

TOWN OF PALM BEACH SHORES
FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT THEREON
ANNUAL AUDIT FOR THE YEAR ENDED
SEPTEMBER 30, 2006

TOWN OF PALM BEACH SHORES
SEPTEMBER 30, 2006

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1- 2
Management's Discussion and Analysis (required supplementary information)	3 -10
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	16
Combined Statement of Plan Net Assets – All Pension Trust Funds	17
Combined Statement of Changes in Plan Net Assets – All Pension Trust Funds	18
Notes to the Financial Statements	19-39
Required Supplemental Information Other Than MD&A	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	40
Notes to the Budgetary Required Supplementary Information – General Fund	41
Schedule of Employer Contributions	42
Other Supplemental Information	
Schedule of Departmental Revenues Budget to Actual – General Fund	43
Schedule of Departmental Expenditures Budget to Actual – General Fund	44-45
Combining Statement of Plan Net Assets – All Pension Trust Funds	46
Combining Statement of Changes in Plan Net Assets – All Pension Trust Funds	47
Other Reports	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	48-49
Management Letter	50-52



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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Town Commission
Town of Palm Beach Shores

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We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Palm Beach Shores as of and for the year ended September 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Palm Beach Shores' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Palm Beach Shores as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2007, on our consideration of the Town of Palm Beach Shores' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 10 and the required supplementary information on pages 40-42, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Palm Beach Shores' basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements of the Town. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Nowlen, Holt, & Miner, P.A.

January 12, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Town of Palm Beach Shores' discussion and analysis is designed to assist the reader by providing a narrative overview and analysis of the financial activities of the Town for the year ended September 30, 2006. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Town's financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The following are the highlights of financial activity for the fiscal year ended September 30, 2006:

- The Town's net assets increased by \$1,454,576 from the prior year. The Town's total assets exceeded its liabilities at September 30, 2006 by \$4,818,523 (net assets). Of this amount, \$2,117,288 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's revenues for governmental activities were \$3,627,567, an increase of 22% over the prior year. The expenses for governmental activities were \$3,413,003, an increase of 11% over the prior year.
- The General Fund unreserved, undesignated fund balance at September 30, 2006 was \$1,050,672 or 25% of total general fund expenditures. This is an ideal financial position for the Town because property taxes are not received until December and available fund balance represents enough funds for three months of expenditures. This money also serves an emergency fund for unanticipated costs, such as hurricanes or other disasters.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide Financial Statements

The government-wide financial statements (pages 11 and 12) are designed to provide the reader with a broad overview of the Town's finances, in a manner similar to private-sector business. These statements include the statement of net assets and the statement of activities which are designed to provide a broad overview of the Town as a whole.

The *statement of net assets* shows the total assets and liabilities for the Town with the difference reported as net assets. The change in net assets over time may be an indicator of the Town's financial health. The *statement of activities* provides a breakdown of revenues and expenditures by function. The functions primarily supported by taxes and intergovernmental revenues, such as police, fire and other public services are considered governmental activities.

Fund Financial Statements

The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal obligations. The fund financial statements focus on major funds. The funds of the Town can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds (beginning on page 13) are used 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 requirement. Most of the Town's basic services are reported in the governmental funds.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget on pages 40-41.

Fiduciary Funds (beginning on page 17) 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 resources of those funds are not available to support the Town's own programs. The fiduciary funds presented in this section are the Town's pension trust funds.

Notes to the Financial Statements (beginning on page 19) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$4,818,523 as of September 30, 2006.

Net Assets			
(In thousands of dollars)			
	Governmental Activities		
	2006	2005	Increase (Decrease)
Assets:			
Current and other assets	\$ 2,922	\$ 1,757	\$ 1,165
Capital assets	4,144	3,531	613
Total assets	\$ 7,066	\$ 5,288	\$ 1,778
Liabilities:			
Long-term debt outstanding	\$ 1,537	\$ 1,725	\$ (188)
Other liabilities	711	199	512
Total liabilities	\$ 2,248	\$ 1,924	\$ 324
Net Assets:			
Invested in capital assets, net of related debt	\$ 2,701	\$ 1,872	\$ 829
Unrestricted	2,117	1,492	625
Total net assets	\$ 4,818	\$ 3,364	\$ 1,454

The largest portion of the Town's net assets reflects its investment in capital assets (e.g. land, building, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens: consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net assets may be used to meet the Town's ongoing obligations to citizens and creditors.

Governmental Activities

Governmental activities increased the Town's net assets by \$1,454,576. Key elements of this increase are as follows:

Changes in Net Assets (In thousands of dollars)

	Governmental Activities		
	2006	2005	Increase (Decrease)
Revenues:			
Program revenue:			
Charges for services	\$ 467	\$ 231	\$ 236
Grants and contributions	773	174	599
General revenues:			
Property taxes	3,048	2,465	583
Utility taxes	246	229	17
Intergovernmental	210	195	15
Investment earnings	111	42	69
Miscellaneous	12	31	(19)
Total revenue	\$ 4,867	\$3,367	\$ 1,500
Expenses:			
Program expenses:			
General government	\$ 635	651	\$ (16)
Public safety	2,216	1,874	342
Physical environment	298	285	13
Culture and recreation	211	194	17
Interest on long-term debt	53	64	(11)
Total expenses	3,413	3,068	345
Increase in net assets	1,454	299	1,155
Net assets – October 1	3,364	3,065	299
Net assets – September 30	\$ 4,818	3,364	\$ 1,454

Property taxes are the main source of revenues and represent approximately 62 percent of the revenue for governmental activities. Property taxes increased by approximately \$583,000 as the result of increased property value. The millage rate remained unchanged at 6.35 mills. Contributions increased by approximately \$557,000 to fund the Community Center. Building permits increased by approximately \$234, 000 due to some large construction projects underway in Town.

Expenditures for Public Safety represent approximately 65 percent of Governmental activity expenditures. Public Safety includes Police, Fire Rescue, Emergency Medical Services, Emergency Disaster, and Fire and Building Inspection. Public Safety expenses increased by approximately \$344,000 for the following reasons: police personnel costs increased by \$143,000; emergency disaster costs increased by \$90,000 because of the timing of hurricanes; and an additional \$70,000 in EMS & Fire costs with the first full fiscal year with Riviera Beach backup.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

Governmental Funds - The focus of the Town'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'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 September 30, 2006, the Town's governmental funds reported ending fund balances of \$2.07 million, an increase of \$678,000 in comparison with the prior year. This increase was due primarily to the delay of the construction on the new Community Center which broke ground in the fall of 2005. Approximately 51% of ending fund balances (\$1,050,672) constitutes unreserved fund balance, which is available for spending at the government's discretion. A portion of the unreserved fund balance (\$872,590) is designated for the construction of the community center. The unreserved fund balance is within the General Fund, the chief operating fund of the Town. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed to inventories and prepaid items.

Budgetary Highlights - Budget to actual comparison schedules are provided in the Required Supplementary Information (RSI) Section of the report (beginning on page 40). The budget and actual schedules show the original budgets, the final revised budget, actual results, and variance between the final budget and actual results for the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental activities as of September 30, 2006 amounted to \$4.14 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment.

The Town's investment in capital assets increased by \$616,000 during the current fiscal year. Major capital asset events during the current fiscal year included the following:

- Current year construction in progress consists of the Town's Community Center Project (\$721,000) and the Inlet Park Project (\$51,000). The Community Center is scheduled to be complete in June 2007. It is located at the Town's Beach Park and will provide recreational and social space for residents to enjoy. The Community Center was funded in part by donations received this year in the amount of \$557,000. The Inlet Park Project consists of a rejuvenation of the park facilities at the inlet. This project is funded by grants from Florida Inland Navigation District (\$150,000), Florida Recreation Development Assistance Program (\$112,500) and Palm Beach County (\$80,000). The project is expected to be completed by mid-2007.
- Several improvements were made to Town facilities during the year.
 - The meeting room at Town Hall was updated with new floors, walls, and ceilings (\$19,000).
 - The restrooms in the Police Department, Fire Department, and Public Works Department were renovated with new fixtures and tile (\$4,958).
 - Windows with hurricane impact glass were purchased and installed throughout most of the Town Hall and the entire Police/Fire Building (\$9,005).
 - The Town rebuilt the Chickee Hut at the beach (\$17,000). This was necessary due to the damage from Hurricane Wilma in October 2005. The costs were completely reimbursed with disaster grant funds.
- The Town purchased two new Police vehicles for approximately \$47,000.
- The Town purchased a used generator for the lift station at Ocean Avenue (\$12,000) which will be installed in the next fiscal year.
- The remaining capital outlay consists of a variety of items of smaller scale than those identified herein.

Capital Assets
(In thousands of dollars)

	Governmental Activities		
	2006	2005	Increase (Decrease)
Land	\$ 101	\$ 101	\$ 0
Buildings and improvements	633	577	56
Parks and beach improvements	351	344	7
Equipment	336	334	2
Vehicles	680	634	46
Streets and sewers	3,371	3,368	3
Construction in progress	873	110	763
Total capital assets	6,345	5,468	877
Less accumulated depreciation	(2,201)	(1,937)	(264)
Total	\$ 4,144	\$ 3,531	\$ 613

Additional information on the Town's capital assets can be found in Footnote 4 of this report.

Debt Outstanding

The Town added debt during the fiscal year with the addition of a new capital lease to finance the new police vehicles. However, payments on existing debt reduced the Town's long term liabilities. The following table summarizes the Town's debt as of September 30, 2006.

Outstanding Debt
(In thousands of dollars)

	Governmental Activities		
	2006	2005	Increase (Decrease)
Note payable	\$ 1,321	\$1,486	\$ (165)
Capital leases	122	173	(51)
Compensated absences	94	66	28
Total	\$ 1,537	\$ 1,725	\$ (188)

Additional information on the Town's debt can be found in Footnote 5 of this report.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The Town's 2007 fiscal year budget includes items that continue to accomplish the goals of the Town. These goals included enhancing the level of services, increasing the responsiveness of the local government to the needs of the public, improving the technological operation of the Town government, and enhancing the Town's recreational facilities.

Property taxes are the main source of revenues for governmental activities and represent approximately 70 percent of the General Fund budgeted revenues. For six consecutive years, the Town's property tax millage rate of 6.3500 was not increased. For the fiscal year 2007, the millage rate was reduced to 6.2500 mills.

The assessed taxable value of the Town increased by 35% and will generate approximately \$1.1 million in additional tax revenue. This increase will be sufficient to cover the expenditures in the fiscal year 2007 budget. It also gives the Town the ability to complete the Community Center without increasing its debt.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town's Finance Department, at the Town of Palm Beach Shores, 247 Edwards Lane, Palm Beach Shores, Florida, 33404.

BASIC FINANCIAL STATEMENTS

TOWN OF PALM BEACH SHORES, FLORIDA
Statement of Net Assets
September 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 2,468,883
Investments	138,134
Receivables (net)	
Accounts	5,766
Special assessments	143,168
Due from other governments	35,224
Prepaid items	121,670
Prepaid pension costs	8,540
Inventories	1,242
Capital assets	
Non-depreciable	100,792
Depreciable (net of depreciation)	<u>4,042,974</u>
Total assets	<u><u>\$ 7,066,393</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	\$ 653,712
Accrued payroll	25,765
Accrued interest	15,651
Deferred revenue	15,524
Non-current liabilities	
Due within one year	236,753
Due in more than one year	<u>1,300,465</u>
Total liabilities	<u>2,247,870</u>
Net Assets	
Invested in capital assets, net of related debt	2,701,235
Unrestricted	<u>2,117,288</u>
Total net assets	<u>4,818,523</u>
Total liabilities and net assets	<u><u>\$ 7,066,393</u></u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Statement of Activities
For the Fiscal Year Ended September 30, 2006

Function / Program Activities	Expenses	Program Revenues			Total Governmental Activities
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
General government	\$ 635,157	\$	\$	\$	\$ (635,157)
Public safety	2,215,548	432,790	194,116	1,315	(1,587,327)
Physical environment	298,095	27,032			(271,063)
Culture recreation	210,844	7,390		577,369	373,915
Interest on long term debt	53,359				(53,359)
Total governmental activities	3,413,003	467,212	194,116	578,684	(2,172,991)
General revenues					
Property taxes					3,047,548
Utility taxes and franchise fees					246,512
Intergovernmental					210,377
Investment earnings					110,722
Miscellaneous					12,408
Total general revenues					3,627,567
Change in net assets					1,454,576
Net assets, beginning of year					3,363,947
Net assets, end of year					\$ 4,818,523

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Balance Sheet
Governmental Funds
September 30, 2006

	General
ASSETS	
Cash and cash equivalents	\$ 2,468,883
Investments	138,134
Receivables (net)	
Accounts	5,766
Special assesments	143,168
Due from other governments	35,224
Prepaid items	121,670
Inventories	1,242
Total assets	\$ 2,914,087
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 653,712
Accrued payroll	25,765
Deferred revenue	158,692
Total liabilities	838,169
 Fund balances	
Reserved for:	
Prepaid items	121,670
Inventories	1,242
Unreserved:	
Designated for community center	872,590
Designated for connectivity fee	29,744
Undesignated	1,050,672
Total fund balances	2,075,918
Total liabilities and fund balances	\$ 2,914,087

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Assets
September 30, 2006

Fund balances total governmental funds		\$ 2,075,918
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	\$ 6,345,225	
Less accumulated depreciation	<u>(2,201,459)</u>	4,143,766
Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.		
Deferred revenue		143,168
Pension payments in excess of the annual pension costs are reported as an expense in the governmental funds when paid and are not considered an asset.		
Prepaid pension costs		8,540
Long-term liabilities, including notes and bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. Long-term liabilities at year end consist of:		
Compensated absences	(94,688)	
Capital leases payable	(121,777)	
Notes payable	(1,320,753)	
Accrued interest on long-term debt	<u>(15,651)</u>	<u>(1,552,869)</u>
Net assets of governmental activities		<u>\$ 4,818,523</u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Statement of Revenues, Expenditures, and Changes
In Fund Balance - Governmental Funds
For the Fiscal Year Ended September 30, 2006

	General
Revenues	
Taxes	\$ 3,294,060
Special assessments	36,324
Licenses and permits	410,756
Intergovernmental	426,540
Fines and forfeitures	19,304
Charges for services	37,153
Interest	110,722
Contributions	556,637
Miscellaneous	12,408
Total revenues	4,903,904
Expenditures	
Current	
General government	609,200
Public safety	2,110,198
Physical environment	131,599
Culture and recreation	199,586
Debt service	
Principal	255,648
Interest	56,570
Capital outlay	902,363
Total expenditures	4,265,164
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	638,740
Other financing sources (uses)	
Debt proceeds	39,690
Total other financing sources (uses)	39,690
Net change in fund balances	678,430
Fund balances, beginning of year	1,397,488
Fund balances, end of year	\$ 2,075,918

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund
Balance of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended September 30, 2006

Net change in fund balances - total governmental funds \$ 678,430

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	\$ 902,363	
Less: current year depreciation	<u>(285,999)</u>	616,364

Loss on disposal of fixed assets		(3,524)
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Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.

Special assessment revenues collected in current year	<u>(36,324)</u>	(36,324)
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Debt proceeds	(39,690)	
Principal payments on debt	<u>255,648</u>	215,958

Pension payments in excess of the annual pension costs reported as expenditures in governmental funds.

Prepaid pension costs		8,540
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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.

Change in accrued interest	3,211	
Change in long-term compensated absences	<u>(28,079)</u>	<u>(24,868)</u>

Change in net assets		<u><u>\$ 1,454,576</u></u>
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See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Combined Statement of Plan Net Assets
All Pension Trust Funds
September 30, 2006

Assets	
Investment contract	\$ 2,002,156
Receivables	113,305
Total assets	<u>\$ 2,115,461</u>
Liabilities	
Total liabilities	<u> </u>
Net assets in trust for pension benefits	<u><u>\$ 2,115,461</u></u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Combined Statement of Changes in Plan Net Assets
All Pension Trust Funds
For the Fiscal Year Ended September 30, 2006

Additions	
Contributions	
Employer	\$ 357,185
Plan members	<u>10,831</u>
Total contributions	<u>368,016</u>
Investment income	
Interest	<u>117,477</u>
Net investment income	<u>117,477</u>
Total additions	<u>485,493</u>
Deductions	
Benefits paid	5,083
Administrative expense	<u>35,795</u>
Total deductions	<u>40,878</u>
Net increase	444,615
Net assets held in trust for pension benefits	
Beginning	<u>1,670,846</u>
Ending	<u><u>\$2,115,461</u></u>

See notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Palm Beach Shores, Florida (the “Town”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Town’s significant accounting policies are described below.

Reporting Entity

The Town of Palm Beach Shores, Florida is a municipal corporation organized pursuant to Chapter 24792, 1947 Laws of Florida. The Town operates under the Commission/Mayor form of government. The Town's major operations include general government, public safety, streets, sanitation, and culture/recreation.

In accordance with Statement 14 of the Government Accounting Standards Board, the underlying concept of the governmental financial reporting entity is that governmental organizations are responsible to elected governing officials; therefore, financial reporting should report the elected officials' accountability for those organizations. Furthermore, the financial statements of the reporting entity should allow users to distinguish between the primary governments and its component units if any, by communicating information about the component units and their relationships with the primary government. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. Determining factors of financial accountability include appointment of a voting majority, imposition of will, financial benefit or burden on a primary government, or fiscal dependency. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based upon application of these criteria, the Town of Palm Beach Shores has determined that there are no additional governmental departments, agencies, institutions, commissions, public authorities or other governmental organizations operating within the jurisdiction of the Town that would be required to be included in the Town’s financial statements.

Government-wide and Fund Financial Statements – GASB Statement #34

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements – GASB Statement #34 (Continued)

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. The Town does not accrue property tax revenues since the collection of these taxes coincides with the fiscal year in which levied, and since the Town consistently has no material uncollected property taxes at year end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough afterwards to pay liabilities of the current period. The Town considers revenues collected within 60 days of the year end to be available to pay liabilities of the current period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds (Continued)

Property taxes, franchise taxes, licenses, interest revenue, intergovernmental revenues, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental fund:

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Fiduciary Funds

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. The pension trust funds are held under the terms of formal trust agreement.

The Town established the Retirement Plan for Police Employees and the General Employees Retirement Income Plan to account for assets held in trust for police and general employee pension benefits.

Cash and Cash Equivalents

Cash and cash equivalents include amounts on deposit in demand accounts and money market accounts.

Investments

Investments in the Pension Trust Fund are carried at fair value. Investments in the Local Government Surplus Funds Trust Fund, a 2a-7-like pool, are carried at amortized cost, which approximates market. A 2a-7-like pool is not registered with the SEC as an investment company, but nevertheless, has a policy that it will, and does, operate in a manner consistent with the SEC's rule 2a-7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. Thus, this pool operates essentially as a money market fund.

Accounts Receivable

Accounts receivable of the General Fund consists of billed receivables for special assessments, sewer services and other miscellaneous services.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Inventory

Inventory is valued at cost, which approximates market, using the first in/first out (FIFO) method. The costs of governmental fund type inventory are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include plant, property, equipment, and infrastructure assets (e.g. roads, bridges, and sidewalks) are reported in the applicable governmental columns in the governmental-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$750. Capital assets are recorded at cost or the fair market value of the assets at the time of purchase or contribution. The Town is a Phase 3 government under GASB 34 and has elected not to report major general infrastructure assets retroactively.

Additions, improvements, and other capital outlay that significantly extend the useful life of the asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation has been provided over the useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and improvements	10-40 years
Equipment	5 - 7 years
Vehicles	5-10 years
Streets and sewers	20 years
Parks and beach improvements	20 years

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

All vacation and sick leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Town employees may carry over vacation to the next fiscal year at a rate equal to the maximum time earned during the previous fiscal year. Accumulated vacation is payable to employees upon termination or retirement at the rate of pay on that date. Town employees receive 96 hours of sick time each year. Employees, who reach ten years of service or more, are eligible to receive 50% of their unused sick time up to a 500 hour maximum upon retirement or termination. In addition, any full-time employee who has accrued 960 hours of sick time is eligible to be paid for 40 hours each year. All other employees upon termination do not receive any sick accumulation pay.

Interest Cost

Interest costs in governmental funds are charged to expenditures as incurred. Construction period interest incurred in governmental funds is not capitalized.

Interfund Transactions

Basic types of interfund transactions include transactions for services rendered or facilities provided. These transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund. In addition, interfund transactions include transactions to transfer revenue or contributions from the fund budgeted to received them to the fund budgeted to expend them. These transactions are recorded as operating transfers in and out. Lastly, interfund transactions include transfers to close funds.

Deferred Revenues

The government reports deferred revenue on its government-wide statement of net assets and governmental funds balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Equity in the government-wide statement of net assets is displayed in three categories: 1) invested in capital assets net of related debt, 2) restricted, 3) unrestricted. Net assets invested in capital assets net of related debt consist of capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by Town legislation or external restrictions by other governments, creditors, or grantors. Unrestricted net assets consist of all net assets that do not meet the definition of either of the other two components.

Fund Equity

The Town has established certain reservations and designations of governmental fund balances. Reserves represent those portions of fund balances not considered as available for future appropriation or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Reservations and designations of fund balances are reported on the balance sheet for governmental funds.

The following is a list of all reserves used by the Town and a description of each:

- Reserved for prepaid items – Represents certain payments made in advance indicating that these funds are not available spendable resources.
- Reserved for inventories – An account used to indicate that a portion of the General Fund’s fund balance is segregated since these items do not represent available spendable resources.

Designations of portions of the fund balances in governmental funds are established to indicate management’s tentative plans for financial resources in a future period. At September 30, 2006, fund balance was designated as follows:

- Designated for community center – Designated for expenditures related to the community center construction.
- Designated for connectivity fee – Designated for expenditures to connect into Palm Beach County radio system.

Additionally, the Town’s pension trust funds report fund equity as “net assets held in trust for pension benefits”. This represents the net assets of the Pension Trust funds which are legally restricted to the payment of pension benefits for Town employees.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

Formal budgetary integration is employed as a management control device during the year for the General Fund. All budgets are legally enacted.

An annual appropriated budget for the General Fund is adopted on the cash basis of accounting. For budgeting purposes, current year encumbrances are not treated as expenditures.

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to mid-August, the Town Administrator submits to the Town Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of a resolution.
4. The Town Administrator is authorized to transfer budgeted amounts within any department; however, any revisions that alter the total expenditures of any department must be approved by the Town Commission, by a legally enacted resolution.
5. Appropriations along with encumbrances lapse on September 30.
6. Appropriations are usually controlled at the department level within funds, and expenditures may not legally exceed budgeted appropriation at that level.

Budgeted amounts are as originally adopted, or as amended by appropriate action. During the year one supplementary appropriation was necessary.

Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal, and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the State regulating tax assessment are also designed to assure a consistent property valuation method statewide.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Property Taxes (Continued)

The tax levy of the Town is established by the Town Commission prior to October 1 of each year, and the Palm Beach County Property Appraiser incorporates the Town's millages into the total tax levy, which includes Palm Beach County and Palm Beach County School Board tax requirements.

All property is reassessed according to its fair market value January 1 of each year, which is also the lien date. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all the appropriate requirements of state statutes.

All taxes are due and payable on November 1 of each year or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. Taxes may be paid less a discount beginning November 1. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January and 1% in the month of February. The taxes paid in March are without discount. All unpaid taxes become delinquent on April 1, following the year in which they are assessed.

On or prior, to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. After the sale, tax certificates bear interest of 18% per year or any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Delinquent taxes on personal property bear interest of 18% per year until the tax is satisfied either by seizure and sale of the property or by the five year statute of limitations.

NOTE 3 - CASH AND INVESTMENTS

Deposits

As of September 30, 2006, the carrying amounts of the Town's deposits was \$2,468,783 and the bank balances totaled \$2,520,388. The Town also had cash on hand of \$100 resulting in a total cash carrying amount of \$2,468,883. All cash deposits are covered by the multiple financial institution collateral pool administered by the State of Florida. The collateral pool was created pursuant to the Florida Security for Deposits Act, Chapter 280, Florida Statutes. The collateral pool consists of assets pledged to the State Treasurer by financial institutions that comply with the requirements of Florida Statutes and have been thereby designated as "qualified public depositories". Therefore, the Town's entire bank balance of \$2,520,388 is insured either by Federal depository insurance or is collateralized with securities pursuant to the Florida Security for Public Deposits Act. The Town's deposits at year end are considered insured for custodial credit risk purposes.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments

Florida statutes authorize the Town to invest in the Local Government Surplus Funds Trust Fund administered by the State Treasurer, negotiable direct obligations of or obligations unconditionally guaranteed by the U.S. Government, interest-bearing time deposits in financial institutions located in Florida and organized under Federal or Florida laws, obligations of the Federal Farm Credit Banks, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank or its district banks, or obligations guaranteed by the Government National Mortgage Association, and obligations of the Federal National Mortgage Association.

Investments of the pension trust funds can consist of any kind of property, real, personal or marked; and any type of investment, specifically including bonds, debentures, and other corporate obligations, and stocks, preferred or common.

The State Board of Administration is part of the Local Government Surplus Funds Trust Fund and is governed by Ch. 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration. The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the board has adopted operating procedures consistent with the requirements for a 2A-7 fund.

As of September 30, 2006, the Town's investments were as follows:

	<u>Effective Fair Value</u>	<u>Weighted Average Maturity</u>	<u>Effective Duration</u>
Primary Government – State Investment Pool	\$ 138,134	49 days	N/A
General Retirement Plan – Fixed Income Investments	710,013	N/A	6.03
Police Retirement Plan – Bond and Mortgage Account	361,865	N/A	4.80
Police Retirement Plan – Inflation Protection Account	25,975	N/A	6.29
Police Retirement Plan – High Yield Account	25,776	N/A	3.56
Police Retirement Plan – Preferred Securities Account	25,948	N/A	5.37
Police Retirement Plan – Other Investments	<u>853,767</u>	N/A	N/A
Total Investments	<u>\$2,141,478</u>		

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 3 - CASH AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill their obligations. The Town's investment policies limit its investments to high quality investments to control credit risk. As of September 30, 2006, the State Investment Pool was not rated. The fixed income investments in the general employees retirement plan had 7.04% rated AAA, 7.86% rated AA, 35.29% rated A, 44.45% rated BBB, 3.84% rated BB, 0.27% rated B, and 0.25% rated below B. The average credit score was A. The following is a credit analysis for the fixed income investments in the Police Retirement Plan at September 30, 2006.

Fixed Income Investment	U.S. Govt.	AAA	AA	A	BBB	BB	B	Below B	NR/NA	Average
Bond & Mortgage		61.11	6.69	11.20	12.92	4.20	3.08	0.80		AA
Inflation Protection		86.86	0.58	1.09	3.82	5.16	2.22	0.27		AAA
High Yield					0.53	33.86	56.38	9.23		B
Preferred Securities		2.45	3.34	45.10	45.96	1.38			1.77	A

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 4 – CAPITAL ASSETS

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

Primary Government

	<u>Beginning, Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 100,792	\$	\$	\$	\$ 100,792
Capital assets being depreciated:					
Buildings and improvements	577,458	53,318	(6,780)	8,654	632,650
Parks and beach improvements	343,521	7,446			350,967
Equipment	334,417	21,867	(18,820)	(1,138)	336,326
Vehicles	634,440	44,906		1,138	680,484
Streets and sewers	3,368,010	2,520			3,370,530
Construction in progress	<u>109,824</u>	<u>772,306</u>	<u> </u>	<u>(8,654)</u>	<u>873,476</u>
Total at historical cost	<u>5,468,462</u>	<u>902,363</u>	<u>(25,600)</u>	<u> </u>	<u>6,345,225</u>
Less accumulated depreciation for:					
Buildings	\$ 195,303	\$ 14,056	\$ (4,245)	\$	\$ 205,114
Parks and beach improvements	151,529	15,120			166,649
Equipment	151,778	48,977	(17,831)		182,924
Vehicles	394,043	45,833			439,876
Streets and sewers	<u>1,044,883</u>	<u>162,013</u>	<u> </u>	<u> </u>	<u>1,206,896</u>
Total accumulated depreciation	<u>1,937,536</u>	<u>285,999</u>	<u>(22,076)</u>	<u> </u>	<u>2,201,459</u>
Governmental activities capital assets, net	<u>\$3,530,926</u>	<u>\$ 616,364</u>	<u>\$ (3,524)</u>	<u>\$</u>	<u>\$4,143,766</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 4 – CAPITAL ASSETS (Continued)

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

Governmental activities:

General government	\$ 16,868
Police department	52,668
Fire department	33,015
Physical environment-streets and sewers	166,496
Culture and recreation	<u>16,952</u>
Total depreciation expense for governmental activities	<u>\$285,999</u>

NOTE 5 – LONG-TERM DEBT

Note Payable

In May 2003, the Town borrowed \$1,800,000 from a bank to fund the construction of various capital projects. The note bears interest at 3.32%. Principal and interest payments are due January 1 and July 1 with final maturity on July 1, 2013. Debt service to maturity is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending September 30:			
2007	170,562	43,046	213,608
2008	176,271	37,258	213,529
2009	182,172	31,275	213,447
2010	188,271	25,093	213,364
2011	194,573	18,703	213,276
2012-2013	<u>408,904</u>	<u>20,075</u>	<u>428,979</u>
	<u>\$1,320,753</u>	<u>\$175,450</u>	<u>\$1,496,203</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 5 – LONG-TERM DEBT (Continued)

Capital Lease

The Town has entered into lease agreements for financing the acquisition of police vehicles, police radios and a fire truck. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The cost of assets purchased under capital lease arrangements as of September 30, 2006 was \$293,011 with related accumulated depreciation of \$79,304.

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

<u>Year Ending September 30:</u>	
2007	\$71,987
2008	58,037
2009	<u>150</u>
Total minimum lease payments	130,174
Less amount representing interest	<u>(8,397)</u>
Present value of minimum lease payments	<u>\$121,777</u>

Changes in Long-Term Liabilities

The following is a summary of changes in the long-term debt during the fiscal year.

	Balance October 1 <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2006</u>	Due Within <u>One Year</u>
Note payable	\$1,485,790	\$	\$(165,037)	\$1,320,753	\$170,562
Capital leases	172,698	39,690	(90,611)	121,777	66,191
Compensated absences	<u>66,609</u>	<u>36,169</u>	<u>(8,090)</u>	<u>94,688</u>	<u> </u>
	<u>\$1,725,097</u>	<u>\$ 75,859</u>	<u>\$(263,738)</u>	<u>\$1,537,218</u>	<u>\$236,753</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 6 – SPECIAL ASSESSMENT

The Town adopted Resolutions 460 and 461 on October 16, 1995, and December 18, 1995, respectively. These resolutions establish the Town's intention to defray the costs of improvements to the Town's wastewater collection system through special assessments levied in direct proportion to the benefit received by property owners. Special assessments were calculated on a linear foot basis at the estimated cost of \$53.36 per linear foot as measured along the front property line. Such special assessments were levied following completion of the improvements on July 27, 1997. Property owners were given the option to pay the entire amount of the assessment within 30 days of completion of the improvements or to pay over 20 years in equal annual payments. Property owners electing to pay over 20 years also pay interest on the outstanding balance due at a rate of 4.79% per annum. Outstanding special assessments receivable at September 30, 2006, was \$143,168.

NOTE 7 – PENSION PLANS

The Town maintains the following two separate single-employer defined benefit pension plans: Retirement Plan for Policemen of the Town of Palm Beach Shores (the Police Pension) covering police officers and the Town of Palm Beach Shores General Employees Retirement Income Plan (the General Employees' Pension) covering substantially all other full-time Town employees. Both plans are reported as pension trust funds and included as part of the Town's reporting entity. Neither plan issues stand-alone financial reports.

The Police Pension has its own board which acts as plan administrator and trustee. The Town Commission acts as plan administrator and trustee for the General Employees' Pension. Each Plan's assets may only be used for the payment of benefits to the members and beneficiaries of the Plan in accordance with the terms of each Plan document. The costs of administering each Plan are financed in the appropriate pension trust fund. Any amendments to either Plan must be approved by the Town Commission.

Investments are reported at contract value which is the same as its fair value and which is determined by the insurance company based on the terms of the contract. The Town has delegated the authority to manage Plan assets to the Principal Mutual Life Insurance Company.

There have been no changes in actuarial assumptions and methods for either Plan since the last actuarial valuation. Since the plans use the aggregate actuarial cost method, a schedule of funding progress is not required and has not been presented.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 7 – PENSION PLANS (Continued)

General Employees Retirement Income Plan

Description of Plan

General

The Town of Palm Beach Shores General Employees Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Florida Statutes. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan is governed by the Town of Palm Beach Shores which may amend plan provisions and which is responsible for the management of plan assets'. The Town of Palm Beach Shores has delegated the authority to manage certain plan assets to Principal Life Insurance Company.

Plan Membership

As of September 30, 2006, the pension plan's membership consisted of:

Active employees	11
Retirees and beneficiaries currently receiving benefits*	1
Terminated employees entitled to benefits but not yet receiving them	<u>8</u>
Total	<u>20</u>

* Does not include retirees whose benefits have been purchased

Summary of Significant Accounting Policies

Basis of Accounting

The Plan's policy is to prepare its financial statements on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan 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 plan.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 7 – PENSION PLANS (Continued)

Valuation of Investments

The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to pay benefits or administrative expenses charged by Principal Life Insurance Company. Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets.

Contributions

Active members are required to contribute 1% of compensation to the plan. Any remaining obligations with respect to the pension plan shall be paid by the employer.

Investment expenses, including investment manager and custodial services, are funded through investment earnings. Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

Investments that Represent 5% or More of Plan Net Assets

At September 30, 2006, the following are investments (other than U.S. Government and U.S. Government guaranteed obligations), in any one organization, that represent 5% or more of net assets available for benefits.

Principal Financial Group Investment Contract	<u>\$710,013</u>
Actuarial Valuation	
Frequency	Annual
Latest Valuation	10/01/06
Basis for Town Contributions	10/01/06
Cost Method	Aggregate
Assumptions	
Investment Earnings*	5.00%
Salary Increases*	5.88-9.10%
*Includes inflation at 4.00%	

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 7 – PENSION PLANS (Continued)

Retirement Income Plan for Policemen

Description of Plan

General

The Town of Palm Beach Shores Police Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Florida Statutes. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan is governed by the Town of Palm Beach Shores which may amend plan provisions, and which is responsible for the management of plan assets. The Town of Palm Beach Shores has delegated the authority to manage certain plan assets to Principal Life Insurance Company.

Plan Membership

As of September 30, 2006, the pension plan’s membership consisted of:

Active employees	10
Retirees and beneficiaries currently receiving benefits*	1
Terminated employees entitled to benefits but not yet receiving them	<u>4</u>
Total	<u>15</u>

* Does not include retirees whose benefits have been purchased

Summary of Significant Accounting Policies

Basis of Accounting

The plan’s policy is to prepare its financial statements on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan 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 plan.

Valuation of Investments

The pension plan’s unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to pay benefits or administrative expenses charged by Principal Life Insurance Company. Funds under the contract that have been allocated and applied to purchase annuities are excluded from the pension plan’s assets. The pension plan’s unallocated separate accounts are valued at fair value.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 7 – PENSION PLANS (Continued)

Contributions

Active members are required to contribute 1% of compensation to the plan. Any remaining obligations with respect to the pension plan shall be paid by the employer. Investment expenses, including investment manager and custodial services, are funded through investment earnings. Administrative expenses, including actuarial and consultant services, are funded through investment earnings and/or contributions.

Investments that Represent 5% or More of Plan Net Assets

At September 30, 2006, the following are investments (other than U.S. Government and U.S. Government guaranteed obligations), in any one organization, that represent 5% or more of net assets available for benefits.

Principal Financial Group Investment Contract	\$ <u>1,293,331</u>
Actuarial Valuation	
Frequency	Annual
Latest Valuation	10/01/06
Basis for Town Contributions	10/01/06
Cost Method	Individual Aggregate
Assumptions	
Investment Earnings*	8.00%
Salary Increases*	5.18-8.40%
*Includes inflation at 3.30%	

Annual Pension Cost and Net Pension Obligation (Benefit)

The Town's annual pension cost and net pension obligation (benefit) for both plans for the current year is as follows:

	<u>General Employees</u>	<u>Police</u>
Annual required contribution	\$115,633	\$241,551
Interest on net pension benefit	(382)	(182)
Adjustment to annual required contribution	<u>921</u>	<u>319</u>
Annual pension cost	116,172	241,688
Contributions made	<u>115,634</u>	<u>241,551</u>
Increase (decrease) in net pension obligation (benefit)	538	137
Net pension obligation (benefit), beginning of year	<u>(6,941)</u>	<u>(2,274)</u>
Net pension obligation (benefit), end of year	<u>\$ (6,403)</u>	<u>\$ (2,137)</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 7 – PENSION PLANS (Continued)

	<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Benefit)</u>
General Employees	9/30/04	\$111,486	99.5%	\$(7,527)
	9/30/05	122,293	99.5	(6,941)
	9/30/06	116,172	99.5	(6,403)
Police	9/30/04	\$161,730	99.0%	\$(2,401)
	9/30/05	184,830	99.0	(2,274)
	9/30/06	241,688	99.9	(2,137)

NOTE 8 – PENSION PLAN FINANCIAL INFORMATION

Generally accepted accounting principles (GAAP) requires that financial statements for individual pension plans be presented in the notes to the financial statements of the primary government if separate, GAAP financial reports have not been issued. The individual pension funds of the Town of Palm Beach Shores, Florida do not have separate GAAP reports issued and the financial information for these is presented below.

Statement of Fiduciary Net Assets
September 30, 2006

	<u>General Employees</u>	<u>Police Officers</u>	<u>Total Employee Retirement Funds</u>
Assets			
Investment contract	\$708,825	\$1,293,331	\$2,002,156
Receivables	<u>31,959</u>	<u>81,346</u>	<u>113,305</u>
Total assets	<u>740,784</u>	<u>1,374,677</u>	<u>2,115,461</u>
Liabilities			
Total liabilities	_____	_____	_____
Net assets	<u>\$740,784</u>	<u>\$1,374,677</u>	<u>\$2,115,461</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 8 – PENSION PLAN FINANCIAL INFORMATION (Continued)

Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended September 30, 2006

	<u>General Employees</u>	<u>Police Officers</u>	<u>Total Employee Retirement Funds</u>
Additions			
Contributions			
Employer	\$115,634	\$ 241,551	\$ 357,185
Plan members	<u>4,568</u>	<u>6,263</u>	<u>10,831</u>
Total contributions	<u>120,202</u>	<u>247,814</u>	<u>368,016</u>
Investment income			
Interest	<u>23,893</u>	<u>93,584</u>	<u>117,477</u>
Net investment income (loss)	<u>23,893</u>	<u>93,584</u>	<u>117,477</u>
Total additions	<u>144,095</u>	<u>341,398</u>	<u>485,493</u>
Deductions			
Benefits	5,083		5,083
Administrative expense	<u> </u>	<u>35,795</u>	<u>35,795</u>
Total deductions	<u>5,083</u>	<u>35,795</u>	<u>40,878</u>
Net increase (decrease)	139,012	305,603	444,615
Net asset held in trust for pension benefits			
Beginning of year	<u>601,772</u>	<u>1,069,074</u>	<u>1,670,846</u>
End of year	<u>\$740,784</u>	<u>\$1,374,677</u>	<u>\$2,115,461</u>

NOTE 9 – COMMITMENTS

Waste Management Services

The Town entered into an agreement with Waste Management, Inc. of Florida (Waste Management) to collect and dispose of all solid waste, recyclable material, and vegetative waste. The contract terminates on September 30, 2007. Waste Management will be paid a minimum fixed fee of \$72,457 each year of the contract. Charges from Waste Management for the year ended September 30, 2006, totaled \$72,457.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2006

NOTE 9 – COMMITMENTS (Continued)

Fire Services, EMS Services, and Emergency Transport Services

In January 2005, the Town entered into an agreement with the City of Riviera Beach for the provision of backup fire services, EMS services, and emergency transport services. The agreement is for a period of five years beginning March 1, 2005. Under the terms of the agreement, the City will provide EMS, ALS and BLS transport services to the Town twenty-four hours per day through utilization of City personnel and vehicles. The City will also supplement the volunteer fire service of the Town twenty-four hours per day through utilization of City personnel and vehicles. The minimum fees for the first year are \$175,000 for the EMS and emergency transport services and \$75,000 for the fire services. The fees are payable in two equal semi-annual installments due March

1 and September 1. For subsequent years, the fees will be increased 3% annually, effective on March 1. The fire services fee shall entitle the Town to forty-eight fire responses lasting no longer than two hours. Incidents lasting longer than two hours and any responses over the maximum of forty-eight shall incur additional fees. Payments to the City for the year ended September 30, 2006 totaled \$257,500.

Community Center

In October 2005, the Town entered into an agreement for the construction of a Community Center. Under the terms of the agreement, the contractor will be paid a total of \$1,903,211. The time limit for substantial completion of all work under the agreement is 300 consecutive calendar days.

NOTE 10 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town is also covered by Florida Statutes under the Doctrine of Sovereign Immunity which effectively limits the amount of liability of municipalities to individual claims of \$100,000/\$200,000 for all claims relating to the same accident. There have been no significant reductions in insurance coverage in the prior year. No settlements exceeded insurance coverage for the past three years.

REQUIRED SUPPLEMENTAL INFORMATION

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
General Fund
For the Fiscal Year Ended September 30, 2006

	General Fund			Variance With Final Budget Positive (Negative)
	Original Adopted Budget	Final Revised Budget	Actual	
Revenues				
Taxes	\$ 3,233,781	\$ 3,233,781	\$ 3,294,060	\$ 60,279
Special assessments and impact fees	70,000	70,000	36,324	(33,676)
Licenses and permits	102,250	102,250	410,756	308,506
Intergovernmental	576,991	729,124	426,540	(302,584)
Fines and forfeitures	14,200	14,200	19,304	5,104
Charges for services	37,650	37,650	37,153	(497)
Interest	23,020	23,020	110,722	87,702
Contributions	101,500	101,500	556,637	455,137
Miscellaneous	3,600	3,600	12,408	8,808
Total revenues	<u>4,162,992</u>	<u>4,315,125</u>	<u>4,903,904</u>	<u>588,779</u>
Expenditures				
Current				
General government	770,701	696,797	609,200	87,597
Public safety	1,915,693	2,146,206	2,110,198	36,008
Physical environment	136,802	132,326	131,599	727
Culture and recreation	199,969	199,969	199,586	383
Debt service				
Principal	277,549	277,549	255,648	21,901
Interest	56,570	56,570	56,570	
Capital outlay	1,675,555	1,675,555	902,363	773,192
Total expenditures	<u>5,032,839</u>	<u>5,184,972</u>	<u>4,265,164</u>	<u>919,808</u>
Excess (deficiency) of revenues over (under) expenditures	(869,847)	(869,847)	638,740	1,508,587
Other financing sources				
Debt proceeds	<u>40,000</u>	<u>40,000</u>	<u>39,690</u>	<u>(310)</u>
Net change in fund balance	<u>\$ (829,847)</u>	<u>\$ (829,847)</u>	678,430	<u>\$ 1,508,277</u>
Fund balance, beginning of year			<u>1,397,488</u>	
Fund balance, end of year			<u>\$ 2,075,918</u>	

TOWN OF PALM BEACH SHORES
Notes to the Budgetary
Required Supplementary Information (RSI)
General Fund
September 30, 2006

Note 1 - Basis of Accounting

Generally accepted accounting principles (GAAP) serve as the budgetary basis of accounting.

Note 2 - Stewardship, Compliance, and Accountability

There were no departments that had an excess of expenditures over appropriations.

TOWN OF PALM BEACH SHORES, FLORIDA
Required Supplementary Information
Schedule of Employer Contributions

	<u>Fiscal Year Ended September 30</u>	<u>Annual Required Contribution</u>	<u>Town Contribution</u>	<u>Percentage Contributed</u>
<u>General Employees</u>	2001	\$ 55,310	\$ 55,310	100%
	2002	63,297	63,297	100%
	2003	77,232	63,564	82%
	2004	110,931	110,932	100%
	2005	121,708	121,707	100%
	2006	115,633	115,634	100%
	<u>Police</u>	2001	\$ 59,058	\$ 59,058
2002		86,453	84,724	98%
2003		104,369	86,626	83%
2004		161,492	160,175	99%
2005		184,703	184,703	100%
2006		241,551	241,551	100%

The information presented in the required supplementary schedules was determined as part of the actual valuations at the dates indicated. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. Therefore, the schedule of funding progress is not required and has not been provided. Additional information as of the latest actuarial valuation follows:

	<u>General Employees</u>	<u>Police</u>
Valuation date	10/01/06	10/01/06
Actuarial cost method	Aggregate	Individual Aggregate (1)
Asset valuation method	Fair Value	Fair Value
Amortization method	N/A	Level Dollar, Closed
Remaining Amortization Period	N/A	10-30 Years
Actuarial Assumptions:		
Investment earnings*	5.00%	8.00%
Salary increases*	5.88% - 9.10%	5.18%-8.40%
*Includes inflation at	4.00%	3.30%
Post retirement benefit increases	N/A	N/A

(1) Plan changed to the individual aggregate actuarial cost method as of October 1, 2001.

SUPPLEMENTAL INFORMATION

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Revenues Budget to Actual
General Fund
For the Fiscal Year Ended September 30, 2006

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Taxes			
Ad valorem taxes	\$ 3,018,755	\$ 3,047,548	\$ 28,793
Franchise fees and utility taxes	215,026	246,512	31,486
Total taxes	<u>3,233,781</u>	<u>3,294,060</u>	<u>60,279</u>
Special assessments and impact fees			
Special assessments	30,000	36,324	6,324
Impact fees	40,000		(40,000)
Total special assessments and impact fees	<u>70,000</u>	<u>36,324</u>	<u>(33,676)</u>
Licenses and permits			
Special permits	6,000	6,962	962
Occupational licenses	14,750	13,934	(816)
Building permits	80,000	388,318	308,318
Development fees	1,500	1,542	42
Total licenses and permits	<u>102,250</u>	<u>410,756</u>	<u>308,506</u>
Intergovernmental revenues			
Half-cent sales tax	108,093	116,178	8,085
Local option gas tax	42,671	43,773	1,102
State revenue sharing	33,633	36,402	2,769
Alcoholic beverage licenses	6,900	3,995	(2,905)
County occupational licenses	9,000	9,882	882
Grants	478,827	216,163	(262,664)
County interlocal agreement	50,000		(50,000)
Other intergovernmental revenues		147	147
Total intergovernmental revenues	<u>729,124</u>	<u>426,540</u>	<u>(302,584)</u>
Fines and forfeitures			
Fines and forfeitures	14,000	18,984	4,984
Police education	200	320	120
Total fines and forfeitures	<u>14,200</u>	<u>19,304</u>	<u>5,104</u>
Charges for services			
Sewer service	30,000	27,032	(2,968)
Beach parking	6,500	7,390	890
Miscellaneous services	1,150	2,731	1,581
Total charges for services	<u>37,650</u>	<u>37,153</u>	<u>(497)</u>
Interest	23,020	110,722	87,702
Miscellaneous			
Sales of surplus property	300		(300)
Contributions from private sources	101,500	556,637	455,137
Other	3,300	12,408	9,108
Total miscellaneous	<u>105,100</u>	<u>569,045</u>	<u>463,945</u>
Total revenues	<u>4,315,125</u>	<u>4,903,904</u>	<u>588,779</u>
Other financing sources			
Proceeds from notes payable and capital leases	40,000	39,690	(310)
Total revenues and other financing sources	<u>\$ 4,355,125</u>	<u>\$ 4,943,594</u>	<u>\$ 588,469</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Expenditures Budget to Actual
Fiscal General Fund
For the Year Ended September 30, 2006

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures			
General Government			
Legislative			
Operating expenses	\$ 11,574	\$ 11,574	\$
Finance and administrative			
Personal services	319,652	289,104	30,548
Operating expenses	82,800	74,485	8,315
Capital outlay	8,000	5,929	2,071
Total finance and administrative	<u>410,452</u>	<u>369,518</u>	<u>40,934</u>
Legal counsel	105,000	92,659	12,341
Planning	29,600	11,571	18,029
Public works			
Personal services	111,896	63,446	48,450
Operating expenses	36,275	66,361	(30,086)
Capital outlay	1,000	1,349	(349)
Total public works	<u>149,171</u>	<u>131,156</u>	<u>18,015</u>
Total general government	<u>705,797</u>	<u>616,478</u>	<u>89,319</u>
Public safety			
Police			
Personal services	1,055,275	1,038,574	16,701
Operating expenses	128,176	140,675	(12,499)
Capital outlay	46,300	55,115	(8,815)
Debt service	54,724	50,111	4,613
Total police	<u>1,284,475</u>	<u>1,284,475</u>	
911 dispatch			
Personal services	327,886	329,161	(1,275)
Operating expenses	10,500	7,292	3,208
Capital outlay	1,933	1,933	(1,933)
Total 911 dispatch	<u>338,386</u>	<u>338,386</u>	
Fire			
Personal services	61,518	65,911	(4,393)
Operating expenses	150,385	121,442	28,943
Capital outlay	2,000	2,881	(881)
Debt service	49,817	48,468	1,349
Total fire	<u>263,720</u>	<u>238,702</u>	<u>25,018</u>
Emergency medical services - contract	178,062	178,062	
Emergency - Disaster			
Personal services	24,446	24,445	1
Operating expenses	90,609	90,610	(1)
Capital Outlay	39,355	39,355	
Total emergency - diaster	<u>154,410</u>	<u>154,410</u>	

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Expenditures Budget to Actual
General Fund
For the Fiscal Year Ended September 30, 2006

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Public safety (continued)			
Community policing			
Personal services	\$ 1,557	\$ 1,932	\$ (375)
Operating expenses	9,561	6,663	2,898
Total community policing	<u>11,118</u>	<u>8,595</u>	<u>2,523</u>
Building Department			
Personal services	41,458		41,458
Operating expenses	66,773	105,431	(38,658)
Capital outlay		1,530	(1,530)
Total building department	<u>108,231</u>	<u>106,961</u>	<u>1,270</u>
Total public safety	<u>2,338,402</u>	<u>2,309,591</u>	<u>28,811</u>
Physical environment			
Garbage/solid waste disposal	74,657	74,558	99
Lift station sewer service			
Operating	8,950	10,685	(1,735)
Capital outlay	35,000	12,000	23,000
Total lift station sewer service	<u>43,950</u>	<u>22,685</u>	<u>21,265</u>
Streets/storm sewers			
Operating	48,719	46,356	2,363
Capital outlay	60,000	2,520	57,480
Total streets/storm sewers	<u>108,719</u>	<u>48,876</u>	<u>59,843</u>
Total physical environment	<u>227,326</u>	<u>146,119</u>	<u>81,207</u>
Cultural/recreation			
Parks/parkway			
Operating expenses	92,200	82,976	9,224
Capital outlay	357,500	58,573	298,927
Total parks/parkway	<u>449,700</u>	<u>141,549</u>	<u>308,151</u>
Beach facilities			
Personal services	92,059	99,542	(7,483)
Operating expenses	15,710	17,068	(1,358)
Capital outlay	1,126,400	721,178	405,222
Total beach facilities	<u>1,234,169</u>	<u>837,788</u>	<u>396,381</u>
Total cultural/recreation	<u>1,683,869</u>	<u>979,337</u>	<u>704,532</u>
Nondepartmentalized			
Contingencies			
Debt Service	229,578	213,639	15,939
Total nondepartmentalized	<u>229,578</u>	<u>213,639</u>	<u>15,939</u>
Total expenditures	<u>\$ 5,184,972</u>	<u>\$ 4,265,164</u>	<u>\$ 919,808</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Combining Statement of Plan Net Assets
All Pension Trust Funds
September 30, 2006

	General Employees	Police	Total
Assets			
Investment Contract	\$ 708,825	\$1,293,331	\$2,002,156
Receivables	31,959	81,346	113,305
Total assets	740,784	1,374,677	2,115,461
Liabilities			
Total Liabilities	_____	_____	_____
Net assets in trust for pension benefits (1)	\$ 740,784	\$1,374,677	\$2,115,461

(1) A schedule of funding progress for each plan is presented on page 42.

TOWN OF PALM BEACH SHORES, FLORIDA
Combining Statement of Changes in Plan Net Assets
All Pension Trust Funds
For the Fiscal Year Ended September 30, 2006

	<u>General Employees</u>	<u>Police</u>	<u>Total</u>
Additions			
Contributions			
Employer	\$ 115,634	\$ 241,551	\$ 357,185
Plan members	<u>4,568</u>	<u>6,263</u>	<u>10,831</u>
Total contributions	<u>120,202</u>	<u>247,814</u>	<u>368,016</u>
Investment income			
Interest	<u>23,893</u>	<u>93,584</u>	<u>117,477</u>
Net investment income (loss)	<u>23,893</u>	<u>93,584</u>	<u>117,477</u>
Total additions	<u>144,095</u>	<u>341,398</u>	<u>485,493</u>
Deductions			
Benefits	5,083		5,083
Administrative expense		<u>35,795</u>	<u>35,795</u>
Total deductions	<u>5,083</u>	<u>35,795</u>	<u>40,878</u>
Net increase (decrease)	139,012	305,603	444,615
Net assets held in trust for pension benefits			
Beginning of year	<u>601,772</u>	<u>1,069,074</u>	<u>1,670,846</u>
End of year	<u>\$ 740,784</u>	<u>\$ 1,374,677</u>	<u>\$ 2,115,461</u>

OTHER REPORTS



NOWLEN, HOLT & MINER, P.A.

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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

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The Honorable Mayor and Members of the Town Commission
Town of Palm Beach Shores

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Palm Beach Shores, as of and for the year ended September 30, 2006, which collectively comprise the Town of Palm Beach Shores' basic financial statements and have issued our report thereon dated January 12, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Palm Beach Shores' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town of Palm Beach Shores' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below:

Segregation of Duties

There is insufficient segregation of duties in the accounting department. The basic premise is that no employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

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

We also noted certain additional matters that we have reported to the management of the Town of Palm Beach Shores in a separate letter dated January 12, 2007.

This report is intended solely for the information and use of the Town of Palm Beach Shores' management and Town Commission and is not intended to be and should not be used by anyone other than those specified parties.

Nowlen, Holt, & Miner, P.A.

January 12, 2007



NOWLEN, HOLT & MINER, P.A.

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MANAGEMENT LETTER

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The Honorable Mayor and Members of the Town Commission
Town of Palm Beach Shores

We have audited the basic financial statements of the Town of Palm Beach Shores, as of and for the year ended September 30, 2006, and have issued our report thereon dated January 12, 2007.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report in 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 January 12, 2007, should be considered in assessing the results of our audit.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which require that we address certain compliance and other matters in the management letter, if not already addressed in the auditor's report on internal control over financial reporting and on compliance and other matters.

In planning and performing our audit of the basic financial statements of the Town of Palm Beach Shores, for the year ended September 30, 2006, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control. While our purpose was not to provide an opinion on internal control, certain matters came to our attention that we want to report to you. We do not wish to imply that they cover every possible weakness or strength. Nevertheless, we do think they deserve your careful evaluation. The status of these comments will be reviewed during the next audit engagement. We have already discussed these comments with the Town's management and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

PRIOR YEAR COMMENTS

Segregation of Duties

There is insufficient segregation of duties in the accounting department. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Management's Response:

The small size of the Town staff limits the options we have to segregate duties. However, we believe that the checks and balances in place restrict the opportunity for fraud to occur.

CURRENT YEAR COMMENTS

Oversight Unit and Component Units

The Town of Palm Beach Shores, Florida is a municipal corporation organized pursuant to Chapter 31276, Laws of Florida 1955. 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 related to the Town.

Consideration of Financial Emergency Criteria

As required by the Rules of the Auditor General, our audit included a review of whether or not the Town has met one or more of the conditions described in Section 218.503(1), Florida Statutes. The results of our procedures did not disclose that the Town of Palm Beach Shores has met any of the conditions described in Section 218.503(1) during the year ended September 30, 2006.

Financial Condition Assessment Procedures

As required by Rules of the Auditor General Section 10.554(1)(h)6.c, we applied financial condition assessment procedures for the Town of Palm Beach Shores. It is management's responsibility to monitor the Town's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The results of our procedures did not disclose any matters that are required to be reported.

Annual Financial Report

In connection with our audit, we reviewed the Annual Financial Report of Units of Local Government filed by the Town of Palm Beach Shores with the Florida Department of Banking and Finance pursuant to Section 218.32(1)(a), Florida Statutes, for the year ended

September 30, 2006. We noted that the amounts reported in the Annual Financial Report were in substantial agreement with the annual financial audit report for the year ended September 30, 2006.

Investment of Public Funds

As required by the Rules of the Auditor General, our audit included a review of the Town's compliance with Section 218.415, Florida Statutes. The results of our procedures did not disclose any instances of noncompliance with Section 218.415 Florida Statutes by the Town of Palm Beach Shores for the year ended September 30, 2006. However, our audit does not provide a legal determination on the Town's compliance with this requirement.

Excess of Expenditures Over Appropriations

As indicated in Note 2 to the Budgetary Required Supplementary Information for the year ended September 30, 2006, there were no departments that had expenditures in excess of appropriations.

Other Current Year Comments

The rules of the Auditor General require disclosure in the management letter of the following matters if not already addressed in the auditor's report on internal control over financial reporting and on compliance and other matters: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures; (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor. Our audit as of and for the year ended September 30, 2006 did not disclose any such items that are required to be reported under Chapter 10.554(1)(h), Rules of the Auditor General and are not already addressed in our management letter.

We appreciate the courtesy and cooperation shown us by your officials and employees.

If you have any questions or wish to discuss these comments further, we would be pleased to meet with you at your convenience.

This report is intended solely for the information and use of the Town, management, and grant awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

Nowlen, Holt, & Miner, P.A.

January 12, 2007