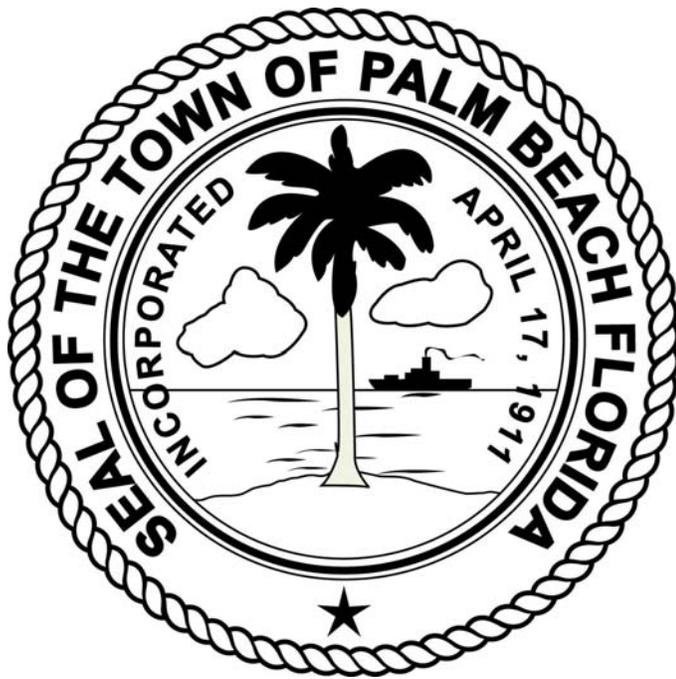


Town of Palm Beach, Florida  
Comprehensive Annual Financial Report  
Fiscal Year Ended September 30, 2010



**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TOWN OF PALM BEACH, FLORIDA**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**



Prepared by the Finance Department

Jane Struder, CPA  
Finance Director

TOWN OF PALM BEACH, FLORIDA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 SEPTEMBER 30, 2010

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# TOWN OF PALM BEACH

Finance Department

June 24, 2011

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, 2010, 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, 2010. 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.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. 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 9,797 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 367 employees, including 69 sworn police officers and 70 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 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 Florida Legislature enacted property tax reform measures in 2007 that limit the growth in millage rates. Millage rate increases are limited to the rolled back rate (the rate that produces the same taxes as the prior year, exclusive of taxes from new construction) plus growth in personal income. Local governments are allowed to override the cap by extraordinary vote, either a 2/3 vote of the Council for up to a 10% increase over the rolled back rate, or a unanimous vote of the Council for an increase in excess of 10%.

The Town's taxable value decreased in FY10 by 2.23% to \$13,380,076,426 which caused the Town to reduce tax revenue by \$941,550 to maintain the same millage rate as FY09. The continuing economic downturn has caused the taxable value for FY11 to decline by an additional 11.42%. Measures were taken by the Town to reduce property taxes by approximately \$5 million dollars to maintain the same millage rate as in FY09 and FY10.

Foreclosure activity has severely impacted Florida. The impact to the Town is significantly less than the Florida or national average. The Town's foreclosure rate is 1 in every 2498 households, Palm Beach County is 1 in every 423, the State of Florida averages 1 in every 472 households and the national average is 1 in every 577 households.

Per capita personal income for the Town of Palm Beach is \$114,849, which is well above the state and national average.

The Town maintains AAA issuer ratings by both Moody's Investor Services and Standard & Poor's.

### **MAJOR INITIATIVES AND ACCOMPLISHMENTS**

*For the Year*

During fiscal year 2010 the following accomplishments occurred:

- The Town-wide storm drainage improvements continued in FY10. The D-9 Basin/Mediterranean Road construction project to replace all electrical and mechanical equipment and provide standby power generation for this station to maintain existing pumping capacity was completed. A study was completed to replace the D-6, D-7 and D-15 pump stations in Lake Park.
- The renovation of Town Hall began in August 2008. This project was completed in June of 2010.
- Force main replacement in Royal Poinciana Way and Cocoanut Row was completed.

- The Worth Avenue Improvement project commenced in the spring of 2010 was completed in November 2010. The project was a major streetscape project encompassing large portions of the Worth Avenue Commercial District. The enhancements were paid for using special non ad valorem assessments to the commercial properties benefitting from the improvements.
- Issued debt for the first phase of the 20 year CIP program and the Worth Avenue Improvement Project. The debt issue also refinanced all existing debt.
- The Town hired Crowe Horwath to perform internal audits of various functions of the Town.

#### *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 Town has also prepared a 20 year Capital forecast. The Town issued bonds to accelerate capital projects totaling over \$40 million. These projects include:

- Replacement of the Town's aging force main system to allow movement of 100% of Town sewage through a shared force main with the City of West Palm Beach
- Street light and traffic signal projects
- Storm Drainage Projects
- Town's share of a pelletizer for the East Central Regional Wastewater Treatment Facility

Due to declining revenues from property taxes the Town has also cut 47.9 positions from the FY11 budget and maintained a wage freeze for the second straight year. The Town has also proposed pension reform measures to the Town's Police officer and Firefighter unions. Pension reform is expected to be enacted for all employees during FY11 and will affect the FY12 budget.

#### *Financial Policies*

The Town has formally adopted 18 financial policies including reserve policies for all major funds, contingency policies, budgetary control, debt management, and a revenue shortfall plan. The establishment of specific reserve policies is an important part of prudent financial management. Reserve policies reduce ambiguity and guide the creation, maintenance and use of resources for financial stabilization purposes. The reserve and contingency policies set the amounts to be budgeted for contingency and set minimum reserve levels and also restrict the use of reserves.

#### *Long Term Financial Planning*

Since FY2004, Town staff has prepared a Long Term Financial Plan that encompassed a 5 year period. In FY2009, the Town prepared an update of the long term financial plan that encompassed a 10 year horizon. This plan showed deficits beginning in FY12 through FY20. During the next two years, efforts were made to trim expenses wherever possible and through attrition, 47.9 positions were cut from the budget and pension reform measures were pursued. An updated plan was presented in 2010 showing improvement based upon salary changes, benefit changes, pension reform, debt restructuring, and other cost savings measures. An update was presented in April 2011 that further reduced expenses and improved the long term financial outlook for the Town. Over the 10 year horizon, surpluses are shown through FY16 and small manageable deficits begin in FY17. Copies of the Long Term Financial Plan can be found on the Town's website.

#### **Financial Information**

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

**Internal Controls:** In developing and evaluating the Town's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable but not absolute assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of an internal control system should not exceed the benefits likely to be derived, and that the evaluation of cost and benefits requires estimates and judgments by management.

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

**Cash Management:** The Town invests its excess reserves primarily in an Evergreen Investments Institutional U.S. Government Money Market Fund, the Florida League of Cities Investment Trust and an investment manager, PFM Asset Management. As of September 30, 2010, investments with the Florida League of Cities Investment Trust totaled \$38,370,804, investments with PFM Asset Management totaled \$83,580,651, and the TD Bank money market account had a balance of \$355,319. The Town generated investment earnings of \$2,061,404 on all funds, excluding 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 was established for post employment health benefits.

### **Proprietary Funds**

**Enterprise Fund:** The Recreation 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.

**Internal Service Funds:** The Town maintains three internal service funds. One fund account for the Town's risk management activities, the second fund accounts for the health insurance activities and the third internal service fund accounts for the accumulation of resources to be used for the acquisition of major capital equipment and vehicles.

## Fiduciary Funds

The Town operates five fiduciary funds. These include the General Employees' Pension Trust Fund covering General and Lifeguard employees, the Police Officers' Retirement System, the Firefighters' Retirement System, the OPEB Trust Fund 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 Nowlen, Holt & Miner, P.A., performed this audit for fiscal year 2010. 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, 2009. This was the 22nd 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, 2010.

**Acknowledgements:** The preparation of the Comprehensive Annual Financial Report 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, Nowlen, Holt & Miner, 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, 2009

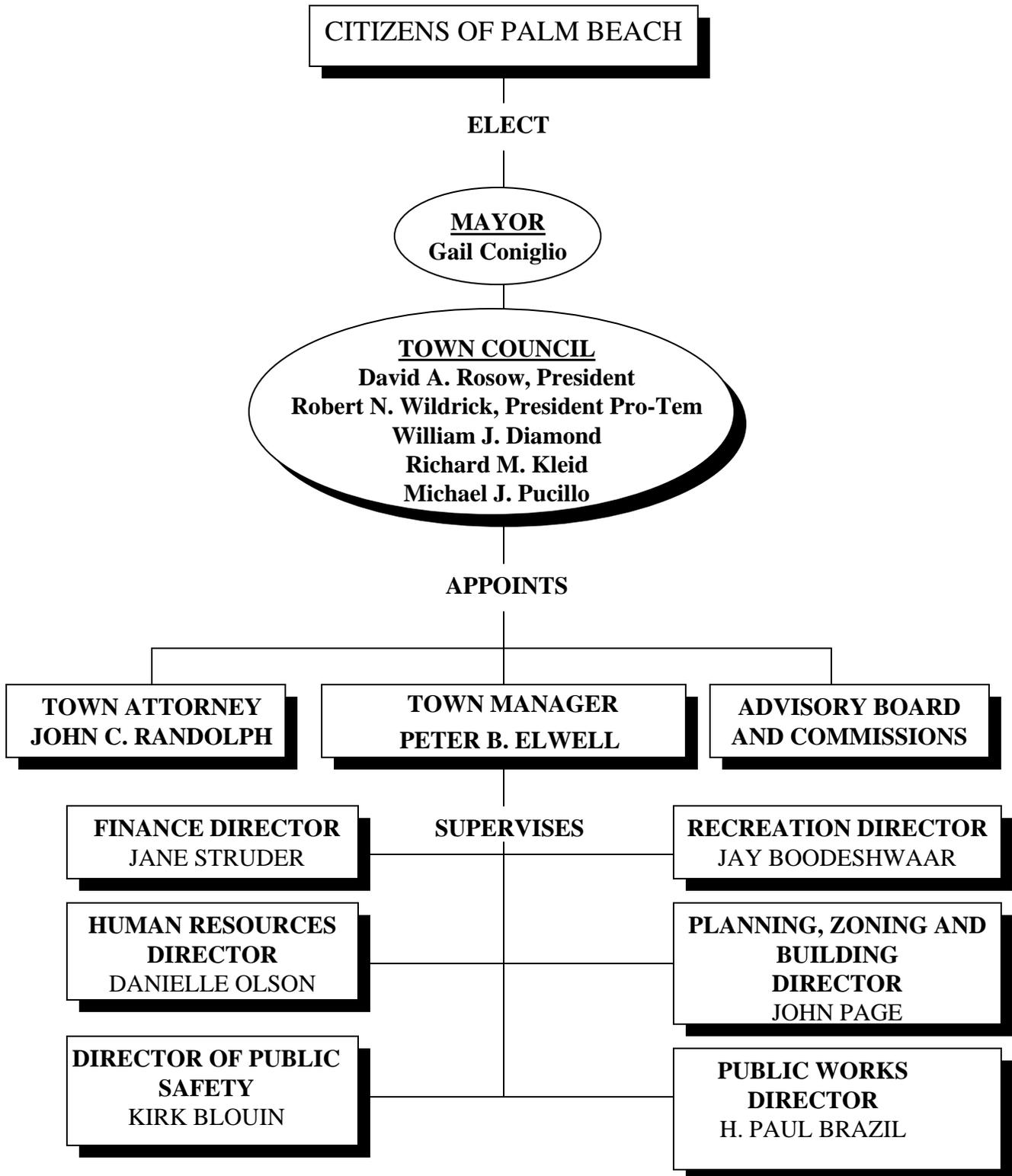
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

# TOWN OF PALM BEACH ORGANIZATIONAL STRUCTURE





# NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

WEST PALM BEACH OFFICE  
215 FIFTH STREET, SUITE 200  
POST OFFICE BOX 347  
WEST PALM BEACH, FLORIDA 33402-0347  
TELEPHONE (561) 659-3060  
FAX (561) 835-0628  
WWW.NHMCPA.COM

EVERETT B. NOWLEN (1830-1884), CPA  
EDWARD T. HOLT, CPA  
WILLIAM B. MINER, CPA  
ROBERT W. HENDRIX, JR., CPA  
JANET R. BARICEVICH, CPA

KATHLEEN A. MINER, CPA  
TERRY L. MORTON, JR., CPA  
N. RONALD BENNETT, CPA  
J. MICHAEL STEVENS, CPA  
ALEXIA G. VARGA, CPA  
BRIAN J. BRESCIA, CFP®, CPA  
KARA D. PETERSON, CPA  
EDWARD T. HOLT, JR., CPA

## INDEPENDENT AUDITOR'S REPORT

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

BELLE GLADE OFFICE  
333 S.E. 2nd STREET  
POST OFFICE BOX 338  
BELLE GLADE, FLORIDA 33430-0338  
TELEPHONE (561) 898-5612  
FAX (561) 898-8248

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 Town of Palm Beach, Florida as of and for the year ended September 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Palm Beach, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Palm Beach Police Officers' Retirement System and the Town of Palm Beach Firefighters' Retirement System., two fiduciary funds of the Town of Palm Beach, which together represent 46 percent, 47 percent, and 38 percent, respectively of the assets, fund balance/net assets, and additions/revenue of the aggregate remaining fund information of the Town of Palm Beach, Florida. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Palm Beach Police Officers' Retirement System and the town of Palm Beach Firefighters' Retirement System, is based on the report of other auditors.

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

In our opinion, based on our audit and the reports of other auditors, 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, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2011, on our consideration of the Town of Palm Beach, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, the budgetary comparison information on pages 82 through 86, the schedule of funding progress - pension plans on page 87, the schedule of contributions from employer - General Employees' Retirement System on page 88, and the schedule of funding progress - other postemployment benefits on page 89 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Palm Beach, Florida's financial statements as a whole. The introductory section, combining and individual fund financial statements and schedules, debt service requirements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements and schedules and debt service requirements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Nowlen, Holt & Mimer, P.A.*

West Palm Beach, Florida  
June 24, 2011

## 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, 2010. 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-v 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 \$188,922,390 (net assets). Of this amount, \$37,313,649 (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 \$89,523,283, an increase of \$36,304,980 in comparison with the prior year. Approximately 20% 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 (designated and undesignated) for the general fund was \$26,919,376. The undesignated fund balance is \$18,394,714.
4. The Town's total government-wide revenue was \$67,252,001, while total expenses were \$69,458,805.
5. Governmental Activities generated \$62,869,229 in revenue (excluding transfers) with \$65,684,123 in expenses.
6. Business-type Activities generated \$4,382,772 in revenue (excluding transfers) with \$3,774,682 in expenses.
7. The Town's long-term debt increased by \$53,982,602 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 14-16 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 thirteen 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, accelerated Capital Fund and the Worth Avenue Construction Fund, all of which are considered major funds. Data for the other ten 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 17-20 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 recreation 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, self-insurance risk fund, and equipment replacement fund.

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

Proprietary fund statements 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 Recreation Enterprise Fund (enterprise fund) and 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 21-24 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 fund 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 25-26.

***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 27-81 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 82-89 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 90-112 of this report.

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

**Net assets.** On the following page, is a summary of the fiscal year 2010 Statement of Net Assets found on page 14 and comparative information for fiscal year 2009.

**Town of Palm Beach, Florida**  
**Net Assets**  
**September 30, 2010 and 2009, As Restated**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>ASSETS</b>						
Current and other assets	\$150,256,086	\$107,747,032	\$ 3,708,250	\$ 4,364,744	\$153,964,336	\$112,111,776
Capital assets, net	<u>115,075,548</u>	<u>101,547,937</u>	<u>17,020,243</u>	<u>16,898,658</u>	<u>132,095,791</u>	<u>118,446,595</u>
Total assets	265,331,634	209,294,969	20,728,493	21,263,402	286,060,127	230,558,371
<b>LIABILITIES</b>						
Current liabilities	16,022,953	11,034,560	632,144	1,214,439	16,655,097	12,248,999
Long-term liabilities	<u>80,298,283</u>	<u>26,985,117</u>	<u>184,357</u>	<u>195,061</u>	<u>80,482,640</u>	<u>27,180,178</u>
Total liabilities	96,321,236	38,019,677	816,501	1,409,500	97,137,737	39,429,177
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	89,404,386	81,895,679	17,020,243	16,898,658	106,424,629	98,794,337
Restricted	45,184,112	611,489			45,184,112	611,489
Unrestricted	<u>34,421,900</u>	<u>88,768,124</u>	<u>2,891,749</u>	<u>2,955,244</u>	<u>37,313,649</u>	<u>91,723,368</u>
Total net assets	<u>\$169,010,398</u>	<u>\$171,275,292</u>	<u>\$ 19,911,992</u>	<u>\$ 19,853,902</u>	<u>\$188,922,390</u>	<u>\$191,129,194</u>

Net assets may serve over time as a useful indicator of a government's financial position. At September 30, 2010, the Town's assets exceeded liabilities by \$188,922,390. Net assets decreased by \$2,206,804 as a result of a \$2,264,894 decrease in governmental activities and an increase of \$58,090 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 \$37,313,649.

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 \$106,424,629. 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, 2010, as compared to September 30, 2009:

**Town of Palm Beach, Florida**  
**Changes in Net Assets**  
**For the Fiscal Years Ended September 30, 2010 and 2009, As Restated**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 8,667,456	\$ 9,321,933	\$ 4,350,130	\$ 4,160,010	\$ 13,017,586	\$ 13,481,943
Operating grants and contributions	902,978	1,283,953			902,978	1,283,953
Capital grants and contributions	515,464	2,332,741	6,500	1,830,934	521,964	4,163,675
General revenue:						
Property taxes	41,508,570	42,887,217			41,508,570	42,887,217
Local option gas tax	321,246	323,655			321,246	323,655
Franchise fees	2,152,817	2,437,248			2,152,817	2,437,248
Utility service taxes	4,885,696	4,659,433			4,885,696	4,659,433
Business tax receipts	716,018	726,239			716,018	726,239
Intergovernmental	905,276	1,188,112			905,276	1,188,112
Investment earnings	2,061,399	2,728,147	26,142	67,711	2,087,541	2,795,858
Miscellaneous	232,309	280,004			232,309	280,004
Total revenue	<u>62,869,229</u>	<u>68,168,682</u>	<u>4,382,772</u>	<u>6,058,655</u>	<u>67,252,001</u>	<u>74,227,337</u>
<b>Expenses</b>						
General government	13,535,702	11,687,399			13,535,702	11,687,399
Public safety	29,321,521	30,755,445			29,321,521	30,755,445
Physical environment	16,553,051	17,777,322			16,553,051	17,777,322
Transportation	898,456	1,206,068			898,456	1,206,068
Culture and recreation	3,293,395	1,796,409			3,293,395	1,796,409
Interest on long-term debt	2,081,998	741,244			2,081,998	741,244
Recreation						
Enterprise			<u>3,774,682</u>	<u>3,661,361</u>	<u>3,774,682</u>	<u>3,661,361</u>
Total expenses	<u>65,684,123</u>	<u>63,963,887</u>	<u>3,774,682</u>	<u>3,661,361</u>	<u>69,458,805</u>	<u>67,625,248</u>
<b>Increase in Net Assets</b>						
<b>Before Transfers</b>	(2,814,894)	4,204,795	608,090	2,397,294	(2,206,804)	6,602,089
Transfers	550,000	550,000	(550,000)	(550,000)	0	0
Increase in net assets	<u>(2,264,894)</u>	<u>4,754,795</u>	<u>58,090</u>	<u>1,847,294</u>	<u>(2,206,804)</u>	<u>6,602,089</u>
Net assets at beginning of year						
	<u>171,275,292</u>	<u>166,520,497</u>	<u>19,853,902</u>	<u>18,006,608</u>	<u>191,129,194</u>	<u>184,527,105</u>
Net assets at end of year						
	<u>\$169,010,398</u>	<u>\$171,275,292</u>	<u>\$ 19,911,992</u>	<u>\$ 19,853,902</u>	<u>\$188,922,390</u>	<u>\$191,129,194</u>

The Town's combined net assets decreased by \$2,206,804 or 1.1% during 2010. This decline can be attributed to governmental activities that decreased \$2,264,894 or 103% of the total decline in net assets of the Town offset by business-type activities that increased \$58,090. The decrease in net assets of the

governmental activities is attributable to declines in revenue sources and increases in expenditures in governmental operations.

### Financial Analysis

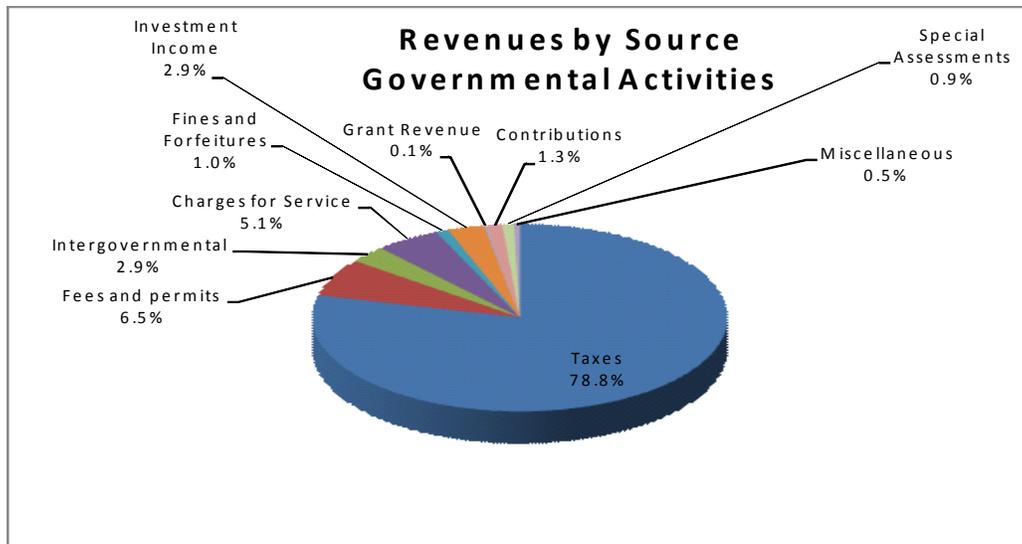
**Governmental funds.** The fund financial statements for the governmental funds are provided on pages 17-20. The focus of the Town of Palm Beach's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing 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 \$89,523,283, which increased by \$36,304,980 from September 30, 2009. This increase was primarily due to the issuance of bonds to fund a portion of the Town's 20 year capital improvement program.

The following schedule presents a summary of all governmental fund revenue for the fiscal year ended September 30, 2010, and the amount and percentage of increases and decreases in relation to prior year revenues:

<b>Revenue</b>	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2009</u>	<u>Percent Increase (Decrease)</u>
Taxes	\$ 49,629,856	78.8%	\$ (1,403,936)	(2.8)%
Fees and permits	4,102,878	6.5	(762,902)	(15.7)
Intergovernmental	1,852,267	2.9	(82,774)	(4.3)
Charges for services	3,194,361	5.1	(62,060)	(1.9)
Fines and forfeitures	620,978	1.0	(306,885)	(33.1)
Investment income	1,814,395	2.9	(575,579)	(24.1)
Grant revenue	83,306	0.1	(709,356)	(89.5)
Contributions	795,161	1.3	795,161	100.0
Special Assessments	564,419	0.9	564,419	100.0
Miscellaneous	<u>302,124</u>	<u>0.5</u>	<u>(266,331)</u>	<u>(46.9)</u>
<b>Total Revenue</b>	<b><u>\$ 62,959,745</u></b>	<b><u>100.0%</u></b>	<b><u>\$ (2,810,243)</u></b>	<b><u>(4.3)%</u></b>

The most significant changes in revenue are described below:

- Property taxes decreased resulting from a decrease in the taxable value and maintaining the same millage rate.
- License and permit revenue decreased due to a decline in building permit activity.
- Intergovernmental revenue decreased due to a reduction in the County 911 reimbursement.
- Charges for services decreased due to decreases in special detail usage.
- Fine and forfeiture income declined due to reduced code enforcement fine revenue.
- Investment income decreased due to the low interest rate environment.
- Grant revenue decreased due to funding received in FY2009 for grants received for the Town Hall renovation project and beach restoration projects.
- Miscellaneous revenue decreased due to one-time payments received in FY09.



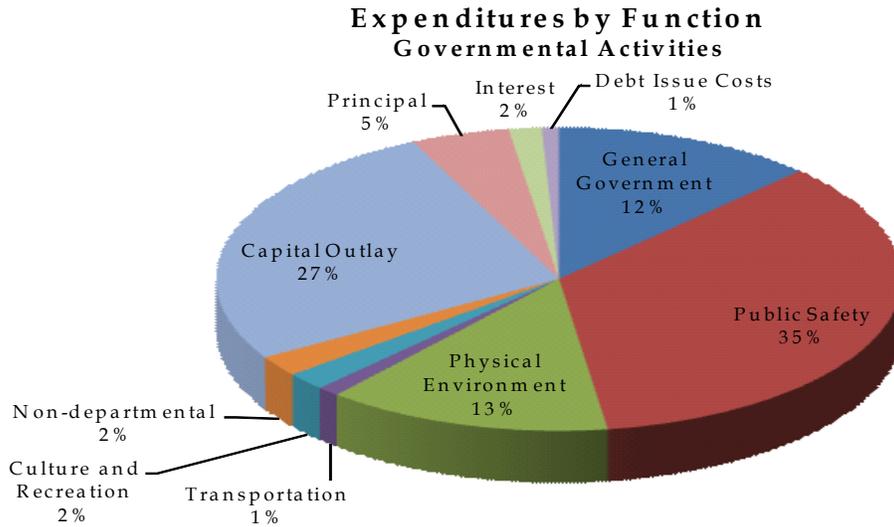
The following schedule presents a summary of all governmental funds expenditures for the fiscal year ended September 30, 2010, and the percentage of increases and decreases in relation to prior year amounts:

	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2009</u>	<u>Percent Increase (Decrease)</u>
<b>Expenditures</b>				
<b>Current:</b>				
General government	\$ 10,716,676	12.4%	\$ (206,501)	(1.9)%
Public safety	30,556,992	35.3	(810,675)	(2.6)
Physical environment	11,576,185	13.4	(1,854,470)	(13.3)
Transportation	909,308	1.1	(339,137)	(27.2)
Culture and recreation	1,640,889	1.9	(217,745)	(11.7)
Non-departmental	1,902,338	2.2	(15,663)	(0.8)
<b>Capital Outlay</b>	<b>23,045,739</b>	<b>26.7</b>	<b>11,615,824</b>	<b>101.6</b>
<b>Debt Service:</b>				
Principal	4,020,000	4.7	145,000	3.7
Interest	1,336,179	1.5	686,029	105.5
Debt issue costs	<u>701,133</u>	<u>0.8</u>	<u>676,830</u>	<u>2785.0</u>
<b>Total Expenditures</b>	<b><u>\$ 86,405,489</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 9,679,492</u></b>	<b><u>12.6%</u></b>

The reasons for the major increases and decreases in expenditures are as follows:

- General government expenditures decreased due to reductions in personnel and other cost saving measures.
- Public safety expenditures decreased due to the decreases in personnel expenditures.
- Physical environment costs decreased due to a decrease in expenditures for beach restoration, capital construction and other cost reduction measures.
- Transportation expenditures decreased due to reductions in street repair projects.
- Culture and recreation expenditures decreased due to reductions in the beach cleaning program and parks maintenance.
- Non-departmental expenditures represent the transfer to the Internal Service Insurance Funds. The decline relates to a decrease in the transfer to the Risk Insurance Fund.
- Capital outlay increased due to expenditures related to the accelerated capital improvement program and the Worth Avenue reconstruction project.

- Debt service payments and debt issue costs increased in FY2010 due to the issuance of the 2010 Revenue Bonds.



**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 \$18,394,714, while the total fund balance was \$27,432,236. The total fund balance of the General Fund decreased by \$3,741,347 due, in part, to transfers to the Capital Improvement Fund. As a measure of the General Fund's liquidity, it is useful to compare unreserved fund balance to total General Fund expenditures. Unreserved, undesignated fund balance represents 27.6% of total General Fund expenditures including transfers out.

The fund balance of the Capital Improvement Fund increased from the prior year by \$2,518,271. This increase resulted from the transfer from the General Fund.

The fund balance of the Accelerated Capital Fund was 40,737,530. The fund was established in FY10 as a result of the 2010 Revenue Bond issue.

The fund balance of the Worth Avenue Construction Fund was \$3,532,131. The fund was established in FY10 as a result of the 2010 Revenue Bond Series B for the Worth Avenue project. The future debt service is to be funded by special assessments on the property owners in the affected area.

Other governmental funds which include debt service, special revenue and small capital funds had fund balances totaling \$9,781,577. This represents a decrease of \$6,741,605 due to expenditures relating to the Town Hall project and beach restoration projects.

**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 Recreation Enterprise Fund.

Unrestricted net assets of the Recreation Enterprise Fund were \$2,867,062 at September 30, 2010. Net assets for this fund increased \$33,403 which is attributable to the re-opening of the Par 3 golf course.

**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 ordinance during the year. The FY2010 budget was also increased by the amount of commitments (unpaid purchase orders) from the prior year. Funds were 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.

Actual revenues were 2.1% less than the final budget due to lower than expected building permit revenue, fine and forfeiture revenue and investment earnings. Actual expenditures were 6.4% less than the final budget due to reductions in personnel other cost containment measures implemented in FY10.

## Capital Assets and Debt Administration

### Capital Assets

Capital assets are those assets (capital assets and infrastructure) that are used in the performance of the Town's functions. As of September 30, 2010, net capital assets of governmental activities totaled \$115,075,548 and the net capital assets of the business-type activities totaled \$17,020,243 (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.

**Town of Palm Beach  
Capital Assets  
September 30, 2010 and 2009, As Restated**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 9,946,951	\$ 9,946,951	\$ 5,623,777	\$ 5,623,777	\$ 15,570,728	\$ 15,570,728
Construction in Progress	15,156,493	12,775,016		4,841,793	15,156,493	17,616,809
Buildings	28,396,062	14,778,887	2,525,499	2,590,110	30,921,561	17,368,997
Improvements other than buildings	585,529	553,630	8,598,041	3,531,768	9,183,570	4,085,398
Equipment	9,757,000	10,138,917	272,926	311,210	10,029,926	10,450,127
Infrastructure	51,003,602	53,094,960			51,003,602	53,094,960
Intangible assets- Facilities rights of use	229,911	259,576			229,911	259,576
	<u>\$ 115,075,548</u>	<u>\$ 101,547,937</u>	<u>\$ 17,020,243</u>	<u>\$ 16,898,658</u>	<u>\$ 132,095,791</u>	<u>\$ 118,446,595</u>

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

- The Town-wide storm drainage improvements continued in FY2010. The D-9 Basin/Mediterranean Road construction project replaced all electrical and mechanical equipment and provided standby power generation for the station to maintain existing pumping capacity. The D15 Basin/Lake Drive study was completed to replace the D-6, D-7 & D-15 pump stations in Lake Park. Improvements for Laurian Lane, North Lake Way and Tangier Avenue were also designed.

- The Town is continuing to work with the City of West Palm Beach to upgrade water mains throughout the Town that fall either within Town planned projects or stand-alone West Palm Beach projects.
- Force main replacement was completed in Royal Poinciana Way and Coconut Row in preparation for the replacement of the Flagler Memorial Bridge. Design plans were completed for replacement of single-family, pneumatically operated lift stations and continued coordination with residents for their replacement.
- The Worth Avenue Improvement project commenced in the spring of 2010 was completed in November 2010. The Worth Avenue project was a major streetscape project encompassing large portions of the Worth Avenue Commercial District. A Bond was issued for the project and the debt service will be paid using special non ad valorem assessments on the commercial properties benefitting from the improvements.
- The renovation of Town Hall began in August 2008 and was completed in June 2010. Grant funding was received from the State of Florida.

### Debt Administration

As of September 30, 2010, the Town had \$71,805,000 in revenue bonds outstanding representing a 254% increase due to the issuance of the 2010 Revenue Bonds in fiscal year 2010. 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 G to the financial statements.

**Town of Palm Beach  
Outstanding Debt  
September 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Revenue Bonds Payable	\$ 71,805,000	\$ 9,330,000
Revenue Notes Payable		10,395,004
Loan Payable	<u>648,762</u>	<u>753,889</u>
Total	<u>\$ 72,453,762</u>	<u>\$ 20,478,893</u>

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

### Economic Factors and Next Year's Budgets and Rates

For FY2011, the Town Council adopted a General Fund budget, including transfers out, of \$63,734,848 representing a 4.7% decrease from FY2010. The FY2011 budget includes a pay freeze for all employees and a reduction in property tax revenue of \$5,080,500. The taxable value decreased by 11.42% in FY2011 and the Town's total millage rate remained constant at 3.2512.

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 annually prepared a Long Term Financial Plan to forecast the effects on revenues from the economic downturn. To reduce projected deficits staff has reviewed pension benefits, health insurance benefits, compensation program for all Town employees, and reductions in staffing. Many of these changes have been implemented in the FY11 budget and further reductions will occur in the FY12 budget.

## **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)**

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2010

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 95,447	\$ 2,300	\$ 97,747
Equity in pooled cash and investments	120,215,876	5,300,959	125,516,835
Accounts receivable, net	1,302,793	15,294	1,318,087
Interest receivable	305,282	13,283	318,565
Due from other governments	1,146,772	62,516	1,209,288
Internal balances	1,686,102	(1,686,102)	
Inventory	495,587		495,587
Prepays	140,057		140,057
Net OPEB asset	14,812,000		14,812,000
Debt issue costs	687,423		687,423
Investment in joint venture	8,723,707		8,723,707
Equity in pooled cash and investments - restricted	645,040		645,040
Capital assets			
Land	9,946,951	5,623,777	15,570,728
Construction in progress	15,156,493		15,156,493
Capital assets being depreciated and amortized, net	89,972,104	11,396,466	101,368,570
Total assets	<u>265,331,634</u>	<u>20,728,493</u>	<u>286,060,127</u>
<b>LIABILITIES</b>			
Accounts and contracts payable	7,346,700	77,301	7,424,001
Accrued liabilities	4,870,439	40,422	4,910,861
Accrued interest payable	808,163		808,163
Restricted payable	645,040		645,040
Due to other governments	1,145,232		1,145,232
Deposits	155,758	194,233	349,991
Deferred revenue	1,051,621	320,188	1,371,809
Long-term debt			
Due within one year	2,090,474	25,691	2,116,165
Due in more than one year	78,207,809	158,666	78,366,475
Total Liabilities	<u>96,321,236</u>	<u>816,501</u>	<u>97,137,737</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	89,404,386	17,020,243	106,424,629
Restricted for:			
Debt service	263,095		263,095
Public safety	241,373		241,373
Capital projects	44,322,255		44,322,255
Other purposes	357,389		357,389
Unrestricted	34,421,900	2,891,749	37,313,649
Total net assets	<u>\$ 169,010,398</u>	<u>\$ 19,911,992</u>	<u>\$ 188,922,390</u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF ACTIVITIES

Year Ended September 30, 2010

Functions / Programs	Expenses	Program Revenue		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
<b>Government activities</b>				
General government	\$ 13,535,702	\$ 4,239,229	\$ 576,737	\$ 4,421
Public safety	29,321,521	2,023,808	322,706	103,102
Physical environment	16,553,051	1,098,951		396,979
Transportation	898,456	1,268,087	9	10,962
Culture and recreation	3,293,395	37,381	3,526	
Interest on long-term debt	2,081,998			
Total governmental activities	65,684,123	8,667,456	902,978	515,464
<b>Business-type activities</b>				
Leisure services	3,774,682	4,350,130		6,500
Total	\$ 69,458,805	\$ 13,017,586	\$ 902,978	\$ 521,964

**General Revenue**

Property taxes  
 Local option gas tax  
 Franchise taxes  
 Utility service taxes  
 Business tax receipts  
 Intergovernmental not restricted to specific programs  
 Investment earnings  
 Miscellaneous

**Transfers**

Total general revenue and transfers

Change in net assets

**Net assets - beginning of year, as restated**

**Net assets - end of year**

Net Revenue (Expense) and  
Changes in Net Assets

Governmental Activities	Business-type Activity	Total
\$ (8,715,315)	\$	\$ (8,715,315)
(26,871,905)		(26,871,905)
(15,057,121)		(15,057,121)
380,602		380,602
(3,252,488)		(3,252,488)
(2,081,998)		(2,081,998)
(55,598,225)		(55,598,225)
	581,948	581,948
(55,598,225)	581,948	(55,016,277)
41,508,570		41,508,570
321,246		321,246
2,152,817		2,152,817
4,885,696		4,885,696
716,018		716,018
905,276		905,276
2,061,399	26,142	2,087,541
232,309		232,309
550,000	(550,000)	
53,333,331	(523,858)	52,809,473
(2,264,894)	58,090	(2,206,804)
171,275,292	19,853,902	191,129,194
\$ 169,010,398	\$ 19,911,992	\$ 188,922,390

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
September 30, 2010

	Major Governmental Funds					
	General Fund	Capital Improvement Fund	Accelerated Capital Fund	Worth Avenue Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 53,870	\$	\$	\$	\$	\$ 53,870
Equity in pooled cash and investments	27,969,772	9,008,668	41,333,254	6,735,571	9,665,725	94,712,990
Accounts receivable, net	1,272,092				30,701	1,302,793
Interest receivable	12,044	23,102	168,583		50,358	254,087
Due from other governments	469,416	65,424			611,932	1,146,772
Due from other funds	1,512,854		1,740,844	20,000	35,499	3,309,197
Inventory	495,587					495,587
Prepaid items	17,273				17,715	34,988
Restricted cash		645,040				645,040
<b>TOTAL ASSETS</b>	<b>\$ 31,802,908</b>	<b>\$ 9,742,234</b>	<b>\$ 43,242,681</b>	<b>\$ 6,755,571</b>	<b>\$ 10,411,930</b>	<b>\$ 101,955,324</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts and contracts payable	\$ 923,486	\$ 1,054,013	\$ 1,958,888	\$ 2,256,849	\$ 286,927	\$ 6,480,163
Accrued liabilities	909,003					909,003
Restricted payable		645,040				645,040
Due to other governments	1,145,232					1,145,232
Due to other funds	66,002		546,263	966,591	20,000	1,598,856
Deposits	155,758					155,758
Deferred revenue	1,171,191	3,372			323,426	1,497,989
<b>TOTAL LIABILITIES</b>	<b>4,370,672</b>	<b>1,702,425</b>	<b>2,505,151</b>	<b>3,223,440</b>	<b>630,353</b>	<b>12,432,041</b>
<b>FUND BALANCES</b>						
Reserved						
Inventory	495,587					495,587
Prepays	17,273					17,273
Capital projects			18,526,730		52,594	18,579,324
Unreserved, designated for/reported in:						
Subsequent year's expenditures	4,541,745	496,000	22,210,800	3,532,131	115,859	30,896,535
East Central Regional Wastewater						
Treatment Facility	893,981					893,981
Compensated absences	3,065,810					3,065,810
Special revenue funds					598,762	598,762
Debt service funds					147,236	147,236
Capital projects funds		7,543,809			8,867,126	16,410,935
Other purposes	23,126					23,126
Unreserved, undesignated	18,394,714					18,394,714
<b>TOTAL FUND BALANCES</b>	<b>27,432,236</b>	<b>8,039,809</b>	<b>40,737,530</b>	<b>3,532,131</b>	<b>9,781,577</b>	<b>89,523,283</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 31,802,908</b>	<b>\$ 9,742,234</b>	<b>\$ 43,242,681</b>	<b>\$ 6,755,571</b>	<b>\$ 10,411,930</b>	<b>\$ 101,955,324</b>

See notes to the financial statements.



TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2010

	Major Governmental Funds					Total Governmental Funds
	General Fund	Capital Improvement Fund	Accelerated Capital Fund	Worth Avenue Construction Fund	Other Governmental Funds	
<b>REVENUES</b>						
Taxes	\$ 49,629,856	\$	\$	\$	\$	\$ 49,629,856
Fees and permits	4,102,878					4,102,878
Intergovernmental	1,852,267					1,852,267
Charges for services	3,194,361					3,194,361
Fines and forfeitures	594,473				26,505	620,978
Investment earnings	1,168,997	90,991	394,988	16,370	143,049	1,814,395
Grant revenue	9,753				73,553	83,306
Contributions				14,801	780,360	795,161
Special assessments					564,419	564,419
Miscellaneous	291,349	9,720			1,055	302,124
Total revenues	60,843,934	100,711	394,988	31,171	1,588,941	62,959,745
<b>EXPENDITURES</b>						
Current						
General government	10,393,025	6,000			317,651	10,716,676
Public safety	30,381,310				175,682	30,556,992
Physical environment	10,790,495	232,583			553,107	11,576,185
Transportation	909,308					909,308
Culture and recreation	1,633,693	3,372			3,824	1,640,889
Non-departmental	1,902,388					1,902,388
Capital outlay	374,361	2,265,942	2,636,580	9,911,085	7,857,771	23,045,739
Debt service						
Principal					4,020,000	4,020,000
Interest				3,514	1,332,665	1,336,179
Debt issue costs			546,496	154,637		701,133
Total expenditures	56,384,580	2,507,897	3,183,076	10,069,236	14,260,700	86,405,489
Revenue over (under) expenditures	4,459,354	(2,407,186)	(2,788,088)	(10,038,065)	(12,671,759)	(23,445,744)
<b>OTHER FINANCING SOURCES (USES)</b>						
Revenue note proceeds		96,500			97,524	194,024
Refunding bonds issued			56,371,334		663,666	57,035,000
Revenue bonds issued				14,569,936	200,064	14,770,000
Revenue bond premium			2,990,255			2,990,255
Revenue bond discount				(410,712)		(410,712)
Retirement of revenue note			(10,000,000)	(589,028)		(10,589,028)
Payment to refunded bond escrow agent			(5,835,971)			(5,835,971)
Proceeds from sale of capital assets	1,047,156					1,047,156
Transfers in	550,000	4,828,957			5,379,518	10,758,475
Transfers out	(9,797,857)				(410,618)	(10,208,475)
Total other financing sources (uses)	(8,200,701)	4,925,457	43,525,618	13,570,196	5,930,154	59,750,724
Net Change in Fund Balances	(3,741,347)	2,518,271	40,737,530	3,532,131	(6,741,605)	36,304,980
Fund balances - beginning of year, as restated	31,173,583	5,521,538			16,523,182	53,218,303
Fund balances - end of year	\$ 27,432,236	\$ 8,039,809	\$ 40,737,530	\$ 3,532,131	\$ 9,781,577	\$ 89,523,283

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2010

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 36,304,980</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives	
Expenditure for capital assets	21,875,971
Less current year depreciation and amortization	(5,583,317)
Net book value of asset disposals	(1,875,218)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds	
Change in investment in joint venture	(52,287)
Donations of capital assets	6,300
Governmental funds report revenue when earned and available. However, the government-wide statements recognize revenue when earned, regardless of availability	
Grant revenues	380,298
Intergovernmental revenues	(45,509)
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.	
Revenue bonds issued	(71,999,024)
Bonds original issue premium	(2,990,255)
Bonds original issue discount	410,712
Retirement of revenue notes	10,589,028
Payment to escrow fund	5,835,971
Debt issue costs paid	701,133
Repayment of debt principal	4,020,000
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.	
Amortization of bond issue costs	(31,131)
Amortization of loss on refunding	(82,205)
Amortization of bond premiums	55,841
Amortization of bond discounts	(7,564)
Change in accrued interest payable	(711,891)
Change in compensated absences	33,233
Change in net OPEB asset	415,130
Change in accrued landfill closure and postclosure care costs	(62,030)
Change in termination benefits	792,560
Internal service funds are used to charge the costs of certain activities to individual governmental and enterprise funds. The net income of certain activities of internal service funds are reported with governmental activities in the Statement of Activities	
Consolidation of operating loss related to governmental funds	(684,511)
Nonoperating revenue	438,891
<b>Change in net assets of governmental activities</b>	<b>\$ (2,264,894)</b>

See notes to financial statements

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

September 30, 2010

	Business-type Activities - Recreation Enterprise Fund	Governmental Activities - Internal Service Funds
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$      2,300	\$      41,577
Equity in pooled cash and investments	5,300,959	25,502,886
Account receivable	15,294	
Interest receivable	13,283	51,195
Due from other funds	30,055	448
Due from other governments	62,516	
Prepaid expenses		105,069
Total current assets	<u>5,424,407</u>	<u>25,701,175</u>
Noncurrent assets		
Capital assets		
Land	5,623,777	
Construction in progress		
Buildings	3,182,585	
Improvements other than buildings	11,125,292	
Equipment	536,071	18,064,374
	<u>20,467,725</u>	<u>18,064,374</u>
Less accumulated depreciation	(3,447,482)	(8,307,373)
Total capital assets, net of accumulated depreciation	<u>17,020,243</u>	<u>9,757,001</u>
Total assets	22,444,650	35,458,176
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	77,301	866,537
Accrued liabilities	40,422	3,961,436
Due to other funds	1,740,844	
Compensated absences payable	25,691	2,200
Customer deposits	194,233	
Deferred revenue	320,188	
Total current liabilities	<u>2,398,679</u>	<u>4,830,173</u>
Noncurrent liability		
Compensated absences payable	158,666	15,348
Total liabilities	<u>2,557,345</u>	<u>4,845,521</u>
<b>NET ASSETS</b>		
Invested in capital assets	17,020,243	9,757,001
Unrestricted	2,867,062	20,855,654
Total net assets	<u>\$ 19,887,305</u>	<u>\$ 30,612,655</u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

RECONCILIATION OF THE ENTERPRISE FUND  
TO THE BUSINESS-TYPE ACTIVITIES

September 30, 2010

	<u>Net Assets</u>	<u>Changes in Net Assets</u>
<b>Amounts reported for the Recreation Enterprise Fund</b>	\$ 19,887,305	\$ 33,403
risk management, group health insurance, and equipment replacement to individual governmental and enterprise funds. The operating income or loss of certain activities of internal service funds related to the enterprise fund are included with business-type activities in the government-wide statements.		
The following reflects the consolidation of internal service fund activities related to the enterprise fund.		
Consolidating adjustment	<u>24,687</u>	<u>24,687</u>
<b>Amounts reported for the Business-Type Activities</b>	<u>\$ 19,911,992</u>	<u>\$ 58,090</u>

See notes to the financial statements

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2010

	Business-type Activities - Recreation Enterprise Fund	Governmental Activities - Internal Service Funds
	<u>                    </u>	<u>                    </u>
<b>OPERATING REVENUES</b>		
Golf fees and related revenue	\$ 698,415	\$
Marina fees and related revenue	3,067,132	
Charges for services	550,917	8,402,720
Other operating revenue	33,666	25,368
Total operating revenues	<u>4,350,130</u>	<u>8,428,088</u>
<b>OPERATING EXPENSES</b>		
Personal services	1,931,971	184,115
Contractual services	468,944	18,990
Repairs and maintenance	128,585	500
Equipment rental	9,259	
Materials and supplies	196,087	
Utilities	417,327	
Insurance		1,930,027
Claims		4,909,579
Depreciation	515,472	1,810,511
Other	101,424	234,190
Total operating expenses	<u>3,769,069</u>	<u>9,087,912</u>
Operating income	581,061	(659,824)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings	26,142	299,291
Insurance recoveries		429,348
Interest expense and fiscal charges	(24,900)	
Loss on disposal of capital assets	(5,400)	(289,748)
Total nonoperating revenues (expenses)	<u>(4,158)</u>	<u>438,891</u>
Income (loss) before capital contributions and transfers	576,903	(220,933)
Capital contributions	6,500	
Transfers in		5,515,499
Transfers out	(550,000)	
Change in net assets	33,403	5,294,566
Net assets - beginning of year, as restated	<u>19,853,902</u>	<u>25,318,089</u>
Net assets - end of year	<u>\$ 19,887,305</u>	<u>\$ 30,612,655</u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended September 30, 2010

	Business-type Activities - Recreation Enterprise Fund	Governmental Activities - Internal Service Fund
<b>OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 5,918,553	\$
Receipts from interfund services provided		8,402,398
Payments to employees	(1,947,022)	(191,753)
Payments to suppliers	(1,800,144)	(6,279,214)
Payments to other funds		(9,200)
Other receipts	33,666	25,368
Net cash provided by operating activities	<u>2,205,053</u>	<u>1,947,599</u>
<b>NONCAPITAL FINANCING ACTIVITY</b>		
Transfers to other funds	<u>(550,000)</u>	
Net cash used in noncapital financing activities	(550,000)	
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(642,456)	(1,308,373)
Proceeds from sale of assets		35,108
Insurance recoveries		429,348
Capital contributions	6,500	
Net cash used in capital and related financing activities	<u>(635,956)</u>	<u>(843,917)</u>
<b>INVESTING ACTIVITY</b>		
Investment earnings received	12,859	303,800
Interest paid	(24,900)	(7,458)
Net cash provided (used) by investing activities	<u>(12,041)</u>	<u>296,342</u>
Net decrease in cash and cash equivalents	1,007,056	1,400,024
Cash and cash equivalents - beginning of year	<u>4,296,203</u>	<u>24,144,439</u>
Cash and cash equivalents - end of year	<u>\$ 5,303,259</u>	<u>\$ 25,544,463</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 581,061	\$ (659,824)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	515,472	1,810,511
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(14,294)	
(Increase) decrease in due from other funds	(25,030)	3,469
(Increase) decrease in prepaid expenses		(79,682)
Increase (decrease) in accounts payable	(478,518)	159,660
Increase (decrease) in accrued liabilities	(4,348)	728,055
Increase (decrease) in due to other funds	1,740,844	(3,791)
Increase (decrease) in customer deposits	(5,800)	
Increase (decrease) in unearned revenue	(93,630)	
Increase (decrease) in compensated absences payable	(10,704)	(10,799)
Net cash provided by operating activities	<u>\$ 2,205,053</u>	<u>\$ 1,947,599</u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

September 30, 2010

	<u>Trust Funds</u>	<u>Kreusler Park Agency Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,396,264	\$
Equity in pooled cash and investments	1,630,089	
Interest and dividends receivable	158,460	
State contributions receivable	104,195	
Due from broker for securities sold	6,756,496	
Other receivables	206,658	13,652
Note receivable	12,062	
Prepaid expenses and other assets	55,204	
Investments, at fair value		
U.S. government securities	8,738,487	
Corporate bonds and notes	15,564,507	
Common stock	18,082,394	
Domestic equity funds	41,268,968	
International equity funds	19,935,333	
Domestic fixed income funds	24,029,149	
Real estate funds	9,860,040	
Alternative investments	40,895,965	
Private equity funds	328,935	
Share and DROP mutual funds held outside the Plan	694,448	
Total Assets	<u>193,717,654</u>	<u>13,652</u>
<b>LIABILITIES</b>		
Accounts payable	297,253	13,297
Accrued liabilities	28,391	
Due to other government		355
Due to broker for securities purchased	68,747	
Deferred retirement option plan payable	559,832	
Share and deferred retirement option plan payable - held outside the Plan	694,448	
Total liabilities	<u>1,648,671</u>	<u>13,652</u>
<b>NET ASSETS</b>		
Held in trust for pension and retiree health benefits	<u>\$ 192,068,983</u>	<u>\$</u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

Year Ended September 30, 2010

	<u>Trust Funds</u>
<b>ADDITIONS</b>	
Contributions	
Employer	\$ 9,093,265
Employee	3,134,246
State	819,008
Other	<u>79,040</u>
Total contributions	13,125,559
Investment income (loss)	
Net appreciation in fair value of investments	13,835,768
Interest and dividends	1,279,446
Other	<u>5,243</u>
	15,120,457
Less investment expense	(728,696)
Allocation of investment income:	
Deferred retirement option plan	<u>(44,664)</u>
Net investment income	14,347,097
Total additions	<u>27,472,656</u>
<b>DEDUCTIONS</b>	
Benefit payments	13,468,680
Share account distributions	90,432
Refunds of participants' contributions	317,506
Administrative expense	480,493
Other	<u>74,494</u>
Total deductions	<u>14,431,605</u>
Net increase	13,041,051
Net assets held in trust for pension and retiree health benefits - beginning of year	<u>179,027,932</u>
NET ASSETS HELD IN TRUST FOR PENSION AND RETIREE HEALTH BENEFITS - END OF YEAR	<u>\$ 192,068,983</u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

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.

The basic financial statements of the Town have been prepared in conformity with United States generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board (the "GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the Town's significant accounting policies.

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.

The Town maintains four trust funds: three pension trust funds and one for other postemployment benefits. These trust funds are described as follows:

**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, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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.

**Town of Palm Beach OPEB Trust Fund:** The Town administers the Town of Palm Beach OPEB Trust Fund as a single-employer, defined benefit plan for other postemployment benefits, including health and dental insurance. The Plan is for the benefit of all eligible Town retirees.

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.

The Town participates in the following joint venture:

**East Central Regional Wastewater Treatment Facilities (the "ECR"):** The ECR is reported as a joint venture accounted for using the equity method as discussed in Note E.

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.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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 *Accelerated Capital Fund* accounts for capital projects financed with the proceeds of the Series 2010A Bonds. The projects are part of a 20 year comprehensive capital improvement program.

The *Worth Avenue Construction Fund* accounts for portions of the Worth Avenue improvement project financed with proceeds from the Series 2010B Bonds. The project is a major streetscape project encompassing large portions of the Worth Avenue Commercial District, including the three primary commercial blocks of historic Worth Avenue.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Proprietary Fund Financial Statements** - Proprietary Fund Financial Statements include a Balance Sheet and a Statement of Revenue, Expenses 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 *Recreation Enterprise 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. In addition, the *Equipment Replacement Fund* is used to account for the Town's internal service fund which provides for the accumulation of resources for the procurement and maintenance of major equipment and vehicles.

**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: trust 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:

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 *OPEB Trust Fund* is used to account for assets held in a trustee capacity for retiree healthcare benefits.

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, 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.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds 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. All franchise fees are based on gross receipts. 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 60 days of the end of the current fiscal year. Unearned revenue consists primarily of fees for building permits 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 non-operating 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 Recreation Enterprise 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.

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

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 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.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Tax Reform: During 2007, the Florida Legislature passed property tax reform legislation limiting the property tax levies of local governments in the State of Florida. Local governments that adopt a property tax levy in excess of the limit under State law will lose their Half-Cent Sales Tax distribution from the State for the succeeding twelve months. For the fiscal year ending September 30, 2010, the maximum tax levy allowed by a majority vote of the governing body is generally based on a percentage reduction applied to the prior year (2008/2009) property tax revenue. The percentage reduction is calculated based on the compound annual growth rate in the per capita property taxes levied for fiscal years ended September 30, 2003 through 2008.

The State law allows local governments to adopt a higher millage rate based on the following approval of the governing body: 1) a majority vote to adopt a rate equal to the adjusted current year rolled-back millage rate plus an adjustment for growth in per capita Florida personal income; 2) a two-thirds vote to adopt a rate equal to the adjusted current year rolled-back millage rate plus 10%; or 3) any millage rate approved by unanimous vote or referendum. For the fiscal year ending September 30, 2010 the Town adopted a millage rate of 3.2512. This millage rate results in a total tax levy of \$40,920,030 for 2010, representing a decrease of 8.03%, from the property tax levy of 2009. Beginning in 2009, future property tax growth is limited to the annual growth rate of per capita personal income plus the value of new construction.

Cash and Cash Equivalents: Cash and cash equivalents are defined as deposits with financial institutions, money market accounts and mutual funds 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.

Investments: Investments are stated at fair value. Securities and mutual funds held by the Town and traded on a national exchange are valued at the last reported sales price and transactions are recorded on a trade date basis.

Accounts Receivable: Accounts receivable consists primarily of 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.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses: Payments for insurance premiums and other administrative expenditures/ expenses extending over more than one accounting period are accounted for as prepaid expenses and allocated between accounting periods.

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 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 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 and construction in progress.

Estimated useful lives assigned to the various categories of assets are as follows:

Buildings	40 years
Improvements other than buildings	3-30 years
Equipment	3-20 years
Infrastructure	6-50 years

Intangible assets consist of the right of use of the City of Lake Worth, Florida's wastewater facilities. These assets are being amortized using the straight-line method over 40 years, the term of the underlying agreement.

Bond Issue Costs, Premiums, Discounts, and Deferred Losses on Refunding: Expenses incurred in connection with the issuance of long-term debt, as well as bond premiums, discounts and losses on refunding, are deferred and amortized over the term of the related debt in the government-wide financial statements. These amounts are amortized using the interest method or the straight-line method, which approximates the interest method.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets: Equity in the government-wide statement of net assets utilize a net assets 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*.

Fund Balance: Equity in 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 appropriable for expenditure or is legally segregated by outside parties for a specific purpose.

*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 for full-time employees and 160 hours for part-time employees, upon termination of service. Upon retirement, an employee will be paid 50% of all accrued and unused sick leave not to exceed 800 hours for full-time employees and 400 hours for part-time employees. 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.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unearned/Deferred Revenue: Unearned and deferred revenue consists of license fees and charges for services collected at the end of the fiscal year that relate to and will be earned in the subsequent fiscal year. Governmental revenues that have been earned but do not meet the availability criteria are also considered deferred revenue.

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.

Recent Accounting Pronouncement: The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The requirements of this statement will be effective for the Town for the fiscal year ending September 30, 2011. Management has not completed its analysis of the effects of GASB Statement No. 54, if any, on the financial statements of the Town.

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 - DEPOSITS AND INVESTMENTS

**Deposits**

Custodial Credit Risk: Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized. 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. The Town's deposits are considered insured for custodial credit risk purposes. At September 30, 2010, the carrying amount of the Town's deposits with financial institutions was \$5,935,569 and the bank balance was \$5,950,710. The Town also had \$4,960 in petty cash.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

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.” Investment earnings are allocated to the participating funds based on each fund’s relative percentage of investments. At September 30, 2010, the Town’s pooled cash and investments consisted of the following:

Description	Weighted Average Maturity	Fair Value
Deposits with financial institutions		\$ 5,842,782
Commercial paper	14 days	7,106,040
Money market mutual fund	50 days	10,796,504
Money market mutual fund	53 days	4,468,569
U.S. Treasuries	218 days	10,329,410
Federal Agencies	380 days	50,877,855
Florida Municipal Investment Trust		
1-3 Year High Quality Bond Fund	1.5 years	22,631,925
Intermediate High Quality Bond Fund	3.1 years	15,738,879
Total pooled cash and investments		\$127,791,964

**Investments**

Investment Authorization: Florida Statutes and the Town Code authorize the Town to invest in the 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, Freddie Mac, the Federal Home Loan Association; corporate bonds rated A or higher; 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 Florida Statutes on the investments of public employee retirement systems.

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.. 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 versus payment” basis to ensure that the custodian will have the security or money, as appropriate, in hand at the

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

**Investments** (Continued)

conclusion of the transaction. Investments in open-end mutual funds and external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. Consequently, the Town's investments in mutual funds, alternative investments, and the Florida Municipal Investment Trust are not exposed to custodial credit risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment 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. Rating by a nationally recognized statistical rating organization ("NRSRO") is an indication of credit risk. The Town requires that all investments in debt securities be rated A or higher by a NRSRO. The Town's pension plans investment policies address credit risk by limiting investments to bonds or preferred stocks rated investment grade or above, unless specifically approved by the Board. Securities which are unrated may be purchased, if in the judgment of the investment manager, they would carry an investment grade rating. Short-term money market instruments are restricted to those with a rating not less than A-1 or P-1.

Concentration of Credit Risk: Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's 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 in any one issuer that would cause the holding of that one issuer to exceed 5% of the manager's respective equity or fixed income portfolio. 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. Investments in broadly-based index funds, mutual funds, alternative investments, and U.S. Government and Agency securities are excluded from this limitation.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the time to maturity, the greater the exposure to interest rate risks. The Town's investment policy minimizes interest rate risk by structuring its investment portfolio so that securities mature to meet cash requirements 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 are limited to instruments maturing within five years of purchase.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. While there was no direct exposure to foreign currency risk in the Town's general operating investments at September 30, 2010, the Town's OPBB Trust Fund, the Police Officers' Retirement Trust Fund, and the Firefighters' Retirement Trust Fund held investments in international equity mutual funds.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

**Investments** (Continued)

The Town's investments in international equity mutual funds as of September 30, 2010 is as follows:

<u>Fund</u>	<u>Fair Value</u>
OPEB Trust Fund	\$ 3,048,652
Police Officers' Pension Trust Fund	7,482,995
Firefighters' Pension Trust Fund	<u>9,403,686</u>
Total international equity mutual funds	<u>\$19,935,333</u>

**General Operating Investments**

The Town's general operating investments and their maturities as of September 30, 2010, are summarized as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>	
		<u>Less than 1</u>	<u>1 to 5</u>
U.S. Treasuries	\$ 10,329,410	\$ 8,523,670	\$ 1,805,740
Federal agencies	50,877,855	25,354,312	25,523,543
Commercial paper	7,106,040	7,106,040	
Money market mutual funds	15,265,073	15,265,073	
Florida Municipal Investment Trust			
1-3 Year High Quality Bond Fund	22,631,925		22,631,925
Intermediate High Quality Bond Fund	<u>15,738,879</u>		<u>15,738,879</u>
Total general operating investments	<u>\$ 121,949,182</u>	<u>\$ 56,249,095</u>	<u>\$ 65,700,087</u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

**General Operating Investments** (Continued)

As a means of limiting its exposure to interest rate risk, the Town diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations of maturities. Information about the sensitivity of the fair values of the Plan’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Plan’s investments by maturity at September 30, 2010:

Investment Type	S&P Rating	Moody’s Rating	Fitch Rating	Fair Value
U.S. Treasuries*	Not Rated	Not Rated	Not Rated	\$ 10,329,410
Federal Agencies	AAA	Aaa	AAA	43,909,805
Federal Agencies	A-1+	P-1	F1+	6,968,050
Commercial paper	A-1+	P-1	F1+	908,723
Commercial paper	A-1+	P-1	Not Rated	1,204,472
Commercial paper	A-1	P-1	Not Rated	4,992,845
Money market mutual funds	AAAm	Aaa	AAA/mmf	10,796,504
Money market mutual funds	AAAm	Not Rated	Not Rated	4,468,569
Florida Municipal Investment Trust				
1-3 Year High Quality Bond Fund	Not Rated	Not Rated	AAA/V2	22,631,925
Intermediate High Quality Bond Fund	Not Rated	Not Rated	AAA/V3	15,738,879
Total investments				\$ 121,949,182

\* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

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 and the Intermediate High Quality Bond portfolio. 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.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

**OPEB Trust Fund Investments**

Investment Authorization: In addition to the Town’s investment policy, the OPEB Trust Fund is authorized to invest in domestic and international equity securities, corporate bonds, mutual funds, and investment partnerships and other alternative investments within certain limitations established by the Town Code.

As of September 30, 2010, the OPEB Trust Fund had the following investments:

<u>Investment</u>	<u>Fair Value</u>
State Street Government STIF	\$ 135,219
Corporate bonds and notes	1,410,104
Domestic equity funds	4,788,215
International equity funds	3,048,652
Domestic fixed income funds	2,607,055
Alternative investments	
Forester Offshore LTD Class A2	1,515,210
Forester Offshore LTD	169,091
Archstone Market	1,579,813
Guggenheim Plus II LP	759,923
Total OPEB investments	\$ 16,013,282

At September 30, 2010, approximately 25% of the OPEB Trust Fund investments were invested in alternative investments. These alternative investment funds invest primarily in domestic and foreign private equity partnerships and other alternative investment equity funds. The investments in the underlying funds are generally valued at fair value as determined by the management of the fund by reference to the value of the underlying fund’s assets, if available, or by the valuations of a fund’s underlying assets as provided by the general partner or investment manager, if the assets are not publicly traded. The funds may also hold certain investments which may be valued by a single market maker. While the fund managers use their best judgment in estimating the fair values of underlying funds, there are inherent limitations in any estimation technique. Accordingly, the fair values of alternative investment funds have been estimated by the Town’s management and investment advisors in the absence of readily ascertainable market values. Therefore, the values of such funds are not necessarily indicative of the amount that could be realized in a current transaction. The fair values may differ significantly from the values that would have been used had a ready market for the underlying funds existed, and the differences could be material. Future confirming events will also affect the estimates of fair value, and the effect of such events on the estimates of fair value could be material.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

**OPEB Trust Fund Investments** (Continued)

In addition to interest rate risk, credit risk, custodial credit risk, and concentration of credit risk, the alternative investment funds expose the fiduciary funds to certain other risks, including liquidity risks, counterparty risks, foreign political, economic, and governmental risks, and market risk. In addition, these investments may have restrictions for liquidating positions in these funds. The value, liquidity, and related income of certain securities with contractual cash flows, such as asset backed securities collateralized by mortgage obligations, commercial mortgage backed securities, and mutual funds investing in these securities or entities, are particularly sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

Due to the various risks associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

As a means of limiting its exposure to interest rate risk, the OPEB Trust Fund diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations of maturities. Information about the sensitivity of the fair values of the Trust Fund's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the investments by maturity at September 30, 2010:

Investment	Fair Value	Investment Maturities in Years			
		Less Than 1	1 to 5	6 to 10	More Than 10
State Street Government STIF	\$ 135,219	\$ 135,219	\$	\$	\$
Corporate bonds and notes	1,410,104				1,410,104
Domestic fixed income funds	2,607,055			2,607,055	
<b>Total fixed income</b>	<b>\$ 4,152,378</b>	<b>\$ 135,219</b>	<b>\$</b>	<b>\$ 2,607,055</b>	<b>\$ 1,410,104</b>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

**OPEB Trust Fund Investments** (Continued)

The Trust Fund’s investment policy addresses credit risk by limiting investments to the safest types of securities and diversifying the investment portfolio. Credit rating is also an indication of credit risk. The ratings for the OPEB Trust Fund investments at September 30, 2010 are summarized below

<u>Investment Type</u>	<u>S&amp;P Rating</u>	<u>Fair Value</u>
Corporate bonds and notes	AAA	\$ 22,531
Corporate bonds and notes	AA-	64,994
Corporate bonds and notes	A+	219,073
Corporate bonds and notes	A-	385,850
Corporate bonds and notes	A	179,225
Corporate bonds and notes	BBB+	204,947
Corporate bonds and notes	BBB	165,545
Corporate bonds and notes	BBB-	167,939
Domestic fixed income funds**	Not Rated	2,607,055
State Street Government STIF*	Not Rated	<u>135,219</u>
Total fixed income investments		<u>\$ 4,152,378</u>

\* The State Street Government STIF is not rated, but the underlying securities have an average credit rating of A-1+/P-1

\*\* The Domestic fixed income fund is not rated, but the underlying securities have an average credit rating of AAA/AA

**General Employees’ Retirement System Investments**

Investment Authorization: In addition to the Town’s investment policy, the General Employees’ Retirement System is authorized to invest in domestic and international equity securities, corporate bonds, mutual funds, and investment partnerships and other alternative investments within certain limitations established by the Town Code. The Plan’s investment policies provide that no investment manager may purchase an equity or fixed income security in any one issuer that would cause the holding of that one issuer to exceed 5% of the manager’s respective equity or fixed income portfolio. 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. Investments in broadly-based index funds, mutual funds, alternative investments, and U.S. Government and Agency securities are excluded from this limitation.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

**General Employees’ Retirement System Investments (Continued)**

As of September 30, 2010, the General Employees’ Retirement System had the following investments:

Investment	Fair Value
State Street STIF	\$ 460,539
Common stock	8,799,244
Domestic equity funds	23,808,395
Domestic fixed income funds	18,092,039
Alternative investments	
Mesirow absolute return fund	7,307,164
 Total investments	 \$ 58,467,381

At September 30, 2010, approximately 12% of the General Employees’ Retirement System investments were invested in alternative investments. These alternative investment funds invest primarily in domestic and foreign private equity partnerships and other alternative investment equity funds. The investments in the underlying funds are generally valued at fair value as determined by the management of the fund by reference to the value of the underlying fund’s assets, if available, or by the valuations of a fund’s underlying assets as provided by the general partner or investment manager, if the assets are not publicly traded. The funds may also hold certain investments which may be valued by a single market maker. While the fund managers use their best judgment in estimating the fair values of underlying funds, there are inherent limitations in any estimation technique. Accordingly, the fair values of alternative investment funds have been estimated by the Town’s management and investment advisors in the absence of readily ascertainable market values. Therefore, the values of such funds are not necessarily indicative of the amount that could be realized in a current transaction. The fair values may differ significantly from the values that would have been used had a ready market for the underlying funds existed, and the differences could be material. Future confirming events will also affect the estimates of fair value, and the effect of such events on the estimates of fair value could be material.

In addition to interest rate risk, credit risk, custodial credit risk, and concentration of credit risk, the alternative investment funds expose the fiduciary funds to certain other risks, including liquidity risks, counterparty risks, foreign political, economic, and governmental risks, and market risk. In addition, these investments may have restrictions for liquidating positions in these funds. The value, liquidity, and related income of certain securities with contractual cash flows, such as asset backed securities collateralized by mortgage obligations, commercial mortgage backed securities, and mutual funds investing in these securities or entities, are particularly sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market’s perception of the issuers and changes in interest rates.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

**General Employees' Retirement System Investments (Continued)**

Due to the various risks associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

As a means of limiting its exposure to interest rate risk, the Plan diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations of maturities. Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following tables that show the distribution of the Plan's investments by maturity at September 30, 2010:

Investment Type	Fair Value	Investment Maturities in Years	
		Less than 1	1 to 5
State Street STIF	\$ 460,539	\$ 460,539	\$
Domestic fixed income funds	18,092,039		18,092,039
Total fixed income	<u>\$ 18,552,578</u>	<u>\$ 460,539</u>	<u>\$ 18,092,039</u>

The Plan's investment policies address credit risk by limiting investments to bonds or preferred stocks rated investment grade or above, unless specifically approved by the Board. Securities which are unrated may be purchased, if in the judgment of the investment manager, they would carry an investment grade rating. No short-term money market instrument shall be purchased which has a rating less than A-1 or P-1. The ratings for the General Employees' Pension Plan investments at September 30, 2010 are summarized below.

Investment Type	S&P Rating	Moody's Rating	Fitch Rating	Fair Value
State Street STIF*	Not Rated	Not Rated	Not Rated	\$ 460,539
Domestic fixed income funds	A+	Aa3	A	<u>18,092,039</u>
Total fixed income				<u>\$ 18,552,578</u>

\* The State Street STIF is not rated, but the underlying investments have an average credit rating of A1+/P1

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

**Police Officers' Retirement Systems Investments**

Investment Authorization: The Plan's investment policy is determined by the Board of Trustees. The policy's objective is to obtain a reasonable total rate of return - defined as interest and dividend income plus realized and unrealized capital gains and/or losses - that meet or exceeds the actuarial interest rate assumption net of fees to ensure the Plan is actuarially sound. The investment policy of the Plan stipulates that the trustee shall, in acquiring, investing, reinvesting, exchanging, retaining, selling and maintaining property for the benefit of the Plan exercise the care, skill, prudence, and diligence that a prudent man acting in such matters would use in the conduct of an enterprise of like character and with like aim. The policy also states that investments of the Plan will be diversified so as to minimize the risk of large loss, unless under the circumstances it is clearly prudent not to do so.

The Trustees are authorized to acquire and retain every kind of property, real, personal or mixed, and every kind of investment specifically including, but not by way of limitation, bonds, debentures, and other corporate obligations, and stocks, preferred or common, which persons of prudence, discretion and intelligence acquire or retain for their own account. Investment in all equity securities shall be limited to those listed on one or more recognized national exchanges or on the National Market System and limited to no more than 60% of the Plan's total asset value with no more than 5% of the Plan's total assets, invested in the common stock of any one company. Each investment manager shall monitor assets under its jurisdiction to ensure that no purchase shall be made which would cause the holding of any one issuer to exceed 5% of the investment manager's maximum equity commitment valued at market. Investments in stocks of foreign companies shall be limited to 15% of the total Plan's assets.

Managers shall not invest in bonds or preferred stocks rates below investment grade without prior approval of the Board. In the event it is split-rated, the higher rating will apply. Securities, which are unrated, may be purchased if, in the judgment of the manager, they would carry an investment grade rating. In the event an investment grade security is downgraded to below investment grade, the manager shall sell the security within a reasonable time period.

Type of Investments: Florida statutes and the Plan investment policy authorize the Trustees to invest funds in various investments. The current target allocation of these investments at market as of September 30, 2010 is as follows:

<u>Authorized Investments</u>	
Domestic equities	20%
Fixed income	20%
International equities	15%
Cash equivalents	0%
Alternative investments	30%
Real estate	15%

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

**Police Officers' Retirement Systems Investments (Continued)**

Interest Rate Risk: As a means of limiting its exposure to interest rate risk, the Plan diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations of maturities

Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following tables that show the distribution of the Plan's investments by maturity at September 30, 2010:

Investment Type	Fair Value	Investment Maturities in Years			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. bonds	\$ 189,227	\$ -	\$ -	\$ -	\$ 189,227
U.S. agencies	1,263,760	-	36,970	347,443	879,347
Corporate bonds and notes	8,374,671	1,165,675	2,373,030	1,153,270	3,682,696
Bond funds	3,330,055	-	-	3,330,055	-
Total fixed income	<u>\$13,157,713</u>	<u>\$1,165,675</u>	<u>\$2,410,000</u>	<u>\$4,830,768</u>	<u>\$ 4,571,270</u>

Credit Risk: This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The Plan's investment policy utilizes portfolio diversification in order to control this risk.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

**Police Officers’ Retirement Systems Investments (Continued)**

The following table discloses credit ratings by investment type, at September 30 2010, as applicable:

<u>Rating of Debt Securities</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
U.S. Government Securities*	\$ 1,452,987	11.0%
AAA	649,969	4.9
AA+-	116,453	0.9
AA	110,123	0.8
AA-	351,672	2.7
A+	1,126,233	8.6
A	1,123,479	8.5
A-	1,875,694	14.3
BBB+	1,149,514	8.7
BBB	1,246,416	9.5
BBB-	557,781	4.2
Bond funds	3,330,055	25.4
Not rated-	67,337	0.5
Total fixed income securities	<u>\$ 13,157,713</u>	<u>100.0%</u>

\* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

\*\* At September 30, 2010 Bond funds are comprised of securities rated AAA (89%); AA (2%); A (5%); BBB (4%) per the Barclays Capital U.S. Aggregate Bond Index.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

**Firefighters' Retirement Systems Investments**

Investment Authorization: The Plan's investment policy is determined by the Board of Trustees. The policy's objective is to obtain a reasonable total rate of return - defined as interest and dividend income plus realized and unrealized capital gains and/or losses - that meet or exceeds the actuarial interest rate assumption net of fees to ensure the Plan is actuarially sound. The investment policy of the Plan stipulates that the trustee shall, in acquiring, investing, reinvesting, exchanging, retaining, selling and maintaining property for the benefit of the Plan exercise the care, skill, prudence, and diligence that a prudent man acting in such matters would use in the conduct of an enterprise of like character and with like aim. The policy also states that investments of the Plan will be diversified so as to minimize the risk of large loss, unless under the circumstances it is clearly prudent not to do so.

The Trustees are authorized to acquire and retain every kind of property, real, personal or mixed, and every kind of investment specifically including, but not by way of limitation, bonds, debentures, and other corporate obligations, and stocks, preferred or common, which persons of prudence, discretion and intelligence acquire or retain for their own account. Investment in all equity securities shall be limited to those listed on one or more recognized national exchanges or on the National Market System and limited to no more than 55% of the Plan's total asset value with no more than 5% of the Plan's total assets, invested in the common stock of any one company. Each investment manager shall monitor assets under its jurisdiction to ensure that no purchase shall be made which would cause the holding of any one issuer to exceed 5% of the investment manager's maximum equity commitment valued at market. Investments in stocks of foreign companies shall be limited to 15% of the total Plan's assets.

Managers shall not invest in bonds or preferred stocks rates below investment grade without prior approval of the Board. In the event it is split-rated, the higher rating will apply. Securities, which are unrated, may be purchased if, in the judgment of the manager, they would carry an investment grade rating. In the event an investment grade security is downgraded to below investment grade, the manager shall sell the security within a reasonable time period.

Type of Investments: Florida statutes and Plan investment policy authorize the Trustees to invest funds in various investments. The current target allocation of these investments at market as of September 30, 2010 is as follows:

<u>Authorized Investments</u>	
Equity (domestic)	15%
Fixed income	20%
Equity (international)	15%
Alternative investments	30%
Private equity	5%
Real estate	15%
Cash	0%

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

**Firefighters' Retirement Systems Investments (Continued)**

Interest Rate Risk: As a means of limiting its exposure to interest rate risk, the Plan diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations of maturities. Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following tables that show the distribution of the Plan's investments by maturity at September 30, 2010.

Investment Type	Fair Value	Investment Maturities in Years <sup>a</sup>			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. treasuries	\$ 7,285,500	\$ 584,606	\$2,907,449	\$ 2,201,333	\$ 1,592,112
Corporate bonds and notes	<u>5,779,732</u>	<u>1,003,944</u>	<u>1,513,071</u>	<u>403,988</u>	<u>2,858,729</u>
Total fixed income	<u>\$13,065,232</u>	<u>\$1,588,550</u>	<u>\$4,420,520</u>	<u>\$2,605,321</u>	<u>\$ 4,450,841</u>

Credit Risk: This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The Plan's investment policy utilizes portfolio diversification in order to control this risk.

The following table disclose credit ratings by investment type, at September 30, 2010, as applicable:

Rating of Debt Securities	Fair Value	Percentage of Portfolio
U.S. Government Securities*	\$ 7,285,500	55.8%
AAA	94,631	0.7
AA-	279,988	2.1
A+	890,795	6.8
A	611,125	4.7
A-	1,392,743	10.7
BBB+	903,367	6.9
BBB	1,030,731	7.9
BBB-	<u>576,352</u>	<u>4.4</u>
Total fixed income securities	<u>\$ 13,065,232</u>	<u>100.0%</u>

\* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

**Firefighters' Retirement Systems Investments (Continued)**

Concentration of Credit Risk: The investment policy of the Plan contains limitations on the amount that can be invested in any one issuer as well as maximum portfolio allocation percentages. There were no individual investments that represent 5% or more of plan net asset at September 30, 2010.

Custodial Credit Risk: Consistent with the Plan's investment policy, most of the investments are held by Plan's custodial bank and registered in the Plan's name. The Plan's contract with its custodian allows the custodian to hold securities of the Plan registered in the Custodian's or its Agent's nominee name, in bear form, book entry form, a clearing house corporation or a depository, so long as the Custodian's records clearly indicates the assets held are part of the Plan's account.

NOTE C - RECEIVABLES

Accounts receivable at September 30, 2010, are comprised of the following:

Fund	Accounts Receivable	Due From Other Government	Allowance For Doubtful Accounts	Net Receivable
Governmental Funds				
General Fund	\$ 1,944,502	\$ 469,416	\$ (672,410)	\$ 1,741,508
Capital Improvement Fund		65,424		65,424
Beach Restoration Project Fund		611,932		611,932
Worth Ave Assessment Fund	30,701			30,701
Enterprise Funds				
Recreation Enterprise Fund	15,294	62,516		77,810
Fiduciary Funds				
General Employees' Pension Trust Fund	6,858,154			6,858,154
Police Officers' Retirement Trust Fund	105,000			105,000
Firefighters' Retirement Trust Fund	12,062	104,195		116,257
Agency Funds				
Kruesler Park Fund	13,652			13,652

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE D - CAPITAL ASSETS

The capital asset activity for the year ended September 30, 2010 was as follows:

<u>Governmental Activities</u>	Balance at Beginning of Year, as Restated(1)	Increases	Decreases	Balance at End of Year
Capital assets not being depreciated				
Land	\$ 9,946,951	\$	\$	\$ 9,946,951
Construction in progress	12,775,016	21,541,509	(19,160,032)	15,156,493
Total capital assets not being depreciated	22,721,967	21,541,509	(19,160,032)	25,103,444
Capital assets being depreciated				
Buildings	24,031,043	14,418,392	(3,953,030)	34,496,405
Improvements other than buildings	1,437,191	158,915	(791,407)	804,699
Equipment	17,854,147	1,750,005	(1,539,779)	18,064,373
Infrastructure	84,124,216	4,412,725	(2,916,178)	85,620,763
Intangible assets – facilities rights of use	1,186,607			1,186,607
Total capital assets being depreciated	128,633,204	20,740,037	(9,200,394)	140,172,847
Less accumulated depreciation and				
Buildings	(9,252,156)	(651,607)	3,803,420	(6,100,343)
Improvements other than buildings	(883,561)	(71,214)	735,605	(219,170)
Equipment	(7,715,230)	(1,807,066)	1,214,923	(8,307,373)
Infrastructure	(31,029,256)	(4,834,276)	1,246,371	(34,617,161)
Intangible assets – facilities rights of use	(927,031)	(29,665)		(956,696)
Total accumulated depreciation	(49,807,234)	(7,393,828)	7,000,319	(50,200,743)
Total capital assets being depreciated, net	78,825,970	13,346,209	(2,200,075)	89,972,104
Governmental activities capital assets, net	<u>\$ 101,547,937</u>	<u>\$34,887,718</u>	<u>\$(21,360,107)</u>	<u>\$115,075,548</u>

(1) See Note O.

Depreciation and amortization expense was charged to functions/programs as follows:

<u>Governmental Activities</u>	
General government	\$ 493,294
Public safety	1,322,322
Physical environment	<u>5,578,212</u>
Total depreciation and amortization	
Expense – governmental activities	<u>\$7,393,828</u>

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE D - CAPITAL ASSETS (Continued)

<u>Business-type Activities</u>	<u>Balance at Beginning of Year, as Restated (2)</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	4,841,793	610,357	(5,452,150)	
Total capital assets not being depreciated	<u>10,465,570</u>	<u>610,357</u>	<u>(5,452,150)</u>	<u>5,623,777</u>
Capital assets being depreciated				
Buildings	3,182,585			3,182,585
Improvements other than buildings	5,673,142	5,452,150		11,125,292
Equipment	555,986	32,100	(52,015)	536,071
Total capital assets being depreciated	<u>9,411,713</u>	<u>5,484,250</u>	<u>(52,015)</u>	<u>14,843,948</u>
Less accumulated depreciation				
Buildings	(592,475)	(64,611)		(657,086)
Improvements other than buildings	(2,141,374)	(385,877)		(2,527,251)
Equipment	(244,776)	(64,984)	46,615	(263,145)
Total accumulated depreciation	<u>(2,978,625)</u>	<u>(515,472)</u>	<u>46,615</u>	<u>(3,447,482)</u>
Total capital assets being depreciated, net	<u>6,433,088</u>	<u>4,968,778</u>	<u>(5,400)</u>	<u>11,396,466</u>
Business-type activities capital assets, net	<u>\$16,898,658</u>	<u>\$ 5,579,135</u>	<u>\$ (5,457,550)</u>	<u>\$ 17,020,243</u>

(2) See Note O.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE E - INVESTMENT IN JOINT VENTURE

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 Facilities (the "ECR") in which each participating entity had a financial interest. The 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 the 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, 2010, the Town had a 7.8125% interest in the ECR. Under generally accepted accounting principles, the Town is required to account for this joint venture using the equity method. Accordingly, the Town recorded its initial investment at cost and is required to record its proportionate share of the ECR's income or loss as well as additional contributions made or distributions received. At September 30, 2010, the Town's 7.8125% equity interest in the ECR totaled \$8,723,707. This investment is reported in the Governmental Activities Statement of Net Assets as Investment in Joint Venture

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. The ECR Board is updating an engineering report on processing and disposal of biosolids at the facility, including the possibility of generating electricity on site. The initial study was prompted by changes in regulations regarding biosolids disposal. A substantial capital investment will be necessary to update the facilities. However, anticipated savings in the operation and maintenance costs as a result of the improvements should significantly reduce the impact of the increased debt service.

Based on a "Participatory Agreement" signed by all participants in April 1993, the 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, 2010, the outstanding balance due to the State Loan Fund was \$7,715,400. The Town's share of this debt was \$648,762 and is reflected as a liability in the Governmental Activities Statement of Net Assets.

The ECR issues separate financial statements audited by other accountants who issued an unqualified opinion on those financial statements for the year ended September 30, 2010. Those financial statements may be obtained from the City of West Palm Beach, Finance Department, 200 Second Street, West Palm Beach, Florida 33402.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE E - INVESTMENT IN JOINT VENT (Continued)

Summarized financial information relating to the ECR as of and for the year ended September 30, 2010 is as follows:

<b>Net Assets</b>	
<b>September 30, 2010</b>	
Current and other assets	\$ 23,216,262
Capital assets, net	<u>77,607,527</u>
Total assets	100,823,789
Current liabilities	4,065,541
Non-current liabilities	<u>6,507,895</u>
Total liabilities	10,573,436
Net assets	<u><u>\$ 90,250,353</u></u>

<b>Change in Net Assets</b>	
<b>Year Ended September 30, 2010</b>	
Charges for services	\$ 11,661,087
Other operating revenue	<u>1,340,942</u>
Total operating revenue	13,002,029
Operating expenses	<u>16,298,480</u>
Operating loss	(3,296,451)
Non-operating revenue, net	<u>58,710</u>
Loss before capital contributions	(3,237,741)
Capital contributions	<u>3,100,193</u>
Decrease in net assets	(137,548)
Net assets - beginning of year	<u>90,387,901</u>
Net assets - end of year	<u><u>\$ 90,250,353</u></u>

At September 30, 2010, the ECR participants and their respective interest in the ECR were as follows:

<u>Participant</u>	<u>Reserve Capacity Percentages</u>
City of West Palm Beach	26.56250%
Palm Beach County	33.59375%
City of Lake Worth	19.53125%
City of Riviera Beach	12.50000%
Town of Palm Beach	<u>7.81250%</u>
Total	<u>\$ 100.00000%</u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE F - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Transactions between funds during the year consisted of loans, services provided, reimbursements or transfers. Loans are reported as Due from Other Funds and Due to Other Funds as appropriate and are subject to elimination in the government-wide financial statements. Services, deemed to be reasonably equivalent in value, are treated as revenue and expenditures/ expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are presented as transfers. Transfers primarily consist of moving money from one fund to another to be used for a specific purpose within the receiving fund. Transfers from the General Fund to the Capital Improvement Fund and Beach Restoration Project Fund were used to fund various capital projects. Transfers from the General Fund and the Beach Restoration Project Fund to the nonmajor funds were used to fund debt service. Transfers from the Town Facilities Fund to the Beach Restoration Project Fund were used to fund various beach projects. Transfers from the Recreation Enterprise 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, 2010 are summarized as follows:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Accelerated Capital Fund	\$ 546,263
	Worth Avenue Construction Fund	966,591
Donation Fund	General Fund	35,499
Accelerated Capital Fund	Recreation Enterprise Fund	1,740,844
Worth Avenue Construction Fund	Worth Avenue Assessment Fund	20,000
Recreation Enterprise Fund	General Fund	30,055
Internal Service Funds	General Fund	<u>448</u>
		<u>\$ 3,339,700</u>

**Interfund transfers:**

	<u>Transfers In - Reported In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Nonmajor Funds</u>	<u>Internal Service Funds</u>	
Transfers out:					
Reported In					
General Fund	\$	\$4,828,957	\$4,968,900	\$	\$ 9,797,857
Recreation Enterprise Fund	550,000				550,000
Nonmajor Funds			410,618		410,618
				<u>5,515,499</u>	<u>5,515,499</u>
	<u>\$550,000</u>	<u>\$4,828,957</u>	<u>\$ 5,379,518</u>	<u>\$5,515,499</u>	<u>\$16,273,974</u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE F - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Governmental activities reassigned capital assets in the amount of \$5,515,499 to the Equipment Replacement Fund, an internal service fund. In the Equipment Replacement Fund, this transaction is recorded as a transfer in, but there is no corresponding transfer out in the governmental funds.

NOTE G - LONG-TERM LIABILITIES

Changes in the Town's long-term liabilities for the year ended September 30, 2010 are summarized as follows:

<u>Governmental Activities</u>	Balance at Beginning of Year, as Restated	<u>Additions</u>	<u>Retirements</u>	Balance at End of Year	Amounts Due Within One Year
Revenue bonds payable	\$ 9,330,000	\$71,805,000	\$ (9,330,000)	\$ 71,805,000	\$ 1,265,000
Revenue notes payable	10,395,004	194,024	(10,589,028)		
Loan payable	753,889		(105,127)	648,762	107,838
Unamortized bond premiums	2,854	2,990,255	(55,841)	2,937,268	
Unamortized bond discounts	(16,481)	(410,712)	23,714	(403,479)	
Unamortized loss on refunding	(59,119)	(621,888)	82,205	(598,802)	
Total bonds, notes, and loans payable	20,406,147	73,956,679	(19,974,077)	74,388,749	1,372,838
Compensated absences	3,705,390	650,865	(694,898)	3,661,357	598,865
Landfill closure and postclosure	2,067,376	62,030		2,129,406	
Termination benefits payable	911,331	5,194	(797,754)	118,771	118,771
Total long-term liabilities	<u>\$ 27,090,244</u>	<u>\$ 74,674,768</u>	<u>\$ (21,466,729)</u>	<u>\$ 80,298,283</u>	<u>\$ 2,090,474</u>
 <u>Business-type Activities</u>					
Compensated absences	<u>\$ 195,061</u>	<u>\$ 23,754</u>	<u>\$ (34,458)</u>	<u>\$ 184,357</u>	<u>\$ 158,666</u>

The compensated absences liability and liability for termination benefits of the governmental activities are liquidated primarily by the Town's General Fund.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE G - LONG-TERM LIABILITIES (Continued)

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

In April 2003, the Town issued \$18,385,000 of the 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 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, 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 was issued guaranteeing the scheduled payment of principal and interest on the bonds when due. The Bonds matured and were retired on January 1, 2010.

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

In April 2003, the Town issued \$6,130,000 of the 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 was issued guaranteeing the scheduled payment of principal and interest on the bonds when due.

On February 25, 2010, the Series 2003B Bonds were advance refunded with proceeds from the issuance of the Town of Palm Beach, Florida, Public Improvement Revenue and Refunding Bonds, Series 2010A (Capital Improvement Program). As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Town's financial statements.

The advance refunding of the Series 2003B Bonds increased the Town's total debt service payments by \$1,871,202 over the life of the bonds and resulted in an economic loss (the difference between the present value of the debt service payments of the refunded and refunding bonds) of \$354,285.

Town of Palm Beach, Florida, Public Improvement Revenue Note, Series 2008

On June 24, 2008, the Town issued a \$10,000,000 Town of Palm Beach, Florida, Public Improvement Revenue Note, Series 2008 to (1) finance the acquisition, construction, renovation and equipping of various improvements to the Town Hall and other public facilities of the Town and (2) pay certain costs of issuance related to the Series 2008 Note. The Series 2008 Note bears interest at 63.7% of the BBA LIBOR Daily Floating Rate for U.S. Dollar deposits with a one month term (the "BBA LIBOR Rate") plus .715% (.87% at September

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE G - LONG-TERM LIABILITIES (Continued)

Town of Palm Beach, Florida, Public Improvement Revenue Note, Series 2008 (Continued)

30, 2009). Principal and interest payments are due on January 1, April 1, July 1, and October 1, commencing January 1, 2009 for interest and January 1, 2011 for principal, until maturity on July 1, 2028. The Series 2008 Note is a special obligation of the Town payable solely from and secured solely by non-ad valorem revenue and any unused note proceeds and related investment income.

On February 25, 2010, the Series 2008 Note was prepaid and retired with proceeds from the issuance of the Town of Palm Beach, Florida, Public Improvement Revenue and Refunding Bonds, Series 2010A (Capital Improvement Program). Because interest on the Series 2008 Note was at a variable rate, the difference in cash flows between the old and new debt and the economic gain or loss could not be determined.

Town of Palm Beach, Florida, Public Improvement Revenue Note, Series 2009

On June 5, 2009, the Town issued a \$2,000,000 Town of Palm Beach, Florida, Public Improvement Revenue Note, Series 2009 to finance certain improvements to the Worth Avenue Commercial District in anticipation of permanent long-term financing to be secured in the short-term future. The note provides that the Town may, in one or more drawings, borrow up to \$2,000,000 against the note. The outstanding principal plus accrued interest thereon is due when the note matures on May 31, 2010. The interest rate is reset at the beginning of each month and is based on the BBA LIBOR Rate two days prior to the first day of such month plus .97% (1.23% at September 30, 2009). The note is a special obligation of the Town and is payable solely from and secured solely by non-ad valorem revenue and any unused note proceeds and related investment income, as well as proceeds of refunding obligations specifically issued to refund the Series 2009 Note.

On February 25, 2010, the Series 2009 Note was prepaid and retired with proceeds from the issuance of the Town of Palm Beach, Florida Public Improvement Revenue and Refunding Bonds, Series 2010A (Capital Improvement Program). Because interest on the Series 2009 Note was at a variable rate, the difference in cash flows between the old and new debt and the economic gain or loss could not be determined.

Town of Palm Beach, Florida, Public Improvement Revenue and Refunding Bonds, Series 2010A

On February 25, 2010, the Town issued \$57,035,000 of the Public Improvement Revenue and Refunding Bonds, Series 2010A (Capital Improvement Program) to (i) finance or refinance (a) replacements and improvements to portions of the Town's sanitary sewer, storm water, street lighting and traffic signal infrastructure (the "Town Infrastructure Project"); (b) renovation of the Town's par 3 golf course (the "Golf Course Project"); (ii) refund the Town's Revenue Refunding Bonds, Series 2003B (Capital Improvement Project) and prepay the Town's Public Improvement Revenue Note, Series 2008; (iv) pay capitalized interest on the Bonds through July 2010; and (v) pay the costs of issuing the Bonds. The Series 2010A Bonds were issued at a net original issue premium of \$2,990,255 and 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, 2040. The Series 2010A bonds are payable solely from and secured by a pledge of non-ad valorem revenue.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE G - LONG-TERM LIABILITIES (Continued)

The debt service requirement for the Series 2010A Bonds are as follows:

Year Ending September 30	Principal	Interest	Total
2011	\$ 970,000	\$ 2,651,338	\$ 3,621,338
2012	990,000	2,631,738	3,621,738
2013	1,010,000	2,609,213	3,619,213
2014	1,040,000	2,580,988	3,620,988
2015	1,075,000	2,549,263	3,624,263
2016-2020	6,040,000	12,074,937	18,114,937
2021-2025	7,635,000	10,475,812	18,110,812
2026-2030	9,765,000	8,351,968	18,116,968
2031-2035	12,480,000	5,630,000	18,110,000
2036-2040	16,030,000	2,083,750	18,113,750
	<u>\$ 57,035,000</u>	<u>\$ 51,639,007</u>	<u>\$ 108,674,007</u>

Town of Palm Beach, Florida, Public Improvement Revenue Bonds, Series 2010B

On February 25, 2010, the Town issued \$14,770,000 of the Public Improvement Revenue Bonds, Series 2010B (Worth Avenue Commercial District Project) to (i) finance or refinance public capital improvementst in the Worth Avenue Commercial District (the "Worth Avenue Project"); (ii) prepay amounts drawn on the Town's Public Improvement Revenue Note, Series 2009; (iii) pay capitalized interest on the Bonds through July 2010; and (iv) pay the costs of issuing the Bonds. The Series 2010B Bondswere issued at a net original issue discount of \$410,712 and bear interest at rates ranging from 2. % to 4.25%. Principal payments are due on January 1, and interest payments are due on January 1 and July 1 until maturity on January 1, 2040.The Series 2010B bonds are payable from and secured by a pledge of non-ad valorem revenue and non-ad valorem capital special assessments that the Town intends to levy on real property located in the Worth Avenue Commercial District.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE G - LONG-TERM LIABILITIES (Continued)

The debt service requirement for the Series 2010B Bonds are as follows:

Year Ending September 30	Principal	Interest	Total
2011	\$ 295,000	\$ 568,663	\$ 863,663
2012	300,000	562,713	862,713
2013	310,000	556,613	866,613
2014	315,000	550,363	865,363
2015	320,000	544,013	864,013
2016-2020	1,735,000	2,588,687	4,323,687
2021-2025	2,050,000	2,275,587	4,325,587
2026-2030	2,485,000	1,832,374	4,317,374
2031-2035	3,090,000	1,230,750	4,320,750
2036-2040	3,870,000	451,125	4,321,125
	<u>\$ 14,770,000</u>	<u>\$ 11,160,888</u>	<u>\$ 25,930,888</u>

Joint Venture Loan Payable

In April 1993, the Town entered into a "Participatory Agreement" with the Palm Beach County Water Utilities Department and three municipalities (West Palm Beach, Riviera Beach, and Lake Worth) for certain improvement to the East Central Regional Wastewater Facilities. The improvements were completed in fiscal year 1998 at a total cost of \$38,755,000. The Town's share of the cost was \$1,776,429. Partial funding was provided by State of Florida, Department of Environmental Protection Revolving Loan Funds approved in March and September 1994. The actual amounts borrowed were \$21,319,410 and \$648,738, respectively. The loans are payable over twenty year periods and carry effective interest rates ranging from 2.30% to 3.17%. The Town's debt service requirements for the loans are as presented on the following page.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE G - LONG-TERM LIABILITIES (Continued)

Joint Venture Loan Payable (Continued)

Year Ending September 30	Principal	Interest	Total
2011	\$ 107,838	\$ 15,282	\$ 123,120
2012	110,619	12,501	123,120
2013	113,472	9,648	123,120
2014	116,399	6,721	123,120
2015	119,401	3,719	123,120
2016	81,033	755	81,788
	<u>\$ 648,762</u>	<u>\$ 48,626</u>	<u>\$ 697,388</u>

Interest Expense: Total interest costs incurred and paid on all Town debt for the year ended September 30, 2010 totaled \$2,106,898 and \$1,360,329, respectively. No interest was capitalized in the enterprise fund for the year ended September 30, 2010.

Defeased Debt: As previously discussed, the Town has defeased the Series 2003B 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. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At September 30, 2010, Series 2003B Revenue Bonds in the amount of \$5,310,00 are outstanding and considered defeased.

Pledged Revenues: As previously discussed, the Town has pledged future non-ad valorem revenues to pay principal and interest on the Series 2010A and Series 2010B Revenue Bonds. At September 30, 2010, principal and interest to maturity on January 1, 2040 to be paid from pledged future revenues totaled \$134,604,895. Principal and interest paid for the current fiscal year on these Bonds totaled \$1,131,428. and pledged non-ad valorem revenue totaled \$19,278,424 for the year. It is estimated that annual principal and interest payments will require approximately 23% of pledged revenues.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE H - OBLIGATION UNDER UTILITY AGREEMENT AND INTANGIBLE ASSETS

On July 10, 1978, the Town entered into a utility agreement with the City of Lake Worth (the "City"). Under the terms of the agreement, the City will supply the Town certain wastewater facilities for a period of 40 years. At the option of the Town, the agreement may be extended for three addition periods of ten years after the otherwise normal termination of the agreement.

The City obtained Florida State Bond Loan, Series E for the purpose of constructing and improving existing water and sewer facilities. Town was obligated to pay the City a percentage of its pro rata share, based on sewer reserved capacity, of the debt service of this loan until October 1, 2006 when the loan was paid in full.

The Series E Loan was originally issued by the City on October 1, 1976, at a face value of \$7,585,000. The loan matured in varying amounts through June 30, 2006. The Town's pro rata share of the loan was 11.7625%. The present value, discounted at the same rate as the Series E Loan, of the Town obligation to the City was \$1,186,607 at issuance. Intangible wastewater usage rights were recorded at the same amount and are being amortized over the 40-year contract period that the Town is entitled to use the City's wastewater facilities. At September 30, 2010, the intangible assets had a net book value of \$229,911 and are recorded with the capital assets of the governmental activities.

Under the terms of the agreement, the Town makes annual payments to the City for operations and maintenance costs based on the Towns actual usage, for its pro rata share of the renewal and replacement costs, and for a pro rata share of the City's debt service payments to the ECR. For the year ended September 30, 2010, the Town made payments of \$431,496 to the City pursuant to the agreement.

NOTE I - 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 Governmental Activities Statement of Activities and in the GAAP basis General Fund financial statements, but are not budgeted and therefore are not included in the General Fund budgetary comparison schedule. On-behalf payments paid to the Town by the State totaled \$818,209 for the fiscal year ended September 30, 2010.

NOTE J - RETIREMENT PLANS

Plan Descriptions: The Town administers three single employer, defined benefit pension plans. The General Employees' Retirement System 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 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, 2010

NOTE J - RETIREMENT PLANS (Continued)

The Police Officers' System and the Firefighters' System 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. The Police Officers' Retirement System and the Firefighters' Retirement System issue publicly available financial reports 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. The General Employees' Retirement System does not issue a stand alone financial report.

General employees are eligible for retirement after 30 years of service, or age 55 with 10 ten years of service. Lifeguards are eligible for retirement at age 50 with 10 or more years of service or when the member's age plus credited service totals 65 years. General employees may elect early retirement if the member is at least 50 years old with 10 or more years of service. The retirement benefit is calculated as a normal retirement benefit, but it is reduced 6/10 of 1% for each month early retirement precedes the member's normal retirement date. If the member has 20 years or more of service, the retirement benefit is reduced 3/10 of 1% for each month early retirement precedes the normal retirement date.

General employees retirement benefits are determined by multiplying Average Final Compensation (highest two consecutive years out of the last five), times the sum of (a) 2.75% per year for service earned after September 30, 1990, to a maximum of 82.5%, plus 2.35% for service earned on or before September 30, 1990, for the first 30 years of service, plus (b) 1% for service in excess of 30 years.

Lifeguards retirement benefits are determined by multiplying Average Final Compensation (highest two consecutive years out of the last five), times the sum of (a) 2.85% per year for the first 25 years of service to a maximum of 71.25%, plus (b) 1% for service in excess of 25 years.

A member of the General Employee's Retirement System may elect to enter the Deferred Retirement Option Program ("DROP") within 7 years of the date the member first reaches normal retirement eligibility. The member receives 98% of their accrued benefit at the date of their election to participate in DROP.

For members of the General Employees' Retirement System hired on or after January 1, 1980, the sum of the employer financed portion of the pension benefit and social security benefit can not exceed 100% of average final compensation. Members who retired after September 30, 1968, and prior to October 1, 1990, receive an annual 1% increase in their retirement benefit computed on the base benefit. Members who retired after September 30, 1990, receive a 2% annual cost of living adjustment subsequent to an initial 3-year deferral period.

The General Employees' Retirement System also provides certain disability, death, and other benefits, which are considered to be retirement benefits for funding and actuarial purposes. Eligible employees become fully vested after 10 years of credited service.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE J - RETIREMENT PLANS (Continued)

All employees working in excess of 1,040 hours per year are required to participate in the Plan. At September 30, 2009, the date of the most recent actuarial valuation, the membership of the General Employees' Retirement System consisted of the following:

	<u>General Employees</u>	<u>Lifeguards</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits	144	8	152
Terminated members entitled to benefits but not yet receiving them	8		8
Current employees			
Vested	88	4	92
Non-Vested	115	5	120

The financial statements of the General Employees' Retirement System are presented below.

**Statement of Plan Net Assets  
September 30, 2010**

<b>Assets</b>	
Cash and cash equivalents	\$ 487,530
Interest and dividends receivable	5,580
Due from broker for securities sold	6,651,496
Other receivables	206,658
Investment at fair value	
Common stock	8,799,244
Domestic equity funds	23,808,395
Domestic fixed income funds	18,092,039
Alternative investments	7,307,164
Total assets	<u>65,358,106</u>
<b>Liabilities</b>	
Accounts payable	50,293
Accrued liabilities	27,037
Due to broker for securities purchased	38,427
Total liabilities	<u>115,757</u>
<b>Net assets held in trust for pension benefits</b>	<u><u>\$ 65,242,349</u></u>

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE J - RETIREMENT PLANS (Continued)

**Statement of Change in Plan Net Assets  
Year Ended September 30, 2010**

<b>Additions</b>	
Contributions	
Employer	\$ 2,616,484
Employee	1,115,348
Total contributions	<u>3,731,832</u>
Investment income (Loss)	
Net appreciation in fair value of investments	5,751,165
Interest and dividends	96,457
Other	5,243
Total investment income	<u>5,852,865</u>
Less investment expense	<u>(236,119)</u>
Net investment income	<u>5,616,746</u>
Total additions	9,348,578
<b>Deductions</b>	
Benefit payments	4,074,985
Refunds of participants' contributions	281,605
Administrative expense	58,252
Total deductions	<u>4,414,842</u>
<b>Net increase</b>	4,933,736
Net assets held in trust for pension benefits - beginning of year	<u>60,308,613</u>
Net assets held in trust for pension benefits - end of year	<u>\$ 65,242,349</u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE J - RETIREMENT PLANS (Continued)

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.

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. Administrative expenses of the Plans are reimbursed on a retrospective basis by an addition to the Town's contribution rate.

The contribution rates for the fiscal year ended September 30, 2010, 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%	18.71%
Lifeguard employees	7.21%	31.42%
Police employees	6.98%	43.30%
Fire-Rescue employees	6.82%	47.50%

Net Pension Obligation: A reconciliation of the Town's beginning and ending net pension obligation to the Plans is presented below.

	<u>General Employees</u>	<u>Police Officers</u>	<u>Firefighters</u>
Annual required contribution	\$2,616,484	\$2,491,095	\$2,997,164
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	2,616,484	2,491,095	2,997,164
Contributions made	<u>(2,616,484)</u>	<u>(2,491,095)</u>	<u>(2,997,164)</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>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE J - RETIREMENT PLANS (Continued)

Actuarial Assumptions: The annual pension cost, net pension obligation and required contribution for the fiscal year ended September 30, 2010 were determined as part of the actuarial valuation of the Plans as of September 30, 2009 using the entry age actuarial cost method. 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, 2009	September 30, 2009	September 20, 2009
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	2-30 years	2-30 years	2-30 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market
Investment rate of return (include inflation at 5.5%)	8.0%	8.0%	8.0%
Projected salary increases (includes inflation and other increases at 5.5%)	9.8% to 6.2%	9.8% to 6.2%	9.8% to 6.2%
Cost-of-living adjustments	Members who retire after 9/60/68 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.	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.	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.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE J - RETIREMENT PLANS (Continued)

Annual Pension Cost: Information about the Town's annual pension cost for the last three fiscal years ended September 30<sup>th</sup> is shown below:

<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>			
2008	\$2,614,902	100%	\$ 0
2009	2,420,128	100%	0
2010	2,616,484	100%	0
<u>Police Officers</u>			
2008	\$2,592,527	100%	\$ 0
2009	2,330,352	100%	0
2010	2,491,095	100%	0
<u>Firefighters</u>			
2008	\$2,875,169	100%	\$ 0
2009	2,709,281	100%	0
2010	2,997,164	100%	0

Funded Status: The funded status of the Plans as of September 30, 2009, the date of the most recent actuarial valuations, is as follows (dollar amounts in thousands):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
<u>General Employees</u>						
09/30/2009	\$72,370	\$89,658	\$17,288	80.7%	\$13,304	129.9%
<u>Police Officers</u>						
09/30/2009	\$63,000	\$74,257	\$11,257	84.8%	\$6,187	181.9%
<u>Firefighters</u>						
09/30/2009	\$57,852	\$78,139	\$20,287	74.0%	\$6,398	317.1%

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE J - RETIREMENT PLANS (Continued)

Funding Progress: The required schedule of funding progress presented following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE K - OTHER POSTEMPLOYMENT BENEFITS

Plan Description: The Town of Palm Beach Other Postemployment Benefits (OPEB) Plan is a single-employer, defined benefit postemployment healthcare plan that is administered by the Town and covers retired employees of the Town and their dependents. The Plan provides for the payment of a portion of the health insurance premiums for eligible retired employees. The Town Council has the authority to establish and amend benefit provisions of the Plan. The Plan does not issue a separate, publicly available financial report.

The Plan has 208 retirees receiving benefits and a total of 337 active participants, of which 277 are not yet eligible to receive benefits. As of September 30, 2010, there are 564 dependents of retirees and active participants.

Funding Policy: The contribution requirements of Plan members and the Town, are established and may be amended by the Town Council. These contributions are neither mandated nor guaranteed. The Town has retained the right to unilaterally modify its payment for retiree health care benefits.

Plan members receiving benefits contribute a percentage of the monthly insurance premium. Prior to January 1, 2010, retiree contributions were 50% of the actuarial premium. Effective January 1, 2010, the retiree contributions were changed to a sliding scale under which the retiree contribution varies depending on years of service and pension benefit. The retiree contributions vary from a minimum of 50% of the actuarial premium to the maximum amount allowed under Florida Statute 112.08

The State of Florida prohibits the Town from separately rating retirees and active employees. The Town therefore charges both groups an equal, blended rate premium. Although both groups are charged the same blended rate premium, GAAP requires the actuarial figures to be calculated using age adjusted premiums approximating claim costs for retirees separate from active employees. The use of age adjusted premiums results in the addition of an implicit rate subsidy into the actuarial accrued liability. However, the Town has elected to contribute to the Plan at a rate that is based on an actuarial valuation prepared using the blended rate premium that is actually charged to the Plan.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE K - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Net OPEB Asset: A reconciliation of the Town's beginning and ending net OPEB asset is presented below.

Annual required contribution	\$1,663,000
Interest on net OPEB asset	(1,151,750)
Adjustment to annual required contribution	<u>623,620</u>
Annual OPEB cost	1,134,870
Contributions made	<u>(1,550,000)</u>
Increase in net OPEB asset	(415,130)
Net OPEB asset, October 1, 2009	<u>(14,396,870)</u>
Net OPEB asset, September 30, 2010	<u><u>\$(14,812,000)</u></u>

Actuarial Methods and Assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Although the valuation results are based on values the actuarial consultant believes are reasonable assumptions, the valuation result is only an estimate of what future costs may actually be and reflect a long-term perspective. Deviations in any of several factors, such as future interest rate discounts, medical cost inflation, Medicare coverage risk and changes in marital status, could result in actual costs being greater or less than estimated.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The most recent actuarial valuation of the Plan was done as of October 1, 2010. The projected unit credit actuarial cost method was used. The actuarial assumptions included an 8% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the Town's own investments calculated based on the funded level of the plan at the valuation date, an annual healthcare cost trend rate of 11% initially, reduced by decrements to an ultimate rate of 5% in the year 2021 and a salary increase assumption of 3.5% per annum. All three rates included a 5.5% inflation assumption. The actuarial value of assets was determined based on the actual fair value of assets as of the valuation date. The UAAL will be amortized over a period of 30 years as a level percentage of projected payroll on an open basis.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE K - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost: Three-year trend information about the Town's annual OPEB cost is shown below:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
9-30-08	\$2,289,000	\$ 1,466,000	64%	\$(14,097,870)
9-30-09	1,350,000	1,649,000	122%	(14,396,870)
9-30-10	1,134,870	1,550,000	137%	(14,812,000)

Funded Status:

The funded status of the plan as of most recent actuarial valuation date was as follows (dollar amounts in thousands):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
10-01-10	\$17,701	\$27,769	\$10,068	63.7%	26,281	38.3%

Funding Progress: Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multi-year trend information that shows whether the actuarial value of plan assets in increasing or decreasing over time relative to the actuarial accrued liability for benefits.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE K - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The OPEB Trust Fund does not issue a separate financial report. The Trust Fund's financial statements are presented below.

**Statement of Plan Net Assets**  
**September 30, 2010**

<b>Assets</b>	
Cash and cash equivalents	\$ 135,219
Equity in pooled cash and investments	1,630,089
Interest and dividends receivable	18,262
Prepaid expenses and other assets	39,014
Investment at fair value	
Corporate bonds and notes	1,410,104
Domestic equity funds	4,788,215
International equity funds	3,048,652
Domestic fixed income funds	2,607,055
Alternative investments	4,024,037
Total assets	<u>17,700,647</u>
<b>Liabilities</b>	
Accounts payable	175,114
Accrued liabilities	1,354
Total liabilities	<u>176,468</u>
<b>Net assets held in trust for retiree health benefits</b>	<u>\$ 17,524,179</u>

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE K - OTHER POSTEMPLOYMENT BENEFITS (Continued)

**Statement of Change in Plan Net Assets  
Year Ended September 30, 2010**

**Additions**

Contributions	
Employer	\$ 1,550,000
Employee	1,101,520
Other	79,040
Total contributions	2,730,560

Investment income (Loss)

Net appreciation in fair value of investments	847,196
Interest and dividends	252,723
Total investment income	1,099,919
Less investment expense	(78,870)
Net investment income	1,021,049

Total additions	3,751,609
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**Deductions**

Benefit payments	2,077,145
Administrative expense	48,468
Other	356
Total deductions	2,125,969

<b>Net increase</b>	1,625,640
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Net assets held in trust for retiree health benefits - beginning of year	15,898,539
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Net assets held in trust for retiree health benefits - end of year	\$ 17,524,179
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TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE L - TERMINATION BENEFITS

During fiscal year ended September 30, 2008, the Town approved a one-time early retirement incentive program ("ERIP") for eligible employees. To be eligible, employees were required to 1) meet the age and service conditions for normal retirement or 2) have completed a minimum of ten years of service with the Town effective September 30, 2008, and be within two years of reaching the age and service conditions for normal retirement. Employees who participated in the Town's Deferred Retirement Option Plan ("DROP") on or before September 30, 2008, were also eligible. Department directors were excluded from participation in the ERIP. Employees who took advantage of the ERIP would receive the following incentives under the program:

- Non-DROP - Two years of employee's base salary at 60% paid over 24 months, beginning with the first full bi-weekly payroll period ending after October 1, 2008. Employees were also given the option to have their eligible sick leave, vacation and compensatory leave payout paid over the 24 month period or as a lump sum in conjunction with their final paycheck as an employee.
- DROP - Four months of base pay at 100% paid out over twelve months, beginning with the first full bi-weekly payroll period ending after October 1, 2008. DROP participants were required to have their eligible sick leave payout paid with their ERIP pay over the twelve month period of time. Accumulated vacation and compensatory leave could be taken over the twelve month period or as a lump sum payment with their final paycheck as an employee.

In addition, under the program the Town agreed to pay 100% of DROP participants' medical insurance premiums only for the twelve month period beginning October 1, 2008. During this period, the retiree would be responsible for his/her dependent medical insurance premiums as established by the Town Council. After this time, the retiree would be allowed to elect medical coverage at the actuarially determined premium rates that are established by the Town Council. Employees meeting the age and service conditions for normal retirement would be eligible to elect medical and dental coverage as a Town retiree paying the actuarially determined rates that are established by the Town Council for retirees and their dependents.

At September 30, 2010, the present value of future incentive payments and estimated insurance premiums reported as a liability in the statement of net assets was \$118,771. A two percent discount rate was used to determine the present value. Expenditures are recognized in the governmental funds as the incentive payments and related insurance benefits are incurred.

The Town funds the plan on a pay-as-you-go basis. A total of 21 employees elected to participate in the ERIP, five of which continued employment with the Town for up to one year beyond September 30, 2008, as allowed under the program. The amount of the ERIP incentive for employees who elected continued employment with the Town after their election to participate in the ERIP is the amount that was calculated at the time the election was made. Payment of the ERIP for retained employees commences on the first full bi-weekly payroll period following the employee's separation from service with the Town.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE M - 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. A claims liability of \$3,963,094 is included in accrued liabilities of the Internal Service Funds at September 30, 2010. This liability is based on the provisions of 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, 2010 were determined by actuarial valuations performed by Gallagher Benefit Services, Inc. for group health and AMI Risk Consultants, Inc. for general liability, workers' compensation, and property.

The Town's insurance program covers most risks insured by public entities. There are exposures to the Town that are either uninsured or uninsurable that pose a financial risk to the Town. The exposures consist of , but are not limited to, street lights, traffic lights, signs, roads, sidewalks, underground storm and sanitary sewers, seawalls, bulkheads, piling, docks, statues, living wall, clock tower, mold, beaches, shrubs, plants, security cameras not in buildings, acts of terrorism, and debris left from hurricanes. There is also a 5% deductible for named wind storms under the Town's property coverage which is not included in the 75% confidence level provided by the outside actuarial firm. Settled claims have exceeded commercial insurance coverage in the past three years.

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.

The insurance coverage and accrued claims liability of the Internal Service Funds at September 30, 2010 are summarized on the following page.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE M - INSURANCE PROGRAM (Continued)

	<u>Accrued Claims Liability</u>
<p><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, 2010, these benefits covered 341 active employees, 173 retirees and 626 dependents. Net costs for the year ended September 30, 2010 were approximately \$3,878,897. 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 \$6.0 million maximum plan costs for 2010). 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. Retiree health care benefits are accounted for in the Town's OPEB plan.</p>	\$ 400,094
<p><b>General Liability, Automobile Liability, Public Official Liability, Workers' Compensation and Property:</b> The Town retains the risk of loss for most exposures and maintains excess insurance coverage above the Town's retained risk of loss of \$100,000 per occurrence for Public Official Liability, \$100,000 per occurrence, \$200,000 aggregate for General Liability and Automobile Liability, and \$350,000 per claim for Workers' Compensation. An aggregate retention (Loss Fund) of \$780,000 applies to each fiscal year. The loss fund does not include the 5% deductible for a "named" windstorm.</p> <p>Excess liability coverage of \$5,000,000 per occurrence, \$10,000,000 aggregate is maintained with commercial carriers for General Liability and Automobile Liability. 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 Property coverage is maintained with commercial carriers at \$41,195,301 for buildings and contents with a \$5,000 deductible per occurrence plus a 5% deductible per insured location for a "named" windstorm.</p> <p>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.</p>	<u>3,563,000</u> <u>\$ 3,963,094</u>

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE M- INSURANCE PROGRAM (Continued)

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

	Year Ended September 30, 2010	Year Ended September 30, 2009
Accrued claims liability at beginning of fiscal year	\$ 3,229,000	\$ 3,748,000
Current year claims and changes in estimates	5,387,000	3,166,000
Claim payments	(4,653,000)	(3,685,000)
Accrued claims liability at end of fiscal year	\$ 3,963,000	\$ 3,229,000

NOTE N - COMMITMENTS AND CONTINGENCIES

Contractual Commitments: The Town has various long-term contractual obligations for construction projects on which work has not been completed. The remaining commitments on these obligations at September 30, 2010 are as follows:

	Revised Contract Amount	Amount Expended at September 30, 2010	Balance at September 30, 2010
General Fund	\$ 376,102	\$ 350,362	\$ 25,740
Capital Improvement Fund	2,921,683	1,155,473	1,766,210
Town Facilities Fund	10,812,889	10,327,228	485,661
Worth Avenue Construction Fund	13,124,561	9,186,507	3,938,054
Total	\$ 27,235,235	\$ 21,019,570	\$ 6,215,665

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. As of September 30, 2010, approximately \$961,000 of such amounts to be refunded by the Town is included in "Due to other governments" in the accompanying statement of net assets of the Town's governmental activities.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE N - COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies: In September 2010, the City of Lake Worth filed a complaint against the Town of Palm Beach and six other bulk sewer customers claiming that the Town has underpaid the City for sewage transmission service in the City of Lake Worth Subregional Sewer System. The City alleges that in underpaying for service, the Town has breached certain contracts dating back to 1978, has been unjustly enriched, and has violated the terms of the Prompt Payment Act. Currently, the lawsuit has been abated until (1) the completion of an audit of the City of Lake Worth's financial and operational records by the Florida Auditor General, and (2) the completion of the negotiation process spelled out by Chapter 164, Florida Statutes. It is unclear when both of these processes will be completed.

The Town has numerous defenses to the City's complaint, including laches, estoppel, application of the statute of limitations, and payment of all bills rendered by the City. The City's monetary claims against all seven entities have vacillated from a high of \$13 million to a low of \$5 million. It is difficult to ascertain the precise level of risk in this matter given that the City has intentionally withheld numerous public records that the Town believes will provide additional exculpatory defenses for the Town. In the opinion of the Town's legal counsel, the Town has reasonable arguments against this action, but it is difficult to determine what if any liability may be assessed against the Town. The Town, in conjunction with the other six entities, is vigorously defending this matter.

NOTE O - RESTATEMENT OF BEGINNING BALANCES

**General Fund**

The beginning fund balance of the General Fund has been restated on the fund basis financial statements to record prior a period adjustment to correct intergovernmental, franchise fees, utility service taxes, and charges for services revenues that should have been recorded in prior years. A reconciliation of the prior period ending fund balance to the current year beginning fund balance for the General Fund is presented below:

Beginning fund balance	\$ 30,782,501
Adjustment to correct revenues	<u>391,082</u>
Beginning fund balance, as restated	<u>\$ 31,173,583</u>

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE O - RESTATEMENT OF BEGINNING BALANCES (Continued)

The above adjustment increased the current year change in fund balance by \$55,591 and increased the prior year change in fund balance by \$10,082.

**Governmental Activities**

The Town has changed its manner of accounting for certain intangible assets that do not have indefinite useful lives. The Town implemented the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, for wastewater facilities usage rights acquired in prior years under an agreement with the City of Lake Worth, Florida. See Note H for details. This change is reported as a cumulative effect of a change in accounting principle in the amount of \$259,576 and is reflected as a restatement of the beginning net assets invested in capital assets and an increase in capital assets on the Statement of Net Assets of the Governmental Activities of the government-wide financial statements.

The beginning net assets of the Governmental Activities in the entity-wide Statement of Net Assets have also been restated to record a loan payable to the joint venture entered into in a prior year, to record landfill closure and postclosure costs incurred in prior years, to record capital assets acquired in prior years, and to correct revenues that should have been recorded in prior years.

A reconciliation of the prior period ending net assets to the current year beginning net assets for the Governmental Activities is presented below:

Beginning net assets	\$172,683,751
Adjustment to record change in accounting principle	259,576
Adjustment to correct revenues	501,063
Adjustment to correct capital assets	652,167
Adjustment to record landfill closure and postclosure costs	(2,067,376)
Adjustment to record loan payable to ECR	<u>(753,889)</u>
Beginning fund balance, as restated	<u>\$171,275,292</u>

The above adjustments decreased the current year change in net assets by \$240,635 and decreased the prior year change in net assets by \$230,553.

TOWN OF PALM BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE O - RESTATEMENT OF BEGINNING BALANCES (Continued)

**Enterprise Fund and Business-type Activities**

The beginning net assets for the Recreation Enterprise Fund and the Business-type Activities in the entity-wide Statement of Net Assets were restated to record a prior period adjustment to correct capital asset additions that should have been recorded as expenses in prior years.

A reconciliation of the prior period ending net assets to the current year beginning net assets for the Business-type Activities is presented below:

Beginning net assets	\$20,075,896
Adjustment to correct capital assets	<u>(221,994)</u>
Beginning fund balance, as restated	<u>\$19,853,902</u>

The above adjustment increased the current year and prior year change in net assets by \$4,981.

NOTE P - POLLUTION REMEDIATION OBLIGATIONS

During the replacement of a fuel storage tank in Phipps Park, non-petroleum contamination was detected. The contaminants include arsenic and chlorinated pesticides in both soil and groundwater samples. As required by state and federal laws and regulations, this information was submitted to Palm Beach County Environmental Resources Management, the authorized regulatory agency. Representatives of the Town have also met with representatives of the Florida Department of Environmental Protection to relay the preliminary information and request guidance. The Town has engaged consultants to develop a remediation plan. The cost of remediation can not be reasonably estimated at this time.

NOTE Q - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The Town currently operates two vegetative waste landfill sites, one on Skees Road and another on Okeechobee Boulevard. State and federal laws and regulations require that the Town place a final cover on these landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at these sites for a minimum of thirty years after closure. Although the majority of closure and postclosure care costs will be paid only near or after the date that the operating landfills stop accepting waste, in accordance with GASB Statement No. 18, *Landfill Closure and Postclosure Care Costs*, the Town reports a portion of these closure and post closure care costs as an operating expense each fiscal year based on the landfill capacity used during the period.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE Q - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS (Continued)

As of September 30, 2010, the estimated liability for landfill closure and postclosure care costs were \$1,264,681 for the Skees Road site and \$864,725 for the Okeechobee Boulevard site for a total of \$2,129,406. This represents the cumulative amounts reported to date based on the use of 55.4% of the estimated capacity of the Skees Road site and 71.4% of the Okeechobee Boulevard site. The total liability is reported in the Governmental Activities in the entity-wide Statement of Net Assets. The Town will recognize the remaining estimated costs of closure and postclosure care of \$1,018,137 for the Skees Road Site and \$346,374 for the Okeechobee Boulevard site as the remaining estimated capacity is filled. The landfills have remaining estimated lives of 52 years and 18 years for the Skees Road site and Okeechobee Boulevard site, respectively.

The estimated total current cost of the landfill closure and post closure care is \$2,282,818 for the Skees Road site and \$1,211,099 for the Okeechobee Boulevard site for a total of \$3,493,917. This is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of September 30, 2010. However, the actual cost of closure and postclosure may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

In accordance with Rule 62-701.630, Florida Administrative Code, the Town is required to prepare and submit alternate proof of financial assurance to the Florida Department of Environmental Protection on an annual basis showing that the Town has sufficient financial resources to cover, at a minimum, the costs of complying with all state landfill closing and long-term care requirements. The Town is in compliance with this requirement.

**REQUIRED SUPPLEMENTARY INFORMATION**

TOWN OF PALM BEACH, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended September 30, 2010

REVENUES	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Taxes				
Ad Valorem	\$ 41,326,000	\$ 41,326,000	\$ 41,508,570	\$ 182,570
Local Option Gas Tax	320,000	320,000	321,246	1,246
Franchise Fees	2,480,000	2,480,000	2,152,817	(327,183)
Utility Service	4,458,000	4,458,000	4,931,205	473,205
Business Tax Receipts	720,000	720,000	716,018	(3,982)
Total Taxes	49,304,000	49,304,000	49,629,856	325,856
Fees and Permits				
Building Permits	4,727,300	4,727,300	3,934,213	(793,087)
Fees and Other Permits	227,300	227,300	168,665	(58,635)
Total Fees and Permits	4,954,600	4,954,600	4,102,878	(851,722)
Intergovernmental				
State Shared Revenue	1,065,500	1,065,500	987,834	(77,666)
Shared Revenue-local	90,000	90,000	46,224	(43,776)
Total Intergovernmental	1,155,500	1,155,500	1,034,058	(121,442)
Charges for Services				
General Government	25,900	25,900	33,650	7,750
Public Safety	1,237,600	1,237,600	1,429,335	191,735
Physical Environment	1,176,900	1,176,900	1,098,951	(77,949)
Transportation	547,500	547,500	632,425	84,925
Total Charges for Services	2,987,900	2,987,900	3,194,361	206,461
Fines and Forfeitures	1,149,200	1,149,200	594,473	(554,727)
Investment Earnings	1,540,000	1,540,000	1,168,997	(371,003)
Grant Revenue	1,200	1,200	9,753	8,553
Contributions	10,000	10,000		(10,000)
Miscellaneous				
Rents and Royalties	88,100	88,100	102,701	14,601
Other Miscellaneous	134,000	134,000	188,648	54,648
Total Miscellaneous	222,100	222,100	291,349	69,249
<b>Total Revenues</b>	<b>61,324,500</b>	<b>61,324,500</b>	<b>60,025,725</b>	<b>(1,298,775)</b>

See notes to the budgetary comparison schedule.

TOWN OF PALM BEACH, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (CONTINUED)

Year Ended September 30, 2010

EXPENDITURES	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>General Government</b>				
Town Manager	\$ 2,751,400	\$ 3,354,456	\$ 3,176,795	\$ 177,661
Human Resources	690,800	696,924	602,350	94,574
Information Systems	1,905,600	2,003,313	1,893,381	109,932
Town Clerk	315,700	315,714	286,516	29,198
Finance	1,555,400	1,561,710	1,488,622	73,088
Planning, Zoning and Building	575,500	651,925	633,572	18,353
Permit Issuance	1,121,600	1,045,370	963,562	81,808
Contingency				
Employee benefits	1,550,000	1,550,000	1,550,000	
Total General Government	10,466,000	11,179,412	10,594,798	584,614
<b>Public Safety</b>				
Inspection and Compliance	1,084,700	1,139,743	1,136,918	2,825
Fire-Rescue	12,927,380	13,225,197	12,940,949	284,248
Police	16,013,400	16,076,052	15,543,109	532,943
Emergency/Disaster Response	1,049,400	363,694	57,901	305,793
Total Public Safety	31,074,880	30,804,686	29,678,877	1,125,809
<b>Physical Environment</b>				
Administration	919,900	921,250	858,724	62,526
Sewer and Sanitation	7,743,800	8,225,543	7,145,452	1,080,091
Public Works	3,197,100	3,464,683	2,843,131	621,552
Total Physical Environment	11,860,800	12,611,476	10,847,307	1,764,169
<b>Transportation</b>				
Streets and Repairs	324,300	355,997	275,423	80,574
Traffic Control	656,200	680,244	633,885	46,359
Total Transportation	980,500	1,036,241	909,308	126,933
<b>Culture and Recreation</b>				
Recreation	142,600	202,572	158,663	43,909
Library	272,400	272,400	272,400	
Parks and Beaches	1,400,700	1,409,046	1,202,630	206,416
Total Culture and Recreation	1,815,700	1,884,018	1,633,693	250,325
<b>Non-departmental</b>				
	1,904,463	1,904,463	1,902,388	2,075
<b>Total Expenditures</b>	<b>58,102,343</b>	<b>59,420,296</b>	<b>55,566,371</b>	<b>3,853,925</b>

See notes to the budgetary comparison schedule.

TOWN OF PALM BEACH, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (CONTINUED)

Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds sale of capital assets	\$	\$ 1,046,900	\$ 1,047,156	\$ 256
Transfers In	550,000	550,000	550,000	
Transfers Out	(8,750,957)	(9,797,857)	(9,797,857)	
	<u>(8,200,957)</u>	<u>(8,200,957)</u>	<u>(8,200,701)</u>	<u>256</u>
Revenue and Other Sources Under Expenditures and Other Uses	<u>\$ (4,978,800)</u>	<u>\$ (6,296,753)</u>	(3,741,347)	<u>\$ 2,555,406</u>
Fund balances - beginning of year, as restated			<u>31,173,583</u>	
Fund balance - end of year			<u>\$ 27,432,236</u>	

See notes to the budgetary comparison schedule.

TOWN OF PALM BEACH, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO BUDGETARY COMPARISON SCHEDULE

September 30, 2010

NOTE A - BUDGETARY ACCOUNTING

Budgets: Budgets are legally required to be adopted for the General Fund, the Series 2003 and 2008 Debt Service Funds, and the Capital Projects Funds. All governmental fund budgets are prepared on the modified accrual basis of accounting.

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 fiscal year ended September 30, 2010, the Town Council approved supplemental appropriations in the General Fund totaling \$2,364,853.

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. Encumbrances lapse at year end and become obligations of the subsequent year's budget. At September 30, 2010, the Town had commitments related to unperformed contracts, which have been re-appropriated in the 2010-2011 annual budget. These amounts are not included in the current year's expenditures as reported in these financial statements.

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. On-behalf payments from the state of Florida 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

REQUIRED SUPPLEMENTARY INFORMATION  
 NOTES TO BUDGETARY COMPARISON SCHEDULE (CONTINUED)

September 30, 2010

NOTE B - BUDGET AND ACTUAL COMPARISONS (Continued)

	<u>Revenue</u>	<u>Expenditures</u>
Budgetary basis	\$ 60,025,725	\$ 55,640,789
State on-behalf payments for Police and Fire-Rescue pension contributions not included in budgetary basis	<u>818,209</u>	<u>818,209</u>
GAAP basis	<u><u>\$ 60,843,934</u></u>	<u><u>\$ 56,458,998</u></u>

TOWN OF PALM BEACH, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS - PENSION PLANS

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<b><u>General Employees' Retirement System</u></b>						
09/30/04	\$ 56,298	\$ 61,842	\$ 5,544	91.0%	\$ 10,877	51.0%
09/30/05	59,589	67,882	8,293	87.8%	11,552	71.8%
09/30/06	64,608	73,054	8,446	88.4%	12,422	68.0%
09/30/07	72,161	77,632	5,471	93.0%	12,697	43.1%
09/30/08	73,732	83,758	10,026	88.0%	12,687	79.0%
09/30/09	72,370	89,658	17,288	80.7%	13,304	129.9%
<b><u>Police Officers' Retirement System</u></b>						
09/30/04	\$ 46,386	\$ 51,605	\$ 5,219	89.9%	\$ 5,070	102.9%
09/30/05	48,656	56,996	8,340	85.4%	5,348	155.9%
09/30/06	52,614	60,835	8,221	86.5%	5,769	142.5%
09/30/07	58,486	63,742	5,256	91.8%	5,334	98.5%
09/30/08	61,668	68,525	6,857	90.0%	5,309	129.2%
09/30/09	63,000	74,257	11,257	84.8%	6,187	181.9%
<b><u>Firefighters' Retirement System</u></b>						
09/30/04	\$ 44,080	\$ 51,703	\$ 7,623	85.3%	\$ 4,444	171.5%
09/30/05	45,765	59,314	13,549	77.2%	5,237	258.7%
09/30/06	49,236	64,220	14,984	76.7%	5,710	262.4%
09/30/07	54,723	67,027	12,304	81.6%	5,573	220.8%
09/30/08	57,652	71,813	14,161	80.3%	5,823	243.2%
09/30/09	57,852	78,139	20,287	74.0%	6,398	317.1%

TOWN OF PALM BEACH, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 GENERAL EMPLOYEES' RETIREMENT SYSTEM

Year Ended September 30, 2010

<u>Year Ended September 30</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2005	\$ 1,876,000	1,784,000 (a)	100%
2006	2,105,000	2,008,000 (a)	100%
2007	2,415,000	2,417,000	100%
2008	2,614,902	2,614,902	100%
2009	2,420,128	2,420,128	100%
2010	2,616,484	2,616,484	100%

(a) In years where the computed contribution exceeds the actual contribution, the difference was funded by the Reserve for Employer Contributions.

TOWN OF PALM BEACH, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 OTHER POSTEMPLOYMENT BENEFITS

Year Ended September 30, 2010

(In Thousands)

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll [(b-a)/c]</b>
10/01/06	N/A	N/A	N/A	N/A	N/A	N/A
10/01/08	\$ 15,786	\$ 26,720	\$ 10,934	59.1%	\$ 30,878	35.4%
10/01/10	17,701	27,769	10,068	63.7%	26,281	38.3%

The schedule of funding progress presented above presents multi-year trend

**OTHER SUPPLEMENTARY INFORMATION**

**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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUE</b>				
Investment earnings	\$ 140,000	\$ 140,000	\$ 90,991	\$ (49,009)
Grant revenue	500,000	500,000		(500,000)
Miscellaneous			9,720	9,720
Total revenue	<u>\$ 640,000</u>	<u>\$ 640,000</u>	<u>\$ 100,711</u>	<u>\$ (539,289)</u>
<b>EXPENDITURES</b>				
Current				
General Government	\$	\$	\$ 6,000	\$ (6,000)
Physical environment	800,000	2,748,240	232,583	2,515,657
Culture and recreation		5,090	3,372	1,718
Capital outlay	<u>4,668,957</u>	<u>11,245,711</u>	<u>2,265,942</u>	<u>8,979,769</u>
Total expenditures - budgetary basis	<u>\$ 5,468,957</u>	<u>\$ 13,999,041</u>	<u>\$ 2,507,897</u>	<u>\$ 11,491,144</u>
<b>OTHER FINANCING SOURCES</b>				
Revenue bonds issued	\$	\$	\$ 96,500	\$ 96,500
Transfers in	<u>4,828,957</u>	<u>4,828,957</u>	<u>4,828,957</u>	
Total other financing sources	<u>\$ 4,828,957</u>	<u>\$ 4,828,957</u>	<u>\$ 4,925,457</u>	<u>\$ 96,500</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - ACCELERATED CAPITAL FUND

Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE</b>				
Investment earnings	\$	\$	\$ 394,988	\$ 394,988
<b>EXPENDITURES</b>				
Capital outlay	\$	\$ 4,251,132	\$ 2,636,580	\$ 1,614,552
Debt service				
Debt issue costs		200,000	546,496	(346,496)
Total expenditures - budgetary basis	\$	\$ 4,451,132	\$ 3,183,076	\$ 1,268,056
<b>OTHER FINANCING SOURCES</b>				
Revenue bonds issued	\$	\$ 40,500,000	\$ 56,371,334	\$ 15,871,334
Revenue bonds premium			2,990,255	2,990,255
Retirement of revenue note			(10,000,000)	(10,000,000)
Payment to escrow agent			(5,835,971)	(5,835,971)
Total other financing sources	\$	\$ 40,500,000	\$ 43,525,618	\$ 3,025,618

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - WORTH AVENUE CONSTRUCTION FUND

Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE</b>				
Investment earnings	\$	\$	\$ 16,370	\$ 16,370
Contributions			14,801	14,801
Total revenue	<u>\$</u>	<u>\$</u>	<u>\$ 31,171</u>	<u>\$ 31,171</u>
<b>EXPENDITURES</b>				
Capital outlay	\$	\$ 14,500,000	\$ 9,911,085	\$ 4,588,915
Debt service				
Interest			3,514	(3,514)
Debt issue costs		100,000	154,637	(54,637)
Total expenditures - budgetary basis	<u>\$</u>	<u>\$ 14,600,000</u>	<u>\$ 10,069,236</u>	<u>\$ 4,530,764</u>
<b>OTHER FINANCING SOURCES</b>				
Revenue bonds issued	\$	\$ 14,600,000	\$ 14,569,936	\$ (30,064)
Revenue bonds discount			(410,712)	(410,712)
Retirement of revenue note			(589,028)	(589,028)
Total other financing sources	<u>\$</u>	<u>\$ 14,600,000</u>	<u>\$ 13,570,196</u>	<u>\$ (1,029,804)</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 reports the following nonmajor special revenue funds.

**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 reports the following nonmajor debt service funds

**Series 2003 Debt Service Fund**

**Series 2008 Debt Service Fund**

**Series 2010A Debt Service Fund**

**Series 2010B Debt Service Fund**

### *CAPITAL PROJECTS FUNDS*

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Town reports the following nonmajor capital projects funds.

**Beach Restoration Project Fund**

**Town Facilities Fund**

**Worth Avenue Assessment Fund**

TOWN OF PALM BEACH, FLORIDA

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

September 30, 2010

	Special Revenue		
	State Forfeiture Fund	Federal Forfeiture Fund	Donation Fund
<b>ASSETS</b>			
Equity in pooled cash and investments	\$ 154,107	\$ 69,551	\$ 352,658
Accounts receivable			
Interest receivable			
Due from other governments			
Due from other funds			35,499
Prepaid items	6,790	10,925	
Total Assets	<u>\$ 160,897</u>	<u>\$ 80,476</u>	<u>\$ 388,157</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$	\$	\$ 30,768
Due to other funds			
Deferred revenue			
Total liabilities	<u></u>	<u></u>	<u>30,768</u>
<b>FUND BALANCES</b>			
Reserved			
Capital projects			
Unreserved, designated for			
Subsequent year's expenditures			
Public safety	160,897	80,476	
Debt service			
Capital projects			
Other purposes			357,389
Total fund balances	<u>160,897</u>	<u>80,476</u>	<u>357,389</u>
Total liabilities and fund balances	<u>\$ 160,897</u>	<u>\$ 80,476</u>	<u>\$ 388,157</u>

Debt Service				Capital Projects			Total Nonmajor Governmental Funds
Series 2003 Debt Service Fund	Series 2008 Debt Service Fund	2010A Debt Service Fund	2010B Debt Service Fund	Beach Restoration Project Fund	Town Facilities Fund	Worth Avenue Assessment Fund	
\$ 46,094	\$ 69,765	\$ 147,230	\$ 6	\$ 7,681,406	\$ 1,021,411	\$ 123,497 30,701	\$ 9,665,725 30,701 50,358 611,932 35,499 17,715
\$ 46,094	\$ 69,765	\$ 147,230	\$ 6	\$ 8,322,365	\$ 1,042,742	\$ 154,198	\$ 10,411,930
\$	\$	\$	\$	\$ 149,452	\$ 25,103	\$ 81,604 20,000	\$ 286,927 20,000 323,426
				323,426			323,426
				472,878	25,103	101,604	630,353
						52,594	52,594
46,094	69,765						115,859
		147,230	6				241,373
				7,849,487	1,017,639		147,236
							8,867,126
46,094	69,765	147,230	6	7,849,487	1,017,639	52,594	357,389
\$ 46,094	\$ 69,765	\$ 147,230	\$ 6	\$ 8,322,365	\$ 1,042,742	\$ 154,198	\$ 10,411,930

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2010

	Special Revenue		
	State Forfeiture Fund	Federal Forfeiture Fund	Donation Fund
<b>REVENUES</b>			
Fines and forfeitures			
Seizure deposits	\$ 12,500	\$ 14,005	\$ 45
Investment earnings	189	81	45
Grant revenue			
Contributions			580,360
Special assessments			
Miscellaneous			
Total revenues	<u>12,689</u>	<u>14,086</u>	<u>580,405</u>
<b>EXPENDITURES</b>			
Current			
General government			311,651
Public safety	6,039		169,643
Physical environment			2,000
Culture and recreation			3,824
Capital outlay			
Debt service			
Principal retirement			
Interest and fiscal charges			
Total expenditures	<u>6,039</u>	<u>        </u>	<u>487,118</u>
Revenue over (under) expenditures	6,650	14,086	93,287
<b>OTHER FINANCING SOURCES (USES)</b>			
Refunding bonds issued			
Revenue bonds issued			
Transfers in			
Transfers out			
Total other financing sources (uses)	<u>        </u>	<u>        </u>	<u>        </u>
Net change in fund balances	6,650	14,086	93,287
Fund balances - beginning of year	<u>154,247</u>	<u>66,390</u>	<u>264,102</u>
Fund balances - end of year	<u>\$ 160,897</u>	<u>\$ 80,476</u>	<u>\$ 357,389</u>

Debt Service				Capital Projects			Total Nonmajor Governmental Funds
Series 2003 Debt Service Fund	Series 2008 Debt Service Fund	2010A Debt Service Fund	2010B Debt Service Fund	Beach Restoration Project Fund	Town Facilities Fund	Worth Avenue Assessment Fund	
\$ 672	\$ 351	\$ 115	\$ 6	\$ 128,513	\$ 10,294	\$ 2,783	\$ 26,505
				73,553			143,049
					200,000		73,553
						564,419	780,360
					1,055		564,419
<u>672</u>	<u>351</u>	<u>115</u>	<u>6</u>	<u>202,066</u>	<u>211,349</u>	<u>567,202</u>	<u>1,588,941</u>
				6,000			317,651
							175,682
				551,107			553,107
							3,824
				2,501,604	4,744,035	612,132	7,857,771
4,020,000							4,020,000
313,050	303,000	516,551	200,064				1,332,665
<u>4,333,050</u>	<u>303,000</u>	<u>516,551</u>	<u>200,064</u>	<u>3,058,711</u>	<u>4,744,035</u>	<u>612,132</u>	<u>14,260,700</u>
(4,332,378)	(302,649)	(516,436)	(200,058)	(2,856,645)	(4,532,686)	(44,930)	(12,671,759)
		663,666				97,524	761,190
			200,064				200,064
4,332,618				1,046,900			5,379,518
				(410,618)			(410,618)
<u>4,332,618</u>		<u>663,666</u>	<u>200,064</u>	<u>636,282</u>		<u>97,524</u>	<u>5,930,154</u>
240	(302,649)	147,230	6	(2,220,363)	(4,532,686)	52,594	(6,741,605)
45,854	372,414			10,069,850	5,550,325		16,523,182
<u>\$ 46,094</u>	<u>\$ 69,765</u>	<u>\$ 147,230</u>	<u>\$ 6</u>	<u>\$ 7,849,487</u>	<u>\$ 1,017,639</u>	<u>\$ 52,594</u>	<u>\$ 9,781,577</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - SERIES 2003 DEBT SERVICE FUND

Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Investment earnings	\$ 1,000	\$ 1,000	\$ 672	\$ (328)
<b>EXPENDITURES</b>				
Debt service				
Principal retirement	4,020,000	4,020,000	4,020,000	
Interest and fiscal charges	317,300	317,300	313,050	4,250
Total expenditures	\$ 4,337,300	\$ 4,337,300	\$ 4,333,050	\$ 4,250
<b>OTHER FINANCING SOURCES</b>				
Transfers in	\$ 4,336,300	\$ 4,336,300	\$ 4,332,618	\$ (3,682)

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - SERIES 2008 DEBT SERVICE FUND

Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Investment earnings	\$ 7,000	\$ 7,000	\$ 351	\$ (6,649)
<b>EXPENDITURES</b>				
Debt service				
Interest and fiscal charges	\$ 306,000	\$ 306,000	\$ 303,000	\$ 3,000
<b>OTHER FINANCING SOURCES</b>				
Transfers in	\$ 299,000	\$ 299,000	\$	\$ (299,000)

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - SERIES 2010A DEBT SERVICE FUND

Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Investment earnings	\$	\$	\$ 115	\$ 115
<b>EXPENDITURES</b>				
Debt service				
Interest and fiscal charges	\$	\$ 1,100,000	\$ 516,551	\$ 583,449
<b>OTHER FINANCING SOURCES</b>				
Revenue bonds issued	\$	\$ 1,100,000	\$ 663,666	\$ (436,334)

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - SERIES 2010B DEBT SERVICE FUND

Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Investment earnings	\$	\$	\$ 6	\$ 6
<b>EXPENDITURES</b>				
Debt service				
Interest and fiscal charges	\$	\$ 250,000	\$ 200,064	\$ 49,936
<b>OTHER FINANCING SOURCES</b>				
Revenue bonds issued	\$	\$ 250,000	\$ 200,064	\$ (49,936)

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - BEACH RESTORATION PROJECT FUND

Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Investment earnings	\$ 132,500	\$ 132,500	\$ 128,513	\$ (3,987)
Grant revenue	3,013,900	3,313,900	73,553	(3,240,347)
Total revenue	<u>\$ 3,146,400</u>	<u>\$ 3,446,400</u>	<u>\$ 202,066</u>	<u>\$ (3,244,334)</u>
<b>EXPENDITURES</b>				
Current				
General government	\$	\$	\$ 6,000	\$ (6,000)
Physical environment	886,904	3,353,115	551,107	2,802,008
Non-departmental	10,000	10,000		10,000
Capital outlay	6,896,096	10,551,846	2,501,604	8,050,242
Total expenditures - budgetary basis	<u>\$ 7,793,000</u>	<u>\$ 13,914,961</u>	<u>\$ 3,058,711</u>	<u>\$ 10,856,250</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 5,057,218	\$ 11,031,079	\$ 1,046,900	\$ (9,984,179)
Transfers out	(410,618)	(562,518)	(410,618)	151,900
Total other financing sources (uses)	<u>\$ 4,646,600</u>	<u>\$ 10,468,561</u>	<u>\$ 636,282</u>	<u>\$ (9,832,279)</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - TOWN FACILITIES FUND

Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES</b>				
Investment earnings	\$ 80,000	\$ 80,000	\$ 10,294	\$ (69,706)
Contributions	350,000	350,000	200,000	(150,000)
Miscellaneous			1,055	1,055
Total revenues	<u>\$ 430,000</u>	<u>\$ 430,000</u>	<u>\$ 211,349</u>	<u>\$ (218,651)</u>
<b>EXPENDITURES</b>				
Capital outlay	\$ 4,000,000	\$ 5,270,980	\$ 4,744,035	\$ 526,945
Total expenditures - budgetary basis	<u>\$ 4,000,000</u>	<u>\$ 5,270,980</u>	<u>\$ 4,744,035</u>	<u>\$ 526,945</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - WORTH AVENUE ASSESSMENT FUND

Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Investment earnings	\$ 195,000	\$ 195,000	\$ 2,783	\$ (192,217)
Special assessments	700,000	700,000	564,419	(135,581)
Total revenues	<u>\$ 895,000</u>	<u>\$ 895,000</u>	<u>\$ 567,202</u>	<u>\$ (327,798)</u>
<b>EXPENDITURES</b>				
Capital outlay	\$ 13,000,000	\$ 13,000,000	\$ 612,132	\$ 12,387,868
Debt service				
Principal retirement	1,400,000	1,400,000		1,400,000
Interest and fiscal charges	10,000	10,000		10,000
Total expenditures - budgetary basis	<u>\$ 14,410,000</u>	<u>\$ 14,410,000</u>	<u>\$ 612,132</u>	<u>\$ 13,797,868</u>
<b>OTHER FINANCING SOURCES</b>				
Revenue bonds issued	\$ 13,700,000	\$ 13,700,000	\$ 97,524	\$ (13,602,476)
Total other financing sources	<u>\$ 13,700,000</u>	<u>\$ 13,700,000</u>	<u>\$ 97,524</u>	<u>\$ (13,602,476)</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. The Town reports the following internal service funds.

**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.

**Equipment Replacement Fund** - To account for the accumulation of financial resources to be used for the acquisition of major capital equipment and vehicles.

TOWN OF PALM BEACH, FLORIDA

COMBINING BALANCE SHEET - INTERNAL SERVICE FUNDS

September 30, 2010

	Property, Liability and Workers Compensation Insurance Fund	Group Health Insurance Fund	Equipment Replacement Fund	Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 16,405	\$ 25,172	\$	\$ 41,577
Equity in pooled cash and investments	10,212,980	3,407,956	11,881,950	25,502,886
Interest receivable	20,093	15,179	15,923	51,195
Due from other funds	204	244		448
Prepaid expenses		105,069		105,069
Total current assets	<u>10,249,682</u>	<u>3,553,620</u>	<u>11,897,873</u>	<u>25,701,175</u>
Noncurrent assets				
Capital assets				
Equipment	63,601		18,000,773	18,064,374
Accumulated depreciation	(16,938)		(8,290,435)	(8,307,373)
Total capital assets, net of accumulated depreciation	<u>46,663</u>		<u>9,710,338</u>	<u>9,757,001</u>
Total assets	<u>10,296,345</u>	<u>3,553,620</u>	<u>21,608,211</u>	<u>35,458,176</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	45,331	590,857	230,349	866,537
Accrued liabilities	3,566,070	395,366		3,961,436
Compensated absences payable		2,200		2,200
Total current liabilities	<u>3,611,401</u>	<u>988,423</u>	<u>230,349</u>	<u>4,830,173</u>
Noncurrent liability				
Compensated absences payable	15,348			15,348
Total liabilities	<u>3,626,749</u>	<u>988,423</u>	<u>230,349</u>	<u>4,845,521</u>
<b>NET ASSETS</b>				
Invested in capital assets	46,663		9,710,338	9,757,001
Unrestricted	6,622,933	2,565,197	11,667,524	20,855,654
Total net assets	<u>\$ 6,669,596</u>	<u>\$ 2,565,197</u>	<u>\$ 21,377,862</u>	<u>\$ 30,612,655</u>

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2010

	Property, Liability and Workers Compensation Insurance Fund	Group Health Insurance Fund	Equipment Replacement Fund	Total
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,904,463	\$ 4,354,557	\$ 2,143,700	\$ 8,402,720
Other	25,368			25,368
Total operating revenues	<u>1,929,831</u>	<u>4,354,557</u>	<u>2,143,700</u>	<u>8,428,088</u>
<b>OPERATING EXPENSES</b>				
Personal services	114,468	69,647		184,115
Contractual services	10,802	8,188		18,990
Repairs and maintenance			500	500
Insurance	992,724	937,303		1,930,027
Claims	2,049,137	2,860,442		4,909,579
Depreciation	10,191		1,800,320	1,810,511
Other	9,215	3,317	221,658	234,190
Total operating expenses	<u>3,186,537</u>	<u>3,878,897</u>	<u>2,022,478</u>	<u>9,087,912</u>
Operating Income	(1,256,706)	475,660	121,222	(659,824)
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Investment earnings	112,411	7,721	179,159	299,291
Insurance recoveries	193,249	236,099		429,348
Loss on disposal of assets			(289,748)	(289,748)
Total nonoperating revenue (expense)	<u>305,660</u>	<u>243,820</u>	<u>(110,589)</u>	<u>438,891</u>
Income before capital contributions and transfers	(951,046)	719,480	10,633	(220,933)
Transfers in			5,515,499	5,515,499
Change in Net Assets	(951,046)	719,480	5,526,132	5,294,566
Net assets - beginning of year	7,620,642	1,845,717	15,851,730	25,318,089
Net assets - end of year	<u>\$ 6,669,596</u>	<u>\$ 2,565,197</u>	<u>\$ 21,377,862</u>	<u>\$ 30,612,655</u>

TOWN OF PALM BEACH, FLORIDA

COMBINING STATEMENT OF CASH FLOWS -  
INTERNAL SERVICE FUNDS

Year Ended September 30, 2010

	Property, Liability and Workers Compensation Insurance Fund	Group Health Insurance Fund	Equipment Replacement Fund	Total
<b>OPERATING ACTIVITIES</b>				
Receipts from interfund services provided	\$ 1,900,468	\$ 4,358,230	\$ 2,143,700	\$ 8,402,398
Payments to employees	(106,085)	(85,668)		(191,753)
Payments to suppliers	(1,989,940)	(3,990,392)	(298,882)	(6,279,214)
Payments to other funds	(9,200)			(9,200)
Other receipts	25,368			25,368
Net cash provided by (used in) operating activities	(179,389)	282,170	1,844,818	1,947,599
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of property and equipment			(1,308,373)	(1,308,373)
Proceeds from sale of assets			35,108	35,108
Insurance recoveries	193,249	236,099		429,348
Net cash provided by (used in) capital and related financing activities	193,249	236,099	(1,273,265)	(843,917)
<b>INVESTING ACTIVITY</b>				
Investment earnings received	116,441		187,359	303,800
Interest paid		(7,458)		(7,458)
Net cash provided by (used in) investing activity	116,441	(7,458)	187,359	296,342
Net increase (decrease) in cash and cash equivalents	130,301	510,811	758,912	1,400,024
Cash and cash equivalents - beginning of year	10,099,084	2,922,317	11,123,038	24,144,439
Cash and cash equivalents - end of year	<u>\$ 10,229,385</u>	<u>\$ 3,433,128</u>	<u>\$ 11,881,950</u>	<u>\$ 25,544,463</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income	\$ (1,256,706)	\$ 475,660	\$ 121,222	\$ (659,824)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	10,191		1,800,320	1,810,511
Changes in operating assets and liabilities:				
(Increase) decrease in due from other funds	(204)	3,673		3,469
Increase (decrease) in prepaid expenses	100	(79,782)		(79,682)
Increase (decrease) in accounts payable	(13,162)	249,546	(76,724)	159,660
Increase (decrease) in accrued liabilities	1,085,340	(357,285)		728,055
Increase (decrease) in due to other funds	(3,791)			(3,791)
Increase (decrease) in compensated absences payab	(1,157)	(9,642)		(10,799)
<b>Net cash provided by (used in) operating activities</b>	<u>\$ (179,389)</u>	<u>\$ 282,170</u>	<u>\$ 1,844,818</u>	<u>\$ 1,947,599</u>

## FIDUCIARY FUNDS

### *TRUST FUNDS*

Trust funds are used to account for resources that are required to be held in trust for others. The Town reports the following employee benefit trust funds.

**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.

**OPEB Trust Fund** - To account for the accumulation of resources to be used for Town retiree health care benefits.

### *AGENCY FUNDS*

Agency funds are similar to trust funds as they are used to account for resources that are required to be held in trust for others. The key distinction between trust funds and agency funds is that trust funds normally are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held. The Town reports the following 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 -  
TRUST FUNDS

September 30, 2010

	General Employees' Pension Trust Fund	Police Officers' Retirement Trust Fund	Firefighters' Retirement Trust Fund	OPEB Trust Fund	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 487,530	\$ 2,544,647	\$ 2,228,868	\$ 135,219	\$ 5,396,264
Equity in pooled cash and investments				1,630,089	1,630,089
Interest and dividends receivable	5,580	65,808	68,810	18,262	158,460
State contributions receivable			104,195		104,195
Due from broker for securities sold	6,651,496	105,000			6,756,496
Other receivables	206,658				206,658
Note receivable			12,062		12,062
Prepaid expenses and other assets		8,072	8,118	39,014	55,204
Investments, at fair value					
U.S. government securities		1,452,987	7,285,500		8,738,487
Corporate bonds and notes		8,374,671	5,779,732	1,410,104	15,564,507
Common stock	8,799,244	5,026,045	4,257,105		18,082,394
Domestic equity funds	23,808,395	6,897,159	5,775,199	4,788,215	41,268,968
International equity funds		7,482,995	9,403,686	3,048,652	19,935,333
Domestic fixed income funds	18,092,039	3,330,055		2,607,055	24,029,149
Real estate funds		5,793,201	4,066,839		9,860,040
Alternative investments	7,307,164	14,453,121	15,111,643	4,024,037	40,895,965
Private equity funds			328,935		328,935
Share and DROP mutual funds held outside the Plan			694,448		694,448
Total assets	65,358,106	55,533,761	55,125,140	17,700,647	193,717,654
<b>LIABILITIES</b>					
Accounts payable	50,293	41,921	29,925	175,114	297,253
Accrued liabilities	27,037			1,354	28,391
Due to broker for securities purchased	38,427	30,320			68,747
Deferred retirement option plan payable			559,832		559,832
Share and DROP retirement option plan payable held outside the Plan			694,448		694,448
Total liabilities	115,757	72,241	1,284,205	176,468	1,648,671
<b>NET ASSETS HELD IN TRUST FOR PENSION AND RETIREE HEALTH BENEFITS</b>					
	\$ 65,242,349	\$ 55,461,520	\$ 53,840,935	\$ 17,524,179	\$ 192,068,983

TOWN OF PALM BEACH, FLORIDA

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS  
TRUST FUNDS

Year Ended September 30, 2010

	General Employees' Pension Trust Fund	Police Officers' Retirement Trust Fund	Firefighters' Retirement Trust Fund	OPEB Trust Fund	Total
<b>ADDITIONS</b>					
Contributions					
Employer	\$ 2,616,484	\$ 2,279,571	\$ 2,647,210	\$ 1,550,000	\$ 9,093,265
Employee	1,115,348	426,895	490,483	1,101,520	3,134,246
State		211,524	607,484		819,008
Other				79,040	79,040
Total contributions	<u>3,731,832</u>	<u>2,917,990</u>	<u>3,745,177</u>	<u>2,730,560</u>	<u>13,125,559</u>
Investment income (loss)					
Net appreciation in fair value of investments	5,751,165	3,525,600	3,711,807	847,196	13,835,768
Interest and dividends	96,457	535,908	394,358	252,723	1,279,446
Other	5,243				5,243
Total investment income	<u>5,852,865</u>	<u>4,061,508</u>	<u>4,106,165</u>	<u>1,099,919</u>	<u>15,120,457</u>
Less investment expense	(236,119)	(240,468)	(173,239)	(78,870)	(728,696)
Allocation of investment income:					
Deferred retirement option plan			(44,664)		(44,664)
Net investment income	<u>5,616,746</u>	<u>3,821,040</u>	<u>3,888,262</u>	<u>1,021,049</u>	<u>14,347,097</u>
Total additions	<u>9,348,578</u>	<u>6,739,030</u>	<u>7,633,439</u>	<u>3,751,609</u>	<u>27,472,656</u>
<b>DEDUCTIONS</b>					
Benefit payments	4,074,985	3,639,601	3,676,949	2,077,145	13,468,680
Share account distributions			90,432		90,432
Refunds of participants' contributions	281,605	14,301	21,600		317,506
Administrative expense	58,252	188,793	184,980	48,468	480,493
Other			74,138	356	74,494
Total deductions	<u>4,414,842</u>	<u>3,842,695</u>	<u>4,048,099</u>	<u>2,125,969</u>	<u>14,431,605</u>
Net increase (decrease)	<u>4,933,736</u>	<u>2,896,335</u>	<u>3,585,340</u>	<u>1,625,640</u>	<u>13,041,051</u>
Net assets held in trust for pension and retiree health benefits - beginning of year	60,308,613	52,565,185	50,255,595	15,898,539	179,027,932
<b>NET ASSETS HELD IN TRUST FOR PENSION AND RETIREE HEALTH BENEFITS - END OF YEAR</b>	<u>\$ 65,242,349</u>	<u>\$ 55,461,520</u>	<u>\$ 53,840,935</u>	<u>\$ 17,524,179</u>	<u>\$ 192,068,983</u>

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -  
AGENCY FUND

Year Ended September 30, 2010

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
<b>KREUSLER PARK FUND</b>				
<b>ASSETS</b>				
Equity in pooled cash and investments	\$ 37,829	\$	\$ 37,829	\$
Accounts receivable		<u>13,652</u>		<u>13,652</u>
Total assets	<u>\$ 37,829</u>	<u>\$ 13,652</u>	<u>\$ 37,829</u>	<u>\$ 13,652</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 37,829	\$	\$ 24,532	\$ 13,297
Due to other governments		<u>355</u>		<u>355</u>
Total liabilities	<u>\$ 37,829</u>	<u>\$ 355</u>	<u>\$ 24,532</u>	<u>\$ 13,652</u>

## **DEBT SERVICE REQUIREMENTS**

TOWN OF PALM BEACH

SUMMARY SCHEDULE OF DEBT SERVICE REQUIREMENTS  
PRINCIPAL AND INTEREST TO MATURITY

September 30, 2010

<u>Fiscal Year Ending September 30</u>	<u>Revenue and Refunding Bonds Series 2010A</u>	<u>Revenue Bonds Series 2010B</u>	<u>Joint Venture Loan Payable</u>	<u>Total</u>
2011	\$ 3,621,338	\$ 863,663	\$ 123,120	\$ 4,608,121
2012	3,621,738	862,713	123,120	4,607,571
2013	3,619,213	866,613	123,120	4,608,946
2014	3,620,988	865,363	123,120	4,609,471
2015	3,624,263	864,013	123,120	4,611,396
2016	3,620,937	866,894	81,788	4,569,619
2017	3,625,538	863,369		4,488,907
2018	3,623,238	863,587		4,486,825
2019	3,624,037	863,087		4,487,124
2020	3,621,187	866,750		4,487,937
2021	3,623,937	864,088		4,488,025
2022	3,623,188	865,525		4,488,713
2023	3,618,937	866,181		4,485,118
2024	3,620,938	865,781		4,486,719
2025	3,623,812	864,012		4,487,824
2026	3,622,438	866,012		4,488,450
2027	3,621,687	862,312		4,483,999
2028	3,624,968	862,603		4,487,571
2029	3,623,750	861,772		4,485,522
2030	3,624,125	864,675		4,488,800
2031	3,619,250	865,488		4,484,738
2032	3,623,750	864,500		4,488,250
2033	3,622,250	862,388		4,484,638
2034	3,624,500	864,037		4,488,537
2035	3,620,250	864,337		4,484,587
2036	3,624,125	863,288		4,487,413
2037	3,620,750	865,775		4,486,525
2038	3,624,750	861,800		4,486,550
2039	3,620,750	866,250		4,487,000
2040	3,623,375	864,012		4,487,387
	<u>\$ 108,674,007</u>	<u>\$ 25,930,888</u>	<u>\$ 697,388</u>	<u>\$ 135,302,283</u>

TOWN OF PALM BEACH

DEBT SERVICE REQUIREMENTS

PUBLIC IMPROVEMENT REVENUE AND REFUNDING BONDS, SERIES 2010A

September 30, 2010

<b>Fiscal Year Ending September 30</b>	<b>Rate</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal Balance Outstanding End of Year</b>
2011	2.000%	\$ 970,000	\$ 2,651,338	\$ 3,621,338	\$ 56,065,000
2012	2.000%	990,000	2,631,738	3,621,738	55,075,000
2013	2.500%	1,010,000	2,609,213	3,619,213	54,065,000
2014	3.000%	1,040,000	2,580,988	3,620,988	53,025,000
2015	3.000%	1,075,000	2,549,263	3,624,263	51,950,000
2016	4.000%	1,110,000	2,510,937	3,620,937	50,840,000
2017	4.000%	1,160,000	2,465,538	3,625,538	49,680,000
2018	4.000%	1,205,000	2,418,238	3,623,238	48,475,000
2019	4.000%	1,255,000	2,369,037	3,624,037	47,220,000
2020	5.000%	1,310,000	2,311,187	3,621,187	45,910,000
2021	5.000%	1,380,000	2,243,937	3,623,937	44,530,000
2022	5.000%	1,450,000	2,173,188	3,623,188	43,080,000
2023	5.000%	1,520,000	2,098,937	3,618,937	41,560,000
2024	5.000%	1,600,000	2,020,938	3,620,938	39,960,000
2025	5.000%	1,685,000	1,938,812	3,623,812	38,275,000
2026	5.000%	1,770,000	1,852,438	3,622,438	36,505,000
2027	5.000%	1,860,000	1,761,687	3,621,687	34,645,000
2028	4.125%	1,950,000	1,674,968	3,624,968	32,695,000
2029	5.000%	2,040,000	1,583,750	3,623,750	30,655,000
2030	5.000%	2,145,000	1,479,125	3,624,125	28,510,000
2031	5.000%	2,250,000	1,369,250	3,619,250	26,260,000
2032	5.000%	2,370,000	1,253,750	3,623,750	23,890,000
2033	5.000%	2,490,000	1,132,250	3,622,250	21,400,000
2034	5.000%	2,620,000	1,004,500	3,624,500	18,780,000
2035	5.000%	2,750,000	870,250	3,620,250	16,030,000
2036	5.000%	2,895,000	729,125	3,624,125	13,135,000
2037	5.000%	3,040,000	580,750	3,620,750	10,095,000
2038	5.000%	3,200,000	424,750	3,624,750	6,895,000
2039	5.000%	3,360,000	260,750	3,620,750	3,535,000
2040	5.000%	3,535,000	88,375	3,623,375	
		<u>\$ 57,035,000</u>	<u>\$ 51,639,007</u>	<u>\$ 108,674,007</u>	

TOWN OF PALM BEACH  
DEBT SERVICE REQUIREMENTS  
PUBLIC IMPROVEMENT REVENUE BONDS, SERIES 2010B

September 30, 2010

Fiscal Year Ending September 30	Rate	Principal	Interest	Total	Principal Balance Outstanding End of Year
2011	2.000%	\$ 295,000	\$ 568,663	\$ 863,663	\$ 14,475,000
2012	2.000%	300,000	562,713	862,713	14,175,000
2013	2.000%	310,000	556,613	866,613	13,865,000
2014	2.000%	315,000	550,363	865,363	13,550,000
2015	2.000%	320,000	544,013	864,013	13,230,000
2016	2.375%	330,000	536,894	866,894	12,900,000
2017	2.750%	335,000	528,369	863,369	12,565,000
2018	3.000%	345,000	518,587	863,587	12,220,000
2019	3.000%	355,000	508,087	863,087	11,865,000
2020	3.250%	370,000	496,750	866,750	11,495,000
2021	3.500%	380,000	484,088	864,088	11,115,000
2022	3.500%	395,000	470,525	865,525	10,720,000
2023	3.625%	410,000	456,181	866,181	10,310,000
2024	3.750%	425,000	440,781	865,781	9,885,000
2025	4.000%	440,000	424,012	864,012	9,445,000
2026	4.000%	460,000	406,012	866,012	8,985,000
2027	4.000%	475,000	387,312	862,312	8,510,000
2028	4.125%	495,000	367,603	862,603	8,015,000
2029	4.125%	515,000	346,772	861,772	7,500,000
2030	4.250%	540,000	324,675	864,675	6,960,000
2031	4.500%	565,000	300,488	865,488	6,395,000
2032	4.500%	590,000	274,500	864,500	5,805,000
2033	4.500%	615,000	247,388	862,388	5,190,000
2034	4.500%	645,000	219,037	864,037	4,545,000
2035	4.500%	675,000	189,337	864,337	3,870,000
2036	4.500%	705,000	158,288	863,288	3,165,000
2037	4.500%	740,000	125,775	865,775	2,425,000
2038	4.500%	770,000	91,800	861,800	1,655,000
2039	4.500%	810,000	56,250	866,250	845,000
2040	4.500%	845,000	19,012	864,012	
		<u>\$ 14,770,000</u>	<u>\$ 11,160,888</u>	<u>\$ 25,930,888</u>	

TOWN OF PALM BEACH

DEBT SERVICE REQUIREMENTS  
JOINT VENTURE LOAN PAYABLE

September 30, 2010

<b>Fiscal Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal Balance Outstanding End of Year</b>
2011	\$ 107,838	\$ 15,282	\$ 123,120	\$ 540,924
2012	110,619	12,501	123,120	430,305
2013	113,472	9,648	123,120	316,833
2014	116,399	6,721	123,120	200,434
2015	119,401	3,719	123,120	81,033
2016	81,033	755	81,788	
	<u>\$ 648,762</u>	<u>\$ 48,626</u>	<u>\$ 697,388</u>	

## 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.

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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 Eight Fiscal Years

Accrual Basis of Accounting

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
<b>Governmental activities</b>								
Invested in capital assets, net of related debt	\$ 51,595,063	\$ 50,906,153	\$ 52,423,983	\$ 70,412,738	\$ 71,453,781	\$ 75,658,381	\$ 80,983,936	\$ 89,404,386
Restricted	0	250,907	199,674	234,245	276,523	1,184,132	611,489	45,184,112
Unrestricted	75,213,296	80,397,271	86,813,836	83,756,838	94,548,246	90,855,890	91,088,326	34,421,900
<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>	<u>\$ 166,278,550</u>	<u>\$ 167,698,403</u>	<u>\$ 172,683,751</u>	<u>\$ 169,010,398</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	\$ 10,971,879	\$ 12,635,374	\$ 17,120,652	\$ 17,020,243
Restricted	0	0	0	0	0	800,000	0	
Unrestricted	2,781,185	3,129,161	4,091,466	4,117,835	4,715,002	4,798,209	2,955,244	2,891,749
<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>	<u>\$ 15,686,881</u>	<u>\$ 18,233,583</u>	<u>\$ 20,075,896</u>	<u>\$ 19,911,992</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	\$ 82,425,660	\$ 88,293,755	\$ 98,104,588	\$ 106,424,629
Restricted	0	250,907	199,674	234,245	276,523	1,984,132	611,489	45,184,112
Unrestricted	77,994,481	83,526,432	90,905,302	87,874,673	99,263,248	95,654,099	94,043,570	37,313,649
<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>	<u>\$ 181,965,431</u>	<u>\$ 185,931,986</u>	<u>\$ 192,759,647</u>	<u>\$ 188,922,390</u>

## Town of Palm Beach, Florida

Changes in Net Assets

Last Eight Fiscal Years

Accrual Basis of Accounting

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
<b>Expenses</b>								
Governmental activities:								
General government	\$ 8,402,847	\$ 12,881,165	\$ 10,541,925	\$ 10,770,654	\$ 11,620,148	\$ 14,194,382	\$ 11,687,399	\$ 13,535,702
Public safety	19,803,167	22,872,573	27,865,411	27,115,822	30,526,540	29,688,750	30,755,445	29,321,521
Physical environment	9,307,102	11,851,242	12,267,718	19,746,156	15,169,120	19,802,683	17,536,687	16,553,051
Transportation	582,376	773,122	1,042,556	1,179,979	864,359	1,131,044	1,206,068	898,456
Culture and recreation	2,489,073	1,561,430	1,677,604	1,919,405	1,854,023	1,814,544	1,796,409	3,293,395
Interest on long-term debt	1,277,118	1,590,795	1,138,344	1,030,985	913,297	825,899	741,244	2,081,998
<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>	<u>60,947,487</u>	<u>67,457,302</u>	<u>63,723,252</u>	<u>65,684,123</u>
Business-type activities:								
Leisure services	1,528,543	2,935,651	3,099,168	3,474,250	3,546,363	3,450,003	3,666,342	3,774,682
<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>	<u>3,546,363</u>	<u>3,450,003</u>	<u>3,666,342</u>	<u>3,774,682</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>	<u>\$ 64,493,850</u>	<u>\$ 70,907,305</u>	<u>\$ 67,389,594</u>	<u>\$ 69,458,805</u>
<b>Program Revenues</b>								
Governmental activities:								
Charges for services:								
General government	\$ 5,859,442	\$ 6,317,510	\$ 7,094,336	\$ 6,745,625	\$ 7,308,586	\$ 8,016,246	\$ 5,035,126	\$ 4,239,229
Public safety	2,233,350	1,827,503	1,551,196	1,913,437	2,449,825	2,330,239	2,464,558	2,023,808
Physical environment	2,707,891	869,451	925,645	1,354,292	1,022,063	1,041,072	1,131,884	1,098,951
Transportation	398,614	433,041	393,012	410,584	540,123	657,135	650,537	1,268,087
Culture and recreation	354,790	0	0	0	54,004	84,663	61,388	37,381
Operating grants and contributions:								
General government	0	2,378,073	3,892,522	2,995,182	28,427	847,910	39,649	576,737
Public safety	713,611	182,917	1,394,472	963,866	1,214,891	1,253,809	842,282	322,706
Physical environment	722,869	60,470	1,612,048	9,672,675	163,213	158,231	319,781	0
Transportation	0	0	0	78,013	71,204	694,700	42,347	9
Culture and recreation	0	177,157	32,932	49,728	74,614	15,831	39,894	3,526
Capital grants and contributions:								
General government	0	0	0	0	0	0	0	4,421
Public safety	52,768	478,202	68,524	179,952	30,837	10,957	1,885,000	103,102
Physical environment	2,567,523	607,209	0	0	3,154,725	672,290	2,490	396,979
Culture and recreation	0	21,791	0	0	0	0	445,251	10,962
<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>	<u>16,112,512</u>	<u>15,783,083</u>	<u>12,960,187</u>	<u>10,085,898</u>
Business-type activities:								
Charges for services:								
Leisure Services Fund	3,137,471	3,543,090	3,786,711	3,984,307	4,291,969	4,523,039	4,160,010	4,350,130
Operating grants and contributions	0	0	0	67,183	0	0	0	0
Capital grants and contributions	0	0	0	0	0	1,884,649	1,830,934	6,500
<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>	<u>4,291,969</u>	<u>6,407,688</u>	<u>5,990,944</u>	<u>4,356,630</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>	<u>\$ 20,404,481</u>	<u>\$ 22,190,771</u>	<u>\$ 18,951,131</u>	<u>\$ 14,442,528</u>
<b>Net (expense)/revenue</b>								
Governmental activities	\$ (26,250,825)	\$ (38,177,003)	\$ (37,568,871)	\$ (37,399,647)	\$ (44,834,975)	\$ (51,674,219)	\$ (50,763,065)	\$ (55,598,225)
Business-type activities	1,608,928	607,439	687,543	577,240	745,606	2,957,685	2,324,602	581,948
<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>	<u>\$ (44,089,369)</u>	<u>\$ (48,716,534)</u>	<u>\$ (48,438,463)</u>	<u>\$ (55,016,277)</u>

# Town of Palm Beach, Florida

Changes in Net Assets (continued)

Last Eight Fiscal Years

Accrual Basis of Accounting

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
<b>General Revenues and Other Changes in</b>								
<b>Net Assets</b>								
Governmental activities:								
Taxes:								
Property taxes	\$ 29,815,341	\$ 32,778,331	\$ 35,539,136	\$ 39,008,774	\$ 43,096,605	\$ 41,457,249	\$ 42,887,217	\$ 41,508,570
Local option gas tax	224,517	219,755	222,226	360,210	360,853	337,785	324,077	321,246
Franchise fees	1,726,221	1,881,195	1,989,980	2,433,811	2,478,487	2,447,544	2,454,232	2,152,817
Utility service taxes	4,156,003	3,983,261	4,160,185	4,167,844	4,105,957	4,496,507	4,608,088	4,885,696
Business Tax Receipts	0	0	0	0	0	0	726,239	716,018
Intergovernmental, unrestricted	958,145	1,730,628	1,192,382	1,158,415	1,249,609	1,108,340	1,190,409	905,276
Investment earnings	2,285,717	1,676,047	2,661,913	4,709,493	4,891,708	2,666,647	2,728,147	2,061,399
Miscellaneous	850,582	1,905,491	0	0	51,565	0	280,004	232,309
Transfers	675,000	(1,251,733)	(313,789)	527,428	474,920	580,000	550,000	550,000
<b>Total governmental activities</b>	<u>40,691,526</u>	<u>42,922,975</u>	<u>45,452,033</u>	<u>52,365,975</u>	<u>56,709,704</u>	<u>53,094,072</u>	<u>55,748,413</u>	<u>53,333,331</u>
Business-type activities								
Investment earnings	55,287	56,939	125,691	261,893	333,243	169,017	67,711	26,142
Transfers	(675,000)	1,251,733	313,789	(527,428)	(474,920)	(580,000)	(550,000)	(550,000)
<b>Total business-type activities</b>	<u>(619,713)</u>	<u>1,308,672</u>	<u>439,480</u>	<u>(265,535)</u>	<u>(141,677)</u>	<u>(410,983)</u>	<u>(482,289)</u>	<u>(523,858)</u>
<b>Total primary government</b>	<u>\$ 40,071,813</u>	<u>\$ 44,231,647</u>	<u>\$ 45,891,513</u>	<u>\$ 52,100,440</u>	<u>\$ 56,568,027</u>	<u>\$ 52,683,089</u>	<u>\$ 55,266,124</u>	<u>\$ 52,809,473</u>
<b>Changes in Net Assets</b>								
Governmental activities	\$ 14,440,701	\$ 4,745,972	\$ 7,883,162	\$ 14,966,328	\$ 11,874,729	\$ 1,419,853	\$ 4,985,348	\$ (2,264,894)
Business-type activities	989,215	1,916,111	1,127,023	311,705	603,929	2,546,702	1,842,313	58,090
<b>Total primary government</b>	<u>\$ 15,429,916</u>	<u>\$ 6,662,083</u>	<u>\$ 9,010,185</u>	<u>\$ 15,278,033</u>	<u>\$ 12,478,658</u>	<u>\$ 3,966,555</u>	<u>\$ 6,827,661</u>	<u>\$ (2,206,804)</u>

# Town of Palm Beach, Florida

Fund Balances of Governmental Funds

Last Eight Fiscal Years

Modified Accrual Basis of Accounting

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
<b>General Fund</b>								
Reserved	\$ 918,224	\$ 2,881,233	\$ 1,213,317	\$ 1,379,142	\$ 2,188,726	\$ 515,591	\$ 478,285	\$ 512,860
Unreserved	20,511,244	23,413,449	24,761,271	23,010,110	28,447,330	31,858,624	30,304,216	26,919,376
Total General Fund	<u>\$ 21,429,468</u>	<u>\$ 26,294,682</u>	<u>\$ 25,974,588</u>	<u>\$ 24,389,252</u>	<u>\$ 30,636,056</u>	<u>\$ 32,374,215</u>	<u>\$ 30,782,501</u>	<u>\$ 27,432,236</u>
<b>All other governmental funds</b>								
Reserved	\$ 8,988,509	\$ 8,233,283	\$ 9,932,425	\$ 4,569,597	\$ 3,879,869	\$ 1,184,132	\$ 3,645,534	\$ 18,579,324
Unreserved, reported in:								
Special Revenue Funds	0	0	0	0	0	0	0	598,762
Capital Projects funds	47,027,447	42,062,662	35,813,734	34,579,119	22,254,563	29,111,356	18,107,668	42,765,725
Debt Service Funds	0	0	0	0	0	0	291,518	147,236
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>	<u>\$ 26,134,432</u>	<u>\$ 30,295,488</u>	<u>\$ 22,044,720</u>	<u>\$ 62,091,047</u>

## Town of Palm Beach, Florida

Tax Revenues by Source, Governmental Funds

Last Ten Fiscal Years

Fiscal Year	Property Taxes*	Local Option Gas Tax	Franchise Fees	Utility Service Taxes	Business Tax Receipts (1)	Total
2001	\$ 26,280,565	\$ 342,479	\$ 2,049,125	\$ 3,560,240	\$ 0	\$ 32,232,409
2002	27,281,634	351,349	1,716,214	4,022,212	0	33,371,409
2003	29,815,341	224,517	1,726,221	4,156,003	0	35,922,082
2004	32,778,331	219,755	1,881,195	3,983,261	0	38,862,542
2005	35,539,136	222,226	1,989,980	4,160,185	0	41,911,527
2006	39,008,774	360,210	2,433,811	4,167,844	0	45,970,639
2007	43,096,605	360,853	2,478,487	4,105,957	0	50,041,902
2008	41,457,249	337,785	2,447,544	4,496,507	0	48,739,085
2009	42,887,217	324,077	2,454,232	4,608,088	726,239	50,999,853
2010	41,508,570	321,246	2,152,817	4,931,205	716,018	49,629,856

Change:

2001-2010	57.9%	-6.2%	5.1%	38.5%	N/A	54.0%
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\*Property taxes received for both General Fund and Debt Service Fund (debt service taxes ended in FY2005).

(1) In 2009, Occupational Licenses and Business Permits were reclassified from Charges for Services to Taxes.

**Town of Palm Beach, Florida**

Changes in Fund Balances of Governmental Funds

Last Ten Fiscal Years

Modified Accrual Basis of Accounting

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Revenues</b>										
Taxes	\$ 32,232,409	\$ 33,371,408	\$ 35,323,171	\$ 38,862,542	\$ 41,911,527	\$ 45,970,639	\$ 50,041,902	\$ 48,739,085	\$ 50,999,853	\$ 49,629,856
Fees and permits	6,236,113	5,503,582	5,654,137	6,116,488	6,913,397	6,473,831	7,147,383	7,835,468	4,865,780	4,102,878
Intergovernmental	1,655,313	1,874,958	3,671,884	1,927,469	2,072,960	2,153,286	2,312,236	2,107,927	1,937,338	1,852,267
Charges for services	2,309,482	2,227,358	2,560,809	2,054,178	2,097,306	2,487,444	2,448,829	2,808,298	3,277,981	3,194,361
Fines and forfeitures	781,383	566,084	1,477,456	1,079,973	822,112	874,351	1,572,285	1,194,275	927,863	620,978
Contributions	1,040,744	944,886	0	0	0	0	0	0	0	795,161
Investment earnings	3,981,390	2,365,768	2,055,825	1,282,245	2,119,210	3,663,648	3,618,646	2,036,192	2,389,974	1,814,395
Grant revenue	1,260,721	492,853	2,620,291	2,720,018	5,106,760	12,674,928	3,313,649	2,331,850	792,662	83,306
Special Assessments	0	0	0	0	0	0	0	0	0	564,419
Miscellaneous	281,944	223,421	1,034,628	1,185,826	781,153	495,349	567,739	613,605	568,455	302,124
<b>Total revenues</b>	<b>49,779,499</b>	<b>47,570,318</b>	<b>54,398,201</b>	<b>55,228,739</b>	<b>61,824,425</b>	<b>74,793,476</b>	<b>71,022,669</b>	<b>67,666,700</b>	<b>65,759,906</b>	<b>62,959,745</b>
<b>Expenditures</b>										
General government	5,180,026	5,975,712	5,610,928	6,647,556	7,817,780	8,315,398	8,932,304	9,986,924	10,923,177	10,716,676
Public safety	17,156,353	17,919,096	18,716,632	21,444,642	27,088,862	26,417,211	28,458,944	29,464,707	31,367,667	30,556,992
Physical environment	6,676,052	7,001,958	7,879,102	10,350,736	10,928,714	18,557,179	12,773,809	15,175,670	13,252,050	11,576,185
Transportation	939,737	993,183	582,376	769,745	1,043,893	1,185,987	838,808	1,160,600	1,248,445	909,308
Culture and recreation	1,756,614	1,953,697	2,448,947	1,561,430	1,678,681	1,938,137	1,748,780	1,829,385	1,858,634	1,640,889
Non-departmental	1,948,065	2,292,624	2,746,915	4,822,927	2,510,033	2,390,000	2,220,201	2,414,968	1,918,051	1,902,388
Capital outlay	7,559,940	8,760,344	12,360,305	7,627,971	8,062,746	20,270,287	8,089,774	7,859,165	11,429,915	23,045,739
Debt service										
Principal	770,479	766,832	765,063	3,825,289	4,135,584	3,564,637	3,672,904	3,811,297	3,875,000	4,020,000
Interest and other fiscal charges	1,468,440	1,346,513	1,158,641	1,372,527	1,014,223	864,847	763,674	614,269	650,150	1,336,179
Bond issue costs	0	0	0	0	0	0	0	30,500	24,303	701,133
<b>Total expenditures</b>	<b>43,455,706</b>	<b>47,009,959</b>	<b>52,268,909</b>	<b>58,422,823</b>	<b>64,280,516</b>	<b>83,503,683</b>	<b>67,499,198</b>	<b>72,347,485</b>	<b>76,547,392</b>	<b>86,405,489</b>
Revenues over (under) expenditures	6,323,793	560,359	2,129,292	(3,194,084)	(2,456,091)	(8,710,207)	3,523,471	(4,680,785)	(10,787,486)	(23,445,744)
<b>Other financing sources (uses)</b>										
Transfers in	12,402,818	10,451,455	10,333,656	9,761,263	11,392,115	14,210,192	8,602,057	7,039,939	10,606,800	10,758,475
Transfers out	(11,727,818)	(9,776,455)	(9,658,656)	(9,386,855)	(13,805,904)	(13,682,764)	(8,127,137)	(6,459,939)	(10,056,800)	(10,208,475)
Proceeds from sale of capital assets	0	0	0	1,964,879	0	0	0	0	0	1,047,156
Capital lease issued	676,387	140,795	0	0	0	0	0	0	0	0
Bonds/Notes proceeds	0	0	6,108,358	0	0	0	0	10,000,000	395,004	68,742,596
Redemption of bonds	0	0	(18,936,555)	0	0	0	0	0	0	(10,589,028)
Proceeds of refunding note	0	0	19,016,765	0	0	0	0	0	0	0
<b>Total other financing sources (uses)</b>	<b>1,351,387</b>	<b>815,795</b>	<b>6,863,568</b>	<b>2,339,287</b>	<b>(2,413,789)</b>	<b>527,428</b>	<b>474,920</b>	<b>10,580,000</b>	<b>945,004</b>	<b>59,750,724</b>
Net change in fund balances	\$ 7,675,180	\$ 1,376,154	\$ 8,992,860	\$ (854,797)	\$ (4,869,880)	\$ (8,182,779)	\$ 3,998,391	\$ 5,899,215	\$ (9,842,482)	\$ 36,304,980
Debt service as a percentage of non-capital expenditures	6.24%	5.53%	4.82%	10.23%	9.16%	7.00%	7.47%	6.91%	6.99%	9.56%

## Town of Palm Beach, Florida

Historic and Projected General Fund Non-Ad Valorem Revenues

Last Six Fiscal Years Actual and Next Year Budgeted

	Actual FY2005	Actual FY2006	Actual FY2007	Actual FY2008	Actual FY2009	Actual FY2010	Budget FY2011
Franchise Fees (2)	\$ 1,989,980	\$ 2,433,811	\$ 2,478,487	\$ 2,447,544	\$ 2,454,232	\$ 2,169,801	\$ 2,535,000
Utility Service Tax	4,160,185	4,167,844	4,105,957	4,496,507	4,608,088	4,879,860	4,967,000
Business Tax Receipts	695,544	721,659	740,875	741,535	726,238	716,018	721,000
Building Permits	6,073,756	5,628,019	6,201,211	6,844,875	4,701,645	3,934,213	5,077,300
Other License Fees & Permits	144,097	124,153	205,297	249,058	164,135	168,665	367,000
State Shared Revenue (1)	954,356	1,029,461	1,142,553	1,072,734	1,081,727	980,556	1,062,000
Grants	165,216	162,824	135,131	71,745	353,590	9,753	18,000
Local Shared Revenue	207,581	204,636	40,077	24,700	39,997	46,223	40,000
General Government	49,565	46,062	41,094	34,413	27,618	33,650	36,303
Public Safety	729,084	1,065,595	908,376	1,146,921	1,539,385	1,450,893	1,417,600
Physical Environment	925,645	991,712	1,022,063	1,041,072	1,131,884	1,098,950	1,123,400
Transportation	393,012	410,584	477,295	585,892	579,292	632,425	774,500
Fines & Forfeitures	811,038	770,067	1,541,448	1,183,318	1,152,807	594,473	841,000
Contributions	4,035	900	0	10,000	0	0	0
Investment Earnings	905,025	1,902,793	2,287,127	1,368,751	1,923,224	1,168,997	1,366,000
Rents & Royalties	50,460	39,634	80,961	111,320	44,291	102,702	90,500
Sale of Capital Assets (3)	0	0	0	0	0	1,047,156	0
Miscellaneous Other	140,317	243,602	147,348	190,761	158,625	188,989	136,000
<b>Total Non-Ad Valorem Revenues</b>	<b>\$ 18,398,896</b>	<b>\$ 19,943,356</b>	<b>\$ 21,555,300</b>	<b>\$ 21,621,146</b>	<b>\$ 20,686,778</b>	<b>\$ 19,223,325</b>	<b>\$ 20,572,603</b>

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

(2) 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.

(3) Proceeds from the sale of capital assets are deposited in the Equipment Replacement Fund.  
Proceeds in FY10 represent the sale of Town owned property.

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

### **Franchise Fees**

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

### **Business Tax Receipts**

Any person engaging in or managing any business, occupation or profession within the limits of the Town of Palm Beach must obtain a business 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. Building permit fees were reduced in FY2008.

### **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.

### **Grant Revenue**

Reflected in the grant total for FY2010 is the receipt of funds from the Florida Department of Law Enforcement for criminal justice assistance and bullet proof vests.

### **Local Shared Revenue**

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. In FY2008, fees were increased for false alarm charges.

### **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. In FY2008, parking meter fees were increased.

### **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**

Represents interest earnings on cash, cash equivalents, and investments.

### **Rents and Royalties**

Represents revenue from the rental of public property, pay phone and vending machine commissions.

### **Sale of Capital Assets**

Revenue represents proceeds from the sale of capital assets. Revenue in FY10 represents proceeds from the sale of Town owned property.

### **Miscellaneous Other Revenue**

Revenues include a fee paid to the Town for the administration of Kreuzler Park parking lot, fees associated with charitable solicitations, a rebate for Town towing, State highway lighting maintenance, insurance proceeds for hurricane damage and other miscellaneous revenues.

### **Outstanding Town Indebtedness**

The Town does not have any general obligation bonds outstanding as of September 30, 2010. In February, 2010, the Town issued Public Improvement Revenue and Refunding Bonds in the principal amount of \$57,035,000, which refunded with the Series 2003B bonds, and the 2008 Revenue Note and financed a portion of the Town's 20 year capital improvement program. The 2010A bonds are special obligations of the Town payable solely from and secured solely by non-ad valorem revenue and any unused debt proceeds and related investment income. The Town also issued 2010B Worth Avenue Commercial District Project bonds in the principal amount of \$14,770,000. The Town imposed a capital special assessment against real property in the Worth Avenue Commercial District to pay the cost of the Worth Avenue projects. The assessments will be security for the 2010B bonds.

## Town of Palm Beach, Florida

Assessed Value and Actual Value of Taxable Property

Last Ten 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
2001	\$ 5,400,734,073	\$ 620,602,412	\$ 515,428	\$ 127,148,409	\$ (203,178,569)	\$ 5,945,821,753	\$ 5	\$ 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%
2007	14,127,084,784	999,659,666	750,509	283,725,731	(3,500,257,437)	11,910,963,253	3.7273	15,411,220,688	77%
2008	14,861,022,194	1,067,802,643	752,116	294,479,830	(3,605,041,339)	12,619,015,444	3.3637	16,224,056,783	78%
2009	16,446,919,025	1,144,245,693	1,283,286	319,200,545	(4,347,624,821)	13,564,023,728	3.2512	17,911,648,549	76%
2010	15,424,701,553	1,055,167,871	1,995,000	411,729,501	(3,796,459,546)	13,097,134,379	3.2512	16,893,593,925	78%

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 by the Palm Beach County Property Appraiser.

## 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	
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
2007	3.7273	0	3.7273	7.8720	4.4775	2.3254	18.4022
2008	3.3637	0	3.3637	7.3560	3.9813	2.1308	16.8318
2009	3.2512	0	3.2512	7.2510	3.9656	2.2569	16.7247
2010	3.2512	0	3.2512	7.9830	4.5614	2.4934	18.2890

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, 2010 and Ten Years Ago

	2010				2001			
	Taxable Assessed Value	Taxes Paid	Rank	Percentage of Town Taxable Assessed Value	Taxable Assessed Value	Taxes Paid	Rank	Percentage of Town Taxable Assessed Value
Breakers	\$ 271,108,504	\$ 881,428	1	20.70%	\$ 154,174,852	\$ 662,952	1	2.89%
Nelson Peltz	95,328,725	309,933	2	7.28%	43,413,450	186,678	3	0.81%
JV Associates	66,000,000	214,579	3	5.04%	47,000,000	202,100	2	0.88%
County Road Property LLC	65,018,718	211,389	4	4.96%				
Dwight Schar	59,250,386	192,635	5	4.52%				
700 North Lake LLC	54,094,071	175,871	6	4.13%				
Sidney Spiegel	44,528,394	144,771	7	3.40%				
Sydell Miller	48,670,656	158,238	8	3.72%				
Everglades Club	41,377,527	134,527	9	3.16%	30,195,086	129,839	5	0.57%
Edward Falcone	39,574,840	128,666	10	3.02%				
Worth Avenue Associates LTD					32,900,000	141,470	4	0.62%
Thirty Eight East Corporation					24,814,779	106,704	7	0.46%
Abraham Gosman					23,879,745	102,683	8	0.45%
Sydney Spiegel Trust					21,586,747	92,823	10	0.40%
Mar-a-Lago Club					22,156,732	95,274	9	0.42%
Sidney Kimmel					24,873,562	106,956	6	0.47%
Totals	<u>\$ 784,951,821</u>	<u>\$ 2,552,035</u>		<u>59.93%</u>	<u>\$ 424,994,953</u>	<u>\$ 1,827,478</u>		<u>7.96%</u>

Source: Palm Beach County Property Appraiser

## Town of Palm Beach, Florida

*Property Tax Levies and Collections*

*Last Ten Fiscal Years*

<b>Fiscal Year</b>	<b>Net Tax Levy*</b>	<b>Current Tax Collections</b>	<b>Percent of Levy Collected</b>	<b>Delinquent Tax Collections</b>	<b>Total Property Tax Collections</b>	<b>Collections as a Percent of Current Levy</b>
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%
2007	44,882,990	43,028,136	95.87%	68,469	43,096,605	96.02%
2008	43,129,948	41,337,264	95.84%	119,985	41,457,249	96.12%
2009	44,766,064	42,684,473	95.35%	202,744	42,887,217	95.80%
2010	42,581,403	41,076,426	96.47%	432,144	41,508,570	97.48%

Note: All property taxes are assessed and collected by the Palm Beach County Tax Collector 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

<b>Governmental Activities</b>							
<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Revenue Refunding Bonds</b>	<b>Revenue Bonds/Notes</b>	<b>Capital Leases</b>	<b>Total Primary Government</b>	<b>Percentage of Personal Income</b>	<b>Per Capita</b>
<b>2001</b>	\$ 2,515,000	\$ -	\$ 23,530,000	\$ 685,812	\$ 26,730,812	2.53%	\$ 2,763
<b>2002</b>	1,935,000	-	23,530,000	639,774	26,104,774	2.47%	2,698
<b>2003</b>	1,325,000	18,385,000	6,130,000	484,711	26,324,711	2.49%	2,719
<b>2004</b>	680,000	18,275,000	6,065,000	349,422	25,369,422	2.40%	2,626
<b>2005</b>	-	18,045,000	5,945,000	263,838	24,253,838	2.30%	2,510
<b>2006</b>	-	14,685,000	5,825,000	179,201	20,689,201	1.94%	2,125
<b>2007</b>	-	11,225,000	5,700,000	91,297	17,016,297	1.60%	1,746
<b>2008</b>	-	7,630,000	15,575,000	-	23,205,000	2.17%	2,369
<b>2009</b>	-	3,885,000	15,445,000	-	19,330,000	1.83%	2,003
<b>2010</b>	-	-	71,805,000	-	71,805,000	7.88%	8,601

**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				
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	0	0		0	N/A	0
2006	0	0		0	N/A	0
2007	0	0		0	N/A	0
2008	0	0		0	N/A	0
2009	0	0		0	N/A	0
2010	0	0		0	N/A	0

**Note:** 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, 2010

	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	\$ 270,150,000	8.50%	22,962,750
Palm Beach County School District	29,555,000	8.50%	2,512,175
Total overlapping debt	299,705,000		25,474,925
<b>Total direct and overlapping debt payable from ad valorem taxes</b>	<b>\$ 299,705,000</b>		<b>\$ 25,474,925</b>
Estimated population			8,348
Total direct and overlapping debt per capita			\$ 3,052

<sup>(1)</sup> Based on 2010 ratio of assessed taxable values.

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

Note: The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the Town's taxable assessed value that is within the County's boundaries and multiplying it by the County and School Board General Obligation Debt outstanding.

**Town of Palm Beach, Florida**

*Legal Debt Margin Information*

*Last Ten Fiscal Years*

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	\$ 297,291,088	\$ 342,257,861	\$ 375,349,791	\$ 413,646,646	\$ 450,671,835	\$ 512,678,925	\$ 595,548,163	\$ 630,950,772	\$ 678,201,186	\$ 654,867,189
Total net debt applicable to limit	2,143,460	1,656,079	1,125,981	568,576	0	0	0	0	0	0
Legal debt margin	<u>\$ 295,147,628</u>	<u>\$ 340,601,782</u>	<u>\$ 374,223,810</u>	<u>\$ 413,078,070</u>	<u>\$ 450,671,835</u>	<u>\$ 512,678,925</u>	<u>\$ 595,548,163</u>	<u>\$ 630,950,772</u>	<u>\$ 678,201,186</u>	<u>\$ 654,867,189</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>0.72%</u>	<u>0.48%</u>	<u>0.30%</u>	<u>0.14%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>

The Town of Palm Beach has a 5% general obligation debt limit as a percent of taxable value per Section 7.02 of the Town Charter.

## Town of Palm Beach, Florida

*Pledged Revenue Coverage*

*Last Nine Fiscal Years*

Fiscal Year	Non-Ad Valorem Revenue Available for Debt Coverage	Current Debt Service			Current Coverage
		Principal	Interest	Total	
2002	\$ 16,021,287	\$ 0	\$ 1,211,858	\$ 1,211,858	13.22
2003	16,863,400	0	1,211,858	1,211,858	13.92
2004	16,956,538	3,045,000	2,203,824	5,248,824	3.23
2005	18,398,896	3,370,000	1,884,144	5,254,144	3.50
2006	19,943,356	3,480,000	854,485	4,334,485	4.60
2007	21,555,300	3,585,000	750,354	4,335,354	4.97
2008	21,621,146	3,720,000	612,163	4,332,163	4.99
2009	20,686,778	3,875,000	648,649	4,523,649	4.57
2010	19,278,424	4,020,000	1,331,915	5,351,915	3.60

The Town's revenue bonds and note are special obligations of the Town payable solely from and secured solely by non-ad valorem revenue and any unused debt proceeds and related investment income. Footnote G describes the Town's current bond status.

## Town of Palm Beach, Florida

*Demographic and Economic Statistics*

*Last Ten Fiscal Years*

<b>Fiscal Year</b>	<b>Population<sup>(1)</sup></b>	<b>Estimated Total 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>
2001	9,676	1,056,803,044	109,219	66.6	N/A	414	4.7%
2002	9,676	1,056,803,044	109,219	66.6	N/A	414	6.0%
2003	9,682	1,057,458,358	109,219	66.6	N/A	414	6.4%
2004	9,662	1,055,273,978	109,219	66.6	N/A	414	5.8%
2005	9,662	1,055,273,978	109,219	66.6	N/A	414	5.8%
2006	9,735	1,063,246,965	109,219	66.6	N/A	414	4.7%
2007	9,744	1,064,229,936	109,219	66.6	N/A	414	4.8%
2008	9,797	1,070,018,543	109,219	66.6	N/A	414	7.5%
2009	9,650	1,053,963,350	109,219	66.6	N/A	414	9.5%
2010	8,348	911,760,212	109,219	66.6	N/A	414	10.8%

### Data Sources:

- (1) The population for 2003 through 2009 was obtained from the University of Florida, Bureau of Economic Business Administration. The population for 2001, 2002 and 2010 was obtained from the U.S. Census Bureau count.
- (2) Source: U.S. Census Bureau/Palm Beach County School District
- (3) 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, 2010 and Ten Years Ago

Employer	2010			2000		
	Employees <sup>(1)</sup>	Rank	Percentage of Total Town Employment <sup>(2)</sup>	Employees	Rank	Percentage of Total Town Employment
Breakers Hotel	2,300	1	14.84%	N/A		N/A
Four Seasons Resort	420	2	2.71%	N/A		N/A
Town of Palm Beach	400	3	2.58%	N/A		N/A
Ocean Grand	400	4	2.58%	N/A		N/A
Everglades Club	360	5	2.32%	N/A		N/A
Gunster, Yoakley & Stewart	250	6	1.61%	N/A		N/A
Testa's Restaurant	221	7	1.43%	N/A		N/A
Bath and Tennis	150	8	0.97%	N/A		N/A
Coldwell Banker/Century 21	144	9	0.93%	N/A		N/A
Brazilian Court	120	10	0.77%	N/A		N/A
Totals	<u>4,765</u>		<u>30.75%</u>	<u>N/A</u>		<u>N/A</u>

Source: <sup>(1)</sup> Various Town employers

<sup>(2)</sup> Daytime Population Source - 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 Eight Fiscal Years

	Full-time Equivalent Employees as of September 30,							
	2003	2004	2005	2006	2007	2008	2009	2010
General government	83.52	82.02	86.84	86.98	86.45	85.5	84.5	82.43
Public Safety								
Building official	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Land development	8.40	8.90	8.90	10.40	10.90	10.90	10.90	12.35
Police officers	78.00	78.00	78.00	78.00	78.00	78.00	78.00	77.00
Firefighters	74.00	77.00	77.00	79.00	80.00	80.00	80.00	79.00
Civilian Police/Fire	58.25	58.20	59.20	59.20	59.20	59.20	59.70	54.45
Physical Environment								
Sanitation	44.26	44.26	44.27	44.27	44.24	44.24	44.24	41.51
Storm Sewer Maintenance	15.43	15.43	15.32	17.32	17.60	17.66	17.66	17.51
Transportation								
Roads and Streets	6.03	6.03	5.91	5.91	5.61	5.61	5.61	5.70
Culture and Recreation								
Leisure services	29.24	30.13	29.83	30.28	32.23	29.17	28.78	29.03
<b>Total</b>	<b>398.13</b>	<b>400.97</b>	<b>406.27</b>	<b>412.36</b>	<b>415.23</b>	<b>411.28</b>	<b>410.39</b>	<b>399.98</b>

## Town of Palm Beach, Florida

Operating Indicators by Function / Program

Last Eight Fiscal Years

Function	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
<b>Public Safety</b>								
<b>Police</b>								
Physical arrests	1,791	1,617	2,151	2,134	1,889	1,715	2,120	2,033
Parking violations	23,948	23,591	23,060	23,328	21,835	16,832	13,514	12,178
Traffic violations	4,070	4,050	6,859	4,904	4,210	4,658	4,989	4,799
<b>Fire</b>								
Number of fire calls	1,101	1,471	1,853	1,220	1,364	1,373	1,175	1,092
Number of EMS Calls	1,499	1,383	1,429	1,074	1,644	1,598	1,319	1,372
<b>Physical Environment</b>								
<b>Sanitation</b>								
Refuse collected (tons)	10,131	10,407	10,891	10,744	10,534	10,976	9,877	9,341
Recyclables collected (tons)	1,730	1,736	1,758	1,751	1,780	1,844	1,579	1,642
<b>Transportation</b>								
<b>Roads and Streets</b>								
Street resurfacing (miles)	2	2	2	8	7	8	6	5
Pot holes repaired	50	50	50	50	46	61	72	67
<b>Culture and Recreation</b>								
<b>Leisure Services</b>								
Youth athletic participants	N/A	N/A	3,729	4,600	7,628	4,942	3,278	2,395
Camp program participants	N/A	N/A	4,567	6,339	10,089	10,243	10,626	10,031
Youth enrichment participants	N/A	N/A	5,262	5,469	6,263	9,365	6,759	4,475
Adult Enrichment/Fitness participants	N/A	N/A	4,188	4,051	9,202	9,201	3,447	2,250
Special Events Offered	5	5	5	6	7	6	5	4
Special Events participants	N/A	1,175	1,233	1,450	1,461	1,438	1,950	1,515
Tennis Participants	N/A	28,338	30,827	35,091	35,136	29,109	29,766	27,074
Rounds of Golf	35,426	35,468	33,875	31,118	28,952	25,275	14,226	19,660
Range buckets sold	20,717	20,258	20,456	21,080	19,180	14,746	8,313	7,303
Annual Marina Leases	81	81	82	82	82	81	78	72
Seasonal Marina Leases	3	3	2	2	2	2	5	5
Total transient vessels	655	701	785	785	681	626	649	466

Sources: Town departments

N/A: Not available.

## Town of Palm Beach, Florida

Capital Asset Statistics by Function / Program

Last Ten Fiscal Years

Function	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Public Safety</b>										
<b>Police</b>										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	22	22	22	22	22	21	21	21	21	21
<b>Fire</b>										
Fire Stations	3	3	3	3	3	3	3	3	3	3
Fire Trucks	7	7	7	7	7	7	7	7	7	7
ALS Rescue Vehicles	4	4	4	5	5	5	5	5	5	5
<b>Physical Environment</b>										
<b>Sanitation</b>										
Garbage Trucks	17	17	17	17	17	17	17	17	17	17
Trash Trucks	12	12	12	12	12	12	12	12	12	12
<b>Transportation</b>										
<b>Roads and Streets</b>										
Street lights	825	826	826	826	826	826	878	922	972	972
Lane miles	103	103	103	103	103	102.6	103	103	103	103
<b>Culture and Recreation</b>										
<b>Leisure Services</b>										
Ballfields - lighted	0	0	0	0	0	0	0	0	0	0
Basketball courts	1	1	1	1	1	1	1	1	1	1
Multi-purpose fields	1	1	1	1	1	1	1	1	1	1
Tennis courts	8	11	11	12	12	14	14	14	13	13
Dock slips	88	88	88	88	88	88	88	88	88	88
Golf courses	1	1	1	1	1	1	1	1	1	1
Playgrounds	1	1	1	1	1	1	1	1	1	1
Recreation centers	1	1	1	1	1	1	1	1	1	1
Tennis pro-shops	1	2	2	2	2	2	2	2	2	2
Parks	9	9	10	10	10	10	10	10	11	11

Sources: Town departments

Note: Data is not available for general government.

N/A: Not available.



# NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

WEST PALM BEACH OFFICE  
215 FIFTH STREET, SUITE 200  
POST OFFICE BOX 347  
WEST PALM BEACH, FLORIDA 33402-0347  
TELEPHONE (561) 659-3060  
FAX (561) 835-0628  
WWW.NHMCPA.COM

EVERETT B. NOWLEN (1830-1884), CPA  
EDWARD T. HOLT, CPA  
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## 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

BELLE GLADE OFFICE  
333 S.E. 2nd STREET  
POST OFFICE BOX 338  
BELLE GLADE, FLORIDA 33430-0338  
TELEPHONE (561) 898-5612  
FAX (561) 898-8248

The Honorable Mayor and Members of the Town Council  
Town of 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 Town of Palm Beach, Florida, as of and for the year ended September 30, 2010, which collectively comprise Town of Palm Beach, Florida's basic financial statements and have issued our report thereon dated June 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Town of Palm Beach Police Officers' Retirement System and the Town of Palm Beach Firefighters' Retirement System. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matter that are reported on separately by those auditors. The financial statements of the Town of Palm Beach Police Officers' Retirement System and the Town of Palm Beach Firefighters' Retirement System were not audited in accordance with *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Palm Beach, Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Palm Beach, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Palm Beach, Florida's internal control over financial reporting.

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

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

### **2010-1 Construction Project Bidding and Contract Administration (2009-2 & 2008-4)**

The Town engaged internal auditors to examine the Town's construction project bidding and contract administration activities. The internal auditors have issued their Internal Audit Report, Construction Project Bidding and Contract Administration dated May 2010. That report identified significant issues regarding unapproved purchase orders, adequacy of bid documents, billing requisitions and change orders, written status reports, controls over the receipt of supplies and materials, and availability of audit records. See their report for details.

We believe that the cumulative effect of these issues constitute a material weakness. We recommend that the Town implement the recommendations provided in the Internal Audit Report.

### **2010-2 Construction in Process Accounting**

The Town engaged internal auditors to examine the Town's construction in process accounting activities. The internal auditors have issued their Internal Audit Report, Construction in Process Accounting dated July 2010. That report identified significant issues regarding construction in process accounts, capital project accounting policies and procedures, and accounting for infrastructure capital assets. See their report for details.

We believe that the cumulative effect of these issues constitute a material weakness. We recommend that the Town implement the recommendations provided in the Internal Audit Report.

### **2010-3 Internal Control Over Financial Reporting**

We noted the following issues regarding internal control over financial reporting:

- The Town participates in the East Central Regional Wastewater Facilities. (the "ECR"). In 1993, the ECR obtained loans to construct improvements to the facilities. In prior years, the Town did not report their pro rata portion of these loans as a liability in the Town's financial statements. The Town is also not maintaining a schedule calculating the Town's Investment in Joint Venture from the date of the original investment to the present.
- In 1978, the Town entered into a utility agreement with the City of Lake Worth. Under the terms of the agreement, the City will supply the Town certain wastewater facilities for a period of 40 years. These usage rights constitute intangible assets. In prior years, the Town did not report these intangible assets in the Town's financial statements.
- In prior years, the Town did not report the schedule of funding progress for the Town's pension plans and other postemployment benefits trust as required supplementary information required by the Governmental Accounting Standards Board.
- In prior years, the Town recorded certain revenues on the cash basis that should have been recorded on the accrual basis or the modified accrual basis of accounting. They also recorded certain revenues on the accrual basis that should have been recorded on the modified accrual basis of accounting.
- In prior years, the Town did not report the accrued liability for landfill closure and postclosure care costs.

As discussed in Note O to the financial statements, prior period adjustments were required to correct these items. We recommend that the Town review and update year end closeout procedures and institute review of existing and new contracts for financial statement impact to improve internal control over financial reporting.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies.

**2010-4 Human Resources**

The Town engaged internal auditors to examine the Town’s human resources activities. The internal auditors have issued their Internal Audit Report, Human Resources dated July 2010 That report identified significant issues regarding vendor and employee access to sensitive information, Form I-9, Employment Eligibility Verification, definition of pensionable compensation, access to payroll information, password settings, controls over accuracy of information used for pension benefit calculations, manual pension benefit calculations, timely review of Fire department payroll information, conflict of interest policies, Family and Medical Leave Act procedures, benefit file documentation, terminated employee information system access rights, monitoring controls for outsourced services with third party vendors, supporting documentation for compensation included in pension benefit calculations, and certain other items. See their report for details.

We believe that the cumulative effect of these issues constitute a significant deficiency. We recommend that the Town implement the recommendations provided in the Internal Audit Report

**2010-5 Procurement and Accounts Payable**

The Town engaged internal auditors to examine the Town’s procurement and accounts payable activities. The internal auditors have issued their Internal Audit Report, Procurement and Accounts Payable dated October 31, 2010. That report identified significant issues regarding circumvention of procurement controls, maintenance of the active vendor listing, segregation of duties, management of procurement cards, manual processing controls, information system access, and policies and procedures. See their report for details.

We believe that the cumulative effect of these issues constitute a significant deficiency. We recommend that the Town implement the recommendations provided in the Internal Audit Report

**Compliance and Other Matters**

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

We noted certain other matters that we reported to management of the Town of Palm Beach, Florida in the accompanying Management Letter dated June 24, 2011.

The Town of Palm Beach, Florida’s response to the findings identified in our audit is described in their Management Response beginning on page 148. We did not audit the Town of Palm Beach, Florida’s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Nowlen, Holt & Miner, P.A.*

West Palm Beach, Florida  
June 24, 2011



# NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

WEST PALM BEACH OFFICE  
215 FIFTH STREET, SUITE 200  
POST OFFICE BOX 347  
WEST PALM BEACH, FLORIDA 33402-0347  
TELEPHONE (561) 659-3060  
FAX (561) 835-0628  
WWW.NHMCPA.COM

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## MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

BELLE GLADE OFFICE  
333 S.E. 2nd STREET  
POST OFFICE BOX 338  
BELLE GLADE, FLORIDA 33430-0338  
TELEPHONE (561) 898-5612  
FAX (561) 898-8248

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

We have audited the financial statements of the Town of Palm Beach, Florida, as of and for the year ended September 30, 2010, and have issued our report thereon dated June 24, 2011.

We conducted our audit in accordance with United States 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. We have issued our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated June 24, 2011 should be considered in conjunction with this Management Letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports.

### PRIOR YEAR COMMENTS

Rules of the Auditor General, require that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.

We noted that the following comments made in the prior year were adequately addressed or no longer apply:

- 2007-5 Information Systems
- 2008-1 Grant Awards/2007-3 Timely Recording of Grant Reimbursement Requests
- 2008-8 Information Systems
- 2009-1 Recording Purchases of Inventory and Supplies
- 2009-3 Bank Reconciliations
- 2009-4 Information Systems
- 2009-5 Calculation of Retiree Benefits
- 2009-6 Emergency Purchases

The following prior year comment still requires attention

2009-7 Construction Projects and Kickback Scheme

In April 2010, the Town identified a kickback scheme involving its Construction Manager who was selecting vendors to do Town construction projects. Many of these projects were deemed to be “emergency repairs” which allowed the Construction Manager to void formal bidding requirements. The Town’s police investigation cites kickbacks paid to the Construction Manager totaling approximately \$247,500. The police investigation was initiated after the Town received a tip from a confidential informant.

**CURRENT YEAR COMMENTS**

Investment of Public Funds

Rules of the Auditor General, requires our audit to include a review of the Town’s compliance with Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, the results of our procedures did not disclose any instances of noncompliance with Section 218.415, Florida Statutes.

Violations of Laws, Regulations, Contracts and Grant Provisions or Abuse

Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Matters Inconsequential to the Financial Statements

Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Oversight Unit and Component Units

Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this Management Letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements, but has been repeated here. The Town of Palm Beach, Florida 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 7863. 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. Based upon the application of criteria defined in publications cited in Chapter 10.553, Rules of the Auditor General, the Town has determined that there are no component units to include within the Town’s financial reporting entity.

### Consideration of Financial Emergency Criteria

Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town of Palm Beach, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

### Annual Financial Report

Rules of the Auditor General requires that we determine whether the annual financial report for the Town of Palm Beach, Florida filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2010. In connection with our audit, we noted that the two reports are in substantial agreement.

### Financial Condition Assessment Procedures

Rules of the Auditor General, requires that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town of Palm Beach, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provide by management. The results of our procedures did not disclose any matters that are required to be reported.

### Excess of Expenditures Over Appropriations

There were no departments that had expenditures in excess of appropriations for the fiscal year ended September 30, 2010.

### Single Audits

The Town expended less than \$500,000 of federal awards and less than \$500,000 of state financial assistance for the year ended September 30, 2010 and was not required to have a federal single audit or a state single audit.

### Current Year Recommendations

Rules of the Auditor General, requires that we address in the Management Letter any recommendations to improve financial management, accounting procedures, and internal controls. In addition to the comments noted in our 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 Standard*, we have the following recommendations:

#### 2010-6 Grant Compliance Monitoring

The Town engaged internal auditors to examine the Town's grant compliance monitoring activities. The internal auditors have issued their Internal Audit Report, Grant Compliance Monitoring dated October 2010.

The Internal Audit Report identified the following issues and provided recommendations for improvement. See their report for details.

- A process should be implemented for specific tracking of expenses related to American Recovery and Reinvestment Act Funds within the general ledger.
- Documentation of control procedures related to the compliance requirements of grant funding could be enhanced in several areas to improve the overall control environment.
- The Town could provide periodic training to supervisors and managers not in the accounting department with grant compliance responsibilities.

We recommend that the Town implement the recommendations provided in the Internal Audit Report.

#### 2010-7 Cash Management Operations

We noted that actual cash management procedures performed by Finance Department personnel are not consistent with approved procedures documented in the Town's written policies and procedures. We recommend that the Town either follow approved cash management procedures or amend the procedures to reflect actual staff responsibilities.

#### 2010-8 Investment In Joint Venture

We noted that the Town has not maintained a schedule documenting the calculation of the amount of the Town's investment in the ECR joint venture from the initial investment to the present. We recommend the Town create and maintain a schedule to document the amount of the Town's investment in the joint venture.

#### Response to Management Letter

We did not audit management's response to the Management Letter beginning on page 148 and express no opinion on it

Pursuant to Chapter 119, Florida Statutes, this Management Letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this Management Letter is intended solely for the information of the management of the Town of Palm Beach, members of the Town Commission, the Florida Auditor General, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Nowlen, Holt & Mimer, P.A.*

West Palm Beach, Florida  
June 24, 2011



# TOWN OF PALM BEACH

Finance Department

June 24, 2011

Mayor and Town Council  
Peter B. Elwell, Town Manager

Subject: Management Letter and Report on Internal Control Responses

The following are comments and recommendations from the Town's auditing firm of Nowlen, Holt and Miner, P.A., that involve matters required to be disclosed under Government Auditing Standards and the Rules of the Auditor General for the State of Florida. The responses by Town staff immediately follow each comment.

## **2009-7 Construction Projects and Kickback Scheme**

In April 2010, the Town identified a kickback scheme involving its Construction Manager who was selecting vendors to do Town construction projects. Many of these projects were deemed to be "emergency repairs" which allowed the Construction Manager to void formal bidding requirements. The Town's police investigation cites kickbacks paid to the Construction Manager totaling approximately \$247,500. The police investigation was initiated after the town received a tip from a confidential informant.

***Management's Response - The Town contracted with a forensic auditor and an internal auditor. Since the investigation, the Town has strengthened its purchasing controls and put in place additional controls that were recommended by the internal auditor. The case against the former Construction Manager will be going to trial in July 2011.***

## **2010-1 Construction Project Bidding and Contract Administration (2009-2 & 2008-4)**

The Town engaged internal auditors to examine the Town's construction project bidding and contract administration activities. The internal auditors have issued their Internal Audit Report, Construction Project Bidding and Contract Administration dated May 2010. That report identified significant issues regarding unapproved purchase orders, adequacy of bid documents, billing requisitions and change orders, written status reports, controls over the receipt of supplies and materials, and availability of audit records. See their report for details.

We believe that the cumulative effect of these issues constitute a material weakness. We recommend that The Town implement the recommendations provided in the Internal Audit Report.

***Management's Response - The findings from the internal audit have been addressed and the Town has implemented new policies and procedures as recommended in the audit. Specific details can be found in the report dated May 2010.***

### **2010-2 Construction in Process Accounting**

The Town engaged internal auditors to examine the Town's construction in process accounting activities. The internal auditors have issued their Internal Audit Report, Construction in Process Accounting dated July 2010. That report identified significant issues regarding construction in process accounts, capital project accounting policies and procedures, and accounting for infrastructure capital assets. See their report for details.

We believe that the cumulative effect of these issues constitute a material weakness. We recommend that the Town implement the recommendations provided in the Internal Audit Report

***Management's Response** – The findings from the internal audit have been addressed and the Town has implemented new policies and procedures as recommended in the audit. Specific details can be found in the report dated July 2010.*

### **2010-3 Internal Control Over Financial Reporting**

We noted the following issues regarding internal control over financial reporting:

- The Town participates in the East Central Regional Wastewater Facilities. (the "ECR"). In 1993, the ECR obtained loans to construct improvements to the facilities. In prior years, the Town did not report their pro rata portion of these loans as a liability in the Town's financial statements. The Town is also not maintaining a schedule calculating the Town's Investment in Joint Venture from the date of the original investment to the present.
- In 1978, the Town entered into a utility agreement with the City of Lake Worth. Under the terms of the agreement, the City will supply the Town certain wastewater facilities for a period of 40 years. These usage rights constitute intangible assets. In prior years, the Town did not report these intangible assets in the Town's financial statements.
- In prior years, the Town did not report the schedule of funding progress regarding the Town's pension plans and other postemployment benefits trust as required supplementary information required by the Governmental Accounting Standards Board.
- In prior years, the Town recorded certain revenues on the cash basis that should have been recorded on the accrual basis or the modified accrual basis of accounting. They also recorded certain revenues on the accrual basis that should have been recorded on the modified accrual basis of accounting.
- In prior years, the Town did not report the accrued liability for landfill closure and postclosure care costs.

As discussed in Note O to the financial statements, prior period adjustments were required to correct these items. We recommend that the Town review and update year end closeout procedures and institute review of existing and new contracts for financial statement impact to improve internal control over financial reporting.

***Management's Response - The above items have all been corrected in the September 30, 2010 financial statements. In the future, the accounting records for these items will be updated and recorded based upon the auditor's recommendations.***

#### **2010-4 Human Resources**

The Town engaged internal auditors to examine the Town's human resources activities. The internal auditors have issued their Internal Audit Report, Human Resources dated July 2010 That report identified significant issues regarding vendor and employee access to sensitive information, Form I-9, Employment Eligibility Verification, definition of pensionable compensation, access to payroll information, password settings, controls over accuracy of information used for pension benefit calculations, manual pension benefit calculations, timely review of Fire department payroll information, conflict of interest policies, Family and Medical Leave Act procedures, benefit file documentation, terminated employee information system access rights, monitoring controls for outsourced services with third party vendors, supporting documentation for compensation included in pension benefit calculations, and certain other items. See their report for details.

We believe that the cumulative effect of these issues constitute a significant deficiency. We recommend that the Town implement the recommendations provided in the Internal Audit Report.

***Management's Response - The findings from the internal audit have been addressed and the Town has implemented new policies and procedures as recommended in the audit. Specific details can be found in the report dated July 2010.***

#### **2010-5 Procurement and Accounts Payable**

The Town engaged internal auditors to examine the Town's procurement and accounts payable activities. The internal auditors have issued their Internal Audit Report, Procurement and Accounts Payable dated October 31, 2010. That report identified significant issues regarding circumvention of procurement controls, maintenance of the active vendor listing, segregation of duties, management of procurement cards, manual processing controls, information system access, and policies and procedures. See their report for details.

We believe that the cumulative effect of these issues constitute a significant deficiency. We recommend that the Town implement the recommendations provided in the Internal Audit Report

***Management's Response - The findings from the internal audit have been addressed and the Town has implemented new policies and procedures as recommended in the audit. Specific details can be found in the report dated October 31, 2010.***

#### **2010-6 Grant Compliance Monitoring**

The Town engaged internal auditors to examine the Town's grant compliance monitoring activities. The internal auditors have issued their Internal Audit Report, Grant Compliance Monitoring dated October 2010.

The Internal Audit Report identified the following issues and provided recommendations for improvement. See their report for details.

- A process should be implemented for specific tracking of expenses related to American Recovery and Reinvestment Act Funds within the general ledger.
- Documentation of control procedures related to the compliance requirements of grant funding could be enhanced in several areas to improve the overall control environment.
- The Town could provide periodic training to supervisors and managers not in the accounting department with grant compliance responsibilities.

We recommend that the Town implement the recommendations provided in the Internal Audit Report.

*Management's Response - The Town has adopted a new grant policy that satisfies the recommendations of the internal auditor. In July 2011, the Town's external auditors will provide training to employees involved in the grant process.*

#### **2010-7 Cash Management Operations**

We noted that actual cash management procedures performed by Finance Department personnel are not consistent with approved procedures documented in the Town's written policies and procedures. We recommend that the Town either follow approved cash management procedures or amend the procedures to reflect actual staff responsibilities.

*Management's Response - The Town's cash management policy included an outdated procedure regarding the daily cash reconciliation. The procedure will be revised to reflect the current procedure.*

#### **2010-8 Investment In Joint Venture**

We noted that the Town has not maintained a schedule documenting the calculation of the amount of the Town's investment in the ECR joint venture from the initial investment to the present. We recommend the Town create and maintain a schedule to document the amount of the Town's investment in the joint venture.

*Management Response - The Town has added the ECR joint venture to the financial statements, including a schedule that will be updated on an annual basis.*

If you require additional information or have any questions regarding the audit or the Management Letter please contact me.

Sincerely,



Jane Struder, CPA  
Finance Director