

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
**TOWN OF PALM BEACH, FLORIDA**  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006



Prepared by the Finance Department

Jane Struder, CPA  
Finance Director

TOWN OF PALM BEACH, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2006

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## **INTRODUCTORY SECTION**



# TOWN OF PALM BEACH

Finance Department

February 20, 2007

The Honorable Mayor and Town 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, 2006, 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, 2006. 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.

The Town of Palm Beach services a full-time resident population of 9,735 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 412 employees, including 78 sworn police officers and 79 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 13.6% to \$12,048,770,891 helped the Town continue to provide services at a modest tax rate. Taxable value is expected to continue to increase, but the rate of increase is expected to be lower this year and in the near future.

Per capita personal income for the Town of Palm Beach is \$109,219, which is well 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. Since 2004, staff has developed an organizational vision statement and key result measures for all departments and program areas and we are now using these measures to track our performance. The annual budget document contains the key result measures and the prior year results along with a section that outlines the process, and the linkage between the key result measures and the strategic plan and town-wide goals.

During fiscal year 2006 the following other major accomplishments occurred:

- Town staff has prepared all necessary documentation to obtain FEMA reimbursements for Hurricane Wilma. FEMA reimbursements have been received for most projects.
- The town-wide storm drainage improvements continued. The construction of the D-2 Pump Station (Palmo Way) wet well was started in May 2006 and is expected to be completed during 2007. The storm drains along North Lake Way between Palmo Way and Nightingale Trail were also upgraded during this project. The D-8 pump station (Country Club Road) was completed in December 2005. 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-15 Cooling System Repair was completed in May 2006. Submersible electric pumps were installed in the existing water wells and the diesel engines were outfitted with new heat exchangers.
- An RFP was issued for new financial, payroll, permitting and reporting software. The responding vendors were extensively reviewed and interviewed and the award of the contract is expected to be made in February 2007.
- Work was completed on 2 additional tennis courts at Phipps Ocean Park.
- The beach renourishment projects for Reach 7 and Mid Town Beach were completed as well as a dune restoration project throughout Reaches 7 and 8 during 2006.
- Work on a damage assessment system for the GIS system was completed. This program will be used during storm events to track residential, commercial and government building damage.
- A new Life Safety Program in Fire Prevention was implemented. This new program has increased the level of fire inspections, technical inspections, building plan reviews, evening inspections of restaurants and bars and expanded public education activities.
- Staff prepared an update to the Long Term Financial Plan. The plan contains the FY2007 budget as well as forecasts for FY2008 through FY2011. This plan is 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 five top-priority Town-wide goals that were adopted by the Town Council for fiscal year 2007.

- Continuation of beach nourishment projects: Specifically, nourishment of Reach 8.
- Proceed aggressively with the project to underground utility wires, if approved by the voters.
- Commence construction of upgraded sand transfer plant at the Lake Worth Inlet.

- Begin implementation of Traffic and Parking Improvement Plan.
- Improve the breadth and intensity of code enforcement.

Other notable initiatives for fiscal year 2007 will include the following:

- Proceed with the multi-year program to upgrade the Town's software systems, including the installation of new financial, payroll, permitting, and reporting software.
- Proceed with the renovation of Town Hall to improve the long-term space needs for Town operations.
- Complete the North Ocean Boulevard seawall revetment project.
- Proceed with the reorganization of the Leisure Services Enterprise Fund and the renaming of the fund to the Recreation Enterprise Fund.
- Establish a Health Insurance Trust for post employment health benefits using a significant portion of the reserves from the health insurance fund.
- Increase the number of streets included in the milling and resurfacing program.

### **Financial Information**

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

**Internal Controls:** In developing and evaluation 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, 2006, and are re-appropriated as part of the following year's budget.

**Cash Management:** The Town invests its excess reserves primarily with the State's Local Government Surplus Funds Trust Fund Investment Pool and the Florida League of Cities Investment Trust. The Town also invested in a \$2 million, 6 month U.S. Treasury Bill. As of September 30, 2006, the investments with the State Investment Pool totaled \$72,399,637 and the Florida League of Cities Investment Trust balance was \$22,546,946. The Town generated investment earnings of \$4,701,455 on all funds excluding pension trust funds.

**Risk Management:** The Town is self-insured for certain group health, property, liability, and workers' compensation claims. 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 requirements 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 for active and retired employees. 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. In FY07, a health insurance trust has been established for post employment health benefits.

### **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. This fund will be renamed the Recreation Enterprise Fund beginning in the FY07 fiscal year.

**Fiduciary Funds:** The Town operates four fiduciary funds. These include the General Employees' Pension Trust Fund covering General and Lifeguard employees, the Police Officers' Retirement System, the Firefighters' Retirement System, and the Kreuzler 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 2006. 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, 2005. This was the 18<sup>th</sup> 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, 2006, and the Certificate of Achievement in Popular Annual Financial Reporting for the Town's Annual Report for fiscal year ended September 30, 2005.

**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. In addition, we 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 are grateful 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, 2005

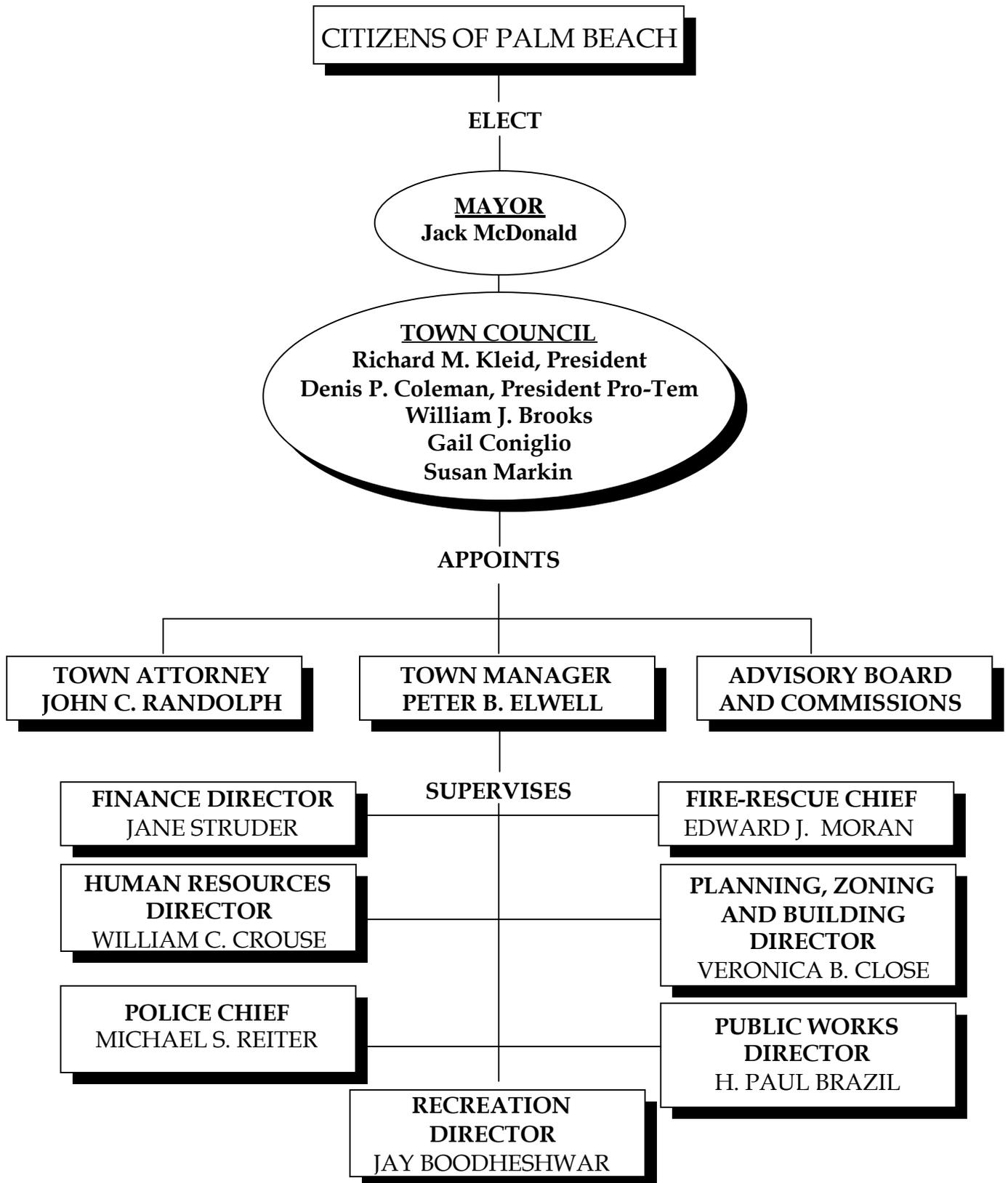
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

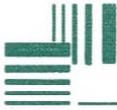
Executive Director

# TOWN OF PALM BEACH ORGANIZATIONAL STRUCTURE



Note: Organizational structure as of February 13, 2007

## **FINANCIAL SECTION**



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

WILLIAM K. CALER, JR., CPA  
LOUIS M. COHEN, CPA  
JOHN C. COURTNEY, CPA, JD  
DAVID S. DONTEN, CPA  
SCOTT D. DRUKER, CPA, JD  
JAMES B. HUTCHISON, CPA  
JOEL H. LEVINE, CPA  
JAMES F. MULLEN, IV, CPA  
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MEMBERS  
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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, 2006, 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, 2006, 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 January 5, 2007, 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 52 through 56, respectively, 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 and State Financial Assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, Rules of the Auditor General, and is 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 and State Financial Assistance 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.

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

January 5, 2007

## 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, 2006. 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 \$169,486,773 (net assets). Of this amount, \$87,874,673 (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 \$63,537,968 a decrease of \$8,182,779 in comparison with the prior year. Approximately 28% 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 \$23,010,110 or 44% of the general fund expenditures.
4. The Town's total government-wide revenue was \$80,515,284, while total expenses were \$65,237,251.
5. Governmental Activities generated \$76,201,901 in revenue (excluding transfers) with \$61,763,001 in expenses.
6. Business-type Activities generated \$4,313,383 in revenue (excluding transfers) with \$3,474,250 in expenses.
7. The Town's long-term debt decreased by \$3,148,585 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, revenue 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, golf course and recreation programs.

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 25-51 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 52-56 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 57-75 of this report.

### **Government-wide Financial Analysis**

**Net assets.** On the following page, is a summary of the fiscal year 2006 Statement of Net Assets found on page 13 and comparative information for fiscal year 2005.

**Town of Palm Beach, Florida**  
**Net Assets**  
**September 30, 2006 and 2005**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>ASSETS</b>						
Current and other assets	\$106,669,075	\$110,949,571	\$ 4,964,855	\$ 5,035,159	\$111,633,930	\$115,984,730
Capital assets, net	<u>81,598,804</u>	<u>64,013,703</u>	<u>10,965,117</u>	<u>10,679,781</u>	<u>92,563,921</u>	<u>74,693,484</u>
Total assets	188,267,879	174,963,274	15,929,972	15,714,940	204,197,851	190,678,214
<b>LIABILITIES</b>						
Current liabilities	9,958,790	8,596,744	648,828	762,859	10,607,618	9,359,603
Long-term liabilities	<u>23,905,268</u>	<u>26,929,037</u>	<u>198,192</u>	<u>180,834</u>	<u>24,103,460</u>	<u>27,109,871</u>
Total liabilities	33,864,058	35,525,781	847,020	943,693	34,711,078	36,469,474
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	70,412,738	52,423,983	10,965,117	10,679,781	81,377,855	63,103,764
Restricted	234,245	199,674			234,245	199,674
Unrestricted	<u>83,756,838</u>	<u>86,813,836</u>	<u>4,117,835</u>	<u>4,091,466</u>	<u>87,874,673</u>	<u>90,905,302</u>
Total net assets	<u>\$154,403,821</u>	<u>\$139,437,493</u>	<u>\$ 15,082,952</u>	<u>\$ 14,771,247</u>	<u>\$169,486,773</u>	<u>\$154,208,740</u>

Net assets may serve over time as a useful indicator of a government's financial position. At September 30, 2006, the Town's assets exceeded liabilities by \$169,486,773. Net assets increased by \$15,278,033 as a result of a \$14,966,328 increase in governmental activities and an increase of \$311,705 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 \$87,874,673.

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 \$81,377,855. 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, 2006, as compared to September 30, 2005:

**Town of Palm Beach, Florida**  
**Changes in Net Assets**  
**For the Fiscal Years Ended September 30, 2006 and 2005**

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 10,423,938	\$ 9,964,189	\$ 3,984,307	\$ 3,786,711	\$ 14,408,245	\$ 13,750,900
Operating grants and contributions	13,759,464	6,931,974	67,183		13,826,647	6,931,974
Capital grants and contributions	179,952	68,524			179,952	68,524
General revenue:						
Property taxes	39,008,774	35,539,136			39,008,774	35,539,136
Local option gas tax	360,210	222,226			360,210	222,226
Franchise fees	2,433,811	1,989,980			2,433,811	1,989,980
Utility service taxes	4,167,844	4,160,185			4,167,844	4,160,185
Intergovernmental	1,158,415	1,192,382			1,158,415	1,192,382
Investment earnings	<u>4,709,493</u>	<u>2,661,913</u>	<u>261,893</u>	<u>125,691</u>	<u>4,971,386</u>	<u>2,787,604</u>
Total revenue	76,201,901	62,730,509	4,313,383	3,912,402	80,515,284	66,642,911
<b>Expenses</b>						
General						
government	10,770,654	10,541,925			10,770,654	10,541,925
Public safety	27,115,822	27,865,411			27,115,822	27,865,411
Physical						
environment	19,746,156	12,267,718			19,746,156	12,267,718
Transportation	1,179,979	1,042,556			1,179,979	1,042,556
Culture and recreation	1,919,405	1,677,604			1,919,405	1,677,604
Interest on long-term debt	1,030,985	1,138,344			1,030,985	1,138,344
Leisure services			<u>3,474,250</u>	<u>3,099,168</u>	<u>3,474,250</u>	<u>3,099,168</u>
Total expenses	<u>61,763,001</u>	<u>54,533,558</u>	<u>3,474,250</u>	<u>3,099,168</u>	<u>65,237,251</u>	<u>57,632,726</u>
<b>Increase in Net Assets Before Transfers</b>	14,438,900	8,196,951	839,133	813,234	15,278,033	9,010,185
Transfers	<u>527,428</u>	<u>(313,789)</u>	<u>(527,428)</u>	<u>313,789</u>	<u>0</u>	<u>0</u>
Increase in net assets	14,966,328	7,883,162	311,705	1,127,023	15,278,033	9,010,185
Net assets at beginning 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>
Net assets at end of year	<u>\$154,403,821</u>	<u>\$139,437,493</u>	<u>\$15,082,952</u>	<u>\$14,771,247</u>	<u>\$169,486,773</u>	<u>\$154,208,740</u>

The Town's combined net assets increased by \$15,278,033 or 9.9% during 2006. This improvement can be primarily attributed to governmental activities that increased \$14,966,328 or 97% 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 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 \$63,537,968, which decreased by \$8,182,779 from September 30, 2005. This decrease was primarily due to capital expenditures relating to drainage and beach renourishment projects.

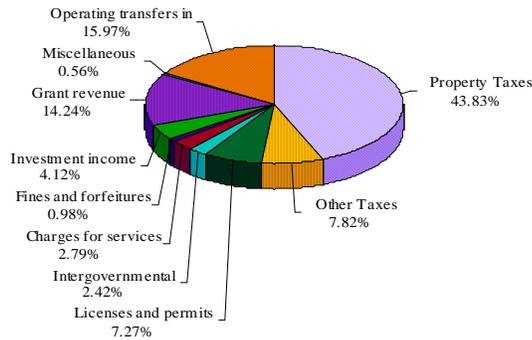
The following schedule presents a summary of all governmental fund revenue and other financing sources for the fiscal year ended September 30, 2006, and the amount and percentage of increases and decreases in relation to prior year revenues:

	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2005</u>	<u>Percent Increase (Decrease)</u>
<b>Revenue</b>				
Taxes	\$ 45,970,639	51.6%	\$ 4,059,112	9.7%
Licenses and permits	6,473,831	7.3	(439,566)	(6.4)
Intergovernmental	2,153,286	2.4	80,326	3.9
Charges for services	2,487,444	2.8	390,138	18.6
Fines and forfeitures	874,351	1.0	52,239	6.4
Investment income	3,663,648	4.1	1,544,438	72.9
Grant revenue	12,674,928	14.2	7,568,168	148.2
Miscellaneous	495,349	0.6	(285,804)	(36.6)
<b>Other Financing Sources</b>				
Transfers in	<u>14,210,192</u>	<u>16.0</u>	<u>2,818,077</u>	<u>24.7</u>
<b>Total Revenue and Other Financing Sources</b>	<u>\$ 89,003,668</u>	<u>100.0%</u>	<u>\$ 15,787,128</u>	<u>21.6%</u>

The most significant changes in revenue and other financing sources were related to taxes, license and permit fees, charges for services, investment income, grant revenue and the miscellaneous category. The changes are described below:

- Property taxes increased due to increases in the taxable value of property and a 3% decrease in the millage rate.
- License and permit revenue decreased due to a decline in building permit revenue.
- Charges for services increased due to improved collections on EMS transport fees and increases in solid waste disposal fees.
- Investment income increased due to higher returns on surplus funds.
- Grant revenue increased due to funding from FEMA for expenditures relating to Hurricanes Frances, Jeanne and Wilma, and grant funding for the beach restoration projects.
- Miscellaneous revenue in FY2005 included the donation of a marine patrol boat and higher than normal police donations than received in FY2006.

## Revenues by Source Governmental Activities



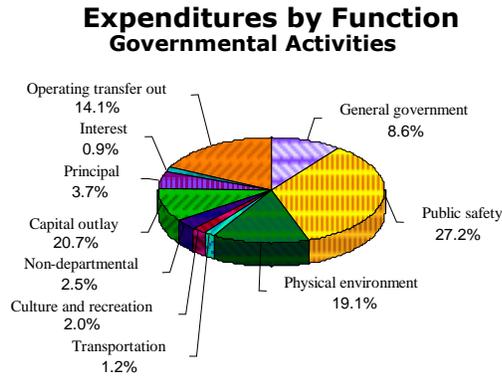
The following schedule presents a summary of all governmental funds expenditures and other financing uses for the fiscal year ended September 30, 2006, and the percentage of increases and decreases in relation to prior year amounts:

	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2005</u>	<u>Percent Increase (Decrease)</u>
<b>Expenditures</b>				
<b>Current:</b>				
General government	\$ 8,315,398	8.6%	\$ 497,618	6.4%
Public safety	26,417,211	27.2	(671,651)	(2.5)
Physical environment	18,557,179	19.1	7,628,465	169.8
Transportation	1,185,987	1.2	142,094	13.6
Culture and recreation	1,938,137	2.0	259,456	15.5
Non-departmental	2,390,000	2.5	(120,033)	(4.8)
<b>Capital outlay</b>	<b>20,270,287</b>	<b>20.7</b>	<b>12,207,541</b>	<b>251.4</b>
<b>Debt Service:</b>				
Principal	3,564,637	3.7	(570,947)	(13.8)
Interest	864,847	0.9	(149,376)	(14.7)
<b>Other Financing Uses</b>				
Transfers out	<u>13,682,764</u>	<u>14.1</u>	<u>(123,140)</u>	<u>(0.9)</u>
<b>Total Expenditures and Other Financing Uses</b>	<b><u>\$ 97,186,447</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 19,100,027</u></b>	<b>24.5%</b>

Total expenditures increased 24.5% from FY2005. The reasons for the major increases and decreases are as follows:

- General government expenditures increased due to funding for the first year of a multi year software implementation plan and increases related to retiree health care funding.
- Public safety expenditures decreased due to less salaries, overtime and related expenses for the hurricanes.
- Physical environment costs increased due to expenditures relating to beach and dune renourishment projects and expenditures relating to Hurricane Wilma.
- Transportation expenditures increased due to expenditures and overtime costs related to Hurricane Wilma.
- Culture and recreation expenditures increased due to expenditures relating to Hurricane Wilma.
- Non-departmental expenditures represents the transfer to the Risk Insurance Fund.
- Capital outlay increased due to significant expenditures related to beach and dune renourishment projects.
- Debt service payments declined in FY2006.

- Transfers out decreased due to transfers made from the capital fund to the enterprise fund in FY2005.



**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 \$17,985,964, while the total fund balance was \$24,389,252. The total fund balance of the General Fund decreased by \$1,585,336 due, in part, to funding a modification to the equipment replacement fund whereby the funding is based upon replacement value of the equipment rather than original cost. 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 35.4% of total General Fund expenditures including transfers out.

The fund balance of the Capital Improvement Fund decreased from the prior year by \$251,080. 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 \$11,362,841. This decrease is a result of expenditures for beach and dune 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 \$5,016,478. This increase is due to transfers into the equipment replacement fund to retroactively fund the modification from original cost to replacement cost funding.

**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 \$4,117,835 at September 30, 2006. Net assets for this fund increased \$311,705, 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 \$9,665,269 during the year due to expenditures relating to hurricane Wilma, appropriating the cost of the modification to the equipment replacement fund, and unexpected expenditures relating to FDOT project upgrades. 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, 2006, net capital assets of governmental activities totaled \$81,598,804 and the net capital assets of the business-type activities totaled \$10,965,117 (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.

	<b>Town of Palm Beach</b>					
	<b>Capital Assets</b>					
	<b>September 30, 2006 and 2005</b>					
	Governmental		Business-type		Total	
Activities		Activities				
2006	2005	2006	2005	2006	2005	
Land	\$ 8,039,238	\$ 8,039,238	\$ 5,623,777	\$ 5,623,777	\$ 13,663,015	\$ 13,663,015
Construction in progress	30,951,885	16,918,121	586,185	505,090	31,538,070	17,423,211
Buildings	9,172,725	4,723,215	682,062	408,994	9,854,787	5,132,209
Improvements other than buildings	494,723	469,493	3,955,339	4,050,794	4,450,062	4,520,287
Equipment	5,920,606	5,744,957	117,754	91,126	6,038,360	5,836,083
Infrastructure	<u>27,019,627</u>	<u>28,118,679</u>	<u>0</u>	<u>0</u>	<u>27,019,627</u>	<u>28,118,679</u>
	<u>\$ 81,598,804</u>	<u>\$ 64,013,703</u>	<u>\$ 10,965,117</u>	<u>\$ 10,679,781</u>	<u>\$ 92,563,921</u>	<u>\$ 74,693,484</u>

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

- Storm drainage improvements continued in FY2006. The construction of the D-2 Pump Station wet well began in May 2006 and is expected to be completed during 2007. The storm drains along North Lake Way between Palmo Way and Nightingale Trail were also upgraded during this project. The D-8 pump station was completed in December 2005.
- Work was completed on 2 additional Tennis courts at Phipps Ocean Park.
- Re-constructed the Mid-Town beach with partial FEMA assistance, and construction of the Phipps Ocean Park beach re-nourishment project and a dune restoration project throughout Reaches 7 and 8 was completed.

## Debt Administration

As of September 30, 2006, the Town had \$20,510,000 in bonds outstanding and \$179,201 in capital lease obligations totaling \$20,689,201 as compared to \$24,253,838 at September 30, 2005, a 14.7% decrease due to debt retirement in fiscal year 2006. 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, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Revenue Bonds	\$ 20,510,000	23,990,000
Capital Lease Obligations	<u>179,201</u>	<u>263,838</u>
Total	<u>\$ 20,689,201</u>	<u>\$ 24,253,838</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 2007 the Town Council adopted a General Fund budget of \$62,642,654 representing an 8.9% increase from FY2006. The increase is due in part to increases in the transfer of ongoing operating costs for the coastal protection program from the Capital Improvement Fund to the General Fund, increase in funding for the street resurfacing program, and increases in contractual services in lieu of additional personnel. In addition, the Town's contribution to the retirement fund increased by \$1,751,939 and funding for the second year of a multi-year program to upgrade the Town's software systems were included in the FY2007 budget. The taxable value increased by 16.13% in FY2007 and the Town's total millage rate decreased from 3.9080 to 3.7273 or 4.62%.

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 69% of the budgeted revenue of the Town. The balance of revenue comes from State 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](http://www.townofpalmbeach.com)**

## **BASIC FINANCIAL STATEMENTS**

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 45,079	\$ 2,300	\$ 47,379
Equity in pooled cash and investments	93,163,469	4,941,162	98,104,631
Accounts receivable, net of allowance for doubtful accounts of \$892,619	899,432	2,033	901,465
Grants receivable	3,854,681	66,260	3,920,941
Internal balances	48,013	(48,013)	0
Inventory	496,439		496,439
Prepays	15,652	1,113	16,765
Unamortized debt issue costs	214,080		214,080
Investment in joint venture	7,932,230		7,932,230
Capital assets			
Land	8,039,238	5,623,777	13,663,015
Construction in progress	30,951,885	586,185	31,538,070
Depreciable capital assets, net	<u>42,607,681</u>	<u>4,755,155</u>	<u>47,362,836</u>
Total assets	<u>188,267,879</u>	<u>15,929,972</u>	<u>204,197,851</u>
<b>LIABILITIES</b>			
Accounts payable	3,734,396	63,267	3,797,663
Accrued liabilities	4,107,903	39,822	4,147,725
Accrued interest payable	204,546		204,546
Customer deposits		203,600	203,600
Unearned revenue	1,911,945	342,139	2,254,084
Long-term debt			
Due within one year	3,697,904	18,621	3,716,525
Due in more than one year	<u>20,207,364</u>	<u>179,571</u>	<u>20,386,935</u>
Total liabilities	<u>33,864,058</u>	<u>847,020</u>	<u>34,711,078</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	70,412,738	10,965,117	81,377,855
Restricted for:			
Debt service	37,439		37,439
Public safety	196,806		196,806
Unrestricted	<u>83,756,838</u>	<u>4,117,835</u>	<u>87,874,673</u>
Total net assets	<u>\$ 154,403,821</u>	<u>\$ 15,082,952</u>	<u>\$ 169,486,773</u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF ACTIVITIES

Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
<b>Governmental activities</b>				
General government	\$ 10,770,654	\$ 6,745,625	\$ 2,995,182	\$
Public safety	27,115,822	1,913,437	963,866	179,952
Physical environment	19,746,156	1,354,292	9,672,675	
Transportation	1,179,979	410,584	78,013	
Culture and recreation	1,919,405		49,728	
Interest on long-term debt	1,030,985			
Total governmental activities	61,763,001	10,423,938	13,759,464	179,952
<b>Business-type activities</b>				
Leisure services	3,474,250	3,984,307	67,183	
Total	\$ 65,237,251	\$ 14,408,245	\$ 13,826,647	\$ 179,952

**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, 2005**

**Net assets at September 30, 2006**

Net Revenue (Expenses) and  
Changes in Net Assets

Governmental Activities	Business-type Activity	Total
\$ (1,029,847)	\$	\$ (1,029,847)
(24,058,567)		(24,058,567)
(8,719,189)		(8,719,189)
(691,382)		(691,382)
(1,869,677)		(1,869,677)
(1,030,985)		(1,030,985)
(37,399,647)	0	(37,399,647)
	577,240	577,240
(37,399,647)	577,240	(36,822,407)
39,008,774		39,008,774
360,210		360,210
2,433,811		2,433,811
4,167,844		4,167,844
1,158,415		1,158,415
4,709,493	261,893	4,971,386
527,428	(527,428)	0
52,365,975	(265,535)	52,100,440
14,966,328	311,705	15,278,033
139,437,493	14,771,247	154,208,740
<u>\$ 154,403,821</u>	<u>\$ 15,082,952</u>	<u>\$ 169,486,773</u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2006

	Major Governmental Funds				
	General Fund	Capital Improvement Fund	Beach Restoration Project Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,360	\$	\$	\$	\$ 3,360
Equity in pooled cash and investments	27,175,303	12,926,393	9,894,466	15,497,996	65,494,158
Accounts receivable	876,037	1,465		21,930	899,432
Grants receivable	527,335	62,053	3,265,293		3,854,681
Due from other funds	114,639			65,662	180,301
Inventory	496,439				496,439
Prepaid items	15,552				15,552
<b>TOTAL ASSETS</b>	<b>\$ 29,208,665</b>	<b>\$ 12,989,911</b>	<b>\$ 13,159,759</b>	<b>\$ 15,585,588</b>	<b>\$ 70,943,923</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 1,143,523	\$ 760,815	\$ 1,541,952	\$ 222,558	\$ 3,668,848
Accrued liabilities	1,698,283	1,847			1,700,130
Due to other funds	65,662			59,370	125,032
Unearned revenue	1,911,945				1,911,945
<b>TOTAL LIABILITIES</b>	<b>4,819,413</b>	<b>762,662</b>	<b>1,541,952</b>	<b>281,928</b>	<b>7,405,955</b>
<b>FUND BALANCES</b>					
Reserved	1,379,142	2,159,783	1,166,077	1,243,737	5,948,739
Unreserved, designated for/reported in:					
Subsequent year's budget	800,000				800,000
Specific purposes	4,224,146	10,067,466	10,451,730		24,743,342
Capital projects funds				14,059,923	14,059,923
Unreserved, undesignated	17,985,964				17,985,964
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 29,208,665</b>	<b>\$ 12,989,911</b>	<b>\$ 13,159,759</b>	<b>\$ 15,585,588</b>	<b>\$ 70,943,923</b>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

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

September 30, 2006

<b>Total Governmental Fund Balances</b>	<b>\$ 63,537,968</b>
 <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.	81,583,179
Investment in joint venture is not a financial resource and, therefore is not reported in the funds.	7,932,230
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.	25,209,372
Deferred issue costs on long-term debt are not financial resources and therefore are not reported in the governmental funds.	214,080
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	(204,546)
Compensated absences	(3,678,529)
Capital lease obligation	(179,201)
Revenue bonds payable	<u>(20,010,732)</u>
Net Assets of Governmental Activities	<u><u>\$ 154,403,821</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, 2006

	Major Governmental Funds				
	General Fund	Capital Improvement Fund	Beach Restoration Project Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Taxes	\$ 45,970,639	\$	\$	\$	\$ 45,970,639
Licenses and permits	6,473,831				6,473,831
Intergovernmental	2,153,286				2,153,286
Charges for services	2,487,444				2,487,444
Fines and forfeitures	770,067			104,284	874,351
Investment earnings	1,902,793	566,245	716,051	478,559	3,663,648
Grant revenue	2,885,201	631,706	9,158,021		12,674,928
Miscellaneous	226,632			268,717	495,349
Total revenue	62,869,893	1,197,951	9,874,072	851,560	74,793,476
<b>Expenditures</b>					
Current					
General government	8,236,321			79,077	8,315,398
Public safety	26,199,173			218,038	26,417,211
Physical environment	11,665,824	997,059	5,831,714	62,582	18,557,179
Transportation	1,185,987				1,185,987
Culture and recreation	1,938,137				1,938,137
Non-departmental	2,390,000				2,390,000
Capital outlay	547,949	4,264,463	14,469,274	988,601	20,270,287
Debt service					
Principal	84,637			3,480,000	3,564,637
Interest	10,362			854,485	864,847
Total expenditures	52,258,390	5,261,522	20,300,988	5,682,783	83,503,683
Revenue over (under) expenditures	10,611,503	(4,063,571)	(10,426,916)	(4,831,223)	(8,710,207)
<b>Other Financing Sources (Uses)</b>					
Transfers in	550,000	3,812,491		9,847,701	14,210,192
Transfers out	(12,746,839)		(935,925)		(13,682,764)
Total other financing sources (uses)	(12,196,839)	3,812,491	(935,925)	9,847,701	527,428
Net Change in Fund Balances	(1,585,336)	(251,080)	(11,362,841)	5,016,478	(8,182,779)
Fund balances at October 1, 2005	25,974,588	12,478,329	22,980,648	10,287,182	71,720,747
Fund balances at September 30, 2006	\$ 24,389,252	\$ 12,227,249	\$ 11,617,807	\$ 15,303,660	\$ 63,537,968

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, 2006

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

<b>Net change in fund balances-total governmental funds</b>	<b>\$ (8,182,779)</b>
<p>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</p>	
Expenditure for capital assets	20,270,287
Less current year depreciation	(2,576,113)
Net book value of asset disposals	(113,788)
<p>Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds</p>	
	362,580
<p>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.</p>	
<p>Repayments:</p>	
Revenue bonds payable	3,480,000
Capital lease payments	84,637
<p>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</p>	
Compensated absences	(397,613)
Accrued interest	17,400
Amortization of bond issue costs	(41,364)
Amortization of loss on refunding	(236,470)
Amortization of bond premiums	94,296
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds</p>	
The net income of the internal service funds is reported with governmental activities	2,205,255
<b>Change in net assets of governmental activities</b>	<b><u><u>\$ 14,966,328</u></u></b>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

September 30, 2006

	Business-type Activities - Leisure Services Fund	Governmental Activities - Internal Service Funds
	<u>Fund</u>	<u>Funds</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 2,300	\$ 41,719
Equity in pooled cash and investments	4,941,162	27,669,311
Accounts receivable	2,033	
Grants receivable	66,260	
Prepaid expenses	1,113	100
Total current assets	<u>5,012,868</u>	<u>27,711,130</u>
Noncurrent assets		
Capital assets		
Land	5,623,777	
Construction in progress	586,185	
Buildings	1,142,669	
Improvements other than buildings	6,054,197	
Equipment	364,531	25,634
	<u>13,771,359</u>	<u>25,634</u>
Less accumulated depreciation	(2,806,242)	(10,009)
Total capital assets, net of accumulated depreciation	<u>10,965,117</u>	<u>15,625</u>
Total assets	15,977,985	27,726,755
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	63,267	65,548
Accrued liabilities	39,822	2,432,773
Due to other funds	48,013	7,256
Compensated absences payable	18,621	
Customer deposits	203,600	
Unearned revenue	342,139	
Total current liabilities	<u>715,462</u>	<u>2,505,577</u>
Noncurrent liability		
Compensated absences payable	179,571	11,806
Total liabilities	<u>895,033</u>	<u>2,517,383</u>
<b>NET ASSETS</b>		
Invested in capital assets	10,965,117	15,625
Unrestricted	4,117,835	25,193,747
Total net assets	<u>\$ 15,082,952</u>	<u>\$ 25,209,372</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, 2006

	Business-type Activities - Leisure Services Fund	Governmental Activities - Internal Service Funds
	<u>Fund</u>	<u>Funds</u>
<b>Operating revenue</b>		
Golf fees and related revenue	\$ 828,615	\$
Marina fees and related revenue	2,795,720	
Charges for services	355,743	7,897,047
Miscellaneous revenue	4,229	7,486
	<u>3,984,307</u>	<u>7,904,533</u>
<b>Operating expenses</b>		
Personal services	1,885,437	272,328
Contractual services	539,747	30,440
Facilities maintenance	79,362	
Equipment rental	108,463	
Materials and supplies	163,329	
Utilities	450,314	
Insurance and claims		6,566,325
Hurricane expenses		31,453
Depreciation	240,649	1,559
Other		16,644
	<u>3,467,301</u>	<u>6,918,749</u>
Operating income	517,006	985,784
<b>Nonoperating revenue (expense)</b>		
Investment earnings	261,893	1,045,845
Operating grants	67,183	
Insurance recoveries		173,626
Loss on disposal of capital assets	(6,949)	
	<u>322,127</u>	<u>1,219,471</u>
Income before transfers	839,133	2,205,255
Transfers in	22,572	
Transfers out	<u>(550,000)</u>	
Change in net assets	311,705	2,205,255
Net assets at October 1, 2005	<u>14,771,247</u>	<u>23,004,117</u>
Net assets at September 30, 2006	<u>\$ 15,082,952</u>	<u>\$ 25,209,372</u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended September 30, 2006

	Business-type Activities - Leisure Services Fund	Governmental Activities - Internal Service Fund
	<u>Fund</u>	<u>Fund</u>
<b>OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 4,012,328	\$ 7,897,047
Payments to employees	(1,866,509)	(271,826)
Payments to suppliers	(1,440,415)	(6,805,088)
Other receipts	4,229	7,486
Net cash provided by operating activities	<u>709,633</u>	<u>827,619</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Operating grants received	923	
Transfers from other funds	22,572	
Transfers to other funds	(550,000)	
Net cash used in noncapital financing activities	<u>(526,505)</u>	<u>0</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(532,934)	(6,274)
Insurance recoveries		173,626
Net cash provided by (used in) capital and related financing activities	<u>(532,934)</u>	<u>167,352</u>
<b>INVESTING ACTIVITY</b>		
Investment earnings received	261,893	1,045,845
Net cash provided by investing activity	<u>261,893</u>	<u>1,045,845</u>
Net increase (decrease) in cash and cash equivalents	(87,913)	2,040,816
Cash and cash equivalents at October 1, 2005	<u>5,031,375</u>	<u>25,670,214</u>
Cash and cash equivalents at September 30, 2006	<u>\$ 4,943,462</u>	<u>\$ 27,711,030</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 517,006	\$ 985,784
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	240,649	1,559
Changes in operating assets and liabilities:		
Increase in accounts receivable	(1,798)	
Decrease in due from other funds	6,076	
Increase in prepaid expenses	(1,113)	(100)
Decrease in accounts payable	(174,694)	(135,569)
Increase (decrease) in accrued liabilities	26,615	(32,392)
Increase in due to other funds	45,486	7,256
Increase in customer deposits	22,300	
Increase in unearned revenue	11,748	
Increase in compensated absences payable	17,358	1,081
Net cash provided by operating activities	<u>\$ 709,633</u>	<u>\$ 827,619</u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

September 30, 2006

	Pension Trust Funds	Kreusler Park Agency Fund
	<u>Trust Funds</u>	<u>Agency Fund</u>
<b>ASSETS</b>		
Cash and short-term investments	\$ 3,036,509	\$
Equity in pooled cash and investments		18,334
Accrued interest and dividends receivable	176,516	
Due from State of Florida	603,549	
Due from other pension funds	110,569	
Other receivables	52,743	
Investments, at fair value		
U.S. Government and Agency securities	4,931,454	
Domestic common stocks	32,460,186	
Domestic corporate bonds	15,330,531	
Investment partnerships	20,751,565	
Mututal funds	95,518,900	
Total investments	<u>168,992,636</u>	<u>0</u>
Total assets	172,972,522	18,334
<b>LIABILITIES</b>		
Accounts payable	218,357	18,334
Share account distribution payable	19,177	
Due to other pension funds	110,569	
DROP plan liability	579,300	
Total liabilities	<u>927,403</u>	<u>18,334</u>
<b>NET ASSETS</b>		
Held in trust for pension benefits (a schedule of funding progress is presented in Note G for the Pension Trust Funds)	<u>\$ 172,045,119</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, 2006

	<u>Pension Trust Funds</u>
<b>ADDITIONS</b>	
Contributions	
Employer	\$ 5,143,408
Employee	1,881,615
State	<u>816,342</u>
Total contributions	7,841,365
Investment income	
Net appreciation in fair value of investments	10,577,256
Interest income	1,308,499
Dividend income	<u>1,412,614</u>
	13,298,369
Less investment expense	<u>721,535</u>
Net investment income	<u>12,576,834</u>
Total additions	20,418,199
<b>DEDUCTIONS</b>	
Benefit payments	7,636,029
Share account distributions	246,225
Refunds	312,752
Administrative expense	<u>333,199</u>
Total deductions	<u>8,528,205</u>
Net increase	11,889,994
Net assets held in trust for pension benefits at October 1, 2005	<u>160,155,125</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT SEPTEMBER 30, 2006	<u><u>\$ 172,045,119</u></u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

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, 2006

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, 2006, 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, 2005. 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, 2006, the outstanding balance due to the State Loan Fund was \$12,256,658.

At September 30, 2006, the ECR participants and their respective interest in ECR were as follows:

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

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, 2006, the Town paid the following amounts to ECR:

Operations	\$ 510,561
Sewer disposal	347,269
Debt service	123,120
Renewal and replacement	225,717
Refunding loan	98,976
Fleet reserve	8,874
	\$ 1,314,517

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, interfund services provided and used are not eliminated in the process of consolidation, because elimination of such charges would distort the direct costs and program revenues reported for the various functions concerned.

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, 2006

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, 2006

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. Agency funds have no measurement focus.

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, 2006

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, 2006

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 for 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, 2006

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 \$816,342 for the fiscal year ended September 30, 2006.

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, 2006

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, 2006, excluding amounts held by Fiduciary Funds, include petty cash of \$4,660 and deposits with financial institutions with a carrying value of \$42,719 and a bank balance of \$90,492. Cash and cash equivalents of the Fiduciary Funds at September 30, 2006, consist of deposits with financial institutions with a carrying value of \$1,329,185 and a bank balance of \$1,730,977 and U.S. Treasury money market mutual funds with a carrying value and bank balance of \$1,707,324.

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 \$1,194,692 and a bank balance of \$1,360,374, 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 \$72,399,637 and investments in the Florida Municipal Investment Trust with a carrying value of \$22,546,946, and an investment in a U.S. Treasury bill with a carrying value (fair value) of \$1,981,690. The equity in pooled cash and investments includes \$18,334 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, 2006

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 1-3 Year High Quality Bond portfolio (\$16,624,375) and the Intermediate High Quality Bond portfolio (\$5,922,571). These bond portfolios are 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.

The Town's investment in a U.S. Treasury Bill is held by a brokerage company and not in the name of the Town. Accordingly, this investment is considered uninsured and uncollateralized.

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, corporate bonds, mutual funds, and investment partnerships within certain limitations established by the Town Code.

The fair value and cost of the Town's Pension Plans investments at September 30, 2006, were as follows:

	<u>Fair Value</u>	<u>Cost</u>
U.S. Government and Agency securities	\$ 4,931,454	\$ 4,988,191
Domestic common stocks	32,460,186	28,151,445
Domestic corporate bonds	15,330,531	15,266,875
Investment partnerships	20,751,565	13,250,000
Mutual funds	<u>95,518,900</u>	<u>89,281,521</u>
Total investments	<u>\$ 168,992,636</u>	<u>\$ 150,938,032</u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

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

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 within 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. In addition to the securities listed below, the pension plans have invested \$4,597,982 in the SSgA Passive Bond Market Fund and \$26,127,205 in the Goldman Sachs Core Plus Bond Fund which have weighted average maturities of 7.11 years and 4.17 years, respectively. The table below summarizes the scheduled maturities of fixed income investments at September 30, 2006.

<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>U.S. Government Security</u>	\$ 1,981,690	\$	\$	\$
<u>Florida Municipal Investment Trust</u>				
1-3 Year High Quality Bond		16,624,375		
Intermediate High Quality Bond		5,922,571		
<u>Pension Fund Investments</u>				
U.S. Government and agency securities		31,261	1,219,297	3,680,896
Corporate bonds	<u>262,182</u>	<u>4,106,274</u>	<u>1,489,826</u>	<u>9,472,249</u>
Total	<u>\$ 2,243,872</u>	<u>\$ 22,684,481</u>	<u>\$ 2,709,123</u>	<u>\$ 13,153,145</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 (BBB) 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, 2006 are summarized below. In addition to the securities listed below, the SSgA Passive Bond Market Fund and the Goldman Sachs Core Plus Bond Fund have credit ratings of AA and AA, respectively. All other securities are not rated.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

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

<u>Investment Type</u>	<u>NRSRO Rating</u>	<u>Fair Value</u>
<u>U.S. Government Security</u>	AAA	\$ 1,981,690
<u>Florida Municipal Investment Trust</u>		
1-3 Year High Quality Bond	AAA	16,624,375
Intermediate High Quality Bond	AAA	<u>5,922,571</u>
		22,546,946
<u>Pension fund investments</u>		
U.S. Government and agency securities	AAA	4,931,454
Corporate bonds	AAA	989,380
Corporate bonds	AA	2,864,437
Corporate bonds	A	7,255,339
Corporate bonds	BBB	3,055,061
Corporate bonds	Not Rated	<u>1,166,314</u>
		<u>20,261,985</u>
Total		<u>\$ 44,790,621</u>

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. The Town purchased a U.S. Treasury Bill with a fair value at September 30, 2006, of \$1,981,690 that was held by the counterparty and, therefore, was subject to custodial credit risk.

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, 2006.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE C - CAPITAL ASSETS

The capital asset activity for the year ended September 30, 2006 was as follows:

<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>16,918,121</u>	<u>18,917,268</u>	<u>(4,883,504)</u>	<u>30,951,885</u>
Total capital assets not being depreciated	24,957,359	18,917,268	(4,883,504)	38,991,123
Capital assets being depreciated				
Buildings	12,693,100	4,807,033	(259,195)	17,240,938
Improvements other than buildings	1,291,730	41,888		1,333,618
Equipment	11,244,294	1,359,293	(212,487)	12,391,100
Infrastructure	<u>47,023,949</u>	<u>34,583</u>		<u>47,058,532</u>
Total capital assets being depreciated	72,253,073	6,242,797	(471,682)	78,024,188
Less accumulated depreciation for				
Buildings	(7,969,885)	(185,573)	87,245	(8,068,213)
Improvements other than buildings	(822,237)	(16,658)		(838,895)
Equipment	(5,499,337)	(1,209,658)	238,501	(6,470,494)
Infrastructure	<u>(18,905,270)</u>	<u>(1,165,783)</u>	<u>32,148</u>	<u>(20,038,905)</u>
Total accumulated depreciation	<u>(33,196,729)</u>	<u>(2,577,672)</u>	<u>357,894</u>	<u>(35,416,507)</u>
Total capital assets, being depreciated, net	<u>39,056,344</u>	<u>3,665,125</u>	<u>(113,788)</u>	<u>42,607,681</u>
Governmental activities capital assets, net	<u>\$ 64,013,703</u>	<u>\$ 22,582,393</u>	<u>\$ (4,997,292)</u>	<u>\$ 81,598,804</u>

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE C - CAPITAL ASSETS (Continued)

<u>Business-type 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	\$ 5,623,777	\$	\$	\$ 5,623,777
Construction in progress	<u>505,090</u>	<u>482,690</u>	<u>(401,595)</u>	<u>586,185</u>
Total capital assets not being depreciated	6,128,867	482,690	(401,595)	6,209,962
Capital assets being depreciated				
Buildings	857,989	295,996	(11,316)	1,142,669
Improvements other than buildings	6,044,235	105,600	(95,638)	6,054,197
Equipment	<u>314,288</u>	<u>50,243</u>	<u></u>	<u>364,531</u>
Total capital assets being depreciated	7,216,512	451,839	(106,954)	7,561,397
Less accumulated depreciation for				
Buildings	(448,995)	(15,979)	4,367	(460,607)
Improvements other than buildings	(1,993,441)	(201,055)	95,638	(2,098,858)
Equipment	<u>(223,162)</u>	<u>(23,615)</u>	<u></u>	<u>(246,777)</u>
Total accumulated depreciation	<u>(2,665,598)</u>	<u>(240,649)</u>	<u>100,005</u>	<u>(2,806,242)</u>
Total capital assets, being depreciated, net	<u>4,550,914</u>	<u>211,190</u>	<u>(6,949)</u>	<u>4,755,155</u>
Business-type activities capital assets, net	<u>\$ 10,679,781</u>	<u>\$ 693,880</u>	<u>\$ (408,544)</u>	<u>\$ 10,965,117</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

General government	\$ 233,727
Public safety	862,470
Physical environment	1,478,097
Culture and recreation	<u>3,378</u>
Total depreciation expense - governmental activities	<u>\$ 2,577,672</u>

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE D - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

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 from the General Fund to the Capital Improvement Fund were used to fund various Town-wide capital projects. Transfers from the General Fund to the nonmajor funds were used to pay debt service and provide funding for equipment replacements. Transfers from the Beach Restoration Project Fund to the nonmajor funds were used to fund debt service. Transfers from the Leisure Services Fund to the General Fund were used to pay for various culture and recreation projects. 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, 2006, are summarized as follows:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor funds	\$ 59,370
	Leisure Services Fund	48,013
	Internal Service Funds	7,256
Nonmajor Funds	General Fund	<u>65,662</u>
		<u>\$ 180,301</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>Total</u>
Transfers Out: Reported in					
General Fund	\$	\$ 3,812,491	\$ 8,911,776	\$ 22,572	\$ 12,746,839
Beach Restoration Project Fund			935,925		935,925
Leisure Services Fund	<u>550,000</u>				<u>550,000</u>
	<u>\$ 550,000</u>	<u>\$ 3,812,491</u>	<u>\$ 9,847,701</u>	<u>\$ 22,572</u>	<u>\$ 14,232,764</u>

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE E - LONG-TERM DEBT

Changes in long-term debt for the year ended September 30, 2006, 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	\$ 3,316,641	\$ 708,953	\$ 310,259	\$ 3,715,335	\$ 25,000
Capital lease obligations	263,838		84,637	179,201	87,904
Revenue bonds payable	<u>23,990,000</u>		<u>3,480,000</u>	<u>20,510,000</u>	<u>3,585,000</u>
Total long-term debt	<u>\$ 27,570,479</u>	<u>\$ 708,953</u>	<u>\$ 3,874,896</u>	24,404,536	<u>\$ 3,697,904</u>
Unamortized premiums				269,261	
Unamortized loss on refunding				(768,529)	
Current maturities				<u>(3,697,904)</u>	
Net long-term debt				<u>\$ 20,207,364</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>\$ 180,834</u>	<u>\$ 94,207</u>	<u>\$ 76,849</u>	<u>\$ 198,192</u>	<u>\$ 18,621</u>

The compensated absences liability of the governmental activities is liquidated 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 \$230,435.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2006, are as follows:

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE E - LONG-TERM DEBT (Continued)

<u>Year Ending September 30,</u>	<u>Amount</u>
2007	\$ 94,821
2008	<u>94,822</u>
Total minimum lease payments	189,643
Less amount representing interest	<u>(10,442)</u>
Present value of minimum lease payments	<u>\$ 179,201</u>

**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:

<u>Year Ending September 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>3,885,000</u>	<u>67,069</u>	<u>3,952,069</u>
		<u>\$ 14,685,000</u>	<u>\$ 1,128,988</u>	<u>\$ 15,813,988</u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE E - LONG-TERM DEBT (Continued)

**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:

<u>Year Ending September 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>370,000</u>	<u>9,250</u>	<u>379,250</u>
		<u>\$ 5,825,000</u>	<u>\$ 4,418,218</u>	<u>\$ 10,243,218</u>

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE E - LONG-TERM DEBT (Continued)

Annual Requirements

The annual debt service requirements to maturity, including interest of \$5,557,648 (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>
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		380,578	380,578
2012-2016		1,898,822	1,898,822
2017-2021		1,896,854	1,896,854
2022-2026		1,890,273	1,890,273
2027-2031		1,901,694	1,901,694
2032-2033		<u>756,500</u>	<u>756,500</u>
	<u>\$ 189,643</u>	<u>\$ 26,057,206</u>	<u>\$ 26,246,849</u>

Interest Expense: Total interest costs incurred and paid on all Town debt for the year ended September 30, 2006, totaled \$1,030,985 and \$864,847, 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, 2006 outstanding Series 2000, Revenue Bonds in the amount of \$14,465,000 are considered defeased.

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, 2006, as follows:

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE F - FUND BALANCES (Continued)

	<u>Major Governmental Funds</u>			
	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Beach Restoration Project Fund</u>	<u>Other Governmental Funds</u>
<b>Reserved Fund Balances</b>				
Reserved for inventory	\$ 496,439	\$	\$	\$
Reserved for prepaid items	15,552			
Reserved for specific purposes	75,678			590,499
Reserved for encumbrances	791,473	2,159,783	1,166,077	615,799
Reserved for debt service				37,439
Total Reserved Fund Balances	<u>1,379,142</u>	<u>2,159,783</u>	<u>1,166,077</u>	<u>1,243,737</u>
<b>Designated Fund Balances</b>				
Designated for subsequent year's budget	800,000			
Designated for specific purposes				
East Central Regional Wastewater Treatment Facility	1,251,888			
Capital projects		10,067,466		3,613,754
Equipment				10,446,169
Beach restoration projects			10,451,730	
Compensated absences	<u>2,972,258</u>			
Total Designated for specific purposes	<u>4,224,146</u>	<u>10,067,466</u>	<u>10,451,730</u>	<u>14,059,923</u>
Total Designated Fund Balances	5,024,146	10,067,466	10,451,730	14,059,923
<b>Undesignated Fund Balances</b>	<u>17,985,964</u>			
Total Fund Balances	<u>\$ 24,389,252</u>	<u>\$ 12,227,249</u>	<u>\$ 11,617,807</u>	<u>\$ 15,303,660</u>

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.

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.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE G - RETIREMENT PLANS (Continued)

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, 2006, as a percentage of the employees' annual compensation, were as follows:

	<u>Member Contribution</u>	<u>Town and State Contribution</u>
General employees	6.47%	17.66%
Lifeguard employees	7.21%	23.61%
Police employees	6.98%	35.36%
Fire-Rescue employees	6.82%	39.34%

Annual Pension Cost and Net Pension Obligation: The annual pension cost, net pension obligation and required contribution for September 30, 2006, were determined as part of the actuarial valuation of the System as of September 30, 2004, 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, 2006, were as follows:

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE G - RETIREMENT PLANS (Continued)

	<u>General Employees</u>	<u>Police Officers'</u>	<u>Firefighters'</u>
Annual required contribution	\$ 2,845,570	\$ 2,010,076	\$ 1,941,569
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	2,845,570	2,010,076	1,941,569
Contributions made	<u>(2,845,570)</u>	<u>(2,010,076)</u>	<u>(1,941,569)</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, 2005	September 30, 2005	September 30, 2005
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	6-30 years	6-30 years	6-30 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 at 5.5%)	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, 2006

NOTE G - RETIREMENT PLANS (Continued)

<p>Cost-of-living adjustments</p>	<p>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 an initial 3-year deferral period. Other adjustments have been made periodically.</p>	<p>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 an initial 3-year deferral period. Other adjustments have been made periodically.</p>	<p>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 an initial 3-year deferral period. Other adjustments have been made periodically.</p>
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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 30<sup>th</sup> 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 2004 and the information for the separate Police Officers' and Firefighters' plans are shown for 2005 and 2006.

**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>			
2004	\$ 1,522,597	100%	\$ 0
2005	2,716,378	100%	0
2006	2,845,570	100%	0
<u>Public Safety</u>			
2004	\$ 2,677,634	100%	\$ 0
<u>Police Officers'</u>			
2005	\$ 1,340,431	100%	\$ 0
2006	2,010,076	100%	0
<u>Firefighters'</u>			
2005	\$ 1,529,328	100%	\$ 0
2006	1,941,569	100%	0

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

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>						
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
2005	59,589	68,808	9,219	86.6%	11,842	77.9
<u>Public Safety</u>						
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%
2005	48,656	56,996	8,340	85.4%	5,348	155.9%
<u>Firefighters'</u>						
2004	\$ 44,080	\$ 51,703	\$ 7,623	85.3%	\$ 4,444	171.5%
2005	45,765	59,314	13,549	77.2%	5,237	258.7%

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. The Town changed from a first dollar insurance policy to self-insured for its workers' compensation coverage effective October 1, 2005. This increased the Town's retention level from \$100,000 per claim to \$200,000 per claim.

A claims liability of approximately \$2,429,000 is included in accrued liabilities of the Internal Service Funds at September 30, 2006. 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, 2006, were determined using actuarial

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE H - INSURANCE PROGRAM (Continued)

valuations performed by Gallagher Benefit Services, Inc. for group health and AMI Risk Consultants, Inc. for general liability, workers' compensation, and property. The insurance coverages and accrued claims liability of the Internal Service Funds at September 30, 2006, are summarized as follows:

	<u>Accrued Claims Liability</u>
<b>Group Accident and Health:</b> 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, 2006, these benefits covered 399 active employees, 135 retirees and 577 dependents. Net costs for the year ended September 30, 2006 were approximately \$4,874,000. 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 \$4.8 million maximum plan costs for 2006). 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 53% 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.	
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, 2006 was approximately \$732,000. The Town received participant contributions of approximately \$610,000.	\$ 751,000

**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, \$200,000 aggregate for General and Automobile Liability. Public Official Liability and Property and \$200,000 per claim for Workers' Compensation. An aggregate retention (Loss Fund) of \$800,000 applies to each fiscal year, with a \$5,000 maintenance deductible.

Excess liability coverage of \$5,000,000 per occurrence, \$10,000,000 aggregate is maintained with commercial carriers for General Liability and Automobile. Public Official Liability coverage of \$5,000,000 per occurrence and \$5,000,000 in the aggregate is also maintained. Excess Workers' Compensation coverage is maintained with commercial carriers at statutory limits and excess Property coverage is maintained with commercial carriers at \$31,386,790 per occurrence.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

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:

	Year Ended September 30, <u>2006</u>	Year Ended September 30, <u>2005</u>
Accrued claims liability at beginning of fiscal year	\$ 2,429,000	\$ 4,329,000
Current year claims and changes in estimates	3,608,000	4,072,000
Claim payments	<u>(3,608,000)</u>	<u>(5,972,000)</u>
Accrued claims liability at end of fiscal year	<u>\$ 2,429,000</u>	<u>\$ 2,429,000</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, 2006, the remaining commitments on these uncompleted contracts was \$571,935. The uncompleted contracts at September 30, 2006, are summarized as follows:

	<u>Contract Amounts</u>	<u>Approved Payments</u>	<u>Retainage Payable</u>	<u>Remaining Contract Commitments</u>
Capital Improvement Fund	\$ 580,131	\$ 167,291	\$ 6,050	\$ 406,790
Nonmajor Governmental Funds - Town Facilities Fund	87,036			87,036
Leisure Services Fund	<u>78,109</u>			<u>78,109</u>
Total	<u>\$ 745,276</u>	<u>\$ 167,291</u>	<u>\$ 6,050</u>	<u>\$ 571,935</u>

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE J - SUBSEQUENT EVENT

On October 10, 2006, the Town Council adopted Ordinance No. 9-06, establishing the "Other Post Employment Benefit Trust". The Trust was established to fund other post employment benefits for participating retirees and their beneficiaries. In order to fund this Trust the Council authorized the transfer of approximately \$16 million from the Group Health Insurance Fund into this Trust.

**REQUIRED SUPPLEMENTARY INFORMATION**

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenue</b>				
Taxes				
Ad Valorem	\$ 38,113,459	\$ 38,113,459	\$ 39,008,774	\$ 895,315
Local Option Gas Tax	220,000	220,000	360,210	140,210
Franchise Fees	2,125,000	2,125,000	2,433,811	308,811
Utility Service	4,073,000	4,073,000	4,167,844	94,844
	<u>44,531,459</u>	<u>44,531,459</u>	<u>45,970,639</u>	<u>1,439,180</u>
Licenses and Permits				
Occupational Licenses	695,000	695,000	721,659	26,659
Building Permits	4,352,650	4,352,650	5,628,019	1,275,369
Other License Fees and Permits	126,150	126,150	124,153	(1,997)
	<u>5,173,800</u>	<u>5,173,800</u>	<u>6,473,831</u>	<u>1,300,031</u>
Intergovernmental				
State Shared Revenue	1,030,600	1,030,600	1,132,308	101,708
Shared Revenue-local	205,200	205,200	204,636	(564)
	<u>1,235,800</u>	<u>1,235,800</u>	<u>1,336,944</u>	<u>101,144</u>
Charges for Services				
General Government	43,650	43,650	46,062	2,412
Public Safety	949,855	949,855	1,039,086	89,231
Physical Environment	1,012,508	1,012,508	991,712	(20,796)
Transportation	401,500	401,500	410,584	9,084
	<u>2,407,513</u>	<u>2,407,513</u>	<u>2,487,444</u>	<u>79,931</u>
Fines and Forfeitures	899,500	899,500	770,067	(129,433)
Investment Earnings	1,187,103	1,187,103	1,902,793	715,690
Grant Revenue	326,000	3,083,800	2,885,201	(198,599)
Miscellaneous				
Rents and Royalties	74,400	74,400	39,634	(34,766)
Other Miscellaneous	88,500	88,500	186,998	98,498
	<u>162,900</u>	<u>162,900</u>	<u>226,632</u>	<u>63,732</u>
<b>Total Revenue</b>	<b>55,924,075</b>	<b>58,681,875</b>	<b>62,053,551</b>	<b>3,371,676</b>

See notes to budgetary comparison schedule.

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (CONTINUED)

Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
General Government				
Town Manager	\$ 1,948,857	\$ 2,191,843	\$ 2,051,319	\$ 140,524
Human Resources	735,252	743,366	675,573	67,793
Information Systems	1,711,659	1,857,620	1,619,349	238,271
Town Clerk	289,630	294,984	280,234	14,750
Finance	1,454,219	1,479,902	1,446,072	33,830
Planning, Zoning and Building	656,952	800,595	742,655	57,940
Permit Issuance	1,013,290	1,049,203	1,036,058	13,145
Contingency	835,000	144,780		144,780
Employee Benefits	925,691	925,691	919,137	6,554
	<u>9,570,550</u>	<u>9,487,984</u>	<u>8,770,397</u>	<u>717,587</u>
Public Safety				
Inspection and Compliance	911,450	1,026,920	1,019,276	7,644
Fire-Rescue	10,362,493	10,542,262	10,186,124	356,138
Police	14,944,560	15,340,886	15,034,462	306,424
Emergency/Disaster Response	92,192	406,931	182,328	224,603
	<u>26,310,695</u>	<u>27,316,999</u>	<u>26,422,190</u>	<u>894,809</u>
Physical Environment				
Administration	787,074	799,310	792,820	6,490
Sewer and Sanitation	6,827,719	9,421,475	8,837,440	584,035
Public Works	2,476,231	2,762,371	2,576,391	185,980
	<u>10,091,024</u>	<u>12,983,156</u>	<u>12,206,651</u>	<u>776,505</u>
Transportation				
Streets and Repairs	509,013	593,224	558,040	35,184
Traffic Control	511,883	702,576	697,079	5,497
	<u>1,020,896</u>	<u>1,295,800</u>	<u>1,255,119</u>	<u>40,681</u>
Culture and Recreation				
Recreation	140,379	140,520	127,444	13,076
Library	235,000	235,000	235,000	0
Parks and Beaches	1,411,870	1,822,239	1,730,837	91,402
	<u>1,787,249</u>	<u>2,197,759</u>	<u>2,093,281</u>	<u>104,478</u>

See notes to budgetary comparison schedule.

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (CONTINUED)

Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Non-departmental	\$ 2,390,000	\$ 2,390,000	\$ 2,390,000	\$ 0
Debt Service				
Principal	84,637	84,637	84,637	0
Interest and Fiscal Charges	10,363	10,363	10,362	1
	<u>95,000</u>	<u>95,000</u>	<u>94,999</u>	<u>1</u>
<b>Total Expenditures</b>	51,265,414	55,766,698	53,232,637	2,534,061
<b>Other financing sources (uses)</b>				
Transfers in	1,620,000	550,000	550,000	0
Transfers out	(6,278,661)	(11,442,646)	(11,442,646)	0
	<u>(4,658,661)</u>	<u>(10,892,646)</u>	<u>(10,892,646)</u>	<u>0</u>
Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 0</u>	<u>\$ (7,977,469)</u>	(2,071,732)	<u>\$ 5,905,737</u>
Fund balance at October 1, 2005			25,974,588	
Net difference between GAAP and Non-GAAP budgetary basis			<u>486,396</u>	
Fund balance at September 30, 2006			<u>\$ 24,389,252</u>	

See notes to budgetary comparison schedule.

TOWN OF PALM BEACH, FLORIDA

NOTES TO BUDGETARY COMPARISON SCHEDULE

September 30, 2006

NOTE A - BUDGETARY ACCOUNTING

Budgets: Budgets are legally required to be adopted for the General Fund, the Series 2003 Debt Service Fund, and the 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, 2006

NOTE B - BUDGET AND ACTUAL COMPARISONS (Continued)

Current year encumbrances outstanding at year end	\$ 791,473
Prior year encumbrances paid in the current year	(305,077)
State on-behalf payments for Police and Fire-Rescue pension contributions not included in budgetary basis	
GAAP basis revenue	816,342
GAAP basis expenditure	<u>(816,342)</u>
NET DIFFERENCE BETWEEN GAAP AND BUDGETARY BASIS	486,396
Revenue and other sources over (under) expenditures and other uses BUDGETARY BASIS	<u>(2,071,732)</u>
Revenue and other sources over (under) expenditures and other uses GAAP BASIS	<u><u>\$ (1,585,336)</u></u>

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

**MAJOR CAPITAL PROJECTS FUNDS  
BUDGETARY COMPARISON SCHEDULES**

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - CAPITAL IMPROVEMENT FUND

Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE</b>				
Investment earnings	\$ 300,000	\$ 300,000	\$ 566,245	\$ 266,245
Grant revenue			631,706	631,706
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total revenue	<u>\$ 300,000</u>	<u>\$ 300,000</u>	<u>\$ 1,197,951</u>	<u>\$ 897,951</u>
<b>EXPENDITURES</b>				
Current				
Physical environment	\$	\$ 2,589,161	\$ 997,059	\$ 1,592,102
Capital outlay	2,900,000	14,122,749	6,424,246	7,698,503
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total expenditures - budgetary basis	<u>\$ 2,900,000</u>	<u>\$ 16,711,910</u>	7,421,305	<u>\$ 9,290,605</u>
Current year encumbrances outstanding at year end			(2,159,783)	
			<u>                    </u>	
GAAP basis expenditures			<u>\$ 5,261,522</u>	
<b>OTHER FINANCING SOURCE (USE)</b>				
Transfer in	\$ 2,876,601	\$ 3,812,491	\$ 3,812,491	\$ 0
Transfer out		(20,000)		20,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total other financing source (use)	<u>\$ 2,876,601</u>	<u>\$ 3,792,491</u>	<u>\$ 3,812,491</u>	<u>\$ 20,000</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - BEACH RESTORATION PROJECT FUND

Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE</b>				
Investment earnings	\$ 290,000	\$ 540,000	\$ 716,051	\$ 176,051
Grant revenue	<u>11,661,502</u>	<u>13,471,862</u>	<u>9,158,021</u>	<u>(4,313,841)</u>
Total revenue	<u>\$ 11,951,502</u>	<u>\$ 14,011,862</u>	<u>\$ 9,874,072</u>	<u>\$ (4,137,790)</u>
<b>EXPENDITURES</b>				
Current				
Physical environment	\$ 10,000	\$ 7,907,959	\$ 5,831,714	\$ 2,076,245
Capital outlay	<u>15,907,551</u>	<u>14,827,917</u>	<u>15,635,351</u>	<u>(807,434)</u>
Total expenditures - budgetary basis	<u>\$ 15,917,551</u>	<u>\$ 22,735,876</u>	21,467,065	<u>\$ 1,268,811</u>
Current year encumbrances outstanding at year end			<u>(1,166,077)</u>	
GAAP basis expenditures			<u>\$ 20,300,988</u>	
<b>OTHER FINANCING USE</b>				
Transfer out	<u>\$ (935,925)</u>	<u>\$ (935,925)</u>	<u>\$ (935,925)</u>	<u>\$ 0</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, 2006

	Special Revenue		
	State Forfeiture Fund	Federal Forfeiture Fund	Donation Fund
<b>ASSETS</b>			
Equity in pooled cash and investments	\$ 173,494	\$ 23,312	\$ 449,949
Accounts receivable			17,000
Due from other funds			
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 173,494</u>	<u>\$ 23,312</u>	<u>\$ 466,949</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$	\$	\$ 32,632
Due to other funds			25,326
	<hr/>	<hr/>	<hr/>
	0	0	57,958
<b>FUND BALANCES</b>			
Reserved:			
Reserved for specific purposes	173,494	23,312	393,693
Reserved for encumbrances			15,298
Reserved for debt service			
Unreserved:			
Designated for specific purposes			
Total fund balances	<hr/>	<hr/>	<hr/>
	173,494	23,312	408,991
Total liabilities and fund balances	<u>\$ 173,494</u>	<u>\$ 23,312</u>	<u>\$ 466,949</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	
\$ 20,500	\$ 6,400	\$ 10,539	\$ 10,943,368 4,930	\$ 3,870,434 65,662	\$ 15,497,996 21,930 65,662
<u>\$ 20,500</u>	<u>\$ 6,400</u>	<u>\$ 10,539</u>	<u>\$ 10,948,298</u>	<u>\$ 3,936,096</u>	<u>\$ 15,585,588</u>
\$	\$	\$	\$ 148,383 34,044	\$ 41,543	\$ 222,558 59,370
<u>0</u>	<u>0</u>	<u>0</u>	<u>182,427</u>	<u>41,543</u>	<u>281,928</u>
20,500	6,400	10,539	319,702	280,799	590,499 615,799 37,439
<u>20,500</u>	<u>6,400</u>	<u>10,539</u>	<u>10,446,169</u> <u>10,765,871</u>	<u>3,613,754</u> <u>3,894,553</u>	<u>14,059,923</u> <u>15,303,660</u>
<u>\$ 20,500</u>	<u>\$ 6,400</u>	<u>\$ 10,539</u>	<u>\$ 10,948,298</u>	<u>\$ 3,936,096</u>	<u>\$ 15,585,588</u>

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2006

	Special Revenue		
	State Forfeiture Fund	Federal Forfeiture Fund	Donation Fund
<b>Revenue</b>			
Fines and forfeitures			
Seizure deposits	\$ 104,284	\$	\$
Investment earnings	4,282	1,057	7,790
Contributions			266,289
Miscellaneous			
	<u>108,566</u>	<u>1,057</u>	<u>274,079</u>
 <b>Expenditures</b>			
Current			
General government			72,707
Public safety	13,640		204,398
Physical environment			62,582
Capital outlay	3,699		
Debt service			
Principal retirement			
Interest and fiscal charges			
	<u>17,339</u>	<u>0</u>	<u>339,687</u>
Revenue over (under) expenditures	91,227	1,057	(65,608)
 <b>Other financing sources</b>			
Transfers in			
Revenue and other sources over (under) expenditures	91,227	1,057	(65,608)
Fund balances at October 1, 2005	<u>82,267</u>	<u>22,255</u>	<u>474,599</u>
Fund balances at September 30, 2006	<u>\$ 173,494</u>	<u>\$ 23,312</u>	<u>\$ 408,991</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	
					104,284
923	265	1,140	277,438	185,664	478,559
			2,428		266,289
<u>923</u>	<u>265</u>	<u>1,140</u>	<u>279,866</u>	<u>185,664</u>	<u>851,560</u>
			6,370		79,077
					218,038
			801,371	183,531	62,582
		3,480,000			988,601
		854,485			3,480,000
<u>0</u>	<u>0</u>	<u>4,334,485</u>	<u>807,741</u>	<u>183,531</u>	<u>854,485</u>
923	265	(4,333,345)	(527,875)	2,133	5,682,783
		4,337,985	5,509,716		9,847,701
923	265	4,640	4,981,841	2,133	5,016,478
19,577	6,135	5,899	5,784,030	3,892,420	10,287,182
<u>\$ 20,500</u>	<u>\$ 6,400</u>	<u>\$ 10,539</u>	<u>\$ 10,765,871</u>	<u>\$ 3,894,553</u>	<u>\$ 15,303,660</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - SERIES 2003 DEBT SERVICE FUND

Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE</b>				
Investment earnings	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 1,140</u>	<u>\$ (360)</u>
<b>EXPENDITURES</b>				
Debt service				
Principal retirement	\$ 3,480,000	\$ 3,480,000	\$ 3,480,000	\$ 0
Interest and fiscal charges	<u>855,985</u>	<u>855,985</u>	<u>854,485</u>	<u>1,500</u>
Total expenditures	<u>\$ 4,335,985</u>	<u>\$ 4,335,985</u>	<u>\$ 4,334,485</u>	<u>\$ 1,500</u>
<b>OTHER FINANCING SOURCE</b>				
Transfer in	<u>\$ 4,337,985</u>	<u>\$ 4,337,985</u>	<u>\$ 4,337,985</u>	<u>\$ 0</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - EQUIPMENT REPLACEMENT FUND

Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE</b>				
Investment earnings	\$ 90,000	\$ 90,000	\$ 277,438	\$ 187,438
Miscellaneous	40,000	40,000	2,428	(37,572)
Total revenue	<u>\$ 130,000</u>	<u>\$ 130,000</u>	<u>\$ 279,866</u>	<u>\$ 149,866</u>
<b>EXPENDITURES</b>				
Current				
General government	\$ 0	\$ 6,370	\$ 6,370	\$ 0
Capital outlay	1,156,579	1,150,209	1,121,073	29,136
Total expenditures - budgetary basis	<u>\$ 1,156,579</u>	<u>\$ 1,156,579</u>	1,127,443	<u>\$ 29,136</u>
Current year encumbrances outstanding at year end			<u>(319,702)</u>	
GAAP basis expenditures			<u>\$ 807,741</u>	
<b>OTHER FINANCING SOURCES</b>				
Transfer in	<u>\$ 1,309,002</u>	<u>\$ 5,514,525</u>	<u>\$ 5,509,716</u>	<u>\$ (4,809)</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - TOWN FACILITIES FUND

Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE</b>				
Investment earnings	\$ 130,000	\$ 130,000	\$ 185,664	\$ 55,664
Grant revenue	350,000	350,000	0	(350,000)
	<u>\$ 480,000</u>	<u>\$ 480,000</u>	<u>\$ 185,664</u>	<u>\$ (294,336)</u>
<b>EXPENDITURES</b>				
Capital outlay				
Town Hall renovations	\$ 0	\$ 3,377,805	\$ 389,914	\$ 2,987,891
Fire-Rescue stations	0	567,838	55,019	512,819
Police roof	0	38,238	19,397	18,841
Recreation center roof	0	72,750	0	72,750
	<u>0</u>	<u>4,056,631</u>	<u>464,330</u>	<u>3,592,301</u>
Total expenditures - budgetary basis	<u>\$ 0</u>	<u>\$ 4,056,631</u>	464,330	<u>\$ 3,592,301</u>
Current year encumbrances outstanding at year end			<u>(280,799)</u>	
GAAP basis expenditures			<u>\$ 183,531</u>	
<b>OTHER FINANCING SOURCE</b>				
Transfer in	<u>\$ 0</u>	<u>\$ 4,056,631</u>	<u>\$ 0</u>	<u>\$ (4,056,631)</u>

### *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, 2006

	Property, Liability and Workers Compensation Insurance Fund	Group Health Insurance Fund	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 10,000	\$ 31,719	\$ 41,719
Equity in pooled cash and investments	8,541,849	19,127,462	27,669,311
Prepaid expenses	100		100
Total current assets	<u>8,551,949</u>	<u>19,159,181</u>	<u>27,711,130</u>
Noncurrent assets			
Capital assets			
Equipment	17,365	8,269	25,634
Accumulated depreciation	<u>(3,605)</u>	<u>(6,404)</u>	<u>(10,009)</u>
Total capital assets, net of accumulated depreciation	<u>13,760</u>	<u>1,865</u>	<u>15,625</u>
Total assets	8,565,709	19,161,046	27,726,755
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	33,097	32,451	65,548
Accrued liabilities	1,680,397	752,376	2,432,773
Due to other funds	292	6,964	7,256
Total current liabilities	<u>1,713,786</u>	<u>791,791</u>	<u>2,505,577</u>
Noncurrent liability			
Compensated absences payable	11,733	73	11,806
<b>NET ASSETS</b>			
Invested in capital assets	13,760	1,865	15,625
Unrestricted	<u>6,826,430</u>	<u>18,367,317</u>	<u>25,193,747</u>
Total net assets	<u>\$ 6,840,190</u>	<u>\$ 18,369,182</u>	<u>\$ 25,209,372</u>

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2006

	Property, Liability and Workers Compensation Insurance Fund	Group Health Insurance Fund	Total
<b>Operating revenue</b>			
Charges for services	\$ 2,396,020	\$ 5,501,027	\$ 7,897,047
Other	7,486		7,486
	<u>2,403,506</u>	<u>5,501,027</u>	<u>7,904,533</u>
<b>Operating expenses</b>			
Personal services	154,891	117,437	272,328
Contractual services	12,576	17,864	30,440
Insurance and claims	1,831,028	4,735,297	6,566,325
Hurricane expenses	31,453		31,453
Depreciation	955	604	1,559
Other	13,044	3,600	16,644
	<u>2,043,947</u>	<u>4,874,802</u>	<u>6,918,749</u>
Operating Income	359,559	626,225	985,784
<b>Nonoperating revenue</b>			
Investment earnings	349,324	696,521	1,045,845
Insurance recoveries	173,626		173,626
	<u>522,950</u>	<u>696,521</u>	<u>1,219,471</u>
Change in Net Assets	882,509	1,322,746	2,205,255
Net assets at October 1, 2005	<u>5,957,681</u>	<u>17,046,436</u>	<u>23,004,117</u>
Net assets at September 30, 2006	<u>\$ 6,840,190</u>	<u>\$ 18,369,182</u>	<u>\$ 25,209,372</u>

TOWN OF PALM BEACH, FLORIDA

COMBINING STATEMENT OF CASH FLOWS -  
INTERNAL SERVICE FUNDS

Year Ended September 30, 2006

	Property, Liability and Workers Compensation Insurance Fund	Group Health Insurance Fund	Total
<b>OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 2,396,020	\$ 5,501,027	\$ 7,897,047
Payments to employees	(152,943)	(118,883)	(271,826)
Payments to suppliers	(1,974,736)	(4,830,352)	(6,805,088)
Other receipts	7,486		7,486
Net cash provided by operating activities	275,827	551,792	827,619
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of property and equipment	(6,274)		(6,274)
Insurance recoveries	173,626		173,626
Net cash provided by capital and related financing activities	167,352	0	167,352
<b>INVESTING ACTIVITY</b>			
Investment earnings received	349,324	696,521	1,045,845
Net cash provided by investing activity	349,324	696,521	1,045,845
Net increase in cash and cash equivalents	792,503	1,248,313	2,040,816
Cash and cash equivalents at October 1, 2005	7,759,346	17,910,868	25,670,214
Cash and cash equivalents at September 30, 2006	<u>\$ 8,551,849</u>	<u>\$ 19,159,181</u>	<u>\$ 27,711,030</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 359,559	\$ 626,225	\$ 985,784
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	955	604	1,559
Changes in operating assets and liabilities:			
Increase in prepaid expenses	(100)		(100)
Decrease in accounts payable	(86,827)	(48,742)	(135,569)
Increase (decrease) in accrued liabilities	76	(32,468)	(32,392)
Increase in due to other funds	292	6,964	7,256
Increase (decrease) in compensated absences payable	1,872	(791)	1,081
Net cash provided by (used in) operating activities	<u>\$ 275,827</u>	<u>\$ 551,792</u>	<u>\$ 827,619</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, 2006

	General Employees Pension Trust Fund	Police Officers' Retirement Trust Fund	Firefighters' Retirement Trust Fund	Total
<b>ASSETS</b>				
Cash and short-term investments	\$ 546,900	\$ 1,476,114	\$ 1,013,495	\$ 3,036,509
Accrued interest and dividends receivable	4,593	90,287	81,636	176,516
Due from State of Florida		226,181	377,368	603,549
Due from other pension funds	8,620		101,949	110,569
Other receivable			52,743	52,743
Investments, at fair value				
U.S. Government and Agency securities		2,485,075	2,446,379	4,931,454
Domestic common stocks	9,187,997	13,650,537	9,621,652	32,460,186
Domestic corporate bonds		7,942,877	7,387,654	15,330,531
Investment partnerships		10,578,973	10,172,592	20,751,565
Mutual funds	57,246,516	18,225,281	20,047,103	95,518,900
Total investments	<u>66,434,513</u>	<u>52,882,743</u>	<u>49,675,380</u>	<u>168,992,636</u>
Total assets	66,994,626	54,675,325	51,302,571	172,972,522
<b>LIABILITIES</b>				
Accounts payable	110,074	62,622	45,661	218,357
Share account distribution payable			19,177	19,177
Due to other pension funds		110,569		110,569
DROP plan liability	313,015		266,285	579,300
Total liabilities	<u>423,089</u>	<u>173,191</u>	<u>331,123</u>	<u>927,403</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>				
	<u>\$ 66,571,537</u>	<u>\$ 54,502,134</u>	<u>\$ 50,971,448</u>	<u>\$ 172,045,119</u>

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2006

	General Employees Pension Trust Fund	Police Officers' Retirement Trust Fund	Firefighters' Retirement Trust Fund	Total
<b>ADDITIONS</b>				
Contributions				
Employer	\$ 2,008,105	\$ 1,783,895	\$ 1,351,408	\$ 5,143,408
Employee	837,465	540,736	503,414	1,881,615
State		226,181	590,161	816,342
Total contributions	<u>2,845,570</u>	<u>2,550,812</u>	<u>2,444,983</u>	<u>7,841,365</u>
Investment income				
Net appreciation in fair value of investments	3,754,125	3,438,990	3,384,141	10,577,256
Interest income	317,699	461,544	529,256	1,308,499
Dividend income	327,170	542,790	542,654	1,412,614
	<u>4,398,994</u>	<u>4,443,324</u>	<u>4,456,051</u>	<u>13,298,369</u>
Less investment expense	249,447	242,661	229,427	721,535
Net investment income	<u>4,149,547</u>	<u>4,200,663</u>	<u>4,226,624</u>	<u>12,576,834</u>
Total additions	6,995,117	6,751,475	6,671,607	20,418,199
<b>DEDUCTIONS</b>				
Benefit payments	2,637,764	2,323,769	2,674,496	7,636,029
Share account distributions			246,225	246,225
Refunds	77,028	233,724	2,000	312,752
Administrative expense	105,485	116,741	110,973	333,199
Total deductions	<u>2,820,277</u>	<u>2,674,234</u>	<u>3,033,694</u>	<u>8,528,205</u>
Net increase	4,174,840	4,077,241	3,637,913	11,889,994
Net assets held in trust for pension benefits at October 1, 2005	<u>62,396,697</u>	<u>50,424,893</u>	<u>47,333,535</u>	<u>160,155,125</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT SEPTEMBER 30, 2006	<u>\$ 66,571,537</u>	<u>\$ 54,502,134</u>	<u>\$ 50,971,448</u>	<u>\$ 172,045,119</u>

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -  
AGENCY FUND

Year Ended September 30, 2006

	Balance October 1, 2005	Additions	Deductions	Balance September 30, 2006
<b>KREUSLER PARK FUND</b>				
<b>ASSETS</b>				
Equity in pooled cash and investments	\$ 16,498	\$ 245,248	\$ 243,412	\$ 18,334
Total assets	<u>\$ 16,498</u>	<u>\$ 245,248</u>	<u>\$ 243,412</u>	<u>\$ 18,334</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 16,498	\$ 411,584	\$ 409,748	\$ 18,334
Total liabilities	<u>\$ 16,498</u>	<u>\$ 411,584</u>	<u>\$ 409,748</u>	<u>\$ 18,334</u>

## **STATISTICAL SECTION**

# STATISTICAL SECTION

This part of the Town of Palm Beach's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town of Palm Beach's overall financial health.

<b>Contents</b>	<b>Page</b>
Financial Trends.....	77
<i>These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.</i>	
Revenue Capacity .....	84
<i>These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.</i>	
Debt Capacity .....	93
<i>These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.</i>	
Demographic and Economic Information .....	99
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place and to help make comparisons over time and with other governments.</i>	
Operating Information .....	101
<i>These schedules contain information about the Town's operations and resources to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The Town implemented GASB Statement 34 in fiscal year 2003; schedules presenting government-wide information include information beginning in that year.

# Town of Palm Beach, Florida

Net Assets by Component

Last Four Fiscal Years

Accrual Basis of Accounting

	Fiscal Year			
	2003	2004	2005	2006
<b>Governmental activities</b>				
Invested in capital assets, net of related debt	\$ 51,595,063	\$ 50,906,153	\$ 52,423,983	\$ 70,412,738
Restricted	0	250,907	199,674	234,245
Unrestricted	75,213,296	80,397,271	86,813,836	83,756,838
<b>Total governmental activities net assets</b>	<u>\$ 126,808,359</u>	<u>\$ 131,554,331</u>	<u>\$ 139,437,493</u>	<u>\$ 154,403,821</u>
<b>Business-type activities</b>				
Invested in capital assets, net of related debt	\$ 8,946,928	\$ 10,515,063	\$ 10,679,781	\$ 10,965,117
Unrestricted	2,781,185	3,129,161	4,091,466	4,117,835
<b>Total business-type activities net assets</b>	<u>\$ 11,728,113</u>	<u>\$ 13,644,224</u>	<u>\$ 14,771,247</u>	<u>\$ 15,082,952</u>
<b>Primary government</b>				
Invested in capital assets, net of related debt	\$ 60,541,991	\$ 61,421,216	\$ 63,103,764	\$ 81,377,855
Restricted	0	250,907	199,674	234,245
Unrestricted	77,994,481	83,526,432	90,905,302	87,874,673
<b>Total primary government net assets</b>	<u>\$ 138,536,472</u>	<u>\$ 145,198,555</u>	<u>\$ 154,208,740</u>	<u>\$ 169,486,773</u>

Information prior to fiscal year 2003 is not available.

# Town of Palm Beach, Florida

Changes in Net Assets

Last Four Fiscal Years

Accrual Basis of Accounting

	Fiscal Year			
	2003	2004	2005	2006
<b>Expenses</b>				
Governmental activities:				
General government	\$ 8,402,847	\$ 12,881,165	\$ 10,541,925	\$ 10,770,654
Public safety	19,803,167	22,872,573	27,865,411	27,115,822
Physical environment	9,307,102	11,851,242	12,267,718	19,746,156
Transportation	582,376	773,122	1,042,556	1,179,979
Culture and recreation	2,489,073	1,561,430	1,677,604	1,919,405
Interest on long-term debt	1,277,118	1,590,795	1,138,344	1,030,985
<b>Total governmental activities expenses</b>	<u>41,861,683</u>	<u>51,530,327</u>	<u>54,533,558</u>	<u>61,763,001</u>
Business-type activities:				
Leisure services	1,528,543	2,935,651	3,099,168	3,474,250
<b>Total business-type activities expenses</b>	<u>1,528,543</u>	<u>2,935,651</u>	<u>3,099,168</u>	<u>3,474,250</u>
<b>Total primary government expenses</b>	<u>\$ 43,390,226</u>	<u>\$ 54,465,978</u>	<u>\$ 57,632,726</u>	<u>\$ 65,237,251</u>
<b>Program Revenues</b>				
Governmental activities:				
Charges for services:				
General government	\$ 5,859,442	\$ 6,317,510	\$ 7,094,336	\$ 6,745,625
Public safety	2,233,350	1,827,503	1,551,196	1,913,437
Physical environment	2,707,891	869,451	925,645	1,354,292
Transportation	398,614	433,041	393,012	410,584
Culture and recreation	354,790	0	0	0
Operating grants and contributions:				
General government	0	2,378,073	3,892,522	2,995,182
Public safety	713,611	182,917	1,394,472	963,866
Physical environment	722,869	60,470	1,612,048	9,672,675
Transportation	0	0	0	78,013
Culture and recreation	0	177,157	32,932	49,728
Capital grants and contributions:				
Public safety	52,768	478,202	68,524	179,952
Physical environment	2,567,523	607,209	0	0
Culture and recreation	0	21,791	0	0
<b>Total governmental activities program revenues</b>	<u>15,610,858</u>	<u>13,353,324</u>	<u>16,964,687</u>	<u>24,363,354</u>
Business-type activities:				
Charges for services:				
Leisure Services Fund	3,137,471	3,543,090	3,786,711	3,984,307
Operating grants and contributions	0	0	0	67,183
<b>Total business-type activities program revenues</b>	<u>3,137,471</u>	<u>3,543,090</u>	<u>3,786,711</u>	<u>4,051,490</u>
<b>Total primary government program revenues</b>	<u>\$ 18,748,329</u>	<u>\$ 16,896,414</u>	<u>\$ 20,751,398</u>	<u>\$ 28,414,844</u>
<b>Net (expense)/revenue</b>				
Governmental activities	\$ (26,250,825)	\$ (38,177,003)	\$ (37,568,871)	\$ (37,399,647)
Business-type activities	1,608,928	607,439	687,543	577,240
<b>Total primary government net expense</b>	<u>\$ (24,641,897)</u>	<u>\$ (37,569,564)</u>	<u>\$ (36,881,328)</u>	<u>\$ (36,822,407)</u>

Information prior to fiscal year 2003 is not available.

## Town of Palm Beach, Florida

Changes in Net Assets (continued)

Last Four Fiscal Years

Accrual Basis of Accounting

	Fiscal Year			
	2003	2004	2005	2006
<b>General Revenues and Other Changes in Net Assets</b>				
Governmental activities:				
Taxes:				
Property taxes	\$ 29,815,341	\$ 32,778,331	\$ 35,539,136	\$ 39,008,774
Local option gas tax	224,517	219,755	222,226	360,210
Franchise fees	1,726,221	1,881,195	1,989,980	2,433,811
Utility service taxes	4,156,003	3,983,261	4,160,185	4,167,844
Intergovernmental, unrestricted	958,145	1,730,628	1,192,382	1,158,415
Investment earnings	2,285,717	1,676,047	2,661,913	4,709,493
Miscellaneous	850,582	1,905,491	0	0
Transfers	675,000	(1,251,733)	(313,789)	527,428
<b>Total governmental activities</b>	<b>40,691,526</b>	<b>42,922,975</b>	<b>45,452,033</b>	<b>52,365,975</b>
Business-type activities				
Investment earnings	55,287	56,939	125,691	261,893
Intergovernmental, unrestricted	0	0	0	0
Transfers	(675,000)	1,251,733	313,789	(527,428)
<b>Total business-type activities</b>	<b>(619,713)</b>	<b>1,308,672</b>	<b>439,480</b>	<b>(265,535)</b>
<b>Total primary government</b>	<b>\$ 40,071,813</b>	<b>\$ 44,231,647</b>	<b>\$ 45,891,513</b>	<b>\$ 52,100,440</b>
<b>Changes in Net Assets</b>				
Governmental activities	\$ 14,440,701	\$ 4,745,972	\$ 7,883,162	\$ 14,966,328
Business-type activities	989,215	1,916,111	1,127,023	311,705
<b>Total primary government</b>	<b>\$ 15,429,916</b>	<b>\$ 6,662,083</b>	<b>\$ 9,010,185</b>	<b>\$ 15,278,033</b>

Information prior to fiscal year 2003 is not available.

## Town of Palm Beach, Florida

*Fund Balances of Governmental Funds*

*Last Four Fiscal Years*

*Modified Accrual Basis of Accounting*

	<b>Fiscal Year</b>			
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>General Fund</b>				
Reserved	\$ 918,224	\$ 2,881,233	\$ 1,213,317	\$ 1,379,142
Unreserved	20,511,244	23,413,449	24,761,271	23,010,110
Total General Fund	<u>\$ 21,429,468</u>	<u>\$ 26,294,682</u>	<u>\$ 25,974,588</u>	<u>\$ 24,389,252</u>
<b>All other governmental funds</b>				
Reserved	\$ 8,988,509	\$ 8,233,283	\$ 9,932,425	\$ 4,569,597
Unreserved, reported in:				
Capital Projects funds	47,027,447	42,062,662	35,813,734	34,579,119
Total all other governmental funds	<u>\$ 56,015,956</u>	<u>\$ 50,295,945</u>	<u>\$ 45,746,159</u>	<u>\$ 39,148,716</u>

Information prior to fiscal year 2003 is not available.

## Town of Palm Beach, Florida

Tax Revenues by Source, Governmental Funds

Last Ten Fiscal Years

Fiscal Year	Local Option				Total
	Property*	Gas Tax	Franchise	Utility	
1997	\$ 21,664,901	\$ 311,934	\$ 1,687,967	\$ 3,226,614	\$ 26,891,416
1998	21,758,483	324,541	1,682,379	3,387,188	27,152,591
1999	22,763,822	330,627	1,725,946	3,530,034	28,350,429
2000	24,401,036	334,144	1,693,857	3,549,952	29,978,989
2001	26,280,565	342,479	2,049,125	3,560,240	32,232,409
2002	27,281,634	351,349	1,716,214	4,022,212	33,371,409
2003	29,815,341	224,517	1,726,221	4,156,003	35,922,082
2004	32,778,331	219,755	1,881,195	3,983,261	38,862,542
2005	35,539,136	222,226	1,989,980	4,160,185	41,911,527
2006	39,008,774	360,210	2,433,811	4,167,844	45,970,639

Change					
1997 - 2006	80.1%	15.5%	44.2%	29.2%	70.9%

\* Property taxes received for both General Fund and Debt Service Fund

## Town of Palm Beach, Florida

Changes in Fund Balances of Governmental Funds

Last Ten Fiscal Years

Modified Accrual Basis of Accounting

	Fiscal Year			
	1997	1998	1999	2000
<b>Revenues</b>				
Taxes	\$ 26,891,417	\$ 27,152,593	\$ 28,350,429	\$ 30,029,262
Licenses and permits	3,732,758	5,528,132	5,338,440	7,309,553
Intergovernmental	1,244,449	941,954	1,407,462	2,059,790
Grant revenue	329,691	65,963	374,854	622,278
Charges for services	1,238,421	1,709,726	1,952,511	2,131,584
Fines and forfeits	527,623	664,404	639,470	601,549
Contributions	193,723	305,776	614,531	233,803
Investment earnings	1,503,845	1,654,728	1,692,331	2,773,177
Miscellaneous	794,459	773,806	676,607	256,612
<b>Total revenues</b>	<u>36,456,386</u>	<u>38,797,082</u>	<u>41,046,635</u>	<u>46,017,608</u>
<b>Expenditures</b>				
General government	4,427,487	4,160,248	4,667,903	5,177,891
Public safety	15,283,389	15,636,623	16,970,445	16,426,549
Physical environment	6,134,483	6,646,824	7,096,446	6,311,150
Transportation	1,191,847	1,156,646	1,024,033	942,015
Culture/Recreation	1,620,451	1,598,415	1,765,913	1,733,867
Non-departmental				1,650,768
Capital Outlay	4,638,788	5,377,937	3,728,129	2,750,478
Debt service				
Principal	1,778,409	1,785,352	1,827,320	1,936,960
Interest and other fiscal charges	491,400	420,941	337,128	246,722
Bond issue costs				
<b>Total expenditures</b>	<u>35,566,254</u>	<u>36,782,986</u>	<u>37,417,317</u>	<u>37,176,400</u>
Excess of revenues over (under) expenditures	890,132	2,014,096	3,629,318	8,841,208
<b>Other financing sources (uses)</b>				
Transfers in	5,019,879	4,640,088	3,941,536	4,108,419
Transfers out	(4,153,400)	(3,665,088)	(3,266,536)	(3,433,419)
Proceeds from sale of capital assets				
Capital lease proceeds	963,065			
Bonds issued				23,003,099
Redemption of bonds				
Proceeds of refunding note				
<b>Total other financing sources (uses)</b>	<u>1,829,544</u>	<u>975,000</u>	<u>675,000</u>	<u>23,678,099</u>
Net change in fund balances	<u>\$ 2,719,676</u>	<u>\$ 2,989,096</u>	<u>\$ 4,304,318</u>	<u>\$ 32,519,307</u>
Debt service as a percentage of non-capital expenditures	<u>7.92%</u>	<u>7.56%</u>	<u>6.87%</u>	<u>6.77%</u>

Fiscal Year					
2001	2002	2003	2004	2005	2006
\$ 32,232,409	\$ 33,371,408	\$ 35,323,171	\$ 38,862,542	\$ 41,911,527	\$ 45,970,639
6,236,113	5,503,582	5,654,137	6,116,488	6,913,397	6,473,831
1,655,313	1,874,958	3,671,884	1,927,469	2,072,960	2,153,286
1,260,721	492,853	2,620,291	2,720,018	5,106,760	12,674,928
2,309,482	2,227,358	2,560,809	2,054,178	2,097,306	2,487,444
781,383	566,084	1,477,456	1,079,973	822,112	874,351
1,040,744	944,886				
3,981,390	2,365,768	2,055,825	1,282,245	2,119,210	3,663,648
281,944	223,421	1,034,628	1,185,826	781,153	495,349
<u>49,779,499</u>	<u>47,570,318</u>	<u>54,398,201</u>	<u>55,228,739</u>	<u>61,824,425</u>	<u>74,793,476</u>
5,180,026	5,975,712	5,610,928	6,647,556	7,817,780	8,315,398
17,156,353	17,919,096	18,716,632	21,444,642	27,088,862	26,417,211
6,676,052	7,001,958	7,879,102	10,350,736	10,928,714	18,557,179
939,737	993,183	582,376	769,745	1,043,893	1,185,987
1,756,614	1,953,697	2,448,947	1,561,430	1,678,681	1,938,137
1,948,065	2,292,624	2,746,915	4,822,927	2,510,033	2,390,000
7,559,940	8,760,344	12,360,305	7,627,971	8,062,746	20,270,287
770,479	766,832	765,063	3,825,289	4,135,584	3,564,637
1,468,440	1,346,513	1,158,641	1,372,527	1,014,223	864,847
		350,466			
<u>43,455,706</u>	<u>47,009,959</u>	<u>52,619,375</u>	<u>58,422,823</u>	<u>64,280,516</u>	<u>83,503,683</u>
6,323,793	560,359	1,778,826	(3,194,084)	(2,456,091)	(8,710,207)
12,402,818	10,451,455	10,333,656	9,761,263	11,392,115	14,210,192
(11,727,818)	(9,776,455)	(9,658,656)	(9,386,855)	(13,805,904)	(13,682,764)
676,387	140,795		1,964,879		
		6,108,358			
		(18,936,555)			
		<u>19,016,765</u>			
<u>1,351,387</u>	<u>815,795</u>	<u>6,863,568</u>	<u>2,339,287</u>	<u>(2,413,789)</u>	<u>527,428</u>
\$ <u>7,675,180</u>	\$ <u>1,376,154</u>	\$ <u>8,642,394</u>	\$ <u>(854,797)</u>	\$ <u>(4,869,880)</u>	\$ <u>(8,182,779)</u>
<u>5.97%</u>	<u>6.24%</u>	<u>5.46%</u>	<u>12.75%</u>	<u>10.61%</u>	<u>7.85%</u>

## Town of Palm Beach, Florida

Historic and Projected General Fund Non Ad Valorem Revenues

Last Nine Fiscal Years Actual and Next Year Budgeted

	<u>Actual</u> <u>FY1998</u>	<u>Actual</u> <u>FY1999</u>	<u>Actual</u> <u>FY2000</u>	<u>Actual</u> <u>FY2001</u>
Franchise Fees (4)	\$ 1,682,379	\$ 1,725,946	\$ 1,693,857	\$ 2,049,125
Utility Service Tax	3,387,188	3,556,197	3,549,952	3,560,240
Occupational Licenses	580,162	572,005	547,441	634,645
Building Permits (1)	4,672,211	4,460,447	6,406,102	5,158,528
Other License Fees & Permits	170,214	207,819	245,086	219,919
State Shared Revenue (2)	825,207	840,777	872,579	833,836
Grants	8,889	10,178	217,939	26,212
Local Shared Revenue	34,349	32,483	596,487	86,922
General Government	32,585	41,421	34,135	28,739
Public Safety	326,572	527,801	655,934	775,900
Physical Environment	739,993	789,701	829,803	893,973
Transportation	319,286	331,804	343,076	340,899
Culture - Recreation (3)	271,769	281,102	268,636	269,969
Fines & Forfeitures	592,508	632,805	600,722	758,453
Contributions	114,083	145,201	0	25,801
Investment Earnings	1,076,220	1,208,413	1,637,841	1,782,377
Rents & Royalties	10,128	21,973	71,695	70,203
Special Assessments	1,415	0	0	0
Sale of Fixed Assets (5)	47,632	101,622	33,041	35,014
Miscellaneous Other	576,091	266,727	70,974	150,926
<b>Total Non Ad Valorem Revenues</b>	<b>\$ 15,468,881</b>	<b>\$ 15,754,422</b>	<b>\$ 18,675,300</b>	<b>\$ 17,701,681</b>

(1) Excludes community service fee (Community Service fee discontinued for FY2003).

(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 the Leisure Services Enterprise Fund in FY2004.

(4) In FY2002 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.

(5) Proceeds from the sale of fixed assets are deposited in the Equipment Replacement Fund.

	<b>Actual FY2002</b>	<b>Actual FY2003</b>	<b>Actual FY2004</b>	<b>Actual FY2005</b>	<b>Actual FY2006</b>	<b>Budget FY2007</b>
\$	1,716,214	\$ 1,726,221	\$ 1,881,195	\$ 1,989,980	\$ 2,433,811	\$ 2,120,000
	4,022,212	4,156,003	3,983,261	4,160,185	4,167,844	4,065,000
	605,737	617,974	697,297	695,544	721,659	690,000
	4,781,034	4,906,964	5,273,284	6,073,756	5,628,019	4,341,750
	116,811	129,199	145,907	144,097	124,153	125,140
	903,840	846,318	893,193	954,356	1,029,461	970,677
	44,608	52,768	150,735	165,216	162,824	399,500
	163,871	290,620	196,841	207,581	204,636	127,914
	30,709	36,095	46,244	49,565	46,062	40,800
	662,763	940,784	705,442	729,084	1,065,595	974,805
	907,551	892,634	869,451	925,645	991,712	1,034,000
	351,495	398,614	433,054	393,012	410,584	406,500
	274,840	292,682	0	0	0	0
	550,323	863,474	846,677	811,038	770,067	829,000
	250	0	150,000	4,035	900	0
	665,828	583,091	527,686	905,025	1,902,793	1,857,430
	92,470	60,573	72,377	50,460	39,634	52,400
	0	0	0	0	0	0
	41,923	0	0	0	0	0
	88,808	69,386	83,894	140,317	243,602	153,300
<b>\$</b>	<b>16,021,287</b>	<b>\$ 16,863,400</b>	<b>\$ 16,956,538</b>	<b>\$ 18,398,896</b>	<b>\$ 19,943,356</b>	<b>\$ 18,188,216</b>

## **Description of Certain Major Sources of Non-Ad Valorem Revenues As Defined in Bond Document**

### **Franchise Fees**

Public utilities operating within the Town of Palm Beach must pay to 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, BellSouth 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: Sales & Use 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 Revenue Sharing**

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

### **General Government Revenues**

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, and Direct Connect Alarm fees. In FY2006 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 Leisure Services Enterprise Fund beginning in FY2004.

### **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 FY2007 budget is the anticipated receipt of funds from a FEMA grant for Fire-Rescue equipment, an EMS Grant from Palm Beach County, and grant funding for coastal monitoring.

### **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**

Revenue represents proceeds from the sale of capital assets. Sale proceeds have been deposited in the Equipment Replacement Fund since FY2003.

### **Miscellaneous Other 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, State highway lighting maintenance, insurance recoveries for hurricane damage and other miscellaneous revenue.

## **Outstanding Town Indebtedness**

The Town does not have any general obligation bonds outstanding as of September 30, 2006. 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 of \$733,971 as of September 30, 2006. At the present time the Town does not have any other authorized but unissued debt.

## Town of Palm Beach, Florida

Assessed Value and Actual Value of Taxable Property

Last Eight Fiscal Years

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Other Property	Less: Tax-exempt Property	Total Taxable Value	Total Direct Tax Rate	Total Assessed Value	Assessed Value as a % of Actual Value
1999	\$ 4,400,252,336	\$ 531,039,279	\$ 513,815	\$ 171,911,209	\$ (246,246,682)	\$ 4,857,469,957	\$ 4.7528	\$ 5,103,716,639	95%
2000	4,821,990,971	584,752,591	515,428	187,976,974	(257,665,350)	5,337,570,614	4.6452	5,595,145,964	95%
2001	5,400,734,073	620,602,412	515,428	127,148,409	(203,178,569)	5,945,821,753	4.5059	6,149,000,322	97%
2002	6,206,528,438	713,221,831	581,586	198,001,569	(273,176,208)	6,845,157,216	4.0641	7,118,333,424	96%
2003	8,080,983,466	718,908,958	582,176	191,393,118	(1,484,871,904)	7,506,995,814	4.0541	8,991,867,718	83%
2004	8,988,874,192	748,443,954	582,895	216,411,548	(1,681,379,665)	8,272,932,924	4.0529	9,954,312,589	83%
2005	9,931,612,775	812,906,404	584,205	213,751,855	(1,945,418,542)	9,013,436,697	4.0287	10,958,855,239	82%
2006	11,779,370,251	847,044,936	613,890	246,102,739	(2,619,553,324)	10,253,578,492	3.9080	12,873,131,816	80%

Comparable information prior to 1999 is not available

Assessed value is an annual determination of the just or fair market value of the property, or the value of the homestead property as limited pursuant to State law.

Taxable value is the assessed value of property minus the amount of any applicable exemption provided under State law.

Property in Palm Beach County is reassessed every three years on average.

## Town of Palm Beach, Florida

Direct and Overlapping Property Tax Rates

Last Ten Fiscal Years

Fiscal Year	Town Direct Rates			Overlapping Rates			Total All
	General Fund	Debt Service	Total Direct	School District	Palm Beach County	Special Taxing Districts	
1997	4.5319	0.4491	4.9810	9.7880	4.5191	2.2856	21.5737
1998	4.3588	0.4313	4.7901	9.5570	4.8666	2.3600	21.5737
1999	4.3400	0.4128	4.7528	9.6820	4.8582	2.2343	21.5273
2000	4.3000	0.3452	4.6452	9.0430	4.9456	2.1856	20.8194
2001	4.4019	0.1040	4.5059	8.9180	4.9362	2.2630	20.6231
2002	3.9757	0.0884	4.0641	8.9780	4.9351	2.4558	20.4330
2003	3.9706	0.0835	4.0541	8.7790	4.8084	2.4883	20.1298
2004	3.9768	0.0761	4.0529	8.5710	4.7910	2.5557	19.9706
2005	3.9594	0.0693	4.0287	8.4320	4.7677	2.5257	19.7541
2006	3.9080	0	3.9080	8.1060	4.7192	2.5114	19.2446

Tax rate limits	- Ten mills per Florida Statute 200.81 (one mill equals \$1 per \$1,000 of assessed valuation).
Scope of tax rate limit	- No municipality shall levy ad valorem taxes for real and tangible personal property in excess of ten mills of the assessed value, except for special benefits and debt service on obligations issued with the approval of those taxpayers subject to ad valorem taxes.
Taxes assessed	- January 1
Taxes due	- March 31
Taxes delinquent	- April 1
Discount allowed	- 4% November; 3% December, 2% January; 1% February
Penalties for delinquent	- 2.5% after April 1, increase .5% each ten days; maximum 5%
Tax collector	- Palm Beach County
Tax collector's commission	- None

## Town of Palm Beach, Florida

Principal Property Tax Payers

September 30, 2006 and Nine Years Ago

	2006			
	Taxable Assessed Value	Taxes	Rank	Percentage of Town Taxable Assessed Value
Breakers	\$ 210,015,556	\$ 3,942,311	1	2.05%
Nelson Peltz	66,072,298	1,271,371	2	0.64%
JV Associates	49,000,000	968,182	3	0.48%
Sydell Miller	44,778,796	861,532	4	0.44%
Trump Properties LLC	41,350,000	795,885	5	0.40%
1300 South Ocean Blvd. Trust	40,442,227	778,107	6	0.39%
Everglades Club Inc.	34,530,026	742,031	7	0.34%
Leonard Lauder	35,742,717	687,911	8	0.35%
James Clark	37,285,586	591,261	9	0.36%
Worth Avenue Associates LTD	30,000,000	584,394	10	0.29%
Thirty Eight East Corporation				
Abraham Gosman				
Sydney Spiegel Trust				
First Union National Bank				
Totals	<u>\$ 589,217,206</u>	<u>\$ 11,222,985</u>		<u>5.75%</u>

Source: Palm Beach County Property Appraiser

1997			
<u>Taxable Assessed Value</u>	<u>Taxes</u>	<u>Rank</u>	<u>Percentage of Town Taxable Assessed Value</u>
\$ 112,100,440	\$ 2,418,421	1	2.49%
26,681,185	575,612	4	0.59%
34,000,000	733,506	3	0.76%
16,544,484	356,915	9	0.37%
26,105,334	563,181	6	0.58%
26,600,000	573,860	5	0.59%
34,975,601	754,540	2	0.78%
22,501,775	485,429	7	0.50%
21,103,003	455,269	8	0.47%
15,939,729	343,863	10	0.35%
<u>\$ 336,551,551</u>	<u>\$ 7,260,596</u>		<u>7.48%</u>

## Town of Palm Beach, Florida

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	Net Tax Levy*	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Property Tax Collections	Collections as a Percent of Current Levy
1997	\$ 22,506,475	\$ 21,664,902	96.26%	\$ 34,414	\$ 21,699,316	96.41%
1998	22,648,882	21,758,483	96.07%	36,111	21,794,594	96.23%
1999	23,743,569	22,763,823	95.87%	21,276	22,785,099	95.96%
2000	25,307,729	24,401,036	96.42%	19,382	24,420,418	96.49%
2001	27,216,139	26,280,565	96.56%	10,646	26,291,211	96.60%
2002	28,188,467	27,281,634	96.78%	43,368	27,325,002	96.94%
2003	31,072,246	29,815,341	95.95%	14,019	29,829,360	96.00%
2004	34,130,901	32,778,331	96.04%	57,193	32,835,524	96.20%
2005	36,908,773	35,539,136	96.29%	15,151	35,554,287	96.33%
2006	40,661,213	39,003,587	95.92%	5,187	39,008,774	95.94%

Note: All property taxes are assessed and collected by Palm Beach County without charge to the Town. Collections are distributed in full as collected.

\* Tax levy, net of allowance for discounts.

## Town of Palm Beach, Florida

Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Revenue Refunding Bonds	Revenue Bonds	Capital Leases			
1997	\$ 7,990,000	\$	\$	\$ 854,856	\$ 8,844,856	N/A	\$ 909
1998	6,440,000			619,183	7,059,183	N/A	725
1999	4,810,000			421,863	5,231,863	N/A	537
2000	3,080,000		23,530,000	214,904	26,824,904	2.54%	2,756
2001	2,515,000		23,530,000	685,812	26,730,812	2.53%	2,746
2002	1,935,000		23,530,000	639,774	26,104,774	2.47%	2,682
2003	1,325,000	18,385,000	6,130,000	484,711	26,324,711	2.49%	2,704
2004	680,000	18,275,000	6,065,000	349,422	25,369,422	2.40%	2,606
2005		18,045,000	5,945,000	263,838	24,253,838	2.30%	2,491
2006		14,685,000	5,825,000	179,201	20,689,201	1.94%	2,125

**Note:** Details about the Town's outstanding debt can be found in the notes to the financial statements.

## Town of Palm Beach, Florida

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Less:		Total	Percentage of Assessed Value of Taxable Property	Per Capita
		Amounts Available in Debt Service Fund				
1997	\$ 7,990,000	\$ 319,000		\$ 7,671,000	\$ 0.13%	\$ 784
1998	6,440,000	410,000		6,030,000	0.09%	620
1999	4,810,000	507,000		4,303,000	0.05%	443
2000	3,080,000	537,000		2,543,000	0.04%	273
2001	2,515,000	371,000		2,144,000	0.02%	222
2002	1,935,000	279,000		1,656,000	0.01%	171
2003	1,325,000	199,000		1,126,000	0.01%	116
2004	680,000	111,000		569,000	0.01%	59
2005	N/A	N/A		N/A	N/A	N/A
2006	N/A	N/A		N/A	N/A	N/A

**Note:** The basis of assessed value is approximately one hundred percent (100%) of actual value. For each fiscal year ending September 30, property is valued as of January 1st of the preceding calendar year.

General Obligation Bonds were retired in 2005

## Town of Palm Beach, Florida

Direct and Overlapping Governmental Activities Debt  
September 30, 2006

	Total Outstanding	Percentage Applicable to Town of Palm Beach <sup>(1)</sup>	Amount Applicable to Town of Palm Beach
Direct:			
Town of Palm Beach	\$ 0	100.00%	\$ 0
Overlapping:			
Palm Beach County	\$ 336,020,000	7.89%	26,511,978
Palm Beach County School District	54,275,000	7.89%	4,282,298
Total overlapping debt	390,295,000		30,794,276
<b>Total direct and overlapping debt payable from ad valorem taxes</b>	<b>\$ 390,295,000</b>		<b>\$ 30,794,276</b>
Estimated population			9,735
Total direct and overlapping debt per capita			\$ 3,163

<sup>(1)</sup> Based on 2006 ratio of assessed taxable values.

Source: Finance Department, Town of Palm Beach, Florida  
Palm Beach County Property Appraiser  
School Board of Palm Beach County

## Town of Palm Beach, Florida

### Legal Debt Margin Information

Last Ten Fiscal Years

(dollars in thousands)

	Fiscal Year			
	1997	1998	1999	2000
Debt limit	\$ 224,901,370	\$ 235,806,432	\$ 248,010,388	\$ 272,277,473
Total net debt applicable to limit	7,671,122	6,029,508	4,302,787	2,642,603
Legal debt margin	\$ 217,230,248	\$ 229,776,924	\$ 243,707,601	\$ 269,634,870
Total net debt applicable to the limit as a percentage of debt limit	3.41%	2.56%	1.73%	0.97%

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

<b>Fiscal Year</b>					
<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
\$ 301,905,169	\$ 349,293,795	\$ 383,252,606	\$ 421,272,713	\$ 459,672,622	\$ 602,438,544
2,143,460	1,656,079	1,125,981	568,576	0	0
<u>\$ 299,761,709</u>	<u>\$ 347,637,716</u>	<u>\$ 382,126,625</u>	<u>\$ 420,704,137</u>	<u>\$ 459,672,622</u>	<u>\$ 602,438,544</u>
<u>0.71%</u>	<u>0.47%</u>	<u>0.29%</u>	<u>0.13%</u>	<u>0.00%</u>	<u>0.00%</u>

## Town of Palm Beach, Florida

*Pledged Revenue Coverage*

*Last Six Fiscal Years*

Fiscal Year	Non Ad Valorem Revenue Available for Debt Coverage	Current Debt Service			Current Coverage
		Principal	Interest	Total	
<b>2001</b>	\$ 17,701,681	\$ 0	\$ 1,366,706	\$ 1,366,706	12.95
<b>2002</b>	16,021,287	0	1,211,858	1,211,858	13.22
<b>2003</b>	16,863,400	0	1,211,858	1,211,858	13.92
<b>2004</b>	16,956,538	3,045,000	2,203,824	5,248,824	3.23
<b>2005</b>	18,398,896	3,370,000	1,884,144	5,254,144	3.50
<b>2006</b>	19,943,356	3,480,000	854,485	4,334,485	4.60

The Town's revenue 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 original revenue bonds were issued in May of 2000 and in April 20 03 refunding bonds were issued as well as additional bonds to finance the construction of a new Fire -Rescue facility and renovate Town Hall.

## Town of Palm Beach, Florida

Demographic and Economic Statistics

Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Population<sup>(1)</sup></b>	<b>Personal Income</b>	<b>Per Capita Personal Income<sup>(2)</sup></b>	<b>Median Age<sup>(2)</sup></b>	<b>Education Level in Years of Schooling</b>	<b>School Enrollment<sup>(2)</sup></b>	<b>Unemployment Rate<sup>(3)</sup></b>
1997	9,781	N/A	\$ N/A	N/A	N/A	N/A	7.0%
1998	9,722	N/A	N/A	N/A	N/A	N/A	6.4%
1999	9,722	N/A	N/A	N/A	N/A	N/A	5.8%
2000	9,676	N/A	109,219	66.6	N/A	414	5.7%
2001	9,676	N/A	109,219	66.6	N/A	414	4.7%
2002	9,676	N/A	109,219	66.6	N/A	414	6.0%
2003	9,682	N/A	109,219	66.6	N/A	414	6.4%
2004	9,662	N/A	109,219	66.6	N/A	414	5.8%
2005	9,662	N/A	109,219	66.6	N/A	414	5.8%
2006	9,735	N/A	109,219	66.6	N/A	414	4.7%

### Data Sources:

<sup>(1)</sup> The population for 1997 through 1999 and 2003 through 2006 was obtained from the University of Florida, Bureau of Economic Business Administration. The population for 2000 through 2002 was obtained from the 2000 U.S. Census Bureau count.

<sup>(2)</sup> Source: 2000 U.S. Census Bureau

<sup>(3)</sup> Source: Business Development Board of Palm Beach County. Data is for the West Palm Beach to Boca Raton metropolitan area.

N/A - Not Available

## Town of Palm Beach, Florida

Principal Employers

September 30, 2006 and Nine Years Ago

	2006			1997		
	Employees <sup>(1)</sup>	Rank	Percentage of Total Town Employment <sup>(2)</sup>	Employees	Rank	Percentage of Total Town Employment
<b>Employer</b>						
Breakers Hotel	2,285	1	16.69%	N/A	N/A	N/A
Town of Palm Beach	414	2	3.02%	N/A	N/A	N/A
Four Seasons Resort	390	3	2.85%	N/A	N/A	N/A
Everglades Club	250	4	1.80%	N/A	N/A	N/A
Publix	200	5	1.46%	N/A	N/A	N/A
Bath and Tennis Club	150	6	1.10%	N/A	N/A	N/A
Neiman Marcus	120	7	0.88%	N/A	N/A	N/A
Colony Hotel	120	8	0.88%	N/A	N/A	N/A
Saks Fifth Avenue	110	9	0.80%	N/A	N/A	N/A
OC Beach Resort	94	10	0.67%	N/A	N/A	N/A
Totals	<u>4,133</u>		<u>30.19%</u>	<u>N/A</u>		<u>N/A</u>

Source: <sup>(1)</sup> Town Finance Department

<sup>(2)</sup> Daytime Population Source (13.691) - Business Development Board of Palm Beach County

N/A - Not Available

## Town of Palm Beach, Florida

Full-time Equivalent Town Government Employees by Function / Program

Last Five Fiscal Years

	Full-time Equivalent Employees as of September 30,				
	2002	2003	2004	2005	2006
General government	83.85	83.52	82.02	86.84	86.98
Public Safety					
Building official	1.00	1.00	1.00	1.00	1.00
Land development	8.40	8.40	8.90	8.90	10.40
Police officers	78.00	78.00	78.00	78.00	78.00
Firefighters	70.00	74.00	77.00	77.00	79.00
Civilian Police/Fire	58.25	58.25	58.20	59.20	59.20
Physical Environment					
Sanitation	44.34	44.26	44.26	44.27	44.27
Storm Sewer Maintenance	15.63	15.43	15.43	15.32	17.32
Transportation					
Roads and Streets	5.84	6.03	6.03	5.91	5.91
Culture and Recreation					
Leisure services	28.63	29.24	30.13	29.83	30.28
<b>Total</b>	<b>393.94</b>	<b>398.13</b>	<b>400.97</b>	<b>406.27</b>	<b>412.36</b>

Sources: Town departments

Note: Data is not available for fiscal years prior to 2002.

## Town of Palm Beach, Florida

Operating Indicators by Function / Program

Last Five Fiscal Years

Function	Fiscal Year				
	2002	2003	2004	2005	2006
<b>Public Safety</b>					
<b>Police</b>					
Physical arrests	1,247	1,791	1,617	2,151	2,134
Parking violations	19,620	23,948	23,591	23,060	23,328
Traffic violations	3,859	4,070	4,050	6,859	5,849
<b>Fire</b>					
Number of fire calls	1,215	1,101	1,471	1,853	1,220
Number of EMS Calls	1,511	1,499	1,383	1,429	1,074
<b>Physical Environment</b>					
<b>Sanitation</b>					
Refuse collected (tons)	9,975	10,131	10,407	10,891	10,744
Recyclables collected (tons)	1,720	1,730	1,736	1,758	1,751
<b>Transportation</b>					
<b>Roads and Streets</b>					
Street resurfacing (miles)	0	2	2	0	8
Pot holes repaired	50	50	50	50	50
<b>Culture and Recreation</b>					
<b>Leisure Services</b>					
Youth athletic participants	N/A	N/A	N/A	3,729	4,704
Camp program participants	N/A	N/A	N/A	4,567	6,339
Youth enrichment participation	N/A	N/A	N/A	5,262	5,260
Adult Enrichment/Fitness participation	N/A	N/A	N/A	3,729	4,704
Special Events Offered	N/A	5	5	5	5
Special Events estimated participation	N/A	N/A	1,175	1,233	1,450
Tennis Participation	N/A	N/A	28,338	31,289	35,091
Rounds of Golf	N/A	35,426	35,468	33,875	31,118
Range buckets sold	N/A	20,717	20,258	20,456	21,080
Annual Marina Leases	77	81	81	82	82
Seasonal Marina Leases	5	3	3	2	2
Total transient vessels	530	809	655	785	696

Sources: Town departments

Note: Data is not available for fiscal years prior to 2002 or for general government.

N/A: Not available.

## Town of Palm Beach, Florida

Capital Asset Statistics by Function / Program

Last Ten Fiscal Years

Function	Fiscal Year					
	1997	1998	1999	2000	2001	2002
<b>Public Safety</b>						
<b>Police</b>						
Stations	1	1	1	1	1	1
Patrol Units	22	22	22	22	22	22
<b>Fire</b>						
Fire Stations	3	3	3	3	3	3
Fire trucks	7	7	7	7	7	7
ALS Rescue Vehicles	3	3	3	3	4	4
<b>Physical Environment</b>						
<b>Sanitation</b>						
Garbage Trucks	17	17	17	17	17	17
Trash Trucks	12	12	12	12	12	12
<b>Transportation</b>						
<b>Roads and Streets</b>						
Street lights	757	757	778	788	825	826
Lane miles	103	103	103	103	103	103
<b>Culture and Recreation</b>						
<b>Leisure Services</b>						
Ballfields - lighted	1	1	1	1	1	1
Basketball courts	1	1	1	1	1	1
Soccer fields	1	1	1	1	1	1
Tennis courts	8	8	8	8	8	11
Dock slips	86	86	87	87	87	87
Golf courses	1	1	1	1	1	1
Playgrounds	1	1	1	1	1	1
Recreation centers	1	1	1	1	1	1
Tennis pro-shops	1	1	1	1	1	2
Parks	9	9	9	9	9	9

Sources: Town departments

Note: Data is not available for general government.

N/A: Not available.

2003	2004	2005	2006
1	1	1	1
22	22	22	21
3	3	3	3
7	7	7	7
4	5	5	5
17	17	17	17
12	12	12	12
826	826	826	826
103	103	103	103
1	1	1	1
1	1	1	1
1	1	1	1
11	12	12	14
87	87	87	87
1	1	1	1
1	1	1	1
1	1	1	1
2	2	2	2
9	9	9	9

**COMPLIANCE REPORTS AND  
MANAGEMENT LETTER**



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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, 2006, which collectively comprise the basic financial statements of the Town of Palm Beach, Florida, and have issued our report thereon dated January 5, 2007. 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 January 5, 2007.

This report is intended solely for the information and use of the Town Council and management of the Town of Palm Beach, Florida, federal and state 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.

*Cales, Dಂತen, Levine,  
Dunker, Porter & Veil, P.A.*

January 5, 2007



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## Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and State Project 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*, and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal programs and state projects for the year ended September 30, 2006. The major federal programs and state projects of the Town of Palm Beach, Florida, are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects 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 or state project 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 each of its major federal programs and state projects for the year ended September 30, 2006.

### ***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 and state projects. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project 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 or state project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Town Council and management of the Town of Palm Beach, Florida, federal and state 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.*

January 5, 2007

TOWN OF PALM BEACH, FLORIDA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

Year Ended September 30, 2006

Grantor/ Program Title	CFDA Number	Contract/Grantor Number	2006 Program Expenditures	Transfers to Subrecipients
<b>FEDERAL AWARDS</b>				
<b>U.S. Department of Justice</b>				
Direct Awards				
2005 Local Law Enforcement Block				
Grants Program	16.592	2005-LEBG-PALM-5-L4-079	\$ 1,931	\$ 0
Bulletproof Vest Partnership Program	16.607	N/A	1,423	0
Justice Assistance Grant	16.738	2006-JAGD-PALM-7-M9-140	<u>2,588</u>	<u>0</u>
<b>Total U.S Department of Justice</b>			5,942	0
<b>U.S. Department of Homeland Security</b>				
Pass-through award from the State of Florida				
Department of Community Affairs				
Disaster Grants - Public Assistance Grant (Presidentially Declared Disasters)				
Hurricane Francis	97.036	05-PA-G%-10-60-02-964	4,245,487	0
Disaster Grants - Public Assistance Grant (Presidentially Declared Disasters)				
Hurricane Wilma	97.036	06-WL-&K-10-60-02-552	<u>2,749,045</u>	<u>0</u>
<b>Total U.S. Department of Homeland Security</b>			<u>6,994,532</u>	<u>0</u>
<b>Total Federal Awards</b>			<u>\$ 7,000,474</u>	<u>\$ 0</u>
<b>STATE FINANCIAL ASSISTANCE</b>				
<b>Florida Department of Environmental Protection</b>				
Direct Award				
Beach Erosion Control Program	37.003	00PB1	\$ 2,547,178	\$ 0
2004 Hurricane Recovery Plan Grant Program	37.065	H5PB2	<u>2,396,653</u>	<u>0</u>
<b>Total Florida Department of Environmental Protection</b>			<u>\$ 4,943,831</u>	<u>\$ 0</u>

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE

September 30, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal awards and state financial assistance of the Town of Palm Beach, Florida, for the year ended September 30, 2006 and is presented in accordance with the requirements of OMB Circular A-133 and the requirements of the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General. The Schedule of Expenditures of Federal Awards and State Financial Assistance has been prepared on the modified accrual basis of accounting.

NOTE B - SCOPE OF SINGLE AUDIT

The federal programs and state financial assistance projects have been audited in accordance with the provisions of OMB Circular A-133, the Florida Single Audit Act and Chapter 10.550, Rules of the Auditor General, for program transactions occurring during the year ended September 30, 2006. 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>
<b>U.S. Department of Homeland Security</b>	
Pass-through Award from the State of Florida	
Department of Community Affairs	
Disaster Grants - Public Assistance Grant	
(Presidentially Declared Disasters)	97.036

The Town had two state financial assistance projects meeting the definition of a Type A program under the provisions of the Florida Single Audit Act. The following Type A programs were audited as major state projects:

	<u>CSFA Number</u>
<b>Florida Department of Environmental Protection</b>	
Beach Erosion Control Program	37.003
2004 Hurricane Recovery Plan Grant Program	37.065

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 and state laws and regulations.

TOWN OF PALM BEACH, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
FEDERAL PROGRAMS AND STATE PROJECTS

Year Ended September 30, 2006

**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 and/or state projects.
5. The auditor's report on compliance for the major federal award program and state financial assistance projects for the Town of Palm Beach, Florida, expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award program and no audit findings relative to the state financial assistance projects for the Town of Palm Beach, Florida.
7. The programs tested as major programs were as follows:

<b>FEDERAL PROGRAM</b>	<b><u>CFDA Number</u></b>
<b>U.S. Department of Homeland Security</b>	
Pass-through Award from the State of Florida	
Department of Community Affairs	
Disaster Grants - Public Assistance Grant (Presidentially Declared Disasters)	97.036
<b>STATE PROJECTS</b>	<b><u>CSFA Number</u></b>
<b>Florida Department of Environmental Protection</b>	
Beach Erosion Control Program	37.003
2004 Hurricane Recovery Plan Grant Program	37.065

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

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2006

**B. FINDINGS - BASIC FINANCIAL STATEMENTS**

None

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS**

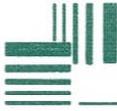
None

**D. FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECTS**

None

**E. OTHER MATTERS**

1. A Summary Schedule of Prior Audit Findings is not required because there were no prior audit findings related to Federal programs or State projects.
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 basic financial statements of the Town of Palm Beach, Florida, as of and for the year ended September 30, 2006, and have issued our report thereon dated January 5, 2007.

We conducted our audit in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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*, Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and State Project and Internal Control Over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in these reports, which are dated January 5, 2007, should be considered in assessing the results of our audit.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which requires that we address certain compliance and other matters in the management letter, if not already addressed in the auditor's reports on internal control and compliance or schedule of findings and questioned costs. In planning and performing our audit of the basic financial statements of the Town of Palm Beach, Florida, for the year ended September 30, 2006, we considered the Town's internal controls in order to determine the scope of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

### ***CURRENT YEAR COMMENTS AND RECOMMENDATIONS***

#### (2006-1) Segregation of Duties

Currently, one employee in the Finance Department is responsible for billing, collecting and posting to the general ledger the following types of fees: security alarm registration and false alarm fees. In addition, another employee is responsible for purchasing, receiving, controlling and disbursing employee recognition debit cards. We recommend that management involve other Finance Department personnel in these two functions so that one person is not handling the complete transaction from start to finish. Segregation of duties will improve controls over these two areas. In addition, a member of the accounting department management should review the transactions and reconciliations for completeness and accuracy.

*Management response: With regard to security alarm registrations and false alarm fees, the Finance Department will segregate the duty of invoicing from the posting of payments against customer accounts. These duties will now be performed by two separate personnel.*

*The employee recognition cards are currently purchased by the Accounting Supervisor. The Accounting Supervisor will prepare the accounting entry, and the Administrative Assistant will receive and disburse the employee recognition cards. The Administrative Assistant will confirm that the cards received agree with the general ledger entry prior to posting.*

#### (2006-2) Accounting Process and Review

We noted several immaterial instances of miscodings and mispostings of accounting information. Several expenses were miscoded to interest income, thereby understating interest income. Interest earnings were also posted to the wrong fund. We noted that a payment for services was prepared and mailed to a company for which the attached invoice was not for the services provided by that company. We recommend that additional procedures be implemented to review transactions for accuracy and completeness.

Burglar alarm receivables do not reconcile to the end of the month general ledger balance because the receivables subsidiary ledger only reflects receivables when they are imported from the Police department system rather than when the service is provided. We recommend that this situation be corrected whereby receivables are posted based on the date of service.

*Management response: We believe the miscodings in the interest account were due to keying errors which will be rectified with the installation of new accounting software. As an additional control, we will be reconciling the interest earned on the operating account to the general ledger in the same way that we currently reconcile the investment account interest.*

*Burglar alarm receivables are posted to the individual accounts based upon the date of service, the batch total posted to the general accounts receivable account is posted by the system at the beginning of the subsequent month, on the date that the false alarm information is uploaded from the Police system. We will manually correct this timing issue at fiscal year end.*

#### (2006-3) Purchasing

During our audit procedures, we noted the following transactions involving the purchasing function that should be addressed and clarified as part of the review of the policies and procedures manual for purchasing.

- We noted that a vehicle was to be purchased using a “piggyback” contract award as the underlying documentation for not obtaining a formal bid. However, the purchase was ultimately made from another vendor at a lower price without bidding the item. For another purchase of four vehicles there was no sealed bid process, but instead purchasing relied on a “piggyback” contract award. However, the ultimate purchase was from another dealership, but at the “piggyback” contract rate. While the Town’s purchasing policies allow purchases under these “piggyback” type contracts, the purchase should only be from the authorized “piggyback” vendor at the authorized price. Any deviation from these vendors should be in accordance with the Town’s formal bidding policies.

- The Town's Purchasing Policy is silent with regard to whether Professional Services Agreements/Contracts should be required for all such services. Furthermore, some of these services appear to be exempt from the quotes and bid requirements. Some departments obtain agreements and others do not. In addition, there is no centralized location where all of the signed, original agreements are kept. We recommend that the requirement for Professional Services Agreements/Contracts be formally addressed in the purchasing policies and that a centralized location be designated to store all original contracts.
- The Town's purchasing policy does not address the procedures required for vehicle repairs and maintenance. There is no policy on the use of quotes for such purchases. We recommend that the Town's purchasing policy be reviewed and amended to address this area. Vehicle repair and maintenance parts invoices are given to the warehouseman to input items into inventory and to issue parts out to the department/vehicle. This process is called Warehouse 7. The warehouseman never receives the item nor does he see the item being issued to a person or vehicle. The procedure was adopted as a way to develop a repair history on the vehicles. However, the system should be integrated with the Town's purchasing system to account for the purchase and issue of the part, as well as the reporting of maintenance records.

*Management response: All vehicles purchased in the future will be purchased from actual "piggyback" contractors. Prior practices have been discontinued.*

*A new policy has been instituted to maintain files in purchasing of all procurement documents and information with a copy of all signed contracts to be sent to the Town Clerk. A review of construction contracts is currently underway with a consultant. It is anticipated that a formal process will be instituted as a result of this review.*

*With the advent of the new software system (Eden), new policies and procedures will be instituted to address the concerns listed. Alternate procedures, i.e. use of procurement card, will be developed to eliminate the warehouseman from the process.*

#### (2006-4) Purchasing Cards

When the Town began using purchasing cards, a formal policy was implemented for how the cards were to be used and what they were to be used for. The original policy has not been updated since that date. We recommend that the policy be reviewed and updated as necessary to address the increasing use of the cards. In addition, as of September 30, 2006, approximately one-third of the Town's employees have purchasing cards. Since the purchasing cards present a higher risk of fraud and abuse, consideration should be given to whether all individuals with cards truly must have them. We also noted the following matters that should be addressed and clarified in conjunction with this review of the purchasing card policy.

- We were advised that purchases made with the purchasing card do not require quotes or bids which is in conflict with the Town's purchasing policy. We noted one purchase for \$1,599 made with a purchasing card for which there was no verbal quotes, yet the Town's purchasing policy requires two verbal quotes for purchases between \$1,000 and \$2,000.
- We noted one instance in which an employee was traveling, and paid the additional charge for a guest. While the employee reimbursed the Town for the guest fee, they did not pay the related taxes on the amount. While the amount was small, the policy should address such items.
- We noted that a tip was paid on a taxi bill that was charged with the purchasing card. It is our understanding that tips are the responsibility of the employee.

- We noted two police expense reports that were not signed at the bottom by the employee and supervisor. There is not a written policy addressing this procedure.

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*We will require quote documentation based on the amount of purchase in accordance the purchasing policy.*

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- In August 2006, the IS department identified surplus equipment, removed this equipment from the capital asset system, and then retained this surplus equipment in a semi-secure area in Town Hall for three months. Surplus or disposed property should be sent to the warehouse for delivery to the County's Surplus Store to be sold. We recommend that the appropriate disposition forms be completed and forwarded to the Finance Department for recording in the Town's FASGOV system. Furthermore, since the IS department is the custodian for this equipment, they should not be removing their own assets from the Town's records. We recommend that access to FASGOV only be allowed by Finance Department personnel. Further, disposition forms should be completed for all asset disposals and the Finance Department should match the disposition forms to the FASGOV report of asset disposals.
- During the year, eight assets were traded in for newer assets but were never removed from the Town's FASGOV capital asset listing. Disposal forms were never prepared for the asset

disposals, and, as a result, the Town's capital assets were overstated. We recommend that asset disposal forms be prepared for all capital asset disposals.

- A capital asset purchase of (14) items totaling \$97,503 was capitalized as one asset and assigned one asset number. Individually, each item exceeded the Town's capitalization amount. We recommend that bulk purchases of assets that individually exceed the capitalization amount as stated in the policy be assigned a fixed asset number for each item.

*Management response: A comprehensive fixed asset policy is being prepared that will address many of the issues noted above. All dispositions are now processed through purchasing. All capital items over the threshold, will be posted individually to the fixed asset program and assigned separate tag numbers.*

### (2006-7) Information Systems

During the audit, we reviewed the policies and procedures followed by the Information Systems (IS) department. The following comments and recommendations are presented to improve security and safeguard the Town's computer systems.

#### ***Physical Facilities***

Redundant UPS units should be considered so that in the event of a UPS failure the system continues to run.

The secondary server room has no temperature alarm and has been experiencing above normal temperatures. In addition, the server room has a water-based sprinkler system, which would put out any fires, but could destroy or severely damage the electronic computer equipment. Consideration should be given to replacing the sprinkler system with a halon gas system or some other fire extinguishing gas that would not damage the electronic components. In addition, the cooling system in the server room should be fixed and alarm systems should be added to notify the appropriate personnel of any high temperature conditions.

*Management response: A redundant UPS would be helpful, but the Town has a full time generator. The cost to implement a redundant UPS would be over \$35,000.*

*The secondary computer room in the EOC is an issue that Public Works will address.*

#### ***Access and Security***

Passwords on user accounts should be changed every 60 to 90 days without the ability to reuse old passwords. We understand that there are plans to implement a 180-day schedule, however, this has not been implemented to date.

A formal schedule for reviewing and testing the VPN logs should be implemented. Regularly scheduled reviews should be used and a checklist of items such as after hour access, repeated attempts to access the system, and irregular usage patterns, should be monitored.

An Active Directory or similar policy should be implemented to force the screen saver passwords to remain in effect so that users cannot remove this setting.

Rogue wireless access points should be tested for either by physically scanning for such devices or through the use of intrusion protection or prevention systems.

*Management response: We will implement a 180 day password change schedule starting August 1st. We will not do it any more frequently as staffing levels in Information Systems are not adequate to accomplish this.*

*The VPN will be checked monthly and the IS Manager will log the results.*

*An Active Directory policy to force log off after so many minutes is possible except for Public Safety. There are numerous issues related to this matter when it comes to computers that are shared and running 24/7/365. We will implement this where we can.*

*The scanning for Rogue wireless access points would be beneficial, but we do not have the equipment, funding or staff to implement this.*

### **Infrastructure Threats**

When computers are disposed of, a government certified wiping utility should be used to prevent data recovery, in addition to re-formatting of the hard-drives.

*Management response: When computers are disposed of, we format the hard drive. We will research the possibility of purchasing a government certified wiping utility.*

### **User Accounts**

A report of all active accounts should regularly be given to the Human Resources (HR) Department to verify that everyone on the list is still employed by the Town. The report should be signed and dated by HR and returned to the IS department for storage.

In addition, a list of every user and their specific access to the various elements of the finance applications should be printed out periodically and signed off by the Finance Director indicating that every user has the minimum access necessary to perform their tasks.

*Management response: We will annually start sending a user report to HR for them to verify and send back to us. This will begin on August 1st.*

*Once the Eden software system is in place, Finance can review any access to the financial system.*

The Rules of the Auditor General require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on internal control and compliance or schedule of findings and questioned costs: (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, 2006, disclosed none of the foregoing matters that are required to be disclosed.

### **PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

The Rules of the Auditor General require that we address in the management letter, if not already addressed in the auditor's reports on internal control and compliance or schedule of findings and questioned costs, whether or not inaccuracies, shortages, defalcation, 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 reports on internal controls and compliance or schedule of findings and questioned costs, 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 comment (2005-1) Inventory, (2005-2) Purchasing, (2005-3) Marina Procedures, (2005-4) Emergency Medical Service Transport Fees and (2005-5) Reconciliation of Capital Outlay Accounts to Capital Asset Records included in our management letter dated February 17, 2006 for the year ended September 30, 2005 were adequately addressed or no longer apply. There were no comments remaining from prior years that were not resolved.

### ***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, 2006, 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 10.554 and 10.556(7), Rules of the Auditor General, for the year ended September 30, 2006. 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 Department of Financial Services pursuant to Section 218.32, Florida Statutes, for the fiscal year ended September 30, 2006. 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, 2006.

#### 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, 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 and state 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.

*Calvin, Danton, Levine,  
Dunker, Porter & Veil, P.A.*

January 5, 2007



# TOWN OF PALM BEACH

Finance Department

March 6, 2007

Mayor and Town Council  
Peter B. Elwell, Town Manager

Subject: Management Letter responses

The following are comments and recommendations from the Town's auditing firm of Caler, Donten, Levine, Druker, Porter & Veil, P.A., that involve matters that they did not consider to be reportable conditions or material instances of noncompliance under standards established by the American Institute of Certified Public Accountants. The responses by Town staff immediately follow each comment.

## **(2006-1) Segregation of Duties**

Currently, one employee in the Finance Department is responsible for billing, collecting and posting to the general ledger the following types of fees: security alarm registration and false alarm fees. In addition, another employee is responsible for purchasing, receiving, controlling and disbursing employee recognition debit cards. We recommend that management involve other Finance Department personnel in these two functions so that one person is not handling the complete transaction from start to finish. Segregation of duties will improve controls over these two areas. In addition, a member of the accounting department management should review the transactions and reconciliations for completeness and accuracy.

*Management response: With regard to security alarm registrations and false alarm fees, the Finance Department will segregate the duty of invoicing from the posting of payments against customer accounts. These duties will now be performed by two separate personnel.*

*The employee recognition cards are currently purchased by the Accounting Supervisor. The Accounting Supervisor will prepare the accounting entry, and the Administrative Assistant will receive and disburse the employee recognition cards. The Administrative Assistant will confirm that the cards received agree with the general ledger entry prior to posting.*

## **(2006-2) Accounting Process and Review**

We noted several immaterial instances of miscodings and mispostings of accounting information. Several expenses were miscoded to interest income, thereby understating interest income. Interest earnings were also posted to the wrong fund. We noted that a payment for services was prepared and mailed to a company for which the attached invoice was not for the services provided by that company. We recommend that additional procedures be implemented to review transactions for accuracy and completeness.

Burglar alarm receivables do not reconcile to the end of the month general ledger balance because the receivables subsidiary ledger only reflects receivables when they are imported from the Police department system rather than when the service is provided. We recommend that this situation be corrected whereby receivables are posted based on the date of service.

*Management response: We believe the miscodings in the interest account were due to keying errors which will be rectified with the installation of new accounting software. As an additional control, we will be reconciling the interest earned on the operating account to the general ledger in the same way that we currently reconcile the investment account interest.*

*Burglar alarm receivables are posted to the individual accounts based upon the date of service, the batch total posted to the general accounts receivable account is posted by the system at the beginning of the subsequent month, on the date that the false alarm information is uploaded from the Police system. We will manually correct this timing issue at fiscal year end.*

### **(2006-3) Purchasing**

During our audit procedures, we noted the following transactions involving the purchasing function that should be addressed and clarified as part of the review of the policies and procedures manual for purchasing.

- We noted that a vehicle was to be purchased using a “piggyback” contract award as the underlying documentation for not obtaining a formal bid. However, the purchase was ultimately made from another vendor at a lower price without bidding the item. For another purchase of four vehicles there was no sealed bid process, but instead purchasing relied on a “piggyback” contract award. However, the ultimate purchase was from another dealership, but at the “piggyback” contract rate. While the Town’s purchasing policies allow purchases under these “piggyback” type contracts, the purchase should only be from the authorized “piggyback” vendor at the authorized price. Any deviation from these vendors should be in accordance with the Town’s formal bidding policies.
- The Town’s Purchasing Policy is silent with regard to whether Professional Services Agreements/Contracts should be required for all such services. Furthermore, some of these services appear to be exempt from the quotes and bid requirements. Some departments obtain agreements and others do not. In addition, there is no centralized location where all of the signed, original agreements are kept. We recommend that the requirement for Professional Services Agreements/Contracts be formally addressed in the purchasing policies and that a centralized location be designated to store all original contracts.
- The Town’s purchasing policy does not address the procedures required for vehicle repairs and maintenance. There is no policy on the use of quotes for such purchases. We recommend that the Town’s purchasing policy be reviewed and amended to address this area. Vehicle repair and maintenance parts invoices are given to the warehouseman to input items into inventory and to issue parts out to the department/vehicle. This process is called Warehouse 7. The warehouseman never receives the item nor does he see the item being issued to a person or vehicle. The procedure was adopted as a way to develop a repair history on the vehicles. However, the system should be integrated with the Town’s purchasing system to account for the purchase and issue of the part, as well as the reporting of maintenance records.

*Management response: All vehicles purchased in the future will be purchased from actual "piggyback" contractors. Prior practices have been discontinued.*

*A new policy has been instituted to maintain files in purchasing of all procurement documents and information with a copy of all signed contracts to be sent to the Town Clerk. A review of construction contracts is currently underway with a consultant. It is anticipated that a formal process will be instituted as a result of this review. With the advent of the new software system (Eden), new policies and procedures will be instituted to address the concerns listed. Alternate procedures, i.e. use of procurement card, will be developed to eliminate the warehouseman from the process.*

#### **(2006-4) Purchasing Cards**

When the Town began using purchasing cards, a formal policy was implemented for how the cards were to be used and what they were to be used for. The original policy has not been updated since that date. We recommend that the policy be reviewed and updated as necessary to address the increasing use of the cards. In addition, as of September 30, 2006, approximately one-third of the Town's employees have purchasing cards. Since the purchasing cards present a higher risk of fraud and abuse, consideration should be given to whether all individuals with cards truly must have them. We also noted the following matters that should be addressed and clarified in conjunction with this review of the purchasing card policy.

- We were advised that purchases made with the purchasing card do not require quotes or bids which is in conflict with the Town's purchasing policy. We noted one purchase for \$1,599 made with a purchasing card for which there was no verbal quotes, yet the Town's purchasing policy requires two verbal quotes for purchases between \$1,000 and \$2,000.
- We noted one instance in which an employee was traveling, and paid the additional charge for a guest. While the employee reimbursed the Town for the guest fee, they did not pay the related taxes on the amount. While the amount was small, the policy should address such items.
- We noted that a tip was paid on a taxi bill that was charged with the purchasing card. It is our understanding that tips are the responsibility of the employee.
- We noted two police expense reports that were not signed at the bottom by the employee and supervisor. There is not a written policy addressing this procedure.

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*Once the Eden software system is in place, Finance can review any access to the financial system.*

If you require any further information or have any questions regarding the audit or the Management Letter please contact me at my extension 4724.

Sincerely,

A handwritten signature in cursive script that reads "Jane Struder".

Jane Struder, CPA  
Finance Director