

TOWN OF PALM BEACH SHORES
FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT THEREON
ANNUAL AUDIT FOR THE YEAR ENDED
SEPTEMBER 30, 2007

TOWN OF PALM BEACH SHORES
SEPTEMBER 30, 2007

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	19-42
Required Supplemental Information Other Than MD&A	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	43
Notes to the Budgetary Required Supplementary Information – General Fund	44
Schedule of Funding Progress	45
Schedule of Employer Contributions	46
Notes to Trend Data	47
Other Supplemental Information	
Schedule of Departmental Revenues Budget to Actual – General Fund	48
Schedule of Departmental Expenditures Budget to Actual – General Fund	49-50
Combining Statement of Plan Net Assets – All Pension Trust Funds	51
Combining Statement of Changes in Plan Net Assets – All Pension Trust Funds	52
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>	53-54
Management Letter	55-58



NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

EVERETT B. NOWLEN (1930-1984), CPA
EDWARD T. HOLT, CPA
WILLIAM B. MINER, CPA
ROBERT W. HENDRIX, JR., CPA
JANET R. BARCEVICHI, CPA

KATHLEEN A. MINER, CPA
ROBERT W. HELMREICH, CPA
TERRY L. MORTON, JR., CPA
N. RONALD BENNETT, CPA
J. MICHAEL STEVENS, CPA
DANIEL A. KIRCHMAN, CPA
ALEXIA G. VARGA, CPA
BRIAN J. BRESCIA, PFS, CPA
DONALD D. RINZEL, CPA

INDEPENDENT AUDITOR'S REPORT

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

BELLE GLADE OFFICE
333 S. E. 2nd STREET
POST OFFICE BOX 338
BELLE GLADE, FLORIDA 33430-0338
TELEPHONE (561) 996-5612
FAX (561) 996-6248

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, 2007, 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 the 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, 2007, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principals.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2008, 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 and the required supplementary information on pages 43-47, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 & Mimer, P.A.

West Palm Beach, Florida
June 10, 2008

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, 2007. 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, 2007:

- The Town's net assets increased by \$986,746 from the prior year. The Town's total assets exceeded its liabilities at September 30, 2007 by \$5,805,269 (net assets). Of this amount, \$1,188,675 (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 \$5,086,469, an increase of 4.5% over the prior year. The expenses for governmental activities were \$3,539,723, an increase of 4% over the prior year.
- The General Fund unreserved fund balance at September 30, 2007 was \$949,019 or 25% of total general fund expenditures, excluding major capital projects. 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 as 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 48-50.

The Town has four new governmental funds: Public Buildings Impact Fund, Parks and Recreation Impact Fund, Fire Impact Fund, and Police Impact Fund. They are capital projects funds used to account for impact fees. The funds must be spent on specific types of capital expenditures. These are non-major funds.

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 \$5,805,269 as of September 30, 2007.

Net Assets			
(In thousands of dollars)			
	Governmental Activities		
	2007	2006	Increase (Decrease)
Assets:			
Current and other assets	\$ 2,475	\$ 2,922	\$ (447)
Capital assets	5,847	4,144	1,703
Total assets	\$ 8,322	\$ 7,066	\$ 1,256
Liabilities:			
Long-term debt outstanding	\$ 1,345	\$ 1,536	\$ (191)
Other liabilities	1,172	712	460
Total liabilities	\$ 2,517	\$ 2,248	\$ 269
Net Assets:			
Invested in capital assets, net of related debt	\$ 4,616	\$ 2,701	\$ 1,915
Restricted	1		1
Unrestricted	1,188	2,117	(929)
Total net assets	\$ 5,805	\$ 4,818	\$ 987

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 \$986,746. Key elements of this increase are as follows:

Changes in Net Assets			
(In thousands of dollars)			
Governmental Activities			
	2007	2006	Increase (Decrease)
Revenues:			
Program revenue:			
Charges for services	\$ 182	\$ 467	\$ (285)
Grants and contributions	417	773	(356)
General revenues:			
Property taxes	3,854	3,048	806
Utility taxes	287	246	41
Intergovernmental	187	210	(23)
Investment earnings	151	111	40
Miscellaneous	8	12	(4)
Total revenue	\$ 5,086	\$4,867	\$ 219
Expenses:			
Program expenses:			
General government	\$ 695	635	\$ 60
Public safety	2,239	2,216	23
Physical environment	349	298	51
Culture and recreation	210	211	(1)
Interest on long-term debt	46	53	(7)
Total expenses	3,539	3,413	126
Special Item:			
Pension termination	(560)		(560)
Increase in net assets	987	1,454	(467)
Net assets – October 1	4,818	3,364	1,454
Net assets – September 30	\$ 5,805	\$ 4,818	\$ 987

Property taxes are the main source of revenues and represent approximately 76 percent of the revenue for governmental activities. Property taxes increased by approximately \$806,000 as the result of increased property value. The millage rate was lowered to 6.25 mills. Contributions decreased by approximately \$536,000 which approximates the contributions received last year to fund the Community Center. Grants increased because of the Inlet Park funding. Building permits decreased by approximately \$294,000 due to less large construction projects in Town.

Expenses for Public Safety represent approximately 63 percent of Governmental activity expenses. Public Safety includes Police, Fire Rescue, Emergency Medical Services, Emergency Disaster, and Fire and Building Inspection. Public Safety expenses remained relatively consistent.

The Town Commission voted to terminate the existing pension plans effective September 30, 2007. Town employees will participate in the Florida Retirement System (FRS) effective October 1, 2007. In order to terminate the pension plans, additional funding estimated at \$560,000 will be required. The cost savings of participation in FRS is expected to offset the termination costs within the first few years.

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, 2007, the Town's governmental funds reported ending fund balances of \$1.1 million, a decrease of \$997,000 in comparison with the prior year. The reason for this decrease was twofold: first, the estimated cost of pension termination (\$560,000) and second, the construction of the new Community Center which broke ground in the fall of 2005 and will be completed in the fall of 2007. Approximately 88% of ending fund balances (\$949,019) constitutes unreserved fund balance, which is available for spending at the government's discretion. The Town Commission has designated portions of the unreserved fund balance for certain future projects. \$107,415 is designated for the construction of the community center. The Town Commission has begun to set aside funds for larger future projects: underground utilities (\$250,000) and roads (\$70,000). 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 42). 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, 2007 amounted to \$5.8 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 \$1.7 million 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 (\$1.47 million). The Community Center is scheduled to be complete by the end of 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 last year in the amount of \$557,000.
- The Town spent \$319,000 in the current year on the Inlet Park. The Inlet Park project consists of rejuvenation of the park facilities at the inlet. This project was 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 was completed over the summer. The Florida Recreation Development Assistance Program grant was not received within 60 days of year end; therefore, its revenue will be deferred until next year.
- An Automobile License Plate Reading camera was purchased and installed for the Police Department (\$51,000). The sophisticated system enables the Police to see each license plate that enters Town past the camera. A second camera is planned for next budget year.
- The Town purchased two new Police vehicles for approximately \$47,000.
- The used generator that was purchased last year was installed and set up at the Ocean Avenue lift station (\$26,000).
- Several improvements were made to the Town Hall during the year. The main office space was renovated and updated (\$14,000). Storm panels were purchased for the Town Hall building (\$5,000).

- A new recording device was purchased for the 911 system (\$16,000).
- 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		
	2007	2006	Increase (Decrease)
Land	\$ 101	\$ 101	\$ 0
Buildings and improvements	654	633	21
Parks and beach improvements	782	351	431
Equipment	462	336	126
Vehicles	727	680	47
Streets and sewers	3,371	3,371	0
Construction in progress	2,254	873	1,381
Total capital assets	8,351	6,345	2,006
Less accumulated depreciation	(2,503)	(2,201)	302
Total	\$ 5,848	\$ 4,144	\$ 1,704

Additional information on the Town's capital assets can be found in Note 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, 2007.

Outstanding Debt
(In thousands of dollars)

	Governmental Activities		Increase (Decrease)
	2007	2006	
Note payable	\$ 1,150	\$1,321	\$ (171)
Capital leases	82	122	(40)
Compensated absences	113	95	18
Total	\$ 1,345	\$ 1,538	\$ (193)

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

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

The Town's 2008 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. Last year the Town's property tax millage rate was 6.2500. For the fiscal year 2008, the millage rate was reduced to 5.742 mills. This tax reduction meets all of the State imposed requirements.

The assessed taxable value of the Town decreased by 1% and will generate approximately \$455,000 less in tax revenue coupled with the reduced millage. Even with the changes in property taxes, revenues will be sufficient to cover the expenditures in the fiscal year 2008 budget. The budget continues to give 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, 2007

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,783,625
Investments	145,813
Receivables (net)	
Accounts	11,659
Special assessments	123,300
Due from other governments	280,189
Prepaid items	123,645
Inventories	6,240
Capital assets	
Non-depreciable	2,354,949
Depreciable (net of depreciation)	<u>3,492,674</u>
Total assets	<u><u>\$ 8,322,094</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	\$ 458,567
Contracts payable	105,439
Accrued payroll	22,627
Accrued interest	12,826
Pension payable	560,000
Deferred revenue	12,189
Non-current liabilities	
Due within one year	244,381
Due in more than one year	<u>1,100,796</u>
Total liabilities	<u>2,516,825</u>
Net Assets	
Invested in capital assets, net of related debt	4,615,649
Restricted for capital improvements	945
Unrestricted	<u>1,188,675</u>
Total net assets	<u>5,805,269</u>
Total liabilities and net assets	<u><u>\$ 8,322,094</u></u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Statement of Activities
For the Fiscal Year Ended September 30, 2007

Function / Program Activities	Program Revenues				Total Governmental Activities
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 695,532	\$ 6,521	\$ 21,479	\$	\$ (667,532)
Public safety	2,239,135	143,022	52,695		(2,043,418)
Physical environment	349,026	25,137			(323,889)
Culture recreation	210,122	6,960		342,500	139,338
Interest on long term debt	45,908				(45,908)
Total governmental activities	3,539,723	181,640	74,174	342,500	(2,941,409)
General revenues					
Property taxes					3,853,792
Utility taxes and franchise fees					287,447
Intergovernmental					187,446
Investment earnings					151,050
Miscellaneous					8,420
Total general revenues					4,488,155
Special item					
Pension termination					(560,000)
Change in net assets					986,746
Net assets, beginning of year					4,818,523
Net assets, end of year					\$ 5,805,269

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Balance Sheet
Governmental Funds
September 30, 2007

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,783,625	\$	\$ 1,783,625
Investments	145,813		145,813
Receivables (net)			
Accounts	11,659		11,659
Special assesments	123,300		123,300
Due from other governments	280,189		280,189
Due from other funds		945	945
Prepaid items	123,645		123,645
Inventories	6,240		6,240
	<u>\$ 2,474,471</u>	<u>\$ 945</u>	<u>\$ 2,475,416</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 458,567		\$ 458,567
Contracts payable	105,439		105,439
Accrued payroll	22,627		22,627
Pension payable	560,000		560,000
Due to other funds	945		945
Deferred revenue	247,989		247,989
	<u>1,395,567</u>	<u></u>	<u>1,395,567</u>
Fund balances			
Reserved for:			
Prepaid items	123,645		123,645
Inventories	6,240		6,240
Capital improvements		945	945
Unreserved:			
Designated for underground utilities	250,000		250,000
Designated for community center	107,415		107,415
Designated for road improvement	70,000		70,000
Designated for connectivity fee	46,009		46,009
Undesignated	475,595		475,595
Total fund balances	<u>1,078,904</u>	<u>945</u>	<u>1,079,849</u>
Total liabilities and fund balances	<u>\$ 2,474,471</u>	<u>\$ 945</u>	<u>\$ 2,475,416</u>

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, 2007

Fund balances total governmental funds \$ 1,079,849

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	\$ 8,350,807	
Less accumulated depreciation	<u>(2,503,184)</u>	5,847,623

Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.

Deferred revenue		235,800
------------------	--	---------

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	(113,203)	
Capital leases payable	(81,783)	
Notes payable	(1,150,191)	
Accrued interest on long-term debt	<u>(12,826)</u>	<u>(1,358,003)</u>

Net assets of governmental activities		<u>\$ 5,805,269</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, 2007

	General	Nonmajor Governmental Fund	Total Governmental Funds
Revenues			
Taxes	\$ 4,141,239	\$	\$ 4,141,239
Special assessments	19,868	937	20,805
Licenses and permits	117,427		117,427
Intergovernmental	470,141		470,141
Fines and forfeitures	25,595		25,595
Charges for services	38,618		38,618
Interest	151,042	8	151,050
Contributions	21,479		21,479
Miscellaneous	7,483		7,483
Total revenues	<u>4,992,892</u>	<u>945</u>	<u>4,993,837</u>
Expenditures			
Current			
General government	670,709		670,709
Public safety	2,122,277		2,122,277
Physical environment	179,771		179,771
Culture and recreation	192,278		192,278
Debt service			
Principal	251,202		251,202
Interest	48,733		48,733
Capital outlay	2,005,582		2,005,582
Total expenditures	<u>5,470,552</u>		<u>5,470,552</u>
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	<u>(477,660)</u>	<u>945</u>	<u>(476,715)</u>
Other financing sources (uses)			
Debt proceeds	40,646		40,646
Total other financing sources (uses)	<u>40,646</u>		<u>40,646</u>
Special item			
Pension termination	<u>(560,000)</u>		<u>(560,000)</u>
Net change in fund balances	(997,014)	945	(996,069)
Fund balances, beginning of year	<u>2,075,918</u>		<u>2,075,918</u>
Fund balances, end of year	<u>\$ 1,078,904</u>	<u>\$ 945</u>	<u>\$ 1,079,849</u>

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, 2007

Net change in fund balances - total governmental funds \$ (996,069)

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	\$ 2,005,582	
Less: current year depreciation	<u>(301,725)</u>	1,703,857

Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.

Grant revenues not collected in current year	112,500	
Special assessment revenues collected in current year	<u>(19,868)</u>	92,632

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	(40,646)	
Principal payments on debt	<u>251,202</u>	210,556

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

Prepaid pension costs		(8,540)
-----------------------	--	---------

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	2,825	
Change in long-term compensated absences	<u>(18,515)</u>	<u>(15,690)</u>

Change in net assets		<u><u>\$ 986,746</u></u>
----------------------	--	--------------------------

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Combined Statement of Plan Net Assets
All Pension Trust Funds
September 30, 2007

Assets	
Investment contract	\$ 2,483,087
Receivables	<u>653,641</u>
Total assets	<u>3,136,728</u>
Liabilities	
Termination liability	<u>3,119,000</u>
Net assets held in trust for pension benefits	<u>\$ 17,728</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, 2007

Additions	
Contributions	
Employer	\$ 929,600
Plan members	8,204
Total contributions	<u>937,804</u>
Investment income	
Interest	<u>184,413</u>
Net investment income (loss)	<u>184,413</u>
Total additions	<u>1,122,217</u>
Deductions	
Benefits	3,156,300
Administrative expense	63,650
Total deductions	<u>3,219,950</u>
Net increase (decrease)	(2,097,733)
Net assets held in trust for pension benefits	
Beginning of year	<u>2,115,461</u>
End of year	<u><u>\$ 17,728</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, 2007

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, 2007

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, 2007

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.

The Town reports the following non-major governmental funds:

The Town has four new governmental funds: Public Buildings Impact Fund, Parks and Recreation Impact Fund, Fire Impact Fund, and Police Impact Fund. They are capital projects funds used to account for impact fees. The funds must be spent on specific types of capital expenditures.

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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

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

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

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

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.

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, 2007

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.
- Reserved for capital improvements – Funds received as impact fees which are required to be spent on capital improvements.

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, 2007, 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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity (Continued)

- Designated for underground utilities – Designated for expenditures to put utility lines underground.
- Designated for road improvements – Designated for expenditures to replace the Town roads.

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.

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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

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

Budgetary Data (Continued)

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.

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.

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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 3 - CASH AND INVESTMENTS

Deposits

As of September 30, 2007, the carrying amounts of the Town's deposits was \$1,783,525 and the bank balances totaled \$1,854,576. The Town also had cash on hand of \$100 resulting in a total cash carrying amount of \$1,783,625. 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 \$1,854,576 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.

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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2007, 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	\$ 145,813	49 days	N/A
General Retirement Plan – Fixed Income Investments	846,883	N/A	5.72
Police Retirement Plan – Bond and Mortgage Account	407,754	N/A	5.07
Police Retirement Plan – Inflation Protection Account	85,420	N/A	6.30
Police Retirement Plan – High Yield Account	32,522	N/A	4.85
Police Retirement Plan – Preferred Securities Account	27,072	N/A	7.64
Police Retirement Plan – Other Investments	<u>1,083,436</u>	N/A	N/A
Total Investments	<u>\$2,628,900</u>		

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, 2007, the State Investment Pool was not rated. The General and Police Retirement Plan were terminated effective September 30, 2007 therefore credit analysis for the investment plans are not available.

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, 2007

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, 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
Construction in progress	873,476	1,470,413		(89,732)	2,254,157
Capital assets being depreciated:					
Buildings and improvements	632,650	21,835			654,485
Parks and beach improvements	350,967	341,570		89,732	782,269
Equipment	336,326	125,552			461,878
Vehicles	680,484	46,212			726,696
Streets and sewers	<u>3,370,530</u>	<u> </u>	<u> </u>	<u> </u>	<u>3,370,530</u>
Total at historical cost	<u>6,345,225</u>	<u>2,005,582</u>	<u> </u>	<u> </u>	<u>8,350,807</u>
 Less accumulated depreciation for:					
Buildings	205,114	14,778			219,892
Parks and beach improvements	166,649	15,622			182,271
Equipment	182,924	55,604			238,528
Vehicles	439,876	53,582			493,458
Streets and sewers	<u>1,206,896</u>	<u>162,139</u>	<u> </u>	<u> </u>	<u>1,369,035</u>
Total accumulated depreciation	<u>2,201,459</u>	<u>301,725</u>	<u> </u>	<u> </u>	<u>2,503,184</u>
Governmental activities capital assets, net	<u>\$4,143,766</u>	<u>\$1,703,857</u>	<u>\$ </u>	<u>\$ </u>	<u>\$5,847,623</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 4 – CAPITAL ASSETS (Continued)

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

Governmental activities:

General government	\$ 21,529
Police department	58,202
Fire department	34,895
Physical environment-streets and sewers	169,256
Culture and recreation	<u>17,843</u>
Total depreciation expense for governmental activities	<u>\$301,725</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:			
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	201,086	12,100	213,186
2013	<u>207,818</u>	<u>5,275</u>	<u>213,093</u>
	<u>\$1,150,191</u>	<u>\$129,704</u>	<u>\$1,279,895</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

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, 2007 was \$293,011 with related accumulated depreciation of \$162,571.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2007, were as follows:

<u>Year Ending September 30:</u>	
2008	\$ 72,486
2009	<u>14,599</u>
Total minimum lease payments	87,085
Less amount representing interest	<u>(5,302)</u>
Present value of minimum lease payments	<u>\$ 81,783</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>2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2007</u>	Due Within <u>One Year</u>
Note payable	\$1,320,753	\$	\$(170,562)	\$1,150,191	\$176,271
Capital leases	121,777	40,646	(80,640)	81,783	68,110
Compensated absences	<u>94,688</u>	<u>18,515</u>	<u> </u>	<u>113,203</u>	<u> </u>
	<u>\$1,537,218</u>	<u>\$ 59,161</u>	<u>\$(251,202)</u>	<u>\$1,345,177</u>	<u>\$244,381</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

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, 2007, was \$123,300.

NOTE 7 – PENSION PLANS

On August 20, 2007, the Town adopted Ordinance No. O-14-07 terminating the Town’s two defined benefit pension plans effective September 30, 2007 and authorizing Town participation in the Florida Retirement System (FRS) beginning October 1, 2007. The ordinance provides for the distribution of pension plan assets to all active plan participants in accordance with the plan documents and the contract with the plan provider.

Each pension plan actuarially determined the amount to payout the accrued pension benefits earned through September 30, 2007 plus estimated interest through June 1, 2008, the estimated payout date. Although the fair value of plan assets as of September 30, 2007 was not sufficient to cover the estimated accrued pension benefits, the Town will make a contribution to fully fund both pension plans. An estimate of this contribution has been recorded as a liability in the general fund as of September 30, 2007. In the pension trust funds, the same amount is reported as a receivable at September 30, 2007.

	General Employees	Police	Total Pension Trust Funds
Estimated contribution required at plan termination	\$ 196,000	\$ 364,000	\$ 560,000
Estimated pension benefits payable at plan termination	1,087,400	2,031,600	3,119,000

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 7 – PENSION PLANS (Continued)

The Town reports 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.

The Town has delegated the authority to manage Plan assets to the Principal Mutual Life Insurance Company.

The most recent actuarial valuations were done as of October 1, 2006. 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. Because the plan was terminated no more actuarial reports will be provided.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Pension Plans

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

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. 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

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 7 – PENSION PLANS (Continued)

Valuation of Investments (Continued)

the contract that have been allocated and applied to purchase annuities are excluded from the pension plan's assets.

Investments that Represent 5% or More of Plan Net Assets

At September 30, 2007, 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.

	<u>General Employees</u>	<u>Police</u>
Principal Financial Group Investment Contract	<u>\$846,883</u>	<u>\$1,636,204</u>

PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

As of October 1, 2006, the date of the latest actuarial valuation, the pension plan's membership consisted of:

	<u>General Employees</u>	<u>Police</u>
Active employees	9	8
Retirees and beneficiaries currently receiving benefits*	1	0
Terminated employees entitled to benefits but not yet receiving them	<u>10</u>	<u>7</u>
Total	<u>20</u>	<u>15</u>

* Does not include retirees whose benefits have been purchased

General Employees' Pension Plan

Plan Description. 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 limited death benefits to plan members. 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.

All full time general employees who are not sworn police officers or firefighters and have reached the age of 21 shall become members of the system on October 1 following completion of one year of service with at least 1,000 hours. All benefits vest based on subsequent to three

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 7 – PENSION PLANS (Continued)

General Employees' Pension Plan (Continued)

years of vesting service, 30%, plus 10% for each year thereafter, up to 100%; 100% on date the plan member meets requirements for early retirement.

Employees become eligible for normal retirement benefits after attaining the age of 60 and completing 10 years of credited service. The normal retirement benefit consist of monthly annuity guaranteed for 10 years and life thereafter, options available, of 2% of average compensation multiplied by accrual service. Early retirement benefits can be received 10 years prior to normal retirement date and completion of 10 years of plan participation. The benefit is reduced by 6 2/3% for each year up to five and 3 1/3% for each year between 5 and 10 that the early retirement date precedes the normal retirement date.

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 employer contributions.

Police Pension Plan

Plan Description. 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 limited death benefits to plan members. 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.

All full time general employees who are sworn police officers and have reached the age of 21 shall become members of the system on October 1 following completion of one year of service with at least 1,000 hours. All benefits vest based on subsequent to three years of vesting service, 30%, plus 10% for each year thereafter, up to 100%; 100% on the date the plan member meets the requirements for early retirement.

Employees become eligible for normal retirement benefits after attaining the age of 60 and completing 10 years of credited service. The normal retirement benefit consist of monthly annuity guaranteed for 10 years and life thereafter, options available, of 2% of average compensation multiplied by accrual service. Early retirement benefits can be received 10 years prior to normal retirement date and completion of 10 years of plan participation. The benefit is reduced by 6 2/3% for each year up to five and 3 1/3% for each year between 5 and 10 that the early retirement date precedes the normal retirement date.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 7 – PENSION PLANS (Continued)

All Pension Plans

Annual Pension Cost and Net Pension Obligation. The Town's 2007 annual pension cost and actual contributions for each plan are shown below. The required contributions were determined as part of the October 1, 2006 actuarial valuation for each plan.

	<u>Annual Pension Cost</u>	<u>Required Town Contribution</u>	<u>Eligible State Contribution</u>
General Employees Pension Fund	\$102,440	\$101,859	N/A
Police Pension Fund	267,942	267,741	N/A

Components of Annual Pension Cost and Net Pension Obligation

The following schedule was determined as part of the October 1, 2006, actuarial valuation for the General and Police Pension Plans.

	<u>Employees</u>	<u>Police</u>
Annual required contribution	\$101,859	\$267,741
Interest on net pension benefit	(320)	(171)
Adjustment to annual required contribution	<u>901</u>	<u>372</u>
Annual pension cost	102,440	267,942
Contributions made	<u>101,859</u>	<u>267,741</u>
Increase (decrease) in net pension obligation (benefit)	581	201
Net pension obligation (benefit), beginning of year	<u>(6,403)</u>	<u>(2,137)</u>
Net pension obligation (benefit), end of year	<u>\$ (5,822)</u>	<u>\$ (1,936)</u>

Three-Year Trend Information:

	<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)

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 7 – PENSION PLANS (Continued)

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)

The following are the actuarial methods and significant actuarial assumptions:

	General Employees	Police
Valuation date	10/1/2006	10/1/2006
Actuarial Cost Method	Aggregate	Aggregate
Amortized Method	N/A (1)	N/A (1)
Remaining Amortization Period	N/A (1)	N/A (1)
Actuarial Value of Assets	Contract Basis	Contract Basis
Administrative Costs	Administrative and Investment expenses are funded through investment earnings and/or contributions.	Administrative and Investment expenses are funded through investment earnings and/or contributions.

Actuarial Assumption:

Investment rate of return*	5.00%	8%
Projected salary increase*	5.55-9.10%	5.18-8.40%
*Includes inflation at	4%	3.30%

(1) The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 8 – PENSION PLAN FINANCIAL INFORMATION (Continued)

Statement of Fiduciary Net Assets
September 30, 2007

	<u>General Employees</u>	<u>Police Officers</u>	<u>Total Pension Trust Funds</u>
Assets			
Investment contract	\$ 846,883	\$1,636,204	\$2,483,087
Receivables	<u>222,706</u>	<u>430,935</u>	<u>653,641</u>
Total assets	<u>1,069,589</u>	<u>2,067,139</u>	<u>3,136,728</u>
Liabilities			
Benefits payable	<u>1,087,400</u>	<u>2,031,600</u>	<u>3,119,000</u>
Total liabilities	<u>1,087,400</u>	<u>2,031,600</u>	<u>3,119,000</u>
Net assets			
Held in trust for pension benefits	<u>\$ (17,811)</u>	<u>\$ 35,539</u>	<u>\$ 17,728</u>

Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended September 30, 2007

	<u>General Employees</u>	<u>Police Officers</u>	<u>Total Employee Retirement Funds</u>
Additions			
Contributions			
Employer	\$ 297,859	\$ 631,741	\$ 929,600
Plan members	<u>4,422</u>	<u>3,782</u>	<u>8,204</u>
Total contributions	<u>302,281</u>	<u>635,523</u>	<u>937,804</u>
Investment income			
Interest	<u>32,057</u>	<u>152,356</u>	<u>184,413</u>
Net investment income (loss)	<u>32,057</u>	<u>152,356</u>	<u>184,413</u>
Total additions	<u>334,338</u>	<u>787,879</u>	<u>1,122,217</u>
Deductions			
Benefits paid	1,051,483	2,104,817	3,156,300
Administrative expense	<u>41,450</u>	<u>22,200</u>	<u>63,650</u>
Total deductions	<u>1,092,933</u>	<u>2,127,017</u>	<u>3,219,950</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 8 – PENSION PLAN FINANCIAL INFORMATION (Continued)

Net increase (decrease)	(758,595)	(1,339,138)	(2,097,733)
Net asset held in trust for pension benefits			
Beginning of year	<u>740,784</u>	<u>1,374,677</u>	<u>2,115,461</u>
End of year	<u>\$ (17,811)</u>	<u>\$ 35,539</u>	<u>\$ 17,728</u>

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were significant excess expenditures over appropriations in the following accounts.

Police	\$ 64,125
911 dispatch	39,301
Pension termination	560,000

The Town typically makes one budget amendment at year end. A budget amendment was intended to be made for the fiscal year ended September 30, 2007, once the pension termination cost estimate was received. However, once the estimate was received it was determined to be too late to legally amend the budget.

NOTE 10 – COMMITMENTS

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, 2007 totaled \$265,225.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 11 - 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.

NOTE 12 – SPECIAL ITEM

During the year, the Town adopted Ordinance No. O-14-07 terminating the Town's two defined benefit pension plans effective September 30, 2007 and authorizing Town participation in the Florida Retirement System (FRS) beginning October 1, 2007. The fair value of plan assets as of September 30, 2007 was not sufficient to cover the estimated accrued pension benefits, determined by each pension plan actuarially. The Town will make a contribution to fully fund both pension plans. The total estimated contribution required at plan termination is \$560,000. The \$560,000 estimated contribution required at plan termination is reported as a special item, following general revenues, in the government-wide statement of activities.

NOTE 13 – SUBSEQUENT EVENTS

SBA Pool

As discussed in Note 3, on September 30, 2007, the Town had \$145,813 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On November 29, 2007, the State Board of Administration implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the Fund coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub prime mortgage risk. On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A consisted of all money market appropriate assets, which was approximately \$12 billion or 86% of Pool assets. Pool B consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately \$2 billion or 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 13 – SUBSEQUENT EVENTS (Continued)

SBA Pool (Continued)

Currently, Pool A participants may withdraw 50% of their balance or \$8 million, whichever is greater, without penalty. Withdrawals from Pool A in excess of the above limit are subject to a 2% redemption fee. New investments in Pool A are not subject to the redemption fee or withdrawal restrictions. Future withdrawal provisions from Pool A will be subject to further evaluation based on the maturities of existing investments and the liquidity requirements of the Pool. On December 21, 2007, Standard and Poor's Ratings Services assigned its "AAAM" principal stability fund rating to Pool A.

Currently, Pool B participants are prohibited from withdrawing any amount from the Pool and a formal withdrawal policy has not yet been developed. Market valuations of the assets held in Pool B are not readily available. In addition, full realization of the principle value of Pool B assets is not readily determinable.

The Town withdrew \$122,410 on February 11, 2008, and as of May 31, 2008, the Town had \$3,460 and \$11,798 invested in Pool A and Pool B, respectively. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

Property Tax Amendment

On January 29, 2008, the Florida electorate approved an amendment to the Florida Constitution relative to property taxation. This amendment (referred to as Amendment 1) was placed on the ballot by the Florida Legislature at a special session held in October 2007. With respect to homestead property, Amendment 1 increases the current \$25,000 homestead exemption by another \$25,000 (for property values between \$50,000 - \$75,000), except for school district taxes. Since the new \$25,000 homestead exemption does not apply to school district taxes, this effectively amounts to a \$15,000 increase to the existing homestead exemption, resulting in an estimated annual savings of \$240 for an average homeowner. Amendment 1 also allows property owners to transfer (make portable) up to \$500,000 of their Save Our Homes benefits to their next homestead when they move. Save Our Homes became effective in 1995 and limits (caps) the annual increase in assessed value for homestead property to three percent (3%) or the percentage change in the Consumer Price Index, whichever is less.

With respect to non-homestead property, Amendment 1 limits (caps) the annual increase in assessed value for non-homestead property (businesses, industrial property, rental property, second homes, etc.) to ten percent (10%), except for school district taxes. The Amendment also provides a \$25,000 exemption for tangible personal property.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2007

NOTE 13 – SUBSEQUENT EVENTS (Continued)

Property Tax Amendment (Continued)

Amendment 1 becomes effective on October 1, 2008, with the exception of the ten percent (10%) assessment cap on non-homestead property which becomes effective on January 1, 2009.

Based on estimates of taxable value for the 2008 tax roll received from the Palm Beach County Property Appraiser's Office, the estimated loss in taxable property value due to the Amendment 1 limits will be approximately 1.5% of the 2007 taxable value. The estimated loss in tax revenue will depend on the millage rate adopted by the Town Commission in September 2008. If the millage rate remains at 5.742 mills, the millage rate for the 2007/2008 fiscal year, the property taxes will decrease by approximately \$56,000.

Water Management Services

On December 3, 2007 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, 2012. The Town shall pay an estimated fee of \$161,400 for fiscal year 2008, the fee will be adjusted each October 1 by the current Consumer Price Index for the preceding year by a maximum adjustment of 3%.

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, 2007

	General Fund			Variance With Final Budget Positive (Negative)
	Original Adopted Budget	Final Revised Budget	Actual	
Revenues				
Taxes	\$ 4,260,032	\$ 4,260,032	\$ 4,141,239	\$ (118,793)
Special assessments and impact fees	30,000	30,000	19,868	(10,132)
Licenses and permits	219,950	219,950	117,427	(102,523)
Intergovernmental	568,608	568,608	470,141	(98,467)
Fines and forfeitures	14,750	14,750	25,595	10,845
Charges for services	40,550	40,550	38,618	(1,932)
Interest	53,500	53,500	151,042	97,542
Contributions	1,050	1,050	21,479	20,429
Miscellaneous	3,200	3,200	7,483	4,283
Total revenues	<u>5,191,640</u>	<u>5,191,640</u>	<u>4,992,892</u>	<u>(198,748)</u>
Expenditures				
Current				
General government	779,703	779,703	670,709	108,994
Public safety	2,173,805	2,173,805	2,122,277	51,528
Physical environment	246,996	246,996	179,771	67,225
Culture and recreation	212,000	212,000	192,278	19,722
Debt service				
Principal	250,952	250,952	251,202	(250)
Interest	48,733	48,733	48,733	
Capital outlay	2,026,610	2,026,610	2,005,582	21,028
Total expenditures	<u>5,738,799</u>	<u>5,738,799</u>	<u>5,470,552</u>	<u>268,247</u>
Excess (deficiency) of revenues over (under) expenditures	(547,159)	(547,159)	(477,660)	69,499
Other financing sources				
Debt proceeds	42,000	42,000	40,646	(1,354)
Special item				
Pension termination			(560,000)	(560,000)
Net change in fund balance	<u>\$ (505,159)</u>	<u>\$ (505,159)</u>	(997,014)	<u>\$ (491,855)</u>
Fund balance, beginning of year			<u>2,075,918</u>	
Fund balance, end of year			<u>\$ 1,078,904</u>	

TOWN OF PALM BEACH SHORES
Notes to the Budgetary
Required Supplementary Information (RSI)
General Fund
September 30, 2007

Note 1 - Basis of Accounting

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

Note 2 - Stewardship, Compliance, and Accountability

The following are departments that had an excess of expenditures over appropriations.

Finance and administrative	\$ 8,782
Planning	2,404
Police	64,125
911 dispatch	39,301
Emergency medical services - contract	3,151
Emergency - Disaster	1,170
Parks/parkway	12,580
Nondepartmentalized	
Pension termination	560,000

TOWN OF PALM BEACH SHORES, FLORIDA
Required Supplemental Information
September 30, 2007

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>General Employees Retirement Fund</u>						
10/1/2001	351,420	351,420	-	100.00%	201,701	N/A
10/1/2002	252,241	252,241	-	100.00%	242,784	N/A
10/1/2003	335,134	335,134	-	100.00%	380,177	N/A
10/1/2004	458,189	458,189	-	100.00%	405,570	N/A
10/1/2005	600,147	600,147	-	100.00%	387,114	N/A
10/1/2006	740,748	740,748	-	100.00%	285,031	N/A
<u>Fire and Police Retirement Fund (1)</u>						
10/1/2001	884,526	884,526	-	100.00%	333,491	0.00%
10/1/2002	1,004,535	1,004,535	-	100.00%	325,815	0.00%
10/1/2003	693,790	693,790	-	100.00%	393,393	0.00%
10/1/2004	830,011	830,011	-	100.00%	413,467	0.00%
10/1/2005	1,035,750	1,035,750	-	100.00%	516,206	0.00%
10/1/2006	1,354,390	1,354,390	-	100.00%	437,272	0.00%

Fire and Police Retirement Fund (1)

- (1) Because this plan uses the Aggregate Actuarial Cost Method for funding, the Schedule of Funding Process is not required per GASB No. 25. The Schedule is included in this report because the Plan and/or Employer believe the information would be useful to the users of their financial statements.

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>	2002	\$ 63,297	\$ 63,297	100%
	2003	72,232	74,102	103%
	2004	110,931	110,932	100%
	2005	121,708	121,707	100%
	2006	115,633	115,634	100%
	2007	101,859	101,859	100%
	<u>Police</u>	2002	\$ 86,453	\$ 84,724
2003		104,369	86,626	83%
2004		161,492	160,175	99%
2005		184,703	184,703	100%
2006		241,551	241,551	100%
2007		267,741	267,741	100%

TOWN OF PALM BEACH SHORES
Notes to the Trend Data
September 30, 2007

	General Employees Retirement Fund	Police Retirement Fund
Contribution rates as of 9/30/07:		
Town	35.03%	57.69%
Plan Members	1.00%	1.00%
Actuarially Determined Contribution	101,859	267,741
Contributions Made	101,859	267,741
Valuation date	10/1/2006	10/1/2006
Actuarial Cost Method	Aggregate	Aggregate
Amortized Method	N/A (1)	N/A (1)
Remaining Amortization Period	N/A (1)	N/A (1)
Actuarial Value of Assets	Contract Basis	Contract Basis
Administrative Costs	Administrative and Investment expenses are funded through investment earnings and/or contributions.	Administrative and Investment expenses are funded through investment earnings and/or contributions.
Actuarial Assumption:		
Investment rate of return *	5%	8%
Projected salary increase *	5.88-9.10%	5.18-8.40%
*Includes inflation at	4%	3.30%

(1) The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

SUPPLEMENTAL INFORMATION

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Revenues Budget to Actual
General Fund
For the Fiscal Year Ended September 30, 2007

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Taxes			
Ad valorem taxes	\$ 4,011,900	\$ 3,853,792	\$ (158,108)
Franchise fees and utility taxes	248,132	287,447	39,315
Total taxes	<u>4,260,032</u>	<u>4,141,239</u>	<u>(118,793)</u>
Special assessments and impact fees			
Special assessments	30,000	19,868	(10,132)
Total special assessments and impact fees	<u>30,000</u>	<u>19,868</u>	<u>(10,132)</u>
Licenses and permits			
Special permits	6,000	5,510	(490)
Occupational licenses	12,950	14,133	1,183
Building permits	200,000	94,360	(105,640)
Development fees	1,000	3,424	2,424
Total licenses and permits	<u>219,950</u>	<u>117,427</u>	<u>(102,523)</u>
Intergovernmental revenues			
Half-cent sales tax	110,467	102,382	(8,085)
Local option gas tax	45,310	41,839	(3,471)
State revenue sharing	34,220	30,174	(4,046)
Alcoholic beverage licenses	6,900	3,995	(2,905)
County occupational licences	9,000	8,966	(34)
Grants	282,711	202,695	(80,016)
County interlocal agreement	80,000	80,000	
Other intergovernmental revenues		90	90
Total intergovernmental revenues	<u>568,608</u>	<u>470,141</u>	<u>(98,467)</u>
Fines and forfeitures			
Fines and forfeitures	14,500	25,190	10,690
Police education	250	405	155
Total fines and forfeitures	<u>14,750</u>	<u>25,595</u>	<u>10,845</u>
Charges for services			
Sewer service	30,000	25,137	(4,863)
Beach parking	8,000	6,960	(1,040)
Miscellaneous services	2,550	6,521	3,971
Total charges for services	<u>40,550</u>	<u>38,618</u>	<u>(1,932)</u>
Interest	53,500	151,042	97,542
Miscellaneous			
Contributions from private sources	1,050	21,479	20,429
Other	3,200	7,483	4,283
Total miscellaneous	<u>4,250</u>	<u>28,962</u>	<u>24,712</u>
Total revenues	<u>5,191,640</u>	<u>4,992,892</u>	<u>(198,748)</u>
Other financing sources			
Proceeds from notes payable and capital leases	42,000	40,646	(1,354)
Total revenues and other financing sources	<u>\$ 5,233,640</u>	<u>\$ 5,033,538</u>	<u>\$ (200,102)</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Expenditures Budget to Actual
Fiscal General Fund
For the Year Ended September 30, 2007

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures			
General Government			
Legislative			
Operating expenses	\$ 11,780	\$ 10,774	\$ 1,006
Finance and administrative			
Personal services	324,483	325,387	(904)
Operating expenses	88,472	96,875	(8,403)
Capital outlay	21,300	20,775	525
Total finance and administrative	<u>434,255</u>	<u>443,037</u>	<u>(8,782)</u>
Legal counsel	101,000	91,767	9,233
Planning	13,300	15,704	(2,404)
Public works			
Personal services	133,618	49,268	84,350
Operating expenses	32,050	80,934	(48,884)
Capital outlay	1,000	1,018	(18)
Total public works	<u>166,668</u>	<u>131,220</u>	<u>35,448</u>
Contingencies	75,000		75,000
Total general government	<u>802,003</u>	<u>692,502</u>	<u>109,501</u>
Public safety			
Police			
Personal services	1,113,902	1,126,696	(12,794)
Operating expenses	150,200	140,838	9,362
Capital outlay	68,500	128,834	(60,334)
Debt service	42,131	42,490	(359)
Total police	<u>1,374,733</u>	<u>1,438,858</u>	<u>(64,125)</u>
911 dispatch			
Personal services	342,728	370,270	(27,542)
Operating expenses	10,975	6,771	4,204
Capital outlay		15,963	(15,963)
Total 911 dispatch	<u>353,703</u>	<u>393,004</u>	<u>(39,301)</u>
Fire			
Personal services	63,889	62,768	1,121
Operating expenses	159,416	120,865	38,551
Capital outlay	2,500	3,306	(806)
Debt service	43,946	43,946	
Total fire	<u>269,751</u>	<u>230,885</u>	<u>38,866</u>
Emergency medical services - contract	180,250	183,401	(3,151)
Emergency - Disaster			
Operating expenses		1,170	(1,170)
Total emergency - Disaster		<u>1,170</u>	<u>(1,170)</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Expenditures Budget to Actual
General Fund
For the Fiscal Year Ended September 30, 2007

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Public safety (continued)			
Community policing			
Personal services	\$ 2,368	\$ 933	\$ 1,435
Operating expenses	9,366	8,548	818
Total community policing	<u>11,734</u>	<u>9,481</u>	<u>2,253</u>
Building Department			
Personal services	33,495	68,982	(35,487)
Operating expenses	107,216	31,035	76,181
Total building department	<u>140,711</u>	<u>100,017</u>	<u>40,694</u>
Total public safety	<u>2,330,882</u>	<u>2,356,816</u>	<u>(25,934)</u>
Physical environment			
Garbage/solid waste disposal	75,221	75,206	15
Lift station sewer service			
Operating	13,475	14,010	(535)
Capital outlay	40,000	25,720	14,280
Total lift station sewer service	<u>53,475</u>	<u>39,730</u>	<u>13,745</u>
Streets/storm sewers			
Operating	158,300	90,555	67,745
Capital outlay			
Total streets/storm sewers	<u>158,300</u>	<u>90,555</u>	<u>67,745</u>
Total physical environment	<u>286,996</u>	<u>205,491</u>	<u>81,505</u>
Cultural/recreation			
Parks/parkway			
Operating expenses	111,650	100,159	11,491
Capital outlay	317,500	341,571	(24,071)
Total parks/parkway	<u>429,150</u>	<u>441,730</u>	<u>(12,580)</u>
Beach facilities			
Personal services	73,085	72,869	216
Operating expenses	27,265	19,250	8,015
Capital outlay	1,575,810	1,468,395	107,415
Total beach facilities	<u>1,676,160</u>	<u>1,560,514</u>	<u>115,646</u>
Total cultural/recreation	<u>2,105,310</u>	<u>2,002,244</u>	<u>103,066</u>
Nondepartmentalized			
Pension termination		560,000	(560,000)
Debt Service	213,608	213,499	109
Total nondepartmentalized	<u>213,608</u>	<u>773,499</u>	<u>(559,891)</u>
Total expenditures	<u>\$ 5,738,799</u>	<u>\$ 6,030,552</u>	<u>\$ (291,753)</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Combining Statement of Plan Net Assets
All Pension Trust Funds
September 30, 2007

	<u>General Employees</u>	<u>Police</u>	<u>Total</u>
Assets			
Investment contract	\$ 846,883	\$1,636,204	\$2,483,087
Receivables	222,706	430,935	653,641
Total assets	<u>1,069,589</u>	<u>2,067,139</u>	<u>3,136,728</u>
Liabilities			
Termination liability	<u>1,087,400</u>	<u>2,031,600</u>	<u>3,119,000</u>
Net assets held in trust for pension benefits (1)	<u>\$ (17,811)</u>	<u>\$ 35,539</u>	<u>\$ 17,728</u>

(1) A schedule of funding progress for each plan is presented on page 45.

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, 2007

	<u>General Employees</u>	<u>Police</u>	<u>Total</u>
Additions			
Contributions			
Employer	\$ 297,859	\$ 631,741	\$ 929,600
Plan members	4,422	3,782	8,204
Total contributions	<u>302,281</u>	<u>635,523</u>	<u>937,804</u>
Investment income			
Interest	32,057	152,356	184,413
Net investment income (loss)	<u>32,057</u>	<u>152,356</u>	<u>184,413</u>
Total additions	<u>334,338</u>	<u>787,879</u>	<u>1,122,217</u>
Deductions			
Benefits	1,051,483	2,104,817	3,156,300
Administrative expense	41,450	22,200	63,650
Total deductions	<u>1,092,933</u>	<u>2,127,017</u>	<u>3,219,950</u>
Net increase (decrease)	(758,595)	(1,339,138)	(2,097,733)
Net assets held in trust for pension benefits			
Beginning of year	<u>740,784</u>	<u>1,374,677</u>	<u>2,115,461</u>
End of year	<u>\$ (17,811)</u>	<u>\$ 35,539</u>	<u>\$ 17,728</u>

OTHER REPORTS



NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

EVERETT B. NOWLEN (1930-1984), CPA
EDWARD T. HOLT, CPA
WILLIAM B. MINER, CPA
ROBERT W. HENDRIX, JR., CPA
JANET R. BARICEVICH, CPA

KATHLEEN A. MINER, CPA
ROBERT W. HELMREICH, CPA
TERRY L. MORTON, JR., CPA
N. RONALD BENNETT, CPA
J. MICHAEL STEVENS, CPA
DANIEL A. KIRCHMAN, CPA
ALEXIA G. VARGA, CPA
BRIAN J. BRESCIA, PFS, CPA
DONALD D. RINZEL, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

BELLE GLADE OFFICE
333 S. E. 2nd STREET
POST OFFICE BOX 338
BELLE GLADE, FLORIDA 33430-0338
TELEPHONE (561) 996-5612
FAX (561) 996-6248

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 (the "Town") as of and for the year ended September 30, 2007, and have issued our report thereon dated June 10, 2008. 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's, internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting. The Town's response to the finding identified in our audit is also 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.

Management 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

The Town's response to the finding identified in our audit is described above. We did not audit Town's response and, accordingly, we express no opinion on it.

Compliance and Other Matters

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

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 June 10, 2008.

This report is intended solely for the information and use of the governing board, management, federal awarding agencies, state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Nowlen, Holt & Miner, P.A.

West Palm Beach, Florida
June 10, 2008



NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

EVERETT B. NOWLEN (1930-1984), CPA
EDWARD T. HOLT, CPA
WILLIAM B. MINER, CPA
ROBERT W. HENDRIX, JR., CPA
JANET R. BARICEVICH, CPA

KATHLEEN A. MINER, CPA
ROBERT W. HELMREICH, CPA
TERRY L. MORTON, JR., CPA
N. RONALD BENNETT, CPA
J. MICHAEL STEVENS, CPA
DANIEL A. KIRCHMAN, CPA
ALEXIA G. VARGA, CPA
BRIAN J. BRESCIA, PFS, CPA
DONALD D. RINZEL, CPA

MANAGEMENT LETTER

BELLE GLADE OFFICE
333 S. E. 2nd STREET
POST OFFICE BOX 338
BELLE GLADE, FLORIDA 33430-0338
TELEPHONE (561) 996-5612
FAX (561) 996-6248

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, 2007, and have issued our report thereon dated June 10, 2008.

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 June 10, 2008, 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, 2007, 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

Excess of Expenditures Over Appropriations

As indicated in Note 2 to the Budgetary Required Supplementary Information for the year ended September 30, 2007, there were departments that had expenditures in excess of appropriations contrary to Section 166.241(2) Florida Statutes.

Management's Response:

The Town typically makes one budget amendment at year end. A budget amendment was intended to be made for the fiscal year ended September 30, 2007, once the pension termination cost estimate was received. However, once the estimate was received it was determined to be too late to legally amend the budget. The Commission had approved all of the expenditures, but the formal amendment was never made.

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, 2007.

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, 2007. 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, 2007.

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, 2007. However, our audit does not provide a legal determination on the Town's compliance with this requirement.

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, 2007 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.

The Town's responses to the findings identified in our audit are described above. We did not audit Town's responses and, accordingly, we express no opinion on them.

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.

West Palm Beach, Florida
June 10, 2008