been eliminated except for charges between the Town's governmental activities and business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or identifiable activity. *Program revenue* includes three categories of transactions: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; 2) operating grants and contributions; and, 3) capital grants and contributions. Taxes and other items not meeting the definition of program revenue are reported as *general revenue*.

Fund Financial Statements: The underlying accounting system of the Town is organized and operated on the basis of separate funds, each of which is considered to be 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,

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

fund equity, revenue and expenditures or expenses, as appropriate.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The funds used by the Town are classified into three categories: *governmental*, *proprietary* and *fiduciary*. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The Town's major individual governmental funds and enterprise funds are reported as separate columns in the fund financial statements.

Governmental Fund Financial Statements – Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenue, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds in the aggregate. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements, to the net assets and changes in net assets presented in the government-wide financial statements. The Town reports the following major governmental funds:

The *General Fund* is the Town'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 *Capital Improvement Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities.

The *Beach Restoration Project Fund* accounts for the proceeds of the Town's revenue bonds and other Town funds that are to be used for the beach restoration project.

Proprietary Fund Financial Statements – Proprietary Fund Financial Statements include a Balance Sheet and a Statement of Revenue, Expenditures and Changes in Net Assets, and a Statement of Cash Flows for the Town's major proprietary fund and internal service funds as follows:

The *Leisure Services Fund* is used to account for the Town's enterprise fund which includes the operations of the Town's Par 3 Golf Course, its 88 slip marina, and all recreation programs and facilities.

The *Property, Liability and Workers' Compensation Insurance Fund* and the *Group Health Insurance Fund* are used to account for the Town's internal service funds which provide risk management services to other departments of the Town.

Fiduciary Fund Financial Statements – Fiduciary Fund Financial Statements include a Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. The Town's Fiduciary Funds are presented in the fund financial statements by type: *pension* and *agency*. Since by definition these assets are being held for the benefit of third parties (pension participants and Town employees) and cannot be used to finance activities or obligations of the government, these funds are not included in the government-wide financial statements. The Fiduciary Funds of the Town are as follows:

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The *General Employees Pension Trust Fund*, the *Police Officers' Retirement Trust Fund*, and the *Firefighters' Retirement Trust Fund* are used to account for assets held in a trustee capacity for the retirement pensions of all eligible Town employees.

The *Kreusler Park Agency Fund* accounts for funds collected on behalf of Palm Beach County at Kreusler Park.

Measurement Focus and Basis of Accounting: Financial reporting is based upon all pronouncements of the Governmental Accounting Standards Board (GASB), as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors, including FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed by the Town in the preparation of its financial statements.

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenue is recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenue is recognized in the period in which it becomes both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Town considers revenue to be available if it is collected within 6 months of the end of the current fiscal year, except for property taxes, for which the period is 60 days. Unearned revenue consists primarily of occupational licenses and other fees collected in advance of the year to which they relate. Expenditures are generally recognized in the accounting period in which the fund liability is incurred, except for principal and interest on general long-term debt, which is recognized when due. Property taxes, intergovernmental revenue, franchise fees (all of which are based on a percentage of gross receipts), charges for services and investment income are all considered susceptible to accrual and so have been recognized as revenue in the current fiscal year. All other revenue items are considered to be measurable and available only when received in cash by the Town.

Proprietary fund financial statements distinguish *operating* revenue and expenses from *nonoperating* items. Operating revenue 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 revenue of the Leisure Services Fund are charges to customers for greens fees, dockage and recreation programs. Operating expenses for the enterprise fund includes the cost of operating and maintaining the golf course and marina, the cost of providing recreation programs, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Calendar: Ad valorem taxes are levied each November 1st based on the assessed property valuations at January 1st as established by the County Property Appraiser. These taxes are payable

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

November 1st, with discounts of one to four percent allowed for payments prior to March 1st of the following calendar year. Ad valorem taxes are due March 31st, and become delinquent and subject to lien on April 1st. Ad valorem taxes are billed and collected by the Palm Beach County Tax Collector and remitted to the Town.

Cash and Cash Equivalents: Cash and cash equivalents are defined as deposits with financial institutions, money market accounts and highly liquid investments which are readily convertible to known amounts of cash and have a maturity when purchased of three months or less.

For purposes of the statement of cash flows, cash and cash equivalents also include each respective fund's equity in pooled cash and investments. Each fund is able to withdraw cash at any time without prior notice or penalty and there is sufficient liquidity to meet the daily cash needs of each fund. Pooled cash and investments include deposits in the Local Government Surplus Funds Trust Fund, which are generally available for withdrawal by the Town on a next day basis and are therefore considered cash equivalents.

Investments: Investments are stated at fair value, except for investments in the Local Government Surplus Funds Trust Fund, an external investment pool administered by the State of Florida and operating as a "2a7-like" pool under GASB Statement No. 31. As such, the pool uses amortized cost for valuation of the pool shares and the fair value of the shares in the pool is the same as the Town's investment in the pool shares. Securities and mutual funds held by the Town and traded on a national exchange are valued at the last reported sales price.

Accounts Receivable: Accounts receivable represent amounts due from local businesses for franchise and utility taxes, amounts due from individuals for parking fines and ambulance fees, and amounts due from Town residents for solid waste disposal fees. The Town does not require collateral for accounts receivable. Accounts receivable are reported net of an allowance for doubtful accounts determined based on the age of the individual receivable, with age categories ranging from 30 days past due to several years past due. Generally, the allowance includes accounts over 90 days past due. Accounts receivable are written off on an individual basis in the year the Town deems them to be uncollectible.

Inventory: Inventory, consisting primarily of expendable materials and supplies, is valued at cost, which approximates fair value, using the first-in, first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

Internal Balances: Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the government-wide governmental and business-type activities columns of the statement of net assets, except for the residual amount, which is presented as internal balances.

Capital Assets: The Town has reported all capital assets, including infrastructure assets (roads, sidewalks and similar items), in the government-wide statement of net assets. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Capital assets are recorded at cost or, if donated, fair value at the date of donation. All infrastructure assets, including those acquired prior to fiscal years ended after June 30, 1980, are reported in the accompanying government-wide financial statements. Expenses, which materially extend the useful life of existing assets, are capitalized. Certain costs for professional services and interest associated with the acquisition and construction of capital assets have been capitalized. The cost of capital assets sold or retired is removed from

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

the appropriate accounts and any resulting gain or loss is included in the increase in net assets. Depreciation is computed using the straight-line method over the assets' estimated useful lives of all reported capital assets, except land. Estimated useful lives assigned to the various categories of assets are as follows:

Buildings	10-50 years
Improvements other than buildings	3-30 years
Equipment	3-15 years
Infrastructure	15-50 years

Unamortized Debt Issue Costs: Unamortized debt issue costs and unamortized bond premiums are amortized on the straight-line basis and charged against operations over the term of the related debt. This method approximates the interest method of amortization. Unamortized debt issue costs are included in assets and unamortized bond premiums are presented as an addition to bonds payable.

Net Assets/Fund Balance: The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as follows:

Invested in Capital Assets, Net of Related Debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on the use of net assets by external restrictions imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of *Invested in Capital Assets, Net of Related Debt* or *Restricted*.

The governmental fund financial statements utilize a fund balance presentation. Fund balance is categorized as follows:

Fund balance reserves indicate the portion of fund balance that is not available for subsequent expenditure, other than for the specific purpose for which the reserve was established. The following is a list of the reserves established by the Town and a description of each:

Reserved for inventory - An account used to segregate a portion of fund balance to indicate that inventory does not represent available, spendable resources even though it is a component of assets.

Reserved for prepaid items - An account used to segregate a portion of fund balance to indicate that prepaid items do not represent available, spendable resources even though they are a component of assets.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reserved for specific purposes - An account used to segregate the portion of fund balance that is legally restricted by contract, donor, Town Ordinance or Florida Statutes for specific purposes.

Reserved for encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as part of the budgetary accounting system in the General Fund, Special Revenue Funds and Capital Projects Funds. Encumbrances outstanding at year-end, if any, are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

Reserved for debt service - An account used to segregate the portion of fund balance that is legally restricted to the payment of debt service on the Town's outstanding general obligation bonds.

Fund balance designations indicate tentative managerial plans or intent to use financial resources in a future period.

Compensated Absences: The Town accrues accumulated vacation and sick leave time for all permanent, full-time employees, subject to certain limitations. The Town's policy provides that employees shall receive 100% of their accrued vacation and 50% of their accrued sick leave over 320 hours, upon termination of service. Upon retirement, an employee will be paid 50% of all accrued and unused sick leave not to exceed 800 hours. The liability for compensated absences attributable to the Town's governmental funds is recorded in the government-wide financial statements. The amount attributable to the business-type activities is charged to expense with a corresponding liability established in the government-wide financial statements as well as the Enterprise Fund. The Town includes all applicable payroll taxes and benefits in the accrual for compensated absences.

On-behalf Payments: The Town receives on-behalf payments from the State of Florida to be used for Police and Fire-Rescue pension benefits. Such payments are recorded as intergovernmental revenue and public safety expenditures in the GAAP basis government-wide and General Fund financial statements, but are not budgeted and therefore are not included in the General Fund budgetary comparison schedule. On-behalf payments to the Town totaled \$799,333 for the fiscal year ended September 30, 2005.

Interfund Transactions: Transactions between funds during the year consisted of loans, services provided, reimbursements or transfers. Loans are reported as *Due from Other Funds* and *Due to Other Funds* as appropriate and are subject to elimination in the government-wide financial statements. Services, deemed to be reasonably equivalent in value, are treated as revenue and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are presented as transfers. Transfers within the governmental and business-type activities are eliminated in the government-wide financial statements.

Grants: Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the Federal government and State of Florida. Any disallowed claims, including amounts already received, might constitute a liability of the Town for the return of those funds.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenditures. Actual results could vary from the estimates that were used.

NOTE B - CASH AND CASH EQUIVALENTS, EQUITY IN POOLED CASH AND INVESTMENTS, AND INVESTMENTS

Cash and Cash Equivalents: Cash and cash equivalents at September 30, 2005, excluding amounts held by Fiduciary Funds, include petty cash of \$4,959 and deposits with financial institutions with a carrying value of \$41,813 and a bank balance of \$62,724. Cash and cash equivalents of the Fiduciary Funds at September 30, 2005 consist of deposits with financial institutions with a carrying value of \$1,212,958 and a bank balance of \$1,272,230 and U.S. Treasury money market mutual funds with a carrying value and bank balance of \$980,624.

All deposits with financial institutions were entirely covered by a combination of federal depository insurance and a collateral pool pledged to the State Treasurer of Florida by financial institutions which comply with the requirements of Florida Statutes and have been designated as a qualified public depository by the State Treasurer. Qualified public depositories are required to pledge collateral to the State Treasurer with a fair value equal to a percentage of the average daily balance of all government deposits in excess of any federal deposit insurance. In the event of a default by a qualified public depository, all claims for government deposits would be satisfied by the State Treasurer from the proceeds of federal deposit insurance, pledged collateral of the public depository in default and, if necessary, a pro rata assessment to the other qualified public depositories in the collateral pool. Accordingly, all deposits with financial institutions are considered fully insured in accordance with the provisions of GASB Statement No. 3. The money market mutual fund deposits are uninsured and uncollateralized.

Equity in Pooled Cash and Investments: The Town maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed as "Equity in pooled cash and investments." The cash balance with a carrying value of \$1,538,852 and a bank balance of \$1,684,110, was included in pooled cash and investments and deposited with a financial institution designated as a qualified public depository by the State Treasurer as described under Cash and Cash Equivalents and, accordingly, is considered fully insured in accordance with the provisions of GASB Statement No. 3. The investments included in pooled cash and investments consist of investments in the Local Government Surplus Funds Trust Fund with a carrying value of \$74,511,502 and investments in the Florida Municipal Investment Trust with a carrying value of \$28,660,820. Pooled cash and investments include \$16,498 in the Town's agency fund.

The Local Government Surplus Funds Trust Fund consists of equity in an external investment pool administered by the State of Florida pursuant to statutory requirements and operated in a manner consistent with Securities and Exchange Commission (SEC) Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC registered mutual funds to use amortized cost rather than fair value to report net assets used to compute share prices if certain conditions are met. Those conditions include restrictions on the types of investments held, restrictions on the term-to-maturity of individual investments and the dollar-weighted average of the portfolio, requirements for portfolio diversification, requirements for divestiture considerations

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE B - CASH AND CASH EQUIVALENTS, EQUITY IN POOLED CASH AND INVESTMENTS, AND INVESTMENTS (Continued)

in the event of security downgrades and defaults, and required actions if the fair value of the portfolio deviates from amortized cost by a specified amount. The fair value of the Town's position in the pool is considered to be the same as the Town's account balance (amortized cost) in the pool. The Town's investment in the Local Government Surplus Funds Trust Fund is not evidenced by securities that exist in physical or book entry form.

The Florida Municipal Investment Trust (the "Trust") is an external investment pool established in 1993 and administered by the Florida League of Cities, Inc. pursuant to the laws of the State of Florida. The Trust is exempt from registration under the Securities Act of 1933, the Investment Company Act of 1940 and the Florida Securities and Investors Protection Act. Participants in the Trust are limited to governmental entities in the State of Florida. The Trust operates four portfolios with differing investment goals. The Town invests in the Short Term (\$21,321,381) and Intermediate Term (\$7,339,439) Bond Portfolios designed to provide an investment horizon and yield greater than that of money market instruments. The Trust has adopted GASB Statement No. 31 and the fair value of the Town's position in the Trust is the same as the fair value of the Trust shares. Purchases and redemption of shares in the Trust may only be made on or about the end of each month and the Town must maintain an account balance of at least \$50,000. The investment in the pool is not evidenced by securities that exist in physical or book entry form.

Investments: Florida Statutes and the Town Code authorize the Town to invest in the Local Government Surplus Funds Trust Fund; Florida Municipal Investment Trust; negotiable direct obligations of or obligations unconditionally guaranteed by the U.S. Government; interest-bearing time deposits or savings accounts in financial institutions located in Florida and organized under federal or Florida laws; obligations of the Federal Farm Credit Banks, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Association and any additional investments specifically authorized by the Town Pension Boards for pension funds. Pursuant to the Town Code, the Town Pension Boards have full power and authority to invest and reinvest subject to the general terms, conditions, limitations and restrictions imposed by Part VII, Chapter 112, Florida Statutes, on the investments of public employee retirement systems. In addition to the previously mentioned investments, the Town Pension Boards are also authorized to invest in domestic equity securities and corporate bonds, within certain limitations established by the Town Code.

The fair value and cost of the General Employees Pension Plan's investments at September 30, 2005 were as follows:

	Fair Value	Cost
U.S. Government and Agency securities	\$ 13,190,637	\$ 13,283,518
Domestic common stocks	24,539,288	18,007,547
Common Stock Index Fund	14,476,302	11,439,397
Domestic corporate bonds	10,652,742	10,714,125
Total investments	\$ 62,858,969	\$ 53,444,587

Effective October 1, 2004, the Town split its Public Safety Pension Trust Fund into two separate plans – the Firefighters' Retirement Trust Fund and the Police Officers' Retirement Trust Fund. Although the two plans

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE B - CASH AND CASH EQUIVALENTS, EQUITY IN POOLED CASH AND INVESTMENTS, AND INVESTMENTS (Continued)

were legally split effective October 1, 2004 based on actuarially determined percentages, the investments of the two plans remained commingled for the 2004/2005 fiscal year except for one equity mutual fund purchased by the Firefighters' Plan. The fair value of the Firefighters' Plan's equity in the pooled investments at September 30, 2005 amounted to \$45,178,747, or 47.16% of the pool. The fair value of the Police Officers' Plan's equity in the pooled investments at September 30, 2005 amounted to \$49,340,780 or 52.84%. The total pool consists of the following at September 30, 2005:

	Fair Value	Cost
U.S. Government and Agency securities	\$ 5,159,003	\$ 5,217,786
Passive Bond Market Index Fund	6,352,174	5,178,033
Domestic common stocks	12,412,001	10,507,650
Equity mutual funds		
S&P Flagship	16,336,664	11,839,519
Torry Rd.	14,686,202	11,505,528
Artisian Funds	6,235,688	3,793,948
Investment partnerships		
Harris Associates International	6,570,888	3,000,000
Meridian Performance Partners	4,771,565	3,800,000
Pine Grove Institutional Investors	4,721,720	3,800,000
Domestic corporate bonds	15,990,193	15,968,033
Total investments	\$ 94,519,527	\$ 75,817,926

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in debt securities. Generally, the longer the time to maturity, the greater the exposure to interest rate risk. Cash equivalents have a weighted maturity of ninety days or less, resulting in minimal interest rate risk. The Town's investment policy minimizes interest rate risk by structuring its investment portfolio so that securities mature to meet cash requirement for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Operating funds are invested primarily in shorter-term securities, money market mutual funds, or similar investment pools. Generally, investments shall be limited to instruments maturing with five years of purchase. The Town's pension plans limit the maturities of their investments such that no more than 10% of each investment manager's portfolio, valued at market, shall be invested in short term instruments less than one year to maturity or cash equivalents. The Passive Bond Market Index Fund has a weighted average maturity of 6.89 years. The table below summarizes the scheduled maturities of fixed income investments at September 30, 2005.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE B - CASH AND CASH EQUIVALENTS, EQUITY IN POOLED CASH AND INVESTMENTS, AND INVESTMENTS (Continued)

<u>Investment Type</u>	<u>Fair Value of Investment Maturities</u>			
	<u>Less Than One Year</u>	<u>One to Five Years</u>	<u>Six to Ten Years</u>	<u>More Than Ten Years</u>
<u>Florida Municipal Investment Trust</u>				
1-3 Year High Quality Bond	\$	\$ 21,321,381	\$	\$
Intermediate High Quality Bond		7,339,439		
<u>Pension fund investments</u>				
U.S. Government and agency securities	908,795	1,271,894	1,155,314	15,013,637
Corporate bonds	<u>1,345,959</u>	<u>10,335,032</u>	<u>4,290,035</u>	<u>10,671,909</u>
Total	<u>\$ 2,254,754</u>	<u>\$ 40,267,746</u>	<u>\$ 5,445,349</u>	<u>\$ 25,685,546</u>

Credit Risk: Credit risk is the risk that a debt issuer will not fulfill its obligations. The Town's investment policy addresses credit risk by limiting investments to the safest types of securities and diversifying the investment portfolio. The security rating by a Nationally Recognized Statistical Rating Organization (NRSRO) is also an indication of credit risk. The Town requires that all investments in debt securities be rated A or higher by a NRSRO. The Local Government Surplus Funds Trust Fund does not carry a credit rating. The Town's pension plans investment policies address credit risk by limiting investments to bonds or preferred stocks rated investment grade or above, unless specifically approved by the Board. Securities which are unrated may be purchased, if in the judgment of the investment manager, they would carry an investment grade rating. No short-term money market instrument shall be purchased which has a rating less than A-1 or P-1. The NRSRO ratings for the Town's investments at September 30, 2005 are summarized below. The Passive Bond Market Index Fund has a credit rating of AA. All other securities are not rated.

<u>Investment Type</u>	<u>NRSRO Rating</u>	<u>Fair Value</u>
<u>Florida Municipal Investment Trust</u>		
1-3 Year High Quality Bond	AAA	\$ 21,321,381
Intermediate High Quality Bond	AAA	7,339,439
		<u>28,660,820</u>
<u>Pension fund investments</u>		
U.S. Government and agency securities	AAA	17,023,860
U.S. Government and agency securities	Not Rated	1,325,780
Corporate bonds	AAA	5,292,212
Corporate bonds	AA	2,183,390
Corporate bonds	A	11,778,297
Corporate bonds	BBB	7,143,366
Corporate bonds	Not Rated	245,670
		<u>44,992,575</u>
Total		<u>\$ 73,653,395</u>

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE B - CASH AND CASH EQUIVALENTS, EQUITY IN POOLED CASH AND INVESTMENTS, AND INVESTMENTS (Continued)

Custodial Credit Risk: Custodial credit risk is defined as the risk that the Town may not recover cash and investments held by another party in the event of a financial failure. The Town and its pension plans require all securities to be held by a third party custodian in the name of the Town. Securities transactions between a broker-dealer and the custodian involving the purchase or sale of securities must be made on a "delivery vs. payment" basis to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. The investments in the Local Government Surplus Funds Trust Fund, mutual funds and the Florida Municipal Investment Trust are considered *unclassified* pursuant to the custodial credit risk categories of GASB Statement No. 3, because they are not evidenced by securities that exist in physical or book-entry form.

Concentration of Credit Risk: Concentration of credit risk is defined as the risk of loss attributed to the magnitude of an investment in a single issuer. The Town does not have any specific policy for concentration of credit risk, although it does provide for diversification to limit the potential losses on individual securities. The Town's pension plans' investment policies provide that no investment manager may purchase an equity or fixed income security that would cause the holding of any one issuer to exceed 5% of the manager's respective equity or fixed income portfolio. Investments in broadly-based index funds and U.S. Government and Agency securities are excluded from this limitation. In addition, not more than 2% of each investment manager's portfolio shall be invested in the commercial paper of a single issuer or in bank certificates of deposit of a single issuer.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. There was no exposure to foreign currency risk in the Town's investments at September 30, 2005.

NOTE C - CAPITAL ASSETS

The capital asset activity for the year ended September 30, 2005 was as follows:

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE C - CAPITAL ASSETS (Continued)

<u>Governmental Activities</u>	<u>Balance at Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at End of Year</u>
Capital assets not being depreciated				
Land	\$ 8,039,238	\$	\$	\$ 8,039,238
Construction in progress	<u>11,645,577</u>	<u>6,501,244</u>	<u>(1,228,700)</u>	<u>16,918,121</u>
Total capital assets not being depreciated	19,684,815	6,501,244	(1,228,700)	24,957,359
Capital assets being depreciated				
Buildings	12,610,650	188,765	(106,315)	12,693,100
Improvements other than buildings	1,272,855	18,875		1,291,730
Equipment	11,168,358	1,564,581	(1,488,645)	11,244,294
Infrastructure	<u>46,142,790</u>	<u>1,021,060</u>	<u>(139,901)</u>	<u>47,023,949</u>
Total capital assets being depreciated	71,194,653	2,793,281	(1,734,861)	72,253,073
Less accumulated depreciation for				
Buildings	(7,888,844)	(187,356)	106,315	(7,969,885)
Improvements other than buildings	(808,277)	(13,960)		(822,237)
Equipment	(6,060,396)	(927,586)	1,488,645	(5,499,337)
Infrastructure	<u>(17,760,529)</u>	<u>(1,221,288)</u>	<u>76,547</u>	<u>(18,905,270)</u>
Total accumulated depreciation	<u>(32,518,046)</u>	<u>(2,350,190)</u>	<u>1,671,507</u>	<u>(33,196,729)</u>
Total capital assets, being depreciated, net	<u>38,676,607</u>	<u>443,091</u>	<u>(63,354)</u>	<u>39,056,344</u>
Governmental activities capital assets, net	<u>\$ 58,361,422</u>	<u>\$ 6,944,335</u>	<u>\$ (1,292,054)</u>	<u>\$ 64,013,703</u>

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE C - CAPITAL ASSETS (Continued)

<u><i>Business-type Activities</i></u>	<u>Balance at Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at End of Year</u>
Capital assets not being depreciated				
Land	\$ 5,623,777	\$	\$	\$ 5,623,777
Construction in progress	<u>158,328</u>	<u>362,162</u>	<u>(15,400)</u>	<u>505,090</u>
Total capital assets not being depreciated	5,782,105	362,162	(15,400)	6,128,867
Capital assets being depreciated				
Buildings	857,989			857,989
Improvements other than buildings	6,028,835	15,400		6,044,235
Equipment	<u>294,459</u>	<u>39,629</u>	<u>(19,800)</u>	<u>314,288</u>
Total capital assets being depreciated	7,181,283	55,029	(19,800)	7,216,512
Less accumulated depreciation for				
Buildings	(432,729)	(16,266)		(448,995)
Improvements other than buildings	(1,792,167)	(201,274)		(1,993,441)
Equipment	<u>(223,429)</u>	<u>(19,533)</u>	<u>19,800</u>	<u>(223,162)</u>
Total accumulated depreciation	<u>(2,448,325)</u>	<u>(237,073)</u>	<u>19,800</u>	<u>(2,665,598)</u>
Total capital assets, being depreciated, net	<u>4,732,958</u>	<u>(182,044)</u>	<u>0</u>	<u>4,550,914</u>
Business-type activities capital assets, net	<u>\$ 10,515,063</u>	<u>\$ 180,118</u>	<u>\$ (15,400)</u>	<u>\$ 10,679,781</u>

Depreciation expense was charged to functions/ programs as follows:

Governmental Activities

General government	\$ 285,235
Public safety	700,146
Physical environment	1,361,779
Culture and recreation	<u>3,030</u>
Total depreciation expense - governmental activities	<u>\$ 2,350,190</u>

Business-type Activity

Leisure services fund	<u>\$ 237,073</u>
Total depreciation expense - business-type activity	<u>\$ 237,073</u>

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE D - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Transactions between funds during the year consisted of loans, services provided, reimbursements or transfers. Loans are reported as *Due from Other Funds* and *Due to Other Funds* as appropriate and are subject to elimination in the government-wide financial statements. Services, deemed to be reasonably equivalent in value, are treated as revenue and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are presented as transfers. Transfers primarily consist of moving money from one fund to another to be used for a specific purpose within the receiving fund. Transfers within the governmental and business-type activities are eliminated in the government-wide financial statements. Interfund receivables and payables and interfund transfers at September 30, 2005 are summarized as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor funds	\$ 8,424
	Capital Improvement Fund	166,530
	Leisure Services Fund	2,527
Nonmajor Funds	General Fund	10,988
Leisure Services Fund	Nonmajor funds	<u>6,076</u>
		<u>\$ 194,545</u>

Interfund transfers:

<u>Transfers In - Reported in</u>						
	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Nonmajor Funds</u>	<u>Leisure Services Fund</u>	<u>Internal Service Funds</u>	<u>Total</u>
Transfers Out:						
Reported in						
General Fund	\$	\$ 3,617,000	\$ 4,968,212	\$	\$ 1,784,377	\$ 10,369,589
Capital Improvement Fund	5,000		483,928	708,539	315,623	1,513,090
Beach Restoration Project Fund			1,767,975			1,767,975
Nonmajor Funds				155,250		155,250
Leisure Services Fund	<u>550,000</u>					<u>550,000</u>
	<u>\$ 555,000</u>	<u>\$ 3,617,000</u>	<u>\$ 7,220,115</u>	<u>\$ 863,789</u>	<u>\$ 2,100,000</u>	<u>\$ 14,355,904</u>

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE E - LONG-TERM DEBT

Changes in long-term debt for the year ended September 30, 2005 are summarized as follows:

<u>Governmental Activities</u>	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at End of Year</u>	<u>Amounts Due Within One Year</u>
Compensated absences	\$ 3,151,068	\$ 584,832	\$ 419,259	\$ 3,316,641	\$ 25,000
Capital lease obligations	349,422		85,584	263,838	84,637
General obligation bonds payable	680,000		680,000	0	
Revenue bonds payable	<u>27,360,000</u>		<u>3,370,000</u>	<u>23,990,000</u>	<u>3,480,000</u>
Total long-term debt	<u>\$ 31,540,490</u>	<u>\$ 584,832</u>	<u>\$ 4,554,843</u>	27,570,479	<u>\$ 3,589,637</u>
Unamortized premiums				363,557	
Unamortized loss on refunding				(1,004,999)	
Current maturities				<u>(3,589,637)</u>	
Net long-term debt				<u>\$ 23,339,400</u>	
<u>Business-type Activities</u>	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at End of Year</u>	<u>Amounts Due Within One Year</u>
Compensated absences	<u>\$ 156,700</u>	<u>\$ 33,302</u>	<u>\$ 9,168</u>	<u>\$ 180,834</u>	<u>\$ 72,204</u>

The compensated absences liability of the governmental activities is liquated primarily by the Town's General Fund.

CAPITAL LEASE OBLIGATIONS

The Town leases vehicles and equipment through capital leasing arrangements in the General Fund. The assets and obligations for capital lease agreements of the General Fund are recorded as capital assets, net of accumulated amortization and long-term debt, respectively, in the government-wide balance sheet. The assets acquired through capital leases consist of vehicles and equipment with an original cost of \$733,971, net of accumulated amortization of \$185,103.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2005, are as follows:

TOWN OF PALM BEACH, FLORIDA
 NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE E - LONG-TERM DEBT (Continued)

<u>Year Ending September 30,</u>	<u>Amount</u>
2006	\$ 94,821
2007	94,821
2008	<u>94,822</u>
Total minimum lease payments	284,464
Less amount representing interest	<u>(20,626)</u>
Present value of minimum lease payments	<u>\$ 263,838</u>

GENERAL OBLIGATION BONDS PAYABLE

General Obligation Refunding Bonds, Series 1993

Resolution 19-93 authorized the issuance of \$6,675,000 General Obligation Refunding Bonds, Series 1993. The bonds were issued for the purpose of refunding the Town's General Obligation Refunding Bonds, Series 1986. The Series 1993 Bonds are payable from an ad valorem tax levy on all the taxable property within the Town, sufficient to pay the principal and interest on the bonds as it becomes due. Interest on the Series 1993 Bonds is payable semi-annually on January 1 and July 1 and principal payments are due July 1. The final payment on these bonds was made July 1, 2005

REVENUE BONDS PAYABLE

Town of Palm Beach, Florida, Revenue Refunding Bonds, Series 2003A

In April 2003, the Town issued \$18,385,000 Town of Palm Beach, Florida, Revenue Refunding Bonds, Series 2003A to (1) advance refund the Town's outstanding Revenue Bonds, Series 2000, maturing on January 1, 2006 through and including January 1, 2010 and (2) pay certain costs of issuance related to the Series 2003A Bonds, including the premium for a municipal bond insurance policy and a debt service reserve policy. The Series 2003A Bonds bear interest at rates ranging from 5% to 5.3%. Principal payments are due on January 1, and interest payments are due on January 1 and July 1 until maturity on January 1, 2010. The bonds are special obligations of the Town payable solely from and secured solely by non-ad valorem revenue and any unused bond proceeds and related investment income. A Municipal Bond Insurance Association (MBIA) policy has been issued guaranteeing the scheduled payment of principal and interest on the bonds when due. The advance refunding of the Series 2000 bonds by the Town reduced its aggregate debt service payments by approximately \$391,000 over the life of the bonds and produced an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$337,000.

The annual debt service requirements for the Series 2003A bonds are as follows:

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE E - LONG-TERM DEBT (Continued)

Year Ending September 30,	Interest Rate	Principal	Interest	Total
2006	5.100%	\$ 3,360,000	\$ 594,408	\$ 3,954,408
2007	5.125	3,460,000	494,383	3,954,383
2008	5.200	3,595,000	357,223	3,952,223
2009	5.250	3,745,000	210,313	3,955,313
2010	5.300	3,885,000	67,069	3,952,069
		<u>\$ 18,045,000</u>	<u>\$ 1,723,396</u>	<u>\$ 19,768,396</u>

Town of Palm Beach, Florida, Revenue Bonds, Series 2003B

In April 2003, the Town issued \$6,130,000 Town of Palm Beach, Florida, Revenue Bonds, Series 2003B to (1) finance the acquisition, construction and equipping of a Fire Rescue facility with a new emergency operations center, the renovation of the Town Hall facilities, including security upgrades and drainage improvements, and (2) pay certain costs of issuance related to the Series 2003B Bonds, including the premium for a municipal bond insurance policy and a debt service reserve policy. The Series 2003B Bonds bear interest at rates ranging from 2% to 5%. Principal payments are due on January 1, and interest payments are due on January 1 and July 1 until maturity on January 1, 2033. The bonds are special obligations of the Town payable solely from and secured solely by non-ad valorem revenue and any unused bond proceeds and related investment income. A Municipal Bond Insurance Association (MBIA) policy has been issued guaranteeing the scheduled payment of principal and interest on the bonds when due. The annual debt service requirements for these bonds are as follows:

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE E - LONG-TERM DEBT (Continued)

Year Ending September 30,	Interest Rate	Principal	Interest	Total
2006	2.000%	\$ 120,000	\$ 258,578	\$ 378,578
2007	2.250	125,000	255,971	380,971
2008	2.600	125,000	252,940	377,940
2009	3.000	130,000	249,365	379,365
2010	3.250	135,000	245,221	380,221
2011	3.500	140,000	240,578	380,578
2012	3.700	145,000	235,445	380,445
2013	3.800	150,000	229,913	379,913
2014	3.800	155,000	224,118	379,118
2015	4.000	160,000	217,973	377,973
2016	4.000	170,000	211,373	381,373
2017	4.125	175,000	204,363	379,363
2018	4.250	180,000	196,929	376,929
2019	4.400	190,000	188,924	378,924
2020	4.375	200,000	180,369	380,369
2021	4.500	210,000	171,269	381,269
2022	4.500	215,000	161,706	376,706
2023	4.625	225,000	151,666	376,666
2024	4.750	240,000	140,763	380,763
2025	4.750	250,000	129,125	379,125
2026	4.750	260,000	117,013	377,013
2027	4.750	275,000	104,306	379,306
2028	4.750	290,000	90,888	380,888
2029	5.000	305,000	76,375	381,375
2030	5.000	320,000	60,750	380,750
2031	5.000	335,000	44,375	379,375
2032	5.000	350,000	27,250	377,250
2033	5.000	370,000	9,250	379,250
		<u>\$ 5,945,000</u>	<u>\$ 4,676,796</u>	<u>\$ 10,621,796</u>

Town of Palm Beach, Florida, Revenue Bonds, Series 2000

In May 2000, the Town issued \$23,530,000 Town of Palm Beach, Florida, Revenue Bonds, Series 2000 to finance the Town's beach restoration project. The Series 2000 Bonds bear interest at rates ranging from 5.0% to 5.3%. Principal payments are due on January 1, and interest payments are due on January 1 and July 1 through 2010. The bonds are special obligations of the Town payable solely from and secured solely by non-ad valorem revenue and any unused bond proceeds and related investment income. A Municipal Bond Insurance Association (MBIA) policy has been issued guaranteeing the scheduled payment of principal and interest on the bonds when due. In April 2003, the majority of the Series 2000 bonds were refunded with the proceeds of the Series 2003A bonds. The final payment on the remaining outstanding bonds was made on January 1, 2005.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE E - LONG-TERM DEBT (Continued)

Annual Requirements

The annual debt service requirements to maturity, including interest of \$8,350,602 (excluding compensated absences, which have no fixed maturity) are as follows:

<u>Year Ending September 30,</u>	<u>Capital Lease Obligations</u>	<u>Revenue Bonds</u>	<u>Total</u>
2006	\$ 94,821	\$ 4,332,986	\$ 4,427,807
2007	94,821	4,335,354	4,430,175
2008	94,822	4,330,163	4,424,985
2009		4,334,678	4,334,678
2010		4,332,290	4,332,290
2011-2015		1,898,027	1,898,027
2016-2020		1,896,958	1,896,958
2021-2025		1,894,529	1,894,529
2026-2030		1,899,332	1,899,332
2031-2033	<u> </u>	<u>1,135,875</u>	<u>1,135,875</u>
	<u>\$ 284,464</u>	<u>\$ 30,390,192</u>	<u>\$ 30,674,656</u>

Interest Expense: Total interest costs incurred and paid on all Town debt for the year ended September 30, 2005 totaled \$1,138,344 and \$1,014,223, respectively.

Defeased Bonds: The Town has defeased \$17,640,000 of Series 2000, Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The trust account assets and the liability for the defeased Series 2000 bonds are not included in the Town's financial statements. At September 30, 2005 outstanding Series 2000, Revenue Bonds in the amount of \$17,640,000 are considered defeased.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE F - FUND BALANCES

In the fund financial statements, fund balance of the governmental funds is reserved and designated for various purposes at September 30, 2005, as follows:

	Major Governmental Funds			
	General Fund	Capital Improvement Fund	Beach Restoration Project Fund	Other Governmental Funds
Reserved Fund Balances				
Reserved for inventory	\$ 504,712	\$	\$	\$
Reserved for prepaid items	22,099			
Reserved for specific purposes	63,541			4,105,413
Reserved for encumbrances	622,965	2,839,440	2,535,985	419,976
Reserved for debt service				31,611
Total Reserved Fund Balances	1,213,317	2,839,440	2,535,985	4,557,000
Designated Fund Balances				
Designated for subsequent year's budget	1,070,000			
Designated for specific purposes				
East Central Regional Wastewater Treatment Facility	1,314,931			
Capital projects		9,638,889		
Equipment				5,730,182
Beach restoration projects			20,444,663	
Compensated absences	2,795,916			
Total Designated for specific purposes	4,110,847	9,638,889	20,444,663	5,730,182
Total Designated Fund Balances	5,180,847	9,638,889	20,444,663	5,730,182
Undesignated Fund Balances	19,580,424			
Total Fund Balances	\$ 25,974,588	\$ 12,478,329	\$ 22,980,648	\$ 10,287,182

NOTE G - RETIREMENT PLANS

Plan Descriptions: The Town administers three single employer, defined benefit pension plans. The General Employees Pension Trust Fund covers substantially all full time general employees and lifeguards. The Police Officers' Retirement System covers substantially all full time Police Officers' and the Firefighters' Retirement System covers substantially all full time Fire-Rescue personnel. The Police Officers' and Firefighters' Retirement Systems were under one plan, the Public Safety Pension Trust Fund, until October 1, 2004 when the Town authorized the formation of a new plan and the transfer of assets to a separate Firefighters' Plan.

TOWN OF PALM BEACH, FLORIDA
 NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE G - RETIREMENT PLANS (Continued)

The Town Council is authorized to establish benefit levels and to approve the actuarial assumptions used in the determination of contribution levels. The contributions and benefits are segregated in the General Employees Plan between general employees and lifeguards.

The Police Officers' Plan and the Firefighters' Plan also receive payments from the State of Florida pursuant to Chapters 185 and 175 of the Florida Statutes for the benefit of Police officers and Fire-Rescue personnel, respectively. Monies received pursuant to Chapters 185 and 175 can only be used to finance the benefits of participants who are Police officers or Fire-Rescue employees, respectively. All three plans issue a publicly available financial report that includes financial statements and required supplementary information for the respective Plans. The financial reports may be obtained by writing to the Town of Palm Beach, P. O. Box 2029, Palm Beach, Florida 33480 or by calling (561) 838-5444.

Basis of Accounting: The Plans' financial statements are prepared using the accrual basis of accounting. Employee contributions are recognized in the period in which the contributions are due. Employer and State of Florida contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans.

Investments: Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price.

Funding Policy: The contribution requirements of Plan members and the Town are established and may be amended by the Town Council. Plan members are required to contribute a percentage of their annual covered salary as described in the following table. The Town is required to contribute at an actuarially determined rate. The contribution rates for the fiscal year ended September 30, 2005, as a percentage of the employees annual compensation, were as follows:

	Member Contribution	Town and State Contribution
General employees	6.47%	16.75%
Lifeguard employees	7.21%	22.39%
Police employees	6.98%	33.09%
Fire-Rescue employees	6.82%	36.75%

Annual Pension Cost and Net Pension Obligation: The annual pension cost, net pension obligation and required contribution for September 30, 2005 were determined as part of the actuarial valuation of the System as of September 30, 2003, using the entry age actuarial cost method. The Town's annual pension cost and net pension obligation to the Plan's Retirement System for the fiscal year ended September 30, 2005 were as follows:

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE G - RETIREMENT PLANS (Continued)

	<u>General Employees</u>	<u>Police Officers'</u>	<u>Firefighters'</u>
Annual required contribution	\$ 2,716,378	\$ 1,340,431	\$ 1,529,328
Interest on net pension obligation	0	0	0
Adjustment to annual required contribution	<u>0</u>	<u>0</u>	<u>0</u>
Annual pension cost	2,716,378	1,340,431	1,529,328
Contributions made	<u>(2,716,378)</u>	<u>(1,340,431)</u>	<u>(1,529,328)</u>
Increase (decrease) in net pension obligation	0	0	0
Net pension obligation, beginning of year	<u>0</u>	<u>0</u>	<u>0</u>
Net pension obligation, end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Actuarial Assumptions: Significant actuarial assumptions used in the latest actuarial valuations of the plans are summarized as follows:

	<u>General Employees</u>	<u>Police Officers'</u>	<u>Firefighters'</u>
Valuation date	September 30, 2004	September 30, 2004	September 30, 2004
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level Percent of Payroll Closed Amortization	Level Percent of Payroll Closed Amortization	Level Percent of Payroll Closed Amortization
Remaining amortization period	7-30 years	7-30 years	7-30 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market
Investment rate of return (includes inflation at 5.5%)	8.0%	8.0%	8.0%
Projected salary increases (includes inflation and other general increases)	9.8% to 6.2%	9.8% to 6.2%	9.8% to 6.2%

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE G - RETIREMENT PLANS (Continued)

Cost-of-living adjustments	Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Members retiring after 9/30/90 will be increased 2.0% annually based on their total pension benefit, after a 3-year deferral period. Other adjustments have been made periodically.	Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Members retiring after 9/30/90 will be increased 2.0% annually based on their total pension benefit, after a 3-year deferral period. Other adjustments have been made periodically.	Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Members retiring after 9/30/90 will be increased 2.0% annually based on their total pension benefit, after a 3-year deferral period. Other adjustments have been made periodically.
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Three-Year Trend Information: The trend information for the Town's Plans for the last three actuarial plan years ended September 30th is shown below. Since the Public Safety plan was split into two plans effective October 1, 2004, the information for the Public Safety plan is shown for 2003 and 2004 and the information for the Police Officers' and Firefighters' plans are shown separately for 2005.

**SCHEDULE OF ANNUAL PENSION COST
AND NET PENSION OBLIGATION**

<u>Plan Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
<u>General Employees</u>			
2003	\$ 955,887	100%	\$ 0
2004	1,522,597	100%	0
2005	2,716,378	100%	0
<u>Public Safety</u>			
2003	\$ 1,509,136	100%	\$ 0
2004	2,677,634	100%	0
<u>Police Officers'</u>			
2005	\$ 1,340,431	100%	\$ 0
<u>Firefighters'</u>			
2005	\$ 1,529,328	100%	\$ 0

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE G - RETIREMENT PLANS (Continued)

SCHEDULE OF FUNDING PROGRESS
(in thousands)

Year	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
<u>General Employees</u>						
2002	\$ 52,316	\$ 53,071	\$ 755	98.6%	\$ 9,380	8.0%
2003	53,798	56,652	2,854	95.0%	10,223	27.9
2004	56,298	61,842	5,544	91.0%	10,877	51.0
<u>Public Safety</u>						
2002	\$ 86,446	\$ 88,991	\$ 2,545	97.1%	\$ 7,769	32.8%
2003	88,091	94,991	6,900	92.7%	8,558	80.6
<u>Police Officers'</u>						
2004	\$ 46,386	\$ 51,605	\$ 5,219	89.9%	\$ 5,070	102.9%
<u>Firefighters'</u>						
2004	\$ 44,080	\$ 51,703	\$ 7,623	85.3%	\$ 4,444	171.5%

NOTE H - INSURANCE PROGRAM

The Town retains the risk of loss for certain claims related to general liability and property risks, group accident and health, and workers' compensation. These insurance activities are accounted for in the Internal Service Funds. The Internal Service Funds charge departments of the Town for insurance coverage based upon historical claims experience, insurance costs and relative share of total risk. There have been no significant changes in insurance coverages from the prior year.

A claims liability of approximately \$2,429,000 is included in accrued liabilities of the Internal Service Funds at September 30, 2005. This liability is based on Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be accrued if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accordingly, the accrued liability for claims includes the estimated future liability on a case-by-case basis for all reported claims and an amount for claims incurred but not reported. The accrued claims liabilities at September 30, 2005 were determined using actuarial valuations performed by Gallagher Benefit Services, Inc. for group health and AMI Risk Consultants, Inc. for

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE H - INSURANCE PROGRAM (Continued)

general liability. The insurance coverages and accrued claims liability of the Internal Service Funds at September 30, 2005 are summarized as follows:

	<u>Accrued Claims Liability</u>
<p>Group Accident and Health: Certain employees and retirees of the Town contribute through payroll deductions or deductions from pension payments to the cost of group benefits. The remainder of the necessary funding is contributed by the Town based on an actuarially determined amount. As of September 30, 2005, these benefits covered 399 active employees, 132 retirees and 583 dependents. Net costs for the year ended September 30, 2005 were approximately \$4,727,000. The Town retains the risk of loss up to \$65,000 per occurrence; and up to 125% of the estimated claims in the aggregate (approximately \$4.3 million maximum plan costs for 2005). Insurance coverage for claims in excess of these specific limits (up to the policy maximum of \$2,000,000 per person, per life-time) has been obtained from a commercial carrier. The Town makes available certain health insurance benefits for its retired employees and their dependents in accordance with State Statute. The Town pays approximately 55% of the premiums for retirees' health insurance, as well as for their dependent coverage. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.</p> <p>The Town accounts for the cost of this post-retirement benefit coverage on a pay-as-you-go basis. The net cost to the Town of retiree health care insurance benefits for the year ended September 30, 2005 was approximately \$973,000. The Town received participant contributions of approximately \$472,000.</p>	<p>\$ 751,000</p>

General Liability, Automobile Liability, Public Official Liability, Workers' Compensation and Property: The Town retains the risk of loss for all exposures and maintains excess insurance coverage above the Town's retained risk of loss of \$100,000 per occurrence for General and Automobile Liability, Public Official Liability, Workers' Compensation and Property. An aggregate retention (Loss Fund) of \$8,000,000 applies to each fiscal year, with a \$5,000 maintenance deductible.

Excess liability coverage of \$5,000,000 per occurrence is maintained with commercial carriers for General, Automobile and Public Official Liability. Excess Workers' Compensation coverage is maintained with commercial carriers at Statutory limits and excess Property coverage is maintained with commercial carriers at \$30,743,706 per occurrence.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE H - INSURANCE PROGRAM (Continued)

Florida Statutes limit the Town's maximum loss for most liability claims to \$100,000 per person and \$200,000 per occurrence. However, under certain circumstances a plaintiff can seek to recover damages in excess of statutory limits by introducing a claims bill to the Florida Legislature. The limits addressed in the Florida Statutes do not apply to claims filed in Federal courts.

1,678,000
\$ 2,429,000

The claims activity for the last two fiscal years is summarized as follows:

	<u>Year Ended September 30, 2005</u>	<u>Year Ended September 30, 2004</u>
Accrued claims liability at beginning of fiscal year	\$ 4,329,000	\$ 2,330,000
Current year claims and changes in estimates	4,072,000	5,724,000
Claim payments	<u>(5,972,000)</u>	<u>(3,725,000)</u>
Accrued claims liability at end of fiscal year	<u>\$ 2,429,000</u>	<u>\$ 4,329,000</u>

The Town is a party to various claims, legal actions and complaints. In the opinion of Town management, all such matters are adequately covered by claim reserves under its insurance program or if not covered, are without merit or involve such minimal amounts that an unfavorable disposition would not have a material effect on the Town's financial position. Settled claims have not exceeded commercial insurance coverages in any of the past three years.

NOTE I - COMMITMENTS

The Town has several uncompleted construction contracts for improvements to Town facilities. The construction is being funded primarily from accumulated funds and bond proceeds. At September 30, 2005 the remaining commitments on these uncompleted contracts was \$417,850. The uncompleted contracts at September 30, 2005 are summarized as follows:

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE I - COMMITMENTS (Continued)

	<u>Contract Amounts</u>	<u>Approved Payments</u>	<u>Retainage Payable</u>	<u>Remaining Contract Commitments</u>
Capital Improvement Fund	\$ 125,112	\$ 54,454	\$ 6,050	\$ 64,608
Internal Service Funds	85,400			85,400
Nonmajor Governmental Funds	4,178,472	4,047,492	4,264	126,716
Leisure Services Fund	<u>222,550</u>	<u>81,424</u>		<u>141,126</u>
Total	<u>\$ 4,611,534</u>	<u>\$ 4,183,370</u>	<u>\$ 10,314</u>	<u>\$ 417,850</u>

NOTE J - SUBSEQUENT EVENT

During October 2005, the Town incurred physical damages to its property, as well as a significant amount of clean up costs as a result of a hurricane. The Town incurred expenditures of approximately \$3.5 million related to this storm. The Town anticipates receiving Federal and State grants and insurance reimbursements to cover approximately 80% to 90% of its expenditures.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Taxes				
Ad Valorem	\$ 34,487,025	\$ 34,487,025	\$ 34,928,389	\$ 441,364
Local Option Gas Tax	220,000	220,000	222,226	2,226
Franchise Fees	1,790,000	1,790,000	1,989,980	199,980
Utility Service	4,054,500	4,054,500	4,160,185	105,685
	<u>40,551,525</u>	<u>40,551,525</u>	<u>41,300,780</u>	<u>749,255</u>
Licenses and Permits				
Occupational Licenses	632,000	632,000	695,544	63,544
Building Permits	3,554,275	3,554,275	6,073,756	2,519,481
Other License Fees and Permits	111,300	111,300	144,097	32,797
	<u>4,297,575</u>	<u>4,297,575</u>	<u>6,913,397</u>	<u>2,615,822</u>
Intergovernmental				
State Shared Revenue	973,000	973,000	1,066,046	93,046
Shared Revenue-local	97,700	176,331	207,581	31,250
	<u>1,070,700</u>	<u>1,149,331</u>	<u>1,273,627</u>	<u>124,296</u>
Charges for Services				
General Government	39,900	39,900	49,565	9,665
Public Safety	820,600	820,600	729,084	(91,516)
Physical Environment	939,600	939,600	925,645	(13,955)
Transportation	417,700	417,700	393,012	(24,688)
	<u>2,217,800</u>	<u>2,217,800</u>	<u>2,097,306</u>	<u>(120,494)</u>
Fines and Forfeitures	787,500	787,500	811,038	23,538
Investment Earnings	617,379	617,379	905,025	287,646
Grant Revenue	220,177	220,177	3,938,012	3,717,835
Miscellaneous				
Rents and Royalties	48,575	48,575	50,460	1,885
Other Miscellaneous	84,000	84,000	140,866	56,866
	<u>132,575</u>	<u>132,575</u>	<u>191,326</u>	<u>58,751</u>
Total Revenue	49,895,231	49,973,862	57,430,511	7,456,649

See notes to budgetary comparison schedule.

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (CONTINUED)

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
General Government				
Town Manager	\$ 1,917,762	\$ 2,030,595	\$ 2,010,784	\$ 19,811
Human Resources	667,546	744,280	719,092	25,188
Information Systems	1,182,385	1,384,452	1,371,647	12,805
Town Clerk	312,629	313,168	284,222	28,946
Finance	1,334,712	1,342,512	1,337,930	4,582
Planning, Zoning and Building	649,273	659,893	657,163	2,730
Permit Issuance	939,159	964,049	967,539	(3,490)
Contingency	745,496	282,813	0	282,813
Employee Benefits	718,956	718,956	714,067	4,889
	<u>8,467,918</u>	<u>8,440,718</u>	<u>8,062,444</u>	<u>378,274</u>
Public Safety				
Inspection and Compliance	847,274	873,434	873,249	185
Fire-Rescue	8,966,808	9,187,367	9,050,325	137,042
Police	13,473,010	13,700,386	13,094,535	605,851
Emergency/Disaster Response	64,085	2,084,717	2,176,968	(92,251)
	<u>23,351,177</u>	<u>25,845,904</u>	<u>25,195,077</u>	<u>650,827</u>
Physical Environment				
Administration	638,810	624,725	623,221	1,504
Sewer and Sanitation	6,111,934	6,259,682	6,244,247	15,435
Public Works	2,236,312	2,380,277	2,307,949	72,328
	<u>8,987,056</u>	<u>9,264,684</u>	<u>9,175,417</u>	<u>89,267</u>
Transportation				
Streets and Repairs	407,695	391,155	553,759	(162,604)
Traffic Control	491,689	530,304	503,418	26,886
	<u>899,384</u>	<u>921,459</u>	<u>1,057,177</u>	<u>(135,718)</u>
Culture and Recreation				
Recreation	141,376	124,696	124,415	281
Library	235,000	335,000	335,000	0
Parks and Beaches	1,332,977	1,257,607	1,261,987	(4,380)
	<u>1,709,353</u>	<u>1,717,303</u>	<u>1,721,402</u>	<u>(4,099)</u>

See notes to budgetary comparison schedule.

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (CONTINUED)

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Non-departmental	\$ 2,510,033	\$ 4,294,410	\$ 4,294,410	\$ 0
Debt Service				
Principal	95,000	99,093	85,584	13,509
Interest and Fiscal Charges		10	13,518	(13,508)
	<u>95,000</u>	<u>99,103</u>	<u>99,102</u>	<u>1</u>
Total Expenditures	46,019,921	50,583,581	49,605,029	978,552
Other financing sources (uses)				
Transfers in	2,485,500	555,000	555,000	0
Transfers out	<u>(6,360,810)</u>	<u>(7,360,810)</u>	<u>(7,360,810)</u>	<u>0</u>
	<u>(3,875,310)</u>	<u>(6,805,810)</u>	<u>(6,805,810)</u>	<u>0</u>
Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 0</u>	<u>\$ (7,415,529)</u>	1,019,672	<u>\$ 8,435,201</u>
Fund balance at October 1, 2004			26,294,682	
Net difference between GAAP and Non-GAAP budgetary basis			<u>(1,339,766)</u>	
Fund balance at September 30, 2005			<u>\$ 25,974,588</u>	

See notes to budgetary comparison schedule.

TOWN OF PALM BEACH, FLORIDA

NOTES TO BUDGETARY COMPARISON SCHEDULE

September 30, 2005

NOTE A - BUDGETARY ACCOUNTING

Budgets: Budgets are legally required to be adopted for the General Fund, Debt Service Funds and Capital Projects Funds. All governmental fund budgets are prepared on the modified accrual basis of accounting. For budgetary purposes current year encumbrances, if any, are treated as expenditures. Unencumbered appropriations lapse at fiscal year end. State on-behalf payments for Police and Fire-Rescue pensions are not budgeted. Certain internal service fund charges are treated as expenditures in the General Fund budgetary statement, but are treated as transfers for GAAP purposes.

Under the Laws of the State of Florida and the Town Code, the Town Manager submits to the Mayor and Town Council, prior to July 31st, a proposed Annual Budget and Financial Plan for the fiscal year commencing the following October 1st. The Annual Budget and Financial Plan is prepared by fund, function and activity and includes all proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments. Prior to October 1st, the budget is legally enacted by the Town Council through passage of an ordinance.

Changes or amendments to increase or decrease the total amount of budgeted revenue or expenditures for a given fund must be approved by a majority vote of the Town Council; however, changes, amendments or transfers within the total revenue or expenditures for functions, activities or departments of a given fund may be approved by the Town Manager.

During the current year, several budget amendments were approved by the Town Council and Town Manager. All budget amounts presented in the accompanying supplementary information reflect the original budget and the amended budget based on legally authorized revisions to the original budgets during the year. Unexpended appropriations lapse at year end.

Encumbrances: Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the General Fund and Capital Projects Funds. On a budgetary basis, encumbrances are recorded as expenditures of the current year. On a GAAP basis, encumbrances at year-end are reported as a reservation of fund balance for subsequent year expenditures.

NOTE B - BUDGET AND ACTUAL COMPARISONS

The Budgetary Comparison Schedule for the General Fund is required to be prepared under the basis of accounting used in preparing the budget. As indicated in Note A, the modified accrual basis of accounting is used for budgetary purposes. Current year encumbrances are treated as expenditures for budgetary purposes and state on-behalf payments for Police and Fire-Rescue pensions are not included in the budget. As a result, General Fund revenue and expenditures reported in the budget and actual statement differ from the corresponding amounts reported on the basis of U.S. generally accepted accounting principles. These differences can be reconciled as follows:

TOWN OF PALM BEACH, FLORIDA

NOTES TO BUDGETARY COMPARISON SCHEDULE

September 30, 2005

NOTE B - BUDGET AND ACTUAL COMPARISONS (Continued)

Current year encumbrances outstanding at year end	\$ 622,965
Prior year encumbrances paid in the current year	(1,962,731)
State on-behalf payments for Police and Fire-Rescue pension contributions not included in budgetary basis	
GAAP basis revenue	799,333
GAAP basis expenditure	<u>(799,333)</u>
NET DIFFERENCE BETWEEN GAAP AND BUDGETARY BASIS	(1,339,766)
 Revenue and other sources over expenditures and other uses BUDGETARY BASIS	 <u>1,019,672</u>
 Revenue and other sources over expenditures and other uses GAAP BASIS	 <u><u>\$ (320,094)</u></u>

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**



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**MAJOR CAPITAL PROJECTS FUNDS
BUDGETARY COMPARISON SCHEDULES**

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - CAPITAL IMPROVEMENT FUND

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE				
Investment earnings	\$ 200,000	\$ 200,000	\$ 358,421	\$ 158,421
Grants		709,601	764,601	55,000
Miscellaneous			315	315
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue	<u>\$ 200,000</u>	<u>\$ 909,601</u>	<u>\$ 1,123,337</u>	<u>\$ 213,736</u>
EXPENDITURES				
Current				
Public safety	\$	\$	\$ 4,951	\$ (4,951)
Physical environment		720,696	367,350	353,346
Transportation		21,000		21,000
Capital outlay	4,277,900	16,177,990	7,041,945	9,136,045
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures - budgetary basis	<u>\$ 4,277,900</u>	<u>\$ 16,919,686</u>	7,414,246	<u>\$ 9,505,440</u>
Current year encumbrances outstanding at year end			(2,839,440)	
GAAP basis expenditures			<u>\$ 4,574,806</u>	
OTHER FINANCING SOURCE (USE)				
Transfer in	\$ 3,689,000	\$ 3,617,000	\$ 3,617,000	\$ 0
Transfer out	<u>(550,000)</u>	<u>(1,646,949)</u>	<u>(1,513,090)</u>	<u>133,859</u>
Total other financing source (use)	<u>\$ 3,139,000</u>	<u>\$ 1,970,051</u>	<u>\$ 2,103,910</u>	<u>\$ 133,859</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - BEACH RESTORATION PROJECT FUND

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE				
Investment earnings	\$ 386,000	\$ 386,000	\$ 604,016	\$ 218,016
Grant revenue			404,147	404,147
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue	<u>\$ 386,000</u>	<u>\$ 386,000</u>	<u>\$ 1,008,163</u>	<u>\$ 622,163</u>
EXPENDITURES				
Current				
Physical environment	\$ 10,000	\$ 2,222,702	\$ 2,803,355	\$ (580,653)
Capital outlay		10,232,646	2,781,542	7,451,104
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures - budgetary basis	<u>\$ 10,000</u>	<u>\$ 12,455,348</u>	5,584,897	<u>\$ 6,870,451</u>
Current year encumbrances outstanding at year end			<u>(2,535,985)</u>	
GAAP basis expenditures			<u>\$ 3,048,912</u>	
OTHER FINANCING USE				
Transfer out	<u>\$ (1,767,975)</u>	<u>\$ (1,777,975)</u>	<u>\$ (1,767,975)</u>	<u>\$ 10,000</u>

Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. The Town's special revenue funds are as follows:

State Forfeiture Fund - To account for Law Enforcement Trust Fund monies.

Federal Forfeiture Fund - To account for Federal forfeiture receipts.

Donation Fund - To account for monies donated to the Town.

DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for, and the payment of debt principal, interest and related costs. The Town's debt service funds are as follows:

Series 1993 Debt Service Fund

Series 2000 Debt Service Fund

Series 2003 Debt Service Fund

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Equipment Replacement Fund - To account for financial resources to be used for the acquisition of capital equipment.

Town Facilities Fund - To account for bond proceeds and other financial resources to be used for the construction of the new Central Fire-Rescue Station and renovations to Town Hall.

TOWN OF PALM BEACH, FLORIDA

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

September 30, 2005

	Special Revenue		
	State Forfeiture Fund	Federal Forfeiture Fund	Donation Fund
ASSETS			
Equity in pooled cash and investments Due from other funds	\$ 82,267	\$ 22,255	\$ 492,965
Total assets	<u>\$ 82,267</u>	<u>\$ 22,255</u>	<u>\$ 492,965</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$	\$	\$ 9,942
Due to other funds			8,424
	<u>0</u>	<u>0</u>	<u>18,366</u>
FUND BALANCES			
Reserved:			
Reserved for specific purposes	68,627	22,255	431,108
Reserved for encumbrances	13,640		43,491
Reserved for debt service			
Unreserved:			
Designated for specific purposes			
Total fund balances	<u>82,267</u>	<u>22,255</u>	<u>474,599</u>
Total liabilities and fund balances	<u>\$ 82,267</u>	<u>\$ 22,255</u>	<u>\$ 492,965</u>

Series 1993 Debt Service Fund	Debt Service		Capital Projects		Total Other Governmental Funds
	Series 2000 Debt Service Fund	Series 2003 Debt Service Fund	Equipment Replacement Fund	Town Facilities Fund	
\$ 19,577	\$ 6,195	\$ 5,899	\$ 5,853,704	\$ 4,008,371 10,988	\$ 10,491,233 10,988
<u>\$ 19,577</u>	<u>\$ 6,195</u>	<u>\$ 5,899</u>	<u>\$ 5,853,704</u>	<u>\$ 4,019,359</u>	<u>\$ 10,502,221</u>
\$	\$ 60	\$	\$ 63,598 6,076	\$ 126,939	\$ 200,539 14,500
<u>0</u>	<u>60</u>	<u>0</u>	<u>69,674</u>	<u>126,939</u>	<u>215,039</u>
19,577	6,135	5,899	53,848	3,583,423 308,997	4,105,413 419,976 31,611
<u>19,577</u>	<u>6,135</u>	<u>5,899</u>	<u>5,730,182</u> <u>5,784,030</u>	<u>3,892,420</u>	<u>5,730,182</u> <u>10,287,182</u>
<u>\$ 19,577</u>	<u>\$ 6,195</u>	<u>\$ 5,899</u>	<u>\$ 5,853,704</u>	<u>\$ 4,019,359</u>	<u>\$ 10,502,221</u>

TOWN OF PALM BEACH, FLORIDA

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS

Year Ended September 30, 2005

	Special Revenue		
	State Forfeiture Fund	Federal Forfeiture Fund	Donation Fund
Revenue			
Taxes	\$	\$	\$
Fines and forfeitures			
Seizure deposits	11,074		
Investment earnings	1,997	597	
Contributions			529,521
Miscellaneous			
	<u>13,071</u>	<u>597</u>	<u>529,521</u>
Expenditures			
Current			
General government			131,719
Public safety			248,493
Physical environment			30,242
Transportation			
Capital outlay			486,087
Debt service			
Principal retirement			
Interest and fiscal charges			
	<u>0</u>	<u>0</u>	<u>896,541</u>
Revenue over (under) expenditures	13,071	597	(367,020)
Other financing sources (uses)			
Transfers in			
Transfers out			
Revenue and other sources over (under) expenditures and other uses	13,071	597	(367,020)
Fund balances at October 1, 2004	<u>69,196</u>	<u>21,658</u>	<u>841,619</u>
Fund balances at September 30, 2005	<u>\$ 82,267</u>	<u>\$ 22,255</u>	<u>\$ 474,599</u>

Series 1993 Debt Service Fund	Debt Service		Capital Projects		Total Other Governmental Funds
	Series 2000 Debt Service Fund	Series 2003 Debt Service Fund	Equipment Replacement Fund	Town Facilities Fund	
\$ 610,747	\$	\$	\$	\$	\$ 610,747
9,706	2,873	241	127,762	108,572	11,074
			59,991		251,748
<u>620,453</u>	<u>2,873</u>	<u>241</u>	<u>187,753</u>	<u>108,572</u>	<u>529,521</u>
					59,991
					<u>1,463,081</u>
			23,129	954	155,802
			943	161,235	410,671
			1,110		31,352
			2,473		2,473
			944,804	839,555	2,270,446
680,000	3,020,000	350,000			4,050,000
32,300	75,620	892,785			1,000,705
<u>712,300</u>	<u>3,095,620</u>	<u>1,242,785</u>	<u>972,459</u>	<u>1,001,744</u>	<u>7,921,449</u>
(91,847)	(3,092,747)	(1,242,544)	(784,706)	(893,172)	(6,458,368)
	3,096,500	1,244,285	1,224,402	1,654,928	7,220,115
				(155,250)	(155,250)
(91,847)	3,753	1,741	439,696	606,506	606,497
111,424	2,382	4,158	5,344,334	3,285,914	9,680,685
<u>\$ 19,577</u>	<u>\$ 6,135</u>	<u>\$ 5,899</u>	<u>\$ 5,784,030</u>	<u>\$ 3,892,420</u>	<u>\$ 10,287,182</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - SERIES 1993 DEBT SERVICE FUND

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE				
Taxes	\$ 608,000	\$ 608,000	\$ 610,747	\$ 2,747
Investment earnings	1,500	1,500	9,706	8,206
Total revenue	<u>\$ 609,500</u>	<u>\$ 609,500</u>	<u>\$ 620,453</u>	<u>\$ 10,953</u>
EXPENDITURES				
Debt service				
Principal retirement	\$ 680,000	\$ 680,000	\$ 680,000	\$ 0
Interest and fiscal charges	34,500	34,500	32,300	2,200
Total expenditures	<u>\$ 714,500</u>	<u>\$ 714,500</u>	<u>\$ 712,300</u>	<u>\$ 2,200</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - SERIES 2000 DEBT SERVICE FUND

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE				
Investment earnings	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 2,873</u>	<u>\$ 873</u>
EXPENDITURES				
Debt service				
Principal retirement	\$ 3,020,000	\$ 3,020,000	\$ 3,020,000	\$ 0
Interest and fiscal charges	<u>76,200</u>	<u>76,200</u>	<u>75,620</u>	<u>580</u>
Total expenditures	<u>\$ 3,096,200</u>	<u>\$ 3,096,200</u>	<u>\$ 3,095,620</u>	<u>\$ 580</u>
OTHER FINANCING SOURCE				
Transfer in	<u>\$ 3,096,500</u>	<u>\$ 3,096,500</u>	<u>\$ 3,096,500</u>	<u>\$ 0</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - SERIES 2003 DEBT SERVICE FUND

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE				
Investment earnings	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 241</u>	<u>\$ (1,259)</u>
EXPENDITURES				
Debt service				
Principal retirement	\$ 350,000	\$ 350,000	\$ 350,000	\$ 0
Interest and fiscal charges	<u>893,285</u>	<u>893,285</u>	<u>892,785</u>	<u>500</u>
Total expenditures	<u>\$ 1,243,285</u>	<u>\$ 1,243,285</u>	<u>\$ 1,242,785</u>	<u>\$ 500</u>
OTHER FINANCING SOURCE				
Transfer in	<u>\$ 1,244,285</u>	<u>\$ 1,244,285</u>	<u>\$ 1,244,285</u>	<u>\$ 0</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - EQUIPMENT REPLACEMENT FUND

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE				
Investment earnings	\$ 40,000	\$ 40,000	\$ 127,762	\$ 87,762
Miscellaneous	40,000	40,000	59,991	19,991
Total revenue	<u>\$ 80,000</u>	<u>\$ 80,000</u>	<u>\$ 187,753</u>	<u>\$ 107,753</u>
EXPENDITURES				
Current				
General government	\$ 0	\$ 0	\$ 23,129	\$ (23,129)
Public Safety	0	0	943	(943)
Physical environment	0	0	1,110	(1,110)
Transportation	0	0	2,473	(2,473)
Capital outlay	1,142,011	1,142,011	998,652	143,359
Total expenditures - budgetary basis	<u>\$ 1,142,011</u>	<u>\$ 1,142,011</u>	1,026,307	<u>\$ 115,704</u>
Current year encumbrances outstanding at year end			<u>(53,848)</u>	
GAAP basis expenditures			<u>\$ 972,459</u>	
OTHER FINANCING SOURCES				
Transfer in	<u>\$ 1,066,295</u>	<u>\$ 1,066,295</u>	<u>\$ 1,224,402</u>	<u>\$ 158,107</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - TOWN FACILITIES FUND

Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE				
Investment earnings	\$ 40,000	\$ 40,000	\$ 108,572	\$ 68,572
EXPENDITURES				
Current				
General government	\$ 0	\$ 0	\$ 954	\$ (954)
Public safety	0	0	161,235	(161,235)
Capital outlay				
Town Hall renovations	1,761,000	1,961,149	471,420	1,489,729
Fire-Rescue stations	0	1,125,284	452,003	673,281
Police roof	0	240,000	225,129	14,871
Recreation center roof	0	228,000	0	228,000
Total expenditures - budgetary basis	\$ 1,761,000	\$ 3,554,433	1,310,741	\$ 2,243,692
Current year encumbrances outstanding at year end			(308,997)	
GAAP basis expenditures			\$ 1,001,744	
OTHER FINANCING SOURCE				
Transfer in	\$ 1,721,000	\$ 1,721,000	\$ 1,654,928	\$ (66,072)

INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.

Property, Liability and Workers Compensation Insurance Fund - To account for the Town's property, liability, and workers compensation insurance activities.

Group Health Insurance Fund - To account for the Town's health insurance activities.

TOWN OF PALM BEACH, FLORIDA

COMBINING BALANCE SHEET - INTERNAL SERVICE FUNDS

September 30, 2005

	Property, Liability and Workers Compensation Insurance Fund	Group Health Insurance Fund	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 10,000	\$ 31,813	\$ 41,813
Equity in pooled cash and investments	<u>7,749,346</u>	<u>17,879,055</u>	<u>25,628,401</u>
Total current assets	7,759,346	17,910,868	25,670,214
Noncurrent assets			
Capital assets			
Equipment	11,091	8,269	19,360
Accumulated depreciation	<u>(2,650)</u>	<u>(5,800)</u>	<u>(8,450)</u>
Total capital assets, net of accumulated depreciation	<u>8,441</u>	<u>2,469</u>	<u>10,910</u>
Total assets	7,767,787	17,913,337	25,681,124
LIABILITIES			
Current liabilities			
Accounts payable	119,924	81,193	201,117
Accrued liabilities	<u>1,680,321</u>	<u>784,844</u>	<u>2,465,165</u>
Total current liabilities	1,800,245	866,037	2,666,282
Noncurrent liability			
Compensated absences payable	9,861	864	10,725
NET ASSETS			
Invested in capital assets	8,441	2,469	10,910
Unrestricted	<u>5,949,240</u>	<u>17,043,967</u>	<u>22,993,207</u>
Total net assets	<u>\$ 5,957,681</u>	<u>\$ 17,046,436</u>	<u>\$ 23,004,117</u>

TOWN OF PALM BEACH, FLORIDA

COMBINING STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET ASSETS - INTERNAL SERVICE FUNDS

Year Ended September 30, 2005

	Property, Liability and Workers Compensation Insurance Fund	Group Health Insurance Fund	Total
Operating revenue			
Charges for services	\$ 2,522,312	\$ 5,042,691	\$ 7,565,003
Operating expenses			
Personal services	149,070	109,005	258,075
Contractual services	12,579	9,882	22,461
Insurance and claims	2,218,440	4,604,607	6,823,047
Hurricane expenses	219,669		219,669
Depreciation	960	898	1,858
Other	13,659	3,975	17,634
	<u>2,614,377</u>	<u>4,728,367</u>	<u>7,342,744</u>
Operating Income (Loss)	(92,065)	314,324	222,259
Nonoperating revenue			
Investment earnings	<u>167,098</u>	<u>375,605</u>	<u>542,703</u>
Income before transfers	75,033	689,929	764,962
Transfers in	<u>2,100,000</u>		<u>2,100,000</u>
Change in Net Assets	2,175,033	689,929	2,864,962
Net assets at October 1, 2004	<u>3,782,648</u>	<u>16,356,507</u>	<u>20,139,155</u>
Net assets at September 30, 2005	<u>\$ 5,957,681</u>	<u>\$ 17,046,436</u>	<u>\$ 23,004,117</u>

TOWN OF PALM BEACH, FLORIDA

COMBINING STATEMENT OF CASH FLOWS -
INTERNAL SERVICE FUNDS

Year Ended September 30, 2005

	Property, Liability and Workers Compensation Insurance Fund	Group Health Insurance Fund	Total
OPERATING ACTIVITIES			
Receipts from customers and users	\$ 2,522,312	\$ 5,042,691	\$ 7,565,003
Payments to employees	(148,235)	(111,963)	(260,198)
Payments to suppliers	(4,351,555)	(4,616,038)	(8,967,593)
Payments for interfund services used	(1,780)		(1,780)
Net cash provided by (used in) operating activities	(1,979,258)	314,690	(1,664,568)
NONCAPITAL FINANCING ACTIVITY			
Transfer from other funds	2,100,000		2,100,000
Net cash provided by noncapital financing activities	2,100,000	0	2,100,000
CAPITAL AND RELATED FINANCING ACTIVITY			
Acquisition of property and equipment	(3,079)		(3,079)
Net cash used in capital and related financing activity	(3,079)	0	(3,079)
INVESTING ACTIVITY			
Investment earnings received	167,098	375,605	542,703
Net cash provided by investing activity	167,098	375,605	542,703
Net increase in cash and cash equivalents	284,761	690,295	975,056
Cash and cash equivalents at October 1, 2004	7,474,585	17,220,573	24,695,158
Cash and cash equivalents at September 30, 2005	<u>\$ 7,759,346</u>	<u>\$ 17,910,868</u>	<u>\$ 25,670,214</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (92,065)	\$ 314,324	\$ 222,259
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	960	898	1,858
Changes in operating assets and liabilities:			
Increase in accounts payable	12,792	42	12,834
Increase (decrease) in accrued liabilities	(1,902,503)	15	(1,902,488)
Decrease in due to other funds	(1,780)		(1,780)
Increase (decrease) in compensated absences payable	3,338	(589)	2,749
Net cash provided by (used in) operating activities	<u>\$ (1,979,258)</u>	<u>\$ 314,690</u>	<u>\$ (1,664,568)</u>

FIDUCIARY FUNDS
COMBINING FINANCIAL STATEMENTS

PENSION TRUST FUNDS

Pension trust funds are used to account for the accumulation of resources to be used for the payment of retirement benefits.

General Employees Pension Trust Fund - To account for the accumulation of resources to be used for retirement benefits payable to eligible Town general employees and lifeguards.

Police Officers' Retirement Trust Fund - To account for the accumulation of resources to be used for retirement benefits payable to eligible Town police employees.

Firefighters' Retirement Trust Fund - To account for the accumulation of resources to be used for retirement benefits payable to eligible Town fire-rescue employees.

AGENCY FUND

Kreusler Park Fund - To account for the funds collected on behalf of Palm Beach County at Kreusler Park.

TOWN OF PALM BEACH, FLORIDA

COMBINING STATEMENT OF PLAN NET ASSETS -
PENSION TRUST FUNDS

September 30, 2005

	General Employees Pension Trust Fund	Police Officers' Retirement Trust Fund	Firefighters' Retirement Trust Fund	Total
ASSETS				
Cash and short-term investments	\$ 39,291	\$ 1,380,710	\$ 773,581	\$ 2,193,582
Accrued interest and dividends receivable	189,291	94,101	89,423	372,815
Due from State of Florida		226,181	368,443	594,624
Due from Police Officers' Retirement Trust Fund			101,949	101,949
Investments, at fair value				
U.S. Government and Agency securities	13,190,637			13,190,637
Domestic common stocks	24,539,288			24,539,288
Common Stock Index Fund	14,476,302			14,476,302
Domestic corporate bonds	10,652,742			10,652,742
Equity in pooled investments		49,340,780	45,178,747	94,519,527
Equity mutual fund			1,283,429	1,283,429
Total investments	<u>62,858,969</u>	<u>49,340,780</u>	<u>46,462,176</u>	<u>158,661,925</u>
Total assets	63,087,551	51,041,772	47,795,572	161,924,895
LIABILITIES				
Accounts payable	62,650	56,968	51,779	171,397
Share account distribution payable			215,145	215,145
Due to Firefighters' Retirement Trust Fund		101,949		101,949
DROP plan liability	628,204	409,602	195,113	1,232,919
Total liabilities	<u>690,854</u>	<u>568,519</u>	<u>462,037</u>	<u>1,721,410</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
	<u>\$ 62,396,697</u>	<u>\$ 50,473,253</u>	<u>\$ 47,333,535</u>	<u>\$ 160,203,485</u>

TOWN OF PALM BEACH, FLORIDA

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS -
PENSION TRUST FUNDS

Year Ended September 30, 2005

	General Employees Pension Trust Fund	Police Officers' Retirement Trust Fund	Firefighters' Retirement Trust Fund	Total
ADDITIONS				
Contributions				
Employer	\$ 1,783,693	\$ 1,114,250	\$ 956,176	\$ 3,854,119
Employee	932,685	401,944	466,284	1,800,913
State		226,181	573,152	799,333
Total contributions	<u>2,716,378</u>	<u>1,742,375</u>	<u>1,995,612</u>	<u>6,454,365</u>
Investment income				
Net appreciation in fair value of investments	5,624,076	4,606,035	4,212,221	14,442,332
Interest income	1,104,694	436,617	394,592	1,935,903
Dividend income	298,356	210,324	190,078	698,758
	<u>7,027,126</u>	<u>5,252,976</u>	<u>4,796,891</u>	<u>17,076,993</u>
Less investment expense	287,284	169,466	170,351	627,101
Net investment income	<u>6,739,842</u>	<u>5,083,510</u>	<u>4,626,540</u>	<u>16,449,892</u>
Total additions	9,456,220	6,825,885	6,622,152	22,904,257
DEDUCTIONS				
Benefit payments	2,493,416	1,928,606	2,352,418	6,774,440
Share account distributions			215,145	215,145
Refunds	172,204	1,409	1,870	175,483
Administrative expense	60,064	84,243	110,494	254,801
Total deductions	<u>2,725,684</u>	<u>2,014,258</u>	<u>2,679,927</u>	<u>7,419,869</u>
Net increase	6,730,536	4,811,627	3,942,225	15,484,388
Net assets held in trust for pension benefits at October 1, 2004	55,666,161	89,052,936	0	144,719,097
Transfer of net assets to Firefighters' Retirement Trust Fund at October 1, 2004		<u>(43,391,310)</u>	<u>43,391,310</u>	<u>0</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT SEPTEMBER 30, 2005	<u>\$ 62,396,697</u>	<u>\$ 50,473,253</u>	<u>\$ 47,333,535</u>	<u>\$ 160,203,485</u>

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND

Year Ended September 30, 2005

	Balance October 1, 2004	Additions	Deductions	Balance September 30, 2005
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
KREUSLER PARK FUND				
ASSETS				
Equity in pooled cash and investments	\$ 18,735	\$ 238,663	\$ 240,900	\$ 16,498
Due from General Fund	<u>7,597</u>	<u>221,394</u>	<u>228,991</u>	<u>0</u>
Total assets	<u>\$ 26,332</u>	<u>\$ 460,057</u>	<u>\$ 469,891</u>	<u>\$ 16,498</u>
LIABILITIES				
Accounts payable	<u>\$ 26,332</u>	<u>\$ 209,863</u>	<u>\$ 219,697</u>	<u>\$ 16,498</u>
Total liabilities	<u>\$ 26,332</u>	<u>\$ 209,863</u>	<u>\$ 219,697</u>	<u>\$ 16,498</u>

**CAPITAL ASSETS
USED IN THE OPERATION
OF GOVERNMENTAL FUNDS**

TOWN OF PALM BEACH, FLORIDA

SCHEDULE OF CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS - BY SOURCE

September 30, 2005

Governmental funds capital assets

Land	\$ 8,039,238
Buildings	12,693,100
Improvements other than buildings	1,291,730
Equipment	11,224,934
Infrastructure	47,023,949
Construction in progress	<u>16,918,121</u>
	<u>\$ 97,191,072</u>

Governmental funds capital assets by source

General Fund	\$ 31,032,676
Capital Projects Funds	60,449,122
Donations	5,096,755
Transfer from Parking Fund at closure	<u>612,519</u>
Total governmental funds capital assets	<u>\$ 97,191,072</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

TOWN OF PALM BEACH, FLORIDA

SCHEDULE OF CAPITAL ASSETS USED IN THE OPERATION OF
GOVERNMENTAL FUNDS - BY FUNCTION AND ACTIVITY

September 30, 2005

Function and Activity	Land	Buildings	Improvements other than Buildings	Equipment	Infrastructure	Construction in Progress	Total
General Government							
Assets acquired prior to 1989	\$ 1,802,583	\$ 4,298,079	\$ 735,159	\$ 8,073	\$	\$	\$ 6,843,894
Town Manager				74,211		547,922	622,133
Human Resources				22,096			22,096
Information Systems				536,553			536,553
Finance				19,312			19,312
Purchasing				45,898			45,898
Planning, Zoning and Building		34,394		245,780			280,174
Town Clerk				15,094			15,094
Total General Government	1,802,583	4,332,473	735,159	967,017	0	547,922	8,385,154
Public Safety							
Police	638,531	3,534,145	8,000	2,614,002		210,324	7,005,002
Fire-Rescue	1,036,469	3,225,729	181,138	3,530,470		3,372,825	11,346,631
Total Public Safety	1,675,000	6,759,874	189,138	6,144,472	0	3,583,149	18,351,633
Public Works	2,583,905	1,467,338	370,300	4,110,578	47,023,949	12,787,050	68,343,120
Recreation	1,977,750	133,415					2,111,165
Total Governmental Funds Capital Assets	<u>\$ 8,039,238</u>	<u>\$ 12,693,100</u>	<u>\$ 1,294,597</u>	<u>\$ 11,222,067</u>	<u>\$ 47,023,949</u>	<u>\$ 16,918,121</u>	<u>\$ 97,191,072</u>

A more detailed segregation of capital assets by activity is not available for years prior to 1989. This information is being developed prospectively.

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

TOWN OF PALM BEACH, FLORIDA

SCHEDULE OF CHANGES IN CAPITAL ASSETS USED IN THE OPERATION OF
GOVERNMENTAL FUNDS - BY FUNCTION AND ACTIVITY

Year Ended September 30, 2005

Function and Activity	Balance October 1, 2004	Additions	Deletions	Transfers	Balance September 30, 2005
General Government					
Assets acquired prior to 1989	\$ 6,843,894	\$	\$	\$	\$ 6,843,894
Town Manager	363,907	260,013	1,787		622,133
Human Resources	36,317	3,358	17,579		22,096
Information Systems	963,728	197,198	624,373		536,553
Finance	23,504		4,192		19,312
Purchasing	30,156	15,742			45,898
Planning, Zoning and Building	278,987	17,903	16,716		280,174
Town Clerk	13,140	1,954			15,094
Total General Government	8,553,633	496,168	664,647	0	8,385,154
Public Safety					
Assets acquired prior to 1989	5,824,604			(5,824,604)	0
Police	3,218,167	287,309	405,201	3,904,727	7,005,002
Fire-Rescue	9,268,245	539,817	381,308	1,919,877	11,346,631
Total Public Safety	18,311,016	827,126	786,509	0	18,351,633
Public Works	61,887,373	6,739,452	283,705		68,343,120
Recreation	2,111,165				2,111,165
Total Governmental Funds Capital Assets	<u>\$ 90,863,187</u>	<u>\$ 8,062,746</u>	<u>\$ 1,734,861</u>	<u>\$ 0</u>	<u>\$ 97,191,072</u>

A more detailed segregation of capital assets by activity is not available for years prior to 1989. This information is being developed prospectively.

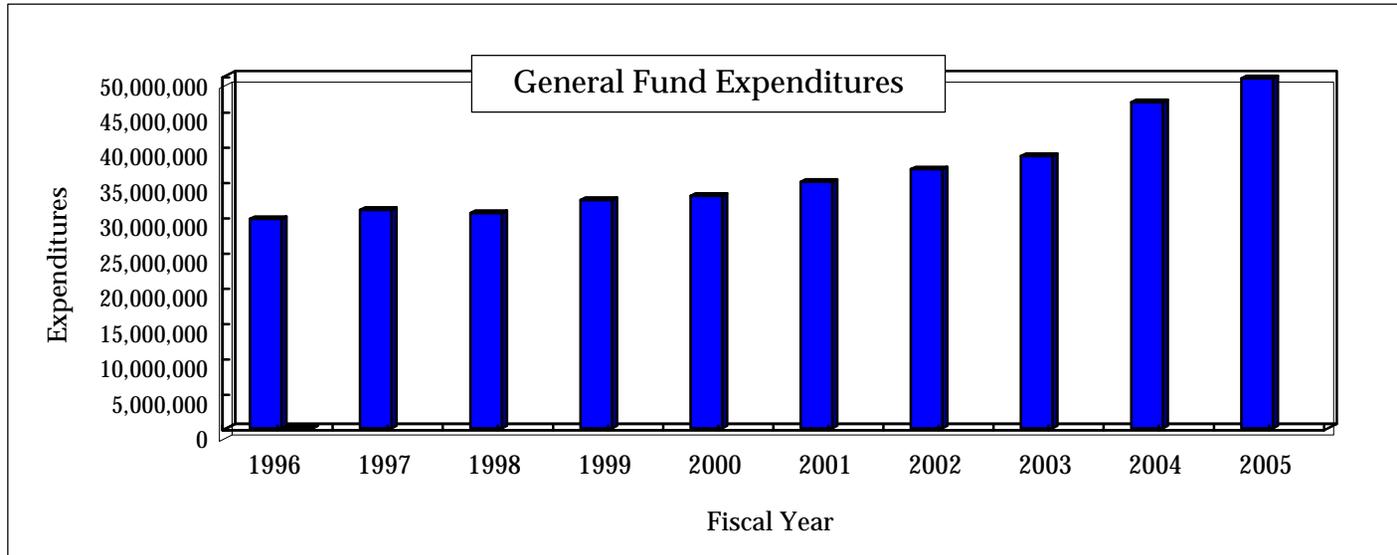
This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

STATISTICAL SECTION

STATISTICAL SECTION

TOWN OF PALM BEACH, FLORIDA
GENERAL FUND EXPENDITURES BY FUNCTION (UNAUDITED)
(Budgetary Basis)
Last Ten Fiscal Years
September 30, 2005

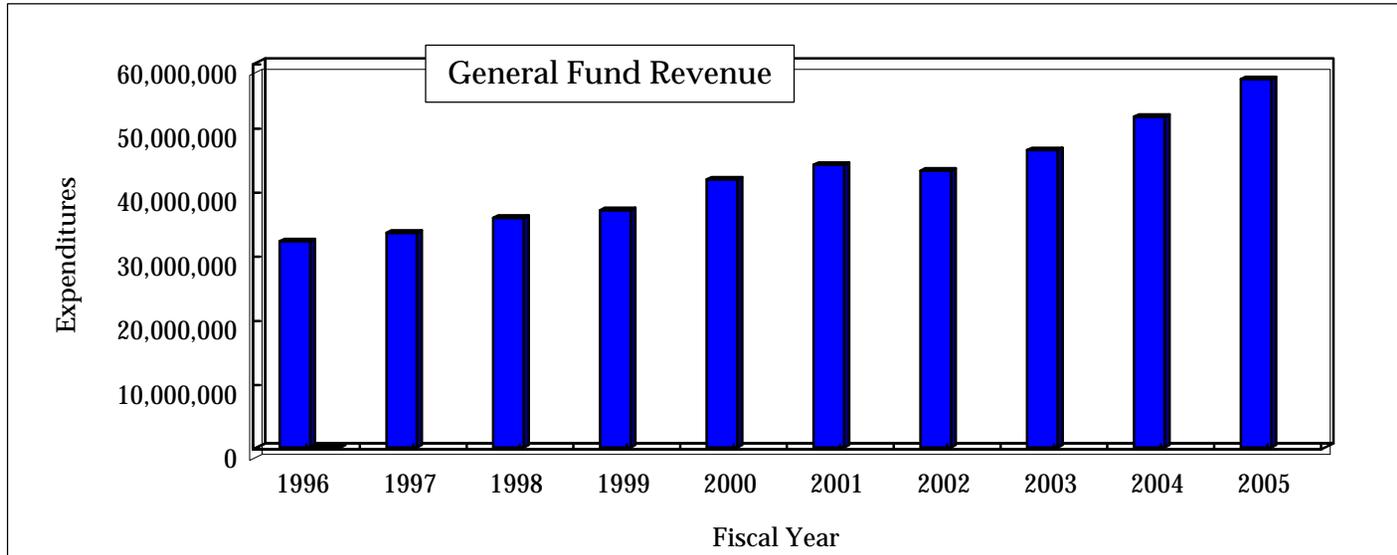
Fiscal Year Ended September 30 ,	General Government	Public Safety	Physical Environment	Transportation	Culture and Recreation	Non- Departmental	Principal Retirement & Interest	Total
1996	\$ 4,498,077	\$ 14,906,964	\$ 7,228,727	\$ 1,419,436	\$ 1,461,882		\$ 160,306	\$ 29,675,392
1997	4,503,564	16,364,613	6,818,348	1,297,611	1,621,330		346,457	30,951,923
1998	4,235,479	16,035,798	7,009,601	1,306,321	1,647,815		270,203	30,505,217
1999	4,872,891	17,219,047	7,191,528	1,143,373	1,723,938		222,523	32,373,300
2000	5,279,003	16,266,034	6,685,106	1,117,010	1,723,095	1,650,768	222,523	32,943,539
2001	5,252,432	17,775,850	6,937,811	1,044,553	1,768,308	1,948,065	218,919	34,945,938
2002	6,328,570	17,682,563	7,138,860	1,094,696	1,968,109	2,292,624	203,337	36,708,759
2003	5,797,431	18,596,478	8,076,246	759,007	2,417,696	2,746,915	179,333	38,573,106
2004	6,931,671	25,200,764	8,618,594	922,609	1,588,292	2,804,242	155,649	46,221,821
2005	8,062,444	25,195,077	9,175,417	1,057,177	1,721,402	4,294,410	99,102	49,605,029



Source: Town of Palm Beach Finance Department

TOWN OF PALM BEACH, FLORIDA
 GENERAL FUND REVENUE BY SOURCE (UNAUDITED)
 (Budgetary Basis)
 Last Ten Fiscal Years
 September 30, 2005

Fiscal Year Ended September 30 ,	Taxes	Licenses and Permits	Inter- governmental	Charges for Services	Fines and Forfeitures	Investment Earnings	Contributions	Grants and Miscellaneous	Total
1996	\$ 24,158,004	\$ 3,282,750	\$ 897,595	\$ 1,119,324	\$ 812,305	\$ 932,083	\$ 179,140	\$ 788,537	\$ 32,169,738
1997	24,939,339	3,732,758	893,603	1,238,421	527,623	1,169,809	178,723	806,995	33,487,271
1998	25,193,310	5,528,132	941,954	1,709,726	592,507	1,076,220	114,083	644,155	35,800,087
1999	26,374,622	5,338,440	953,627	1,952,511	632,805	1,208,413	145,201	402,466	37,008,085
2000	28,217,763	7,309,553	1,499,244	2,131,584	600,722	1,637,841	0	393,650	41,790,357
2001	31,626,098	6,236,113	1,048,418	2,309,482	758,454	1,782,377	0	308,156	44,069,098
2002	32,777,912	5,503,582	1,155,058	2,227,358	550,323	665,828	0	268,029	43,148,090
2003	35,308,100	5,654,137	1,224,890	2,560,809	863,474	583,091	0	174,846	46,369,347
2004	38,247,168	6,116,488	1,183,128	2,054,178	1,046,677	527,686	0	2,391,036	51,566,361
2005	41,300,780	6,913,397	1,273,627	2,097,306	811,038	905,025	0	4,129,338	57,430,511



Source: Town of Palm Beach Finance Department

TOWN OF PALM BEACH, FLORIDA

GENERAL FUND UNRESERVED AND UNDESIGNATED FUND BALANCE COMPARED TO
ANNUAL EXPENDITURES GAAP BASIS (UNAUDITED)

Last Ten Fiscal Years
September 30, 2005

Fiscal Year Ended September 30,	Unreserved Fund Balance					Actual Expenditures (2)	Unreserved Fund Balance as Percent of Expenditures	Undesignated Fund Balance as Percent of Expenditures (3)
	Undesignated	Designated for Subsequent Year's Budget	Designated for Specific Purposes	Designated for ECR (1)	Total Unreserved			
1996	\$ 7,910,296	\$ 2,250,371	\$ 0	\$ 0	\$ 10,160,667	\$ 31,992,842	31.76 %	24.73 %
1997	1,949,865	6,514,148	0	1,776,540	10,240,553	35,105,323	29.17	5.55
1998	8,467,263	3,344,881	104,800	1,759,008	13,675,952	33,960,529	40.27	24.93
1999	12,650,056	1,134,146	408,260	1,500,000	15,692,462	35,639,836	44.03	35.49
2000	19,925,376	0	508,260	1,500,000	21,933,636	36,376,958	60.30	54.77
2001	17,017,373	4,386,910	0	1,694,258	23,098,541	44,370,419	52.06	38.35
2002	15,212,417	3,900,000	0	1,605,210	20,717,627	46,458,214	44.59	32.74
2003	19,015,967	0	0	1,495,277	20,511,244	48,003,761	42.73	39.61
2004	15,625,847	1,935,500	4,460,947	1,391,155	23,413,449	49,960,367	46.86	31.28
2005	19,580,424	1,070,000	2,795,916	1,314,931	24,761,271	59,104,938	41.89	33.13

Source: Town of Palm Beach Finance Department

(1) East Central Regional Wastewater Treatment Facility

(2) Includes transfers out.

(3) It is the policy of the Town of Palm Beach that the Town maintain an undesignated fund balance in the General Fund equal to a minimum of 25% of the current year General Fund budgeted expenditures. The percentage is based on a reserve of 3 months of budgeted General Fund expenditures.

TOWN OF PALM BEACH , FLORIDA

SCHEDULE OF HISTORIC AND BUDGETED NON-AD VALOREM REVENUE
AS DEFINED IN BOND DOCUMENT (UNAUDITED)

Last Seven Fiscal Years
September 30, 2005

	Actual FY1999	Actual FY2000	Actual FY2001	Actual FY2002	Actual FY2003	Actual FY2004	Actual FY2005	Budget FY 2006
Franchise fees	\$ 1,725,946	\$ 1,693,857	\$ 2,049,125	\$ 1,716,214	\$ 1,726,221	\$ 1,881,195	\$ 1,989,980	\$ 2,125,000
Utility service tax	3,556,197	3,549,952	3,560,240	4,022,212	4,156,003	3,983,261	4,160,185	4,073,000
Occupational licenses	572,005	547,441	634,645	605,737	617,974	697,297	695,544	695,000
Building permits (1)	4,460,447	6,406,102	5,158,528	4,781,034	4,906,964	5,273,284	6,073,756	4,352,650
Other license fees & permits	207,819	245,086	219,919	116,811	129,199	145,907	144,097	126,150
State shared revenue (2)	840,777	872,579	833,836	903,840	846,318	893,193	954,356	924,725
Grants	10,178	217,939	26,212	44,608	52,768	150,735	165,216	326,000
Local shared revenue	32,483	596,487	86,922	163,871	290,620	196,841	207,581	205,200
General government	41,421	34,135	28,739	30,709	36,095	46,244	49,565	43,650
Public safety	527,801	655,934	775,900	662,763	940,784	705,442	729,084	949,855
Physical environment	789,701	829,803	893,973	907,551	892,634	869,451	925,645	1,012,508
Transportation	331,804	343,076	340,899	351,495	398,614	433,041	393,012	401,500
Culture-recreation (3)	281,102	268,636	269,969	274,840	292,682	0	0	0
Fines & Forfeitures	632,805	600,722	758,453	550,323	863,474	946,677	811,038	899,500
Contributions	145,201	0	25,801	250	0	150,000	4,035	0
Investment earnings	1,208,413	1,637,841	1,782,377	665,828	583,091	527,686	905,025	1,187,103
Rents and royalties	21,973	71,695	70,203	92,470	60,573	72,377	50,460	74,400
Special assessments	0	0	0	0	0	0	0	0
Sale of fixed assets	101,622	33,041	35,014	41,923	0	0	0	0
Other miscellaneous	266,727	70,974	150,926	88,808	69,386	83,894	140,317	88,500
Total Non-Ad Valorem Revenue	\$ 15,754,422	\$ 18,675,300	\$ 17,701,681	\$ 16,021,287	\$ 16,863,400	\$ 17,056,525	\$ 18,398,896	\$ 17,484,741

(1) Excludes community service fee. (Community Service fee discontinued for FY 2003)

(2) Excludes 8th cent motor fuel tax and fuel tax refund.

(3) The Recreation activities were consolidated with the Marina and Golf Fund to create a Leisure Services Enterprise Fund.

(4) In FY 2002 the Simplified Telecommunications Tax went into effect eliminating Franchise fees for cable and telephone companies and combining them into the Public Service Tax for a new Simplified Tax.

Source: Town of Palm Beach Finance Department

Note: This schedule provides information required by the Town's Series 2000 bond documents and subsequent parity issues.

Description of Certain Major Sources of Non-Ad Valorem Revenue As Defined in Bond Document (Unaudited)

Franchise Fees

Public utilities operating within the Town of Palm Beach must pay the Town a franchise fee in return for the right to do business within the Town and for the right to use public rights-of-way. Franchise agreements currently in effect include: Florida Public Utilities, Florida Power & Light, Bell South Telecommunications, and Adelphia Cable.

Utility Service Tax

The Town levies a utility tax on the purchase of electricity, metered or bottled gas, water service and telecommunication services. The Town levies this tax at the State allowed maximum of 10% for all services.

Occupational Licenses

Any person engaging in or managing any business, occupation or profession, within the limits of the Town of Palm Beach must obtain an occupational license. All licenses must be secured at the time the business begins operation and are renewed thereafter each October 1. The fee for each license is based on the business in which the entity is engaged.

Building Permits

Building permit fees include all building, electrical, mechanical and plumbing permits as well as architectural fees, variance application fees, and landmark application fees.

Other License Fees and Permits

These revenues include right-of-way permits, parking permits and registrations.

State Shared Revenue

Revenues that are distributed from the State of Florida to the Town of Palm Beach are included in this line item. A portion of this revenue is State Revenue Sharing. The current structure of the revenue sharing program has three revenue sources for municipalities: Cigarette Tax, one-cent Municipal Gas Tax and the State Alternative Fuel Decal Users Fee. Of these sources, the one-cent Municipal Gas Tax (Local Option Gas Tax) is restricted to expenditures for roads and has not been included in the *Historic and Projected Non Ad Valorem Revenue* chart. Also included in the State Shared Revenue sections are the following distributions from the State of Florida: Alcoholic Beverage License and Sales Tax.

Local Shared Revenue

Local shared revenue includes a portion of the Palm Beach County Occupational License fees and a 911 equipment reimbursement.

General Government Revenue

These revenues include charges for copies, meeting tapes, lien search fees, microfiche, certification of copies and sales of maps and code books.

Public Safety Revenue

Public Safety Revenue includes special detail pay for police and fire officers, EMS transport fees, burglar alarm registration and false alarm fees, police ID cards, Direct Connect Alarm fees, and tent permits. In FY 2006 new fire inspection fees were approved by the Town Council.

Physical Environment Revenue

Physical Environment Revenue includes solid waste collection fees (collected through a non-ad valorem assessment), recycling fees and beach cleaning fees.

Transportation

Revenues include parking meter and permit collections.

Culture – Recreation

Recreation fees have been transferred to the new Leisure Services Enterprise Fund beginning in FY 2004.

Fines and Forfeitures

Fines and penalties received from traffic violations, parking meter violations, right-of-way violations and code compliance fines.

Contributions

Contributions represent donations by citizens and businesses for various Town projects.

Investment Earnings

Interest earnings on cash, cash equivalents, and investments.

Grant Revenue

Reflected in the grant total for FY 2006 budget is the anticipated receipt of funds for a FEMA grant for Fire-Rescue equipment, and an EMS Grant from Palm Beach County.

Rents and Royalties

Includes rental of public property, pay phone and vending machine commissions.

Special Assessments

Special assessments for sidewalks, bulkheads, etc.

Sale of Fixed Assets

Proceeds from sale of capital assets. Sale proceeds have been deposited in the Equipment Replacement Fund since FY 2003.

Other Miscellaneous Revenue

Revenues include a fee paid to the Town for the administration of Kreusler Park Parking lot, fees associated with charitable solicitations, a rebate for Town towing and other miscellaneous revenues.

Outstanding Town Indebtedness

The Town does not have any general obligation bonds outstanding as of September 30, 2005. The Series 1993 General Obligation Bonds were paid in full on July 1, 2005. In May 2000, the Town issued \$23,530,000 of Non-Ad Valorem Revenue Bonds, which were partially refunded with the Series 2003A bonds, in the amount of \$18,385,000, issued in April 2003. The Series 2003B bonds were issued in the amount of \$6,130,000. Both 2003 series bonds are special obligations of the Town payable solely from and secured solely by non-ad valorem revenue and any unused bond proceeds and related investment income.

The Town has no outstanding short-term indebtedness other than certain capital lease obligations. The Town leases vehicles and equipment through capital leasing arrangements in the General Fund. The assets acquired through capital leases consist of vehicles with a carrying value (original cost) of \$733,971 as of September 30, 2005. At the present time the Town does not have any authorized but unissued debt.

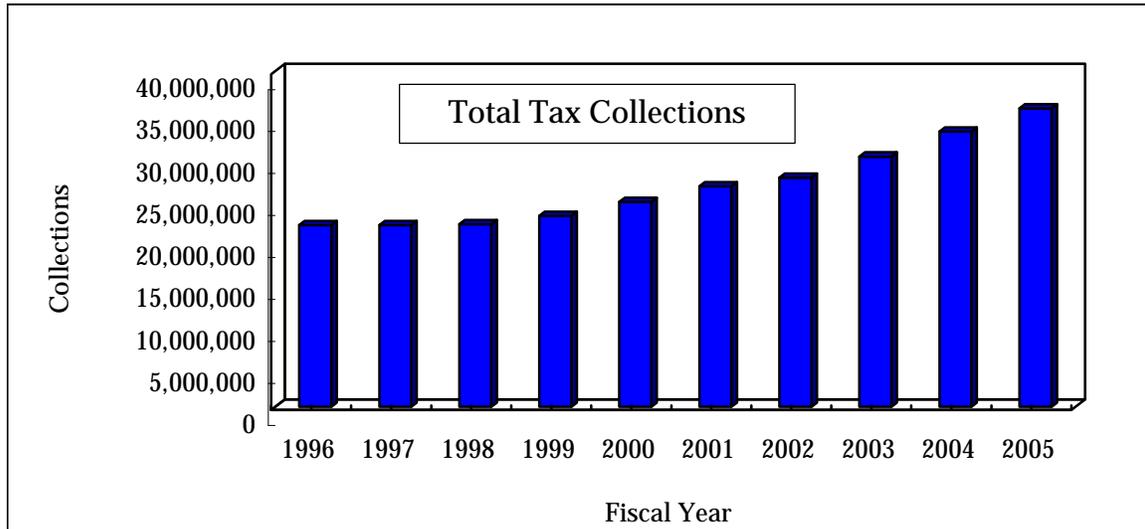
TOWN OF PALM BEACH, FLORIDA
PROPERTY TAX LEVY AND COLLECTIONS (UNAUDITED)
Last Ten Fiscal Years
September 30, 2005

Fiscal Year	Tax Levy*	Collections*	Ratio of Tax Collections To Tax Levy	Delinquent Taxes**
1996	\$ 21,851,210	\$ 21,643,097	99.05%	\$ 24,456
1997	22,506,475	21,664,902	96.26%	34,414
1998	22,648,882	21,758,483	96.07%	36,111
1999	23,743,569	22,763,823	95.87%	21,276
2000	25,307,729	24,401,036	96.42%	19,382
2001	27,216,139	26,280,565	96.56%	10,646
2002	28,188,467	27,281,634	96.78%	43,368
2003	31,072,246	29,815,341	95.95%	14,019
2004	34,130,901	32,778,331	96.04%	57,193
2005	36,908,773	35,539,136	96.29%	15,151

Tax Levy and Collections reflect totals for General and Debt Service Funds.

* Delinquent taxes are reflected in dollar value on a year-by-year basis.

** Historical data to provide cumulative delinquent taxes was not available.

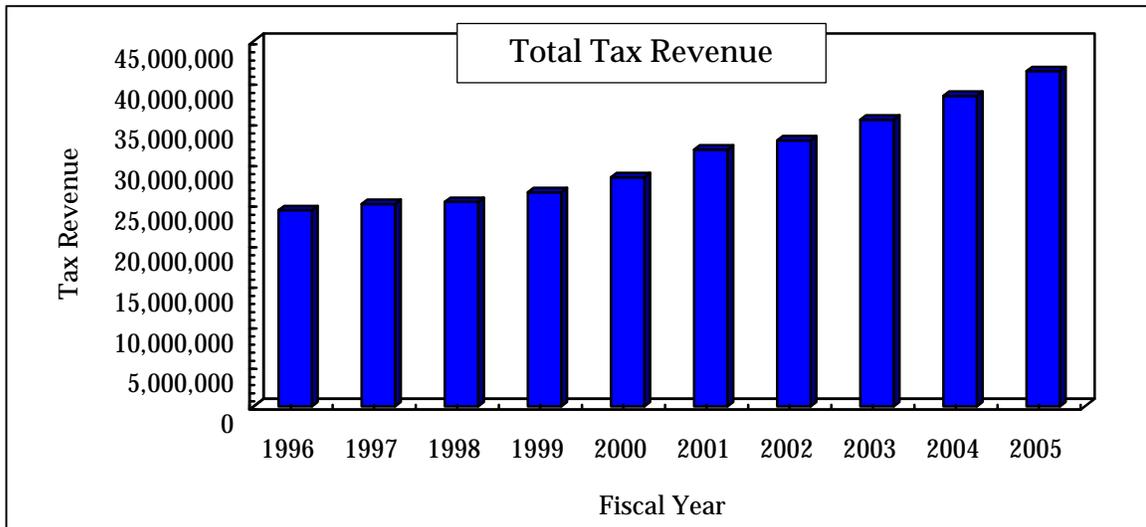


Source: Palm Beach County Tax Collector

TOWN OF PALM BEACH, FLORIDA
TAX REVENUE BY SOURCE (UNAUDITED)
Last Ten Fiscal Years
September 30, 2005

Fiscal Year	Ad Valorem*	Local Option Gas Tax	Franchise Fees	Utility Service	Total
1996	\$ 19,078,793	\$ 318,019	\$ 1,628,215	\$ 3,132,977	\$ 24,158,004
1997	19,712,824	311,934	1,687,967	3,226,614	24,939,339
1998	19,799,200	324,541	1,682,380	3,387,189	25,193,310
1999	20,788,015	330,628	1,725,946	3,530,033	26,374,622
2000	22,589,537	384,417	1,693,857	3,549,952	28,217,763
2001	25,674,254	342,479	2,049,125	3,560,240	31,626,098
2002	26,688,138	351,348	1,716,214	4,022,212	32,777,912
2003	29,201,359	224,517	1,726,221	4,156,003	35,308,100
2004	32,162,957	219,755	1,881,195	3,983,261	38,247,168
2005	34,928,389	222,226	1,989,980	4,160,185	41,300,780

* Property tax revenue related to General Fund



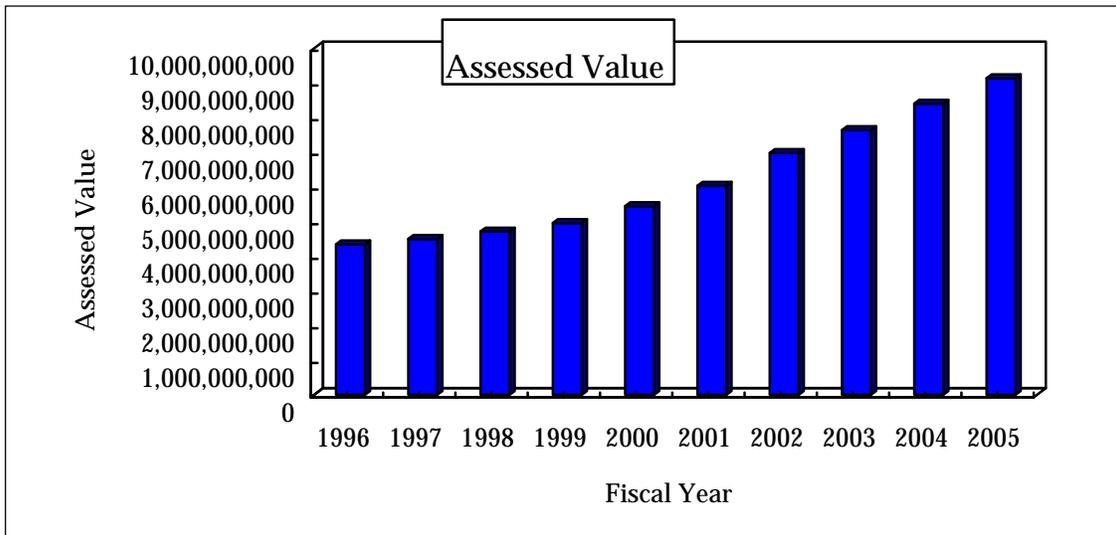
Source: Town of Palm Beach Finance Department

TOWN OF PALM BEACH, FLORIDA
 ASSESSED VALUE (UNAUDITED)
 Last Ten Fiscal Years
 September 30, 2005

Fiscal Year	Real Property	Personal Property	Total Assessed Value*	Actual Value**	Ratio of Assessed Value To Actual Value
1996	\$ 4,252,049,769	\$ 84,780,765	\$ 4,336,830,534	\$ 4,617,563,137	93.92%
1997	4,403,468,339	94,559,070	4,498,027,409	4,745,553,620	94.78%
1998	4,614,143,500	96,488,910	4,710,632,410	5,067,691,701	92.95%
1999	4,851,764,460	102,737,810	4,954,502,270	5,374,428,558	92.19%
2000	5,331,406,355	108,068,849	5,439,475,204	6,015,732,506	90.42%
2001	5,919,009,753	111,334,364	6,030,344,117	6,854,754,512	87.97%
2002	6,849,533,998	125,016,635	6,974,550,633	8,152,037,838	85.56%
2003	7,506,995,814	127,266,421	7,634,262,235	9,137,743,634	83.55%
2004	8,272,932,924	121,731,447	8,394,664,371	10,095,042,197	83.16%
2005	9,013,436,697	119,111,183	9,132,547,880	11,097,072,578	82.30%

* Total Assessed Value = Real Property + Personal Property - Homestead - Historic Exemptions

** Actual Value = Just Value



Source: Town of Palm Beach Finance Department

TOWN OF PALM BEACH, FLORIDA
TOWN AND ALL OVERLAPPING GOVERNMENTAL TAX RATES (UNAUDITED)

Fiscal Year Ended September 30,	Last Ten Fiscal Years September 30, 2005									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Town of Palm Beach	4.9960	4.9810	4.7901	4.7528	4.6452	4.5059	4.0641	4.0541	4.0529	4.0287
Palm Beach County	4.5191	4.5191	4.8666	4.8582	4.9456	4.9362	4.9351	4.8084	4.7910	4.7677
Palm Beach County School District	9.7970	9.7880	9.5570	9.6820	9.0430	8.9180	8.9780	8.7790	8.5710	8.4320
South Florida Water Management District	0.6470	0.5720	0.5970	0.5970	0.5970	0.5970	0.5970	0.5970	0.5970	0.5970
Children Services Council	0.3730	0.3756	0.4530	0.4403	0.4696	0.5000	0.5703	0.6228	0.6902	0.6902
Florida Inland Navigation District	0.0400	0.0380	0.0500	0.0470	0.0440	0.0410	0.0385	0.0385	0.0385	0.0385
Health Care District	1.4250	1.2000	1.1600	1.0500	0.9750	1.0250	1.1500	1.1300	1.1300	1.1000
Everglades Construction	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000
	<u>21.8971</u>	<u>21.5737</u>	<u>21.5737</u>	<u>21.5273</u>	<u>20.8194</u>	<u>20.6231</u>	<u>20.4330</u>	<u>20.1298</u>	<u>19.9706</u>	<u>19.7541</u>

(1) All rates expressed in mills

(2) Applicable only to properties in the Town south of Southern Boulevard.

Note: 1 Mill = \$1.00 per \$1,000 of Taxable Value

Source: Palm Beach County Tax Collector's Office

TOWN OF PALM BEACH, FLORIDA
TOWN AND OVERLAPPING TAX RATES (UNAUDITED)

Last Ten Fiscal Years
September 30, 2005

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
TAXING UNIT										
Town of Palm Beach	22.82%	23.08%	22.20%	22.08%	22.31%	21.85%	19.89%	20.14%	20.29%	20.39%
Palm Beach County	20.64%	20.96%	22.56%	22.57%	23.75%	23.94%	24.15%	23.89%	23.99%	24.14%
Palm Beach County School District	44.74%	45.37%	44.30%	44.97%	43.44%	43.24%	43.94%	43.61%	42.92%	42.68%
OTHER										
South Florida Water Management District	2.95%	2.65%	2.77%	2.77%	2.87%	2.89%	2.92%	2.97%	2.99%	3.02%
Children Services Council	1.70%	1.74%	2.10%	2.05%	2.26%	2.42%	2.79%	3.09%	3.46%	3.49%
Florida Inland Navigation Dist.	0.18%	0.18%	0.23%	0.22%	0.21%	0.20%	0.19%	0.19%	0.19%	0.19%
Health Care District	6.51%	5.56%	5.38%	4.88%	4.68%	4.97%	5.63%	5.61%	5.66%	5.58%
Everglades Construction	0.46%	0.46%	0.46%	0.46%	0.48%	0.49%	0.49%	0.50%	0.50%	0.51%
GRAND TOTAL	<u><u>100.00%</u></u>									

* Applicable only to properties in the Town south of Southern Boulevard.

Source: Palm Beach County Tax Collector's Office

TOWN OF PALM BEACH, FLORIDA
 RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE
 AND NET BONDED DEBT PER CAPITA (UNAUDITED)

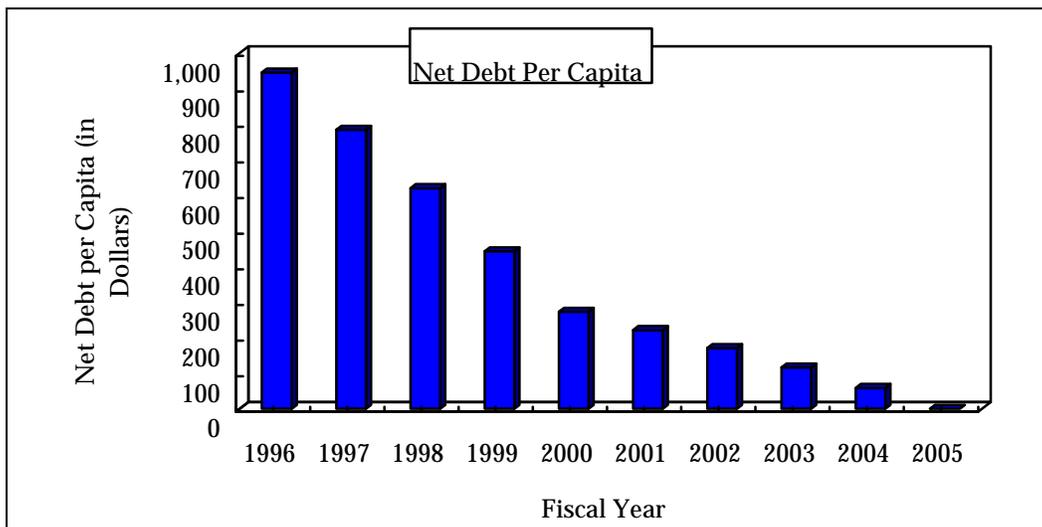
Last Ten Fiscal Years
 September 30, 2005

Fiscal Year	Population	Assessed* Value (2)	Gross Bonded Debt*	Amount* Available	Net Bonded Debt*	Ratio Debt to Assessed Value	Net Debt Per Capita
1996	9,790 (1)	\$ 4,336,831	\$ 9,480	\$ 228	\$ 9,252	0.21%	\$ 945
1997	9,781 (1)	4,498,027	7,990	319	7,671	0.17%	784
1998	9,722 (1)	4,710,632	6,440	410	6,030	0.13%	620
1999	9,722 (1)	4,954,502	4,810	507	4,303	0.09%	443
2000	9,676 (3)	5,439,475	3,080	437	2,643	0.05%	273
2001	9,676 (3)	6,030,344	2,515	371	2,144	0.04%	222
2002	9,676 (3)	6,974,551	1,935	279	1,656	0.02%	171
2003	9,682 (1)	7,634,262	1,325	199	1,126	0.01%	116
2004	9,662 (1)	8,394,664	680	111	569	0.01%	59
2005	9,662 (1)	9,132,548	0	0	0	0.00%	0

* In thousands. Bonded debt includes only general obligation bonds.

Source:

- (1) University of Florida Estimate
- (2) Palm Beach County Property Appraiser
- (3) 2000 Census



TOWN OF PALM BEACH, FLORIDA
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT (UNAUDITED)

September 30, 2005

<u>Jurisdiction</u>	<u>Gross Debt Outstanding</u>	<u>Percent Overlapping</u>	<u>Direct and Overlapping Debt</u>
DIRECT DEBT			
Town of Palm Beach (1)	\$ 0	100.00%	\$ 0
OVERLAPPING DEBT			
Palm Beach County (2)	283,885,000	8.23%	23,363,736
Palm Beach County School District (3)	<u>126,875,000</u>	8.23%	<u>10,441,813</u>
Total Overlapping Debt	<u>410,760,000</u>		<u>33,805,549</u>
Town Direct and Overlapping Debt	<u>\$ 410,760,000</u>		<u>\$ 33,805,549</u>

Source: (1) Town of Palm Beach Finance Department
 (2) Palm Beach County Finance Department
 (3) Palm Beach County School District Finance Department

TOWN OF PALM BEACH, FLORIDA
COMPUTATION OF DEBT MARGIN (UNAUDITED)

September 30, 2005

The Town of Palm Beach has a 5% debt limit as a percent of assessed valuation per Section 7.01 of the Town Charter.

Assessed Valuation (1)		\$ 9,193,452,440
Legal Debt Margin:		
Debt Limitation - 5% of assessed value (2)		\$ 459,672,622
Debt Applicable to Limitation:		
General Obligation Bonded Debt	\$ 0	
Less: Amount Available for Repayment of General Obligation Bonds	0	
Net Debt Applicable to Limitation		0
Legal Debt Margin		\$ 459,672,622

(1) Assessed Valuation not reduced by allowable Historic Exemptions (\$60,904,560)

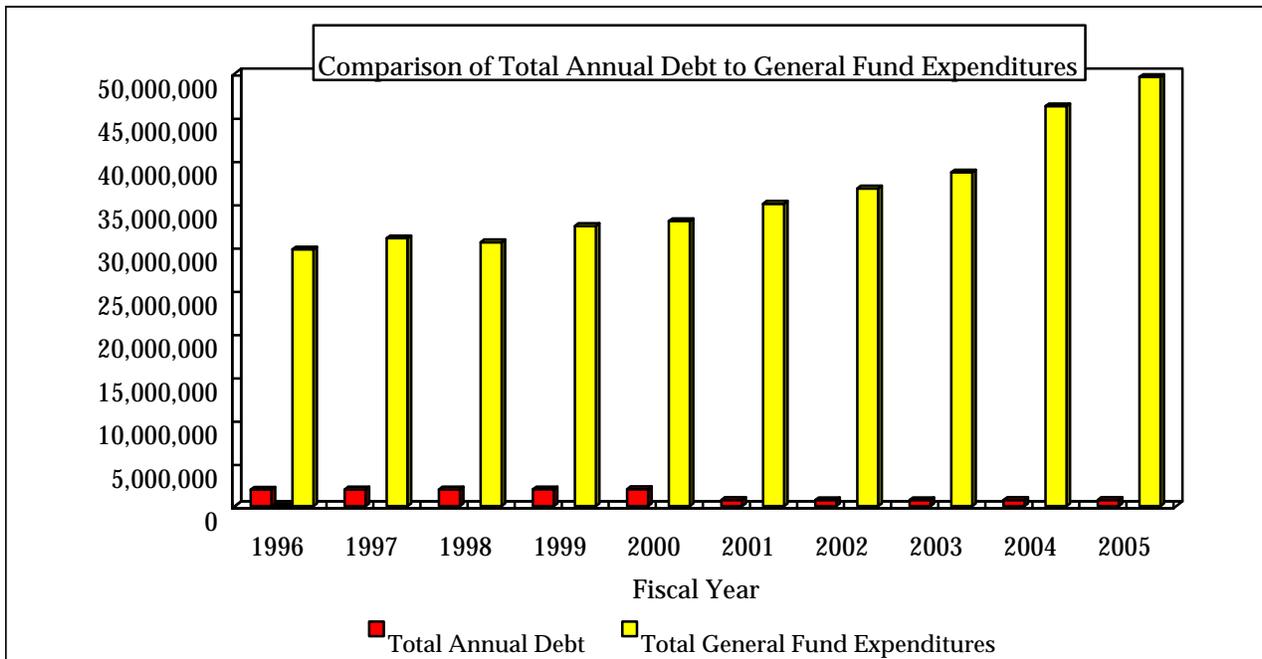
(2) Per Town Charter Section 7.02 Authority to Borrow.

Source: Town of Palm Beach Finance Department

TOWN OF PALM BEACH, FLORIDA
 RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT
 TO GENERAL FUND EXPENDITURES (UNAUDITED)

Last Ten Fiscal Years
 September 30, 2005

Fiscal Year	Debt Service		Total	General Fund Budgetary Expenditures	Ratio of Debt Service to General Expenditures
	Principal	Interest			
1996	\$ 1,405,000	\$ 511,940	\$ 1,916,940	\$ 29,675,392	6.46%
1997	1,470,000	452,017	1,922,017	30,951,923	6.21%
1998	1,550,000	385,237	1,935,237	30,505,217	6.34%
1999	1,630,000	311,925	1,941,925	32,373,300	6.00%
2000	1,730,000	231,159	1,961,159	32,943,539	5.95%
2001	565,000	141,635	706,635	34,945,938	2.02%
2002	580,000	116,775	696,775	36,708,759	1.90%
2003	610,000	90,675	700,675	38,573,106	1.82%
2004	645,000	63,615	708,615	46,221,821	1.53%
2005	680,000	32,300	712,300	49,605,029	1.44%



Source: Town of Palm Beach Finance Department

TOWN OF PALM BEACH, FLORIDA
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS (UNAUDITED)

Last Ten Fiscal Years
September 30, 2005

Fiscal Year	Taxable Property Value			Commercial Construction (1) New Construction		Residential Construction (1) New Construction		Bank Deposits(2)*
	Real Property*	Personal Property*	Total*	Number of Permits	Value*	Number of Permits	Value*	
1996	\$ 4,252,050	\$ 84,781	\$ 4,336,831	2	\$ 1,825	30	\$ 36,057	\$ 953,167
1997	4,403,468	94,559	4,498,027	0	0	63	51,532	812,338
1998	4,614,143	96,489	4,710,632	1	13,178	28	37,900	1,174,145
1999	4,851,764	102,738	4,954,502	2	7,346	28	25,673	1,116,242
2000	5,331,406	108,069	5,439,475	1	733	48	63,275	1,004,300
2001	5,919,010	111,334	6,030,344	1	950	26	35,772	1,039,200
2002	6,849,534	125,017	6,974,551	0	0	20	43,942	1,197,700
2003	7,506,996	127,266	7,634,262	1	1,460	27	38,381	1,245,700
2004	8,272,933	121,731	8,394,664	0	485	26	54,808	1,567,400
2005	9,013,437	119,111	9,132,548	4	1,180	52	64,101	1,712,200

(*) In thousands

Source: (1) Town of Palm Beach Planning, Zoning & Building Department
(2) Florida Banking Association

TOWN OF PALM BEACH, FLORIDA
LAND USE (UNAUDITED)

September 30, 2005

<u>Land Use Category</u>	<u>Estimated Acres</u>	<u>Percentage</u>
Residential		
Single Family/Estate	1,103	45.67%
Multi-Family	343	14.20%
Commercial	93	3.85%
Public and Recreation	110	4.55%
Private Group Use	219	9.07%
Approved PUD	169	7.00%
Rights-of-Way	339	14.04%
Conservation	39	1.62%
	<hr/>	<hr/>
TOTAL	<u>2,415</u>	<u>100.00%</u>

Source: Town of Palm Beach
Planning, Zoning & Building Department, 2004

TOWN OF PALM BEACH, FLORIDA
 PRINCIPAL TAXPAYERS (UNAUDITED)

September 30, 2005

<u>Taxpayer</u>	<u>2004 Taxable Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
The Breaker's Hotel	\$ 203,606,093	2.23%
Nelson Peltz	54,605,816	0.60%
J. V. Associates	49,000,000	0.54%
Sydell Miller	43,473,831	0.48%
Thirty Eight East Corp.	36,275,276	0.40%
Jim Clark	35,990,624	0.39%
Everglades Club	33,187,688	0.36%
Leonard Lauder	29,563,188	0.32%
Worth Avenue Association	28,500,000	0.31%
Sidney Kimmel	28,279,727	0.31%
George Lindemann	<u>26,566,351</u>	<u>0.29%</u>
Total	<u><u>\$ 569,048,594</u></u> *	<u><u>6.23%</u></u>

*Total Assessed Valuation \$9,132,547,880

Source: Palm Beach County Property Appraiser

TOWN OF PALM BEACH, FLORIDA
 DEMOGRAPHIC AND MISCELLANEOUS STATISTICS (UNAUDITED)
 September 30, 2005

Location: The Town of Palm Beach is a municipal corporation organized and existing under the laws of the State of Florida. The Town, located on a barrier island, is on the east coast of Florida in the eastern portion of Palm Beach County.

The land area of the Town is approximately 3.77 square miles with 12.1 miles of coastline on the Atlantic Ocean. The Town is also bound on the west by 15.9 miles of Intracoastal frontage (Lake Worth), on the north by the Palm Beach Inlet, and on the south by the Town of South Palm Beach.

Listed below are various statistics regarding elevation and weather in Palm Beach:

Island Elevation	
Average	4.0 ft. above sea level
Maximum	15.0 ft. above sea level
Temperature	
Annual Average	74.7F degrees
August Average	82.5F degrees
January Average.....	65.1F degrees
Annual Precipitation	60.7 inches

Economy: The Town is a unique, long-established, internationally famous upscale residential/estate community known for its distinctive architecture and landscaping, gracious homes and apartments, golf courses and clubs, attractive stores and restaurants. Commercial activities are restricted primarily to Town-serving sources rendered by banks, retail shops, hotels, and restaurants to its permanent population and seasonal residents. There is no industrial development within the Town.

Town Government: Incorporated on April 17, 1911, the Town is governed by an elected Mayor and a five member Council. The Mayor's term is for two years. The five members of the Town Council are elected at large and serve overlapping two year terms. The Town has 8,092 registered voters as of December 2005.

The Governing Body meets in regular session once each month for purposes of setting policy and carrying out the legislative matters of the Town. The administrative day to day responsibilities are carried out through the Town Manager who is appointed annually by the Governing Body. All of the Town departments and staff report to the Town Manager. As of September 30, 2005, the Town employed 412 full and part time employees.

The Town of Palm Beach provides a full range of municipal services including Fire-Rescue and Police protection, Sanitation, Recreation, Streets and Roads Maintenance, Planning, Zoning and Building and General Administrative Services.

The following services are provided to residents by other governments:

Transit	Palm Beach County
Solid Waste Disposal.....	Solid Waste Authority of Palm Beach County
Potable Water.....	City of West Palm Beach
Sanitary Sewage Disposal.....	City of West Palm Beach

TOWN OF PALM BEACH, FLORIDA
 DEMOGRAPHIC AND MISCELLANEOUS STATISTICS (UNAUDITED)
 September 30, 2005

Population: The Town has a year round population of approximately 9,700. The Town's population will grow during the time of year traditionally known as the "Season" (generally from November 15th to April 1st) at which time the population swells to approximately 25,000. The Town has experienced considerable growth in its year-round resident population over the last few decades.

<u>Year</u>	<u>Population</u>	<u>% Change</u>	<u>Source</u>
1950	3,886		US. Census
1960	6,055	55.8%	US. Census
1970	9,086	50.1%	US. Census
1980	9,432	3.8%	US. Census
1990	9,814	4.1%	US. Census
2000	9,676	(1.4)%	US. Census
2003	9,682	0.1%	University of Florida
2004	9,662	(0.21)%	University of Florida
2005	9,662	0%	University of Florida

Demographics

Per Capita Income (2000)	\$109,219
Median Household Income (2000).....	\$94,562
Median Age (2000)	66.6 years

Source: U.S. Census Bureau

Infrastructure

Police Stations	1	Recreation Areas	
Fire-Rescue Stations.....	3	Phipps Ocean Park	24 Acres
Public Elementary School (County)	1	Seaview Park	4.6 Acres
Enrollment (Kindergarten – Fifth).....	414	Neighborhood Parks	
Public Libraries	1	Bradley Park.....	4.5 Acres
Recreation Facilities		Kaplan Park	0.3 Acres
Tennis Courts	12	Special Use Parks/Facilities	
Golf Course (Par 3).....	1	Public Park on Beach	3.0 Acres
Marina (88 Boat Slips)	1	Municipal Beach.....	5.6 Acres
Community Building.....	1	Municipal Docks	5.3 Acres
Playfields.....	5	Peruvian/S. County Rd	0.24 Acres
Bicycle Paths.....	9.3 miles	Southern Boulevard Causeway.....	9.6 Acres
Picnic Tables	77	Nature Islands.....	39.0 Acres
Outdoor Grills.....	28	Public Roads – Paved.....	90 Lane Miles

TOWN OF PALM BEACH, FLORIDA
 DEMOGRAPHIC AND MISCELLANEOUS STATISTICS (UNAUDITED)
 September 30, 2005

Bond Ratings

<u>Rating Agency</u>	<u>General Obligation</u>
Moody's (G.O.)	Aaa
Standard & Poor's (G.O)	AAA

Real Estate Parcels by Type

The following information reflects the taxable value of real estate by type:

<u>Type</u>	<u>Taxable Value (In Millions)</u>	<u>Number of Parcels</u>
Vacant Residential	\$ 332.9	219
Single Family Residential	5,359.5	2,234
Multi-Family, 10 units or more	61.3	9
Condominiums	2181.3	5,495
Cooperatives	161.2	1,039
Retirement Homes & Miscellaneous	1.2	1
Multi-Family, Less Than 10 Units	83.2	70
Vacant Commercial	1.0	3
Improved Commercial	770.3	198
Improved Industrial	.6	1
Institutional	58.9	23
Government	.0	49
Leasehold Interests	.0	2
Miscellaneous	<u>2.0</u>	<u>34</u>
Total	<u>\$ 9,013.4</u>	<u>9,377</u>

Homestead Exemptions

All homesteaded property within the State of Florida is subject to a \$25,000 exemption in taxable value. The annual increase in taxable value is limited to 3% or the National Consumer Price Index, whichever is less. The increase for FY2005 was 1.9%. The Town has 3,408 (36.4%) homesteaded properties.

TOWN OF PALM BEACH, FLORIDA
INSURANCE PROGRAM (UNAUDITED)

Fiscal Year 2004-2005

TYPE OF POLICY	COMPANY	DATES	LIMITS	DESCRIPTION	RETENTION	PREMIUM
Public Entity Package	Preferred Governmental Insurance Trust	10/01/04-5	\$1,000,000	Property - Inland Marine, General Liability, Law Enforcement, Public Officials Liability, Employment Practices Liability, Automobile Liability	\$100,000	\$675,257
Workers Compensation	Preferred Governmental Insurance Trust	10/01/04-05	1,000,000	Workers Compensation - Provides coverage in accordance with Florida Statute protecting employees who become injured or ill while in the course and scope of employment.	100,000	486,170
Crime	CAN	10/01/04-05	1,000,000	Employee Dishonesty; Forgery or Alteration; Theft, Disappearance & Destruction; Robbery & Safe Burglary, Fraud	100,000	3,692
Fidelity Bond	Travelers Casualty and Surety Company of America	10/01/04-05	1,000,000	Public Official Bond	100,000	3,500
Flood Insurance	American B	07/30/04-05	500,000	South Fire Station	500	1,245
Flood Insurance	American B	08/08/04-05	500,000	Town Hall	500	6,630
Flood Insurance	American B	08/08/04-05	500,000	Recreation Center	500	6,630
Flood Insurance	American B	08/08/04-05	500,000	North Fire Station	500	3,021
Flood Insurance	American B	08/08/04-05	500,000	Police Facility	500	3,491
Flood Insurance	American B	08/08/04-05	500,000	Public Works Facility	500	3,161
Loss Fund	Not Applicable	10/01/04-05	735,000	For payment of losses that fall within the retention levels. Only applicable to Retentions included in Package-\$800,000 Stop Loss Coverage. Does not include deductible for Named Windstorm.	N/A	N/A
Fiduciary Liability	Travelers Casualty and Surety Company of America	01/01/05-06	10,000,000	General Liability - General Employees Pension Fund	150,000	28,875
		10/01/04-05	26,474,652	Boiler Inspection	25,000	4,706
		04/08/05-06	155,000	2005 35' Island Runner with two Mercury outboards. Navigation - Florida Coastal waters not to exceed 50 miles offshore.	500	6,388
		04/08/05-06	5,000	Trailer coverage (see above)	500	Included
		04/08/05-06	1,000,000	P&I coverage (see above)	2,500 BI 2,500 PD	Included
Pollution Liability	FPLIPA	10/01/04-05	1,000,000	Storage Tank Liability, 3rd Party BI & PD due to storage tank release; cleanup for aboveground storage tank releases	25,000	17,811

COMPLIANCE SECTION

**COMPLIANCE REPORTS AND
MANAGEMENT LETTER**



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MEMBERS
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Independent Auditor's 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

The Honorable Mayor and Members
of the Town Council
Town of Palm Beach
Palm 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 Palm Beach, Florida, as of and for the year ended September 30, 2005, which collectively comprise the basic financial statements of the Town of Palm Beach, Florida, and have issued our report thereon dated February 17, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 internal control over financial reporting of the Town of Palm Beach, Florida, in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Town of Palm Beach, Florida, 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*.

We also noted certain additional matters that we reported to management in a separate management letter dated February 17, 2006.

This report is intended solely for the information and use of the Town Council and management of the Town of Palm Beach, Florida, federal awarding and pass-through agencies, 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.

*Caler, Donten, Levine,
Dunker, Porter & Veil, P.A.*

February 17, 2006



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Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Federal Program
and Internal Control Over Compliance

The Honorable Mayor and Members
of the Town Council
Town of Palm Beach
Palm Beach, Florida

Compliance

We have audited the compliance of the Town of Palm Beach, Florida, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2005. The major federal program of the Town of Palm Beach, Florida, is 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 its major federal program is the responsibility of the management of the Town of Palm Beach, Florida. Our responsibility is to express an opinion on compliance by the Town of Palm Beach, Florida, based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and, Chapter 10.550, Rules of the Auditor General. Those standards, 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 occurred. An audit includes examining, on a test basis, evidence about compliance by the Town of Palm Beach, Florida, 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 compliance by the Town of Palm Beach, Florida, with those requirements.

In our opinion, the Town of Palm Beach, Florida, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the Town of Palm Beach, Florida, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 reportable 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 caused by error or fraud that would be material in relation to a major federal program 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 Palm Beach, Florida, federal awarding and pass-through agencies, 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.

*Cale, Danten, Levine,
Dunker, Porter & Veil, P.A.*

February 17, 2006

TOWN OF PALM BEACH, FLORIDA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2005

Grantor/ Program Title	CFDA Number	Contract/Grantor Number	2005 Program Expenditures	Transfers to Subrecipients
Federal Awards				
U.S. Department of Justice				
Direct Award				
Bulletproof Vest Partnership Program	16.607	N/A	\$ 8,732	\$ 0
U.S. Department of Homeland Security				
Pass-through award from the State of Florida				
Department of Community Affairs				
Disaster Grants - Public Assistance Grant (Presidentially Declared Disasters)	97.036	05-PA-G%-10-60-02-964	1,900,338	0
Disaster Grants - Public Assistance Grant (Presidentially Declared Disasters)	97.036	05-PA-E=-10-60-02-014	1,680,537	0
Assistance to Firefighters Grant	97.044	EMW-2004-FG-21138	90,594	0
Total U.S. Department of Homeland Security			<u>3,671,469</u>	<u>0</u>
Total Federal Awards			<u>\$ 3,680,201</u>	<u>\$ 0</u>

See notes to schedule of expenditures of federal awards.

TOWN OF PALM BEACH, FLORIDA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2005

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal awards of the Town of Palm Beach, Florida, for the year ended September 30, 2005 and is presented in accordance with the requirements of the provisions of OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General. The Schedule of Expenditures of Federal Awards has been prepared on the modified accrual basis of accounting.

NOTE B – SCOPE OF SINGLE AUDIT

The federal programs have been audited in accordance with the provisions of OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, for program transactions occurring during the year ended September 30, 2005. The Town had one federal program meeting the definition of a Type A program under the provisions of OMB Circular A-133. The following Type A program was audited as a major federal program:

	<u>CFDA Number</u>
U.S. Department of Homeland Security	
Pass-through award from the State of Florida	
Department of Community Affairs	
Disaster Grants - Public Assistance Grant	
(Presidentially Declared Disasters)	97.036

NOTE C - CONTINGENCY

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies. Any disallowed claims, including amounts already received, might constitute a liability of the Town for the return of those funds. In the opinion of management, all grant expenditures were in compliance with the terms of the grant agreements and applicable federal laws and regulations.

TOWN OF PALM BEACH, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL AWARD PROGRAMS

Year Ended September 30, 2005

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Town of Palm Beach, Florida.
2. There were no reportable conditions disclosed during the audit of the financial statements of the Town of Palm Beach, Florida.
3. No instances of noncompliance material to the financial statements of the Town of Palm Beach, Florida, were disclosed during the audit.
4. There were no reportable conditions relating to the audit of the major federal program
5. The auditor's report on compliance for the major federal award program for the Town of Palm Beach, Florida, expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award program for the Town of Palm Beach, Florida.
7. The program/project tested as a major program/project was as follows:

FEDERAL PROGRAM	<u>CFDA Number</u>
U.S. Department of Homeland Security Pass-through award from the State of Florida Department of Community Affairs Disaster Grants - Public Assistance Grant (Presidentially Declared Disasters)	97.036

8. The threshold for distinguishing Type A and B programs/projects was \$300,000 for major Federal programs.
9. The Town of Palm Beach, Florida, is not a low-risk auditee.

B. FINDINGS - BASIC FINANCIAL STATEMENTS

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAM

None

TOWN OF PALM BEACH, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL AWARD PROGRAMS (Continued)

Year Ended September 30, 2005

D. OTHER MATTERS

1. A Summary Schedule of Prior Audit findings is not required because there were no prior audit findings related to Federal programs.
2. A Corrective Action Plan is not required because there were no findings required to be reported under the Federal Single Audit Act.



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Management Letter

The Honorable Mayor and Members
of the Town Council
Town of Palm Beach
Palm Beach, Florida

We have audited the financial statements of the Town of Palm Beach, Florida, as of and for the year ended September 30, 2005 and have issued our report thereon dated February 17, 2006.

We conducted our audit in accordance with U.S. generally accepted audited standards 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 Auditor's 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*. Disclosures in that report, which is dated February 17, 2006, 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 require that we address certain compliance and other matters in the management letter, if not already addressed in the auditor's report on internal control over financial reporting and on compliance and other matters. In planning and performing our audit of the financial statements of the Town of Palm Beach, Florida, as of and for the year ended September 30, 2005, we considered the Town's internal control over financial reporting in order to determine the scope of our audit procedures for the purpose of expressing opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. While our purpose was not to provide an opinion on the internal control over financial reporting, certain matters came to our attention that we want to report to you. These matters, along with our recommendations, are as follows.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Inventory (2005-1)

The Town's policy is to perform a thorough review of their inventory for obsolete items every other year. It is our understanding that this process has not been done in 2005. We recommend that this process be performed in accordance with the Town's policy.

In addition, there were inventory items located in the electrical department, as well as items that had already been charged out to a department. The inventory items should be kept separate from other items. We suggest that the electrical inventory be moved to a new secured location in the warehouse.

Management response: The entire inventory of the Town is currently being reviewed, all stocking locations identified and stock items evaluated for security, space allocations and usage. The Town will adhere to the policy of a thorough review of the inventory at least once every other year. A thorough review was finished in February 2006 and obsolete items were identified and properly removed from the inventory.

Inventory items located in other areas have been identified and have either been removed from the inventory or issued to the respective departments. This practice has been permanently discontinued.

Some departments do not have storage areas however; items that have been issued are now kept in a secured and segregated area.

Electrical inventory has been moved to a new secured location in the warehouse. All inventory items removed from the warehouse will be required to be issued at time of receipt. Future purchases of equipment will not be added to the inventory unless it has been reviewed and in accordance with good warehousing principles and practices. Those criteria will be used to evaluate any additions to the inventory.

Purchasing (2005-2)

We noted a purchase for \$3,146, which according to the purchasing policy would require three written quotes. However this purchase was indicated as an emergency purchase and, therefore, would require the approval of the purchasing agent. No such approval was evident. We recommend that the Town's purchasing policy be adhered to or policies changed if they no longer make sense.

Management response: All Purchase orders will be issued in accordance with established Purchasing Policies and Procedures. Emergency or sole source will require adequate justifications supporting these designations. Each Purchase Order will have supporting information documenting the procurement process and complying with the Town's Purchasing Policy.

Marina Procedures (2005-3)

Dock deposit statements and invoices for leases are prepared by the Finance Department, sent to the Dockmaster for his review and subsequently returned to the Finance Department in sealed envelopes for mailing. No copies of statements or invoices are maintained. On occasion additional enclosures are included in the statements. Pursuant to procedure 1-03-1, inserts must be authorized by the Town Manager. We recommend that the invoices be mailed directly from the Finance Department and that any enclosures with the mailings be authorized by the Town Manager's office and then given to the Finance Department to include in the envelope.

Management response: The Dockmaster will approve the edit report and Finance will generate, copy and mail the invoices. Any enclosures to the mailings will be authorized by the Town Manager's office.

Emergency Medical Service Transport Fees (2005-4)

We noted several areas in the EMS transport billing system where internal controls could be improved. The accounts receivable reports are not printed on a monthly basis and therefore outstanding accounts receivable balances are not being followed up in a timely manner. In addition, the dispatched calls log is no longer being reconciled to the billing forms to be sure that all services have been billed. We recommend that written procedures be developed for the EMS billing system. The EMS department

should be responsible for the billing of services and the posting of the receivable, but the collection of payments and the posting of the receipts and any write-offs should be done by the Finance department.

Management response: A backlog existed prior to the hiring of an EMS billing technician. Since her arrival in April 2005, she has eliminated the back-log of claims, processes the new claims on a daily basis, and researched numerous outstanding, unpaid claims. For the current fiscal year, total receipts are at 100% of budget estimates. Finance and Fire-Rescue staff will explore ways to improve process controls and add procedures to assure compliance. An EMS billing procedure will be finalized during this fiscal year.

Reconciliation of Capital Outlay Accounts to Capital Asset Records (2005-5)

We noted that the Town is not reconciling its capital outlay expenditure accounts to its capital asset records during the year. The reconciliation is being done at the end of the audit and requires a significant number of adjustments well after year end. We recommend that this reconciliation be done throughout the year (quarterly or semi-annually) in an effort to improve the Town's financial reporting capabilities.

Management response: Reconciliations of the capital outlay accounts and capital asset records will be performed semi-annually. In addition, we believe that a capital asset software program that is integrated with the purchasing and general ledger software would make the capital project reconciliation process more manageable.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

The Rules of the Auditor General require that we address in the management letter, if not already addressed in the auditor's report on internal control over financial reporting and on compliance and other matters, whether or not inaccuracies, shortages, defalcations, fraud and/or violations of laws, rules, regulations and contractual provisions reported in the preceding annual financial audit report have been corrected. Our audit for the prior year disclosed none of the foregoing matters.

Additionally, the Rules of the Auditor General require that we address in the management letter, if not already addressed in the auditor's report on internal control over financial reporting and on compliance and other matters, whether or not recommendations made in the preceding management letter have been followed or otherwise no longer apply. We noted that our recommendations related to Capital Outlay Expenditure Accounts (2004-1), Insurance Fixed Costs (2004-2), Contract Renewals (2004-3), and Emergency Accounting Policies and Procedures (2004-4) included in our management letter dated June 7, 2005 for the year ended September 30, 2004 were adequately addressed or no longer apply.

OTHER REQUIRED INFORMATION

Consideration of Financial Emergency Criteria

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit, we determined that the Town of Palm Beach, Florida, has not met any of the conditions described in Section 218.503(1), Florida Statutes during the fiscal year ended September 30, 2005, and therefore, is not considered to be in a state of financial emergency.

Financial Condition Assessment Procedures

In connection with our audit, we applied financial condition assessment procedures, pursuant to Rule 10.556(8), Rules of the Auditor General, for the year ended September 30, 2005. The results of our procedures disclosed no matters that are required to be reported.

Annual Financial Report

In connection with our audit, we reviewed the Annual Financial Report of Units of Local Government filed by the Town of Palm Beach, Florida, with the Florida Department of Banking and Finance pursuant to Section 218.32, Florida Statutes, for the fiscal year ended September 30, 2005. We noted that the amounts reported in the annual financial report were in substantial agreement with the audited financial statements for the year ended September 30, 2005.

Investment of Public Funds

As required by the Rules of the Auditor General, the scope of our audit included 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 of Palm Beach, Florida, complied with Section 218.415, Florida Statutes, for the year ended September 30, 2005.

Other Matters

The Rules of the Auditor General require disclosure in the management letter of the following matters if not already addressed in the auditor's report on internal control over financial reporting and on compliance and other matters: (1) violations of laws, rules, regulations and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures; (4) failures to properly record financial transactions and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Except as reported in this management letter, our audit for the year ended September 30, 2005 disclosed none of the foregoing matters that are required to be disclosed.

This report is intended solely for the information and use of the Town Council and management of the Town of Palm Beach, Florida, federal awarding and pass-through agencies, 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.

*Calder, Dauter, Levine,
Dunker, Porter & Veil, P.A.*

February 17, 2006