

Town of Palm Beach, Florida
Comprehensive Annual Financial Report
Fiscal Year Ended September 30, 2012



COMPREHENSIVE ANNUAL FINANCIAL REPORT
TOWN OF PALM BEACH, FLORIDA
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012



Prepared by the Finance Department

Jane Struder, CPA
Finance Director

TOWN OF PALM BEACH, FLORIDA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 SEPTEMBER 30, 2012

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TOWN OF PALM BEACH

Finance Department

March 13, 2013

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

The Comprehensive Annual Financial Report for the Town of Palm Beach's fiscal year ended September 30, 2012, is hereby submitted pursuant to Florida Statute 11.45. This document is the official comprehensive publication of the Town's financial position at September 30, 2012. This report was prepared by the Town's Finance Department. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Town. To the best of our knowledge and belief, the enclosed data are accurate in all material respects. They are reported in a manner designed to present fairly the financial position and results of operations on a government-wide and fund level. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

Nowlen, Holt and Miner, P.A., independent auditors, have issued an unqualified opinion on the Town of Palm Beach's financial statements for the fiscal year ended September 30, 2012. The independent auditors' report is located at the front of the financial section of this report.

The Town's financial statements have been prepared using the reporting model in accordance with Governmental Accounting Standard Board (GASB) Statement no. 34, Basic Financial Statements – and Management's Discussion and Analysis (MD&A). The MD&A immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

THE TOWN OF PALM BEACH

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

The Town of Palm Beach services a full-time resident population of 8,358 plus an estimated 15,000 additional seasonal residents (November to May), as well as numerous visitors and other individuals who are employed on the island.

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The Town is governed by an elected Mayor and a five-member Council. The Mayor's term is for two years. The five members of the Town Council are elected at large and serve overlapping two-year terms. The Town operates under the Council-Manager form of government. The Town Council appoints the Town Manager who serves as the Town's Chief Administrative Officer and is responsible for implementing the policies established by the Town Council. The Town has 363 employees, including 71 sworn police officers and 71.5 full-time firefighters.

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

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

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

THE REPORTING ENTITY

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

ECONOMIC CONDITIONS AND OUTLOOK

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

The recent recession has had an impact on Palm Beach. Property values have declined from the FY2009 peak of \$13,684,919,443. The Town's taxable value for FY12 decreased by .46% to \$11,655,340,63,7 which caused the Town to reduce tax revenue by \$246,300 to maintain the same millage rate as FY09, FY10 and FY11. In FY13, taxable value increase by 2.69% suggesting that the property values were finally improving. Foreclosure activity has severely impacted Florida. The impact to the Town is significantly less than the Florida or national average.

Per capita personal income for the Town of Palm Beach is \$130,891, which is well above the state and national average. In 2010, Moody's and Standard and Poor's affirmed the Town's "AAA" ratings. The Town's conservative financial policies and strong management of its financial resources were recognized.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

For the Year

During fiscal year 2012 the following accomplishments occurred:

- § Work began on design and construction of projects associated with the accelerated capital improvement program. These projects include pump station improvement, force main replacement, sanitary gravity main replacement, and street lighting and traffic signal improvements.
- § The Town modified the pension plan for all employees. The current plan was frozen as of April 1, 2012 and a new hybrid pension plan was implemented. The new plan, covering general employees, lifeguards, police officers and firefighters consists of a reduced defined benefit plan and a defined contribution plan. The three retirement boards were merged into one Employee's Retirement Board. The new plan resulted in significant savings for the Town taxpayers.
- § A total of 4.68 positions were eliminated from the budget with no lay-offs, bringing the total reduction in personnel since FY07 to 52.58. The FY12 budget was \$5,199,412 less than the FY11 budget. The millage rate remained constant at 3.2512.

For the Future

Work will continue to implement the accelerated capital improvement program. The completion of the construction of a large force main replacement project and a pump station rehabilitation project is occurring at the beginning of FY13.

Two neighborhoods are working with the Town to bury their overhead utility lines. Other neighborhoods are in the planning stages to bury their overhead utility lines. The full cost will be borne by the citizens in each applicable neighborhood and will be paid through a special non ad valorem assessment pursuant to the provisions of Florida Statute 197.3632. We expect additional neighborhoods to voluntarily participate in the program.

The FY13 budget reflected an increase of 2% from the FY12 budget. The majority of the increase was due to an increase in the second year cost of the pension system. The increase had been forecasted by the actuaries. The increase was \$239,698 over the long term financial plan estimate due to the decisions to "grandfather" all pension-eligible employees and to decrease the defined benefit plan contributions for some general employees. FTE personnel decreased an additional 8.71 from the FY12 budget, bringing the total decrease since FY07 to 61.29. This is the lowest staffing level since 1986.

Due to the increase in property values for FY13, property tax revenue increased by \$866,200 while maintaining the millage rate at 3.2512, (the same as was adopted in FY09, FY10, FY11 and FY12). Building permit activity increased during FY12 and is expected to continue to increase during FY13.

Financial Policies

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions in FY11. In addition, the Town has formally adopted other financial policies including reserve policies, contingency policies, budgetary control, debt management, and a revenue shortfall plan. The establishment of specific reserve policies is an important part of prudent financial management. Reserve policies reduce ambiguity and guide the creation, maintenance and use of resources for financial stabilization purposes. The Town maintains a minimum level of unassigned fund balance of 25% of general fund operating expenditures. This provides the Town with 90 days of working capital in the event of an emergency. The ending unassigned fund balance of \$21,424,261 as of September 30, 2012, is \$6,496,441 over the required minimum.

Long Term Financial Planning

Since FY2004, Town staff has prepared a Long Term Financial Plan that encompassed a 5 year period. In FY2009, the Town prepared an update of the long term financial plan that encompassed a 10 year time horizon. This plan showed deficits beginning in FY12 through FY20. During the next three years, efforts were made to trim expenses wherever possible. An updated plan was presented in 2012, showing improvement based upon salary and benefit changes, pension reform, debt restructuring, and other cost savings measures. Through attrition, a total of 61.29 positions have been cut from the budget through FY13. Over the 10 year horizon, surpluses are shown through FY17 and small manageable deficits begin in FY18. In the long term plan presented in FY09, the deficit in FY20 had been predicted to be over \$20 million. After the implementation of the cost cutting measures and, even with the reduction in property tax revenue in FY12, the updated forecasted deficit for FY20 was reduced to \$1.2 million. The FY13 update will be presented on April 9, 2013. Copies of the Long Term Financial Plan can be found on the Town's website.

Other Information

Independent Audit: State Statutes require an annual audit by independent certified public accountants. The accounting firm of Nowlen, Holt & Miner, P.A., performed this audit for fiscal year 2012. The auditor's report is included in the financial section of this report.

Awards: The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Palm Beach for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2011. This was the 24th consecutive year the Town has received this prestigious award.

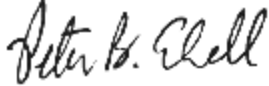
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The contents must conform to program standards. Such reports must satisfy both U.S. generally accepted accounting principles and applicable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

The Town also received the GFOA Award for Distinguished Budget Presentation for the Town's budget for the fiscal year ended September 30, 2012.

Acknowledgements: The preparation of the Comprehensive Annual Financial Report was made possible by the efficient and dedicated services of the entire staff of the Finance Department. Each member of the department has our genuine appreciation for the contributions made in the preparation of this report. In addition, we acknowledge the efforts of our independent auditors, Nowlen, Holt & Miner, P.A. for their professional work and assistance in producing this report.

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

Respectfully submitted,



Peter B. Elwell
Town Manager



Jane Struder, CPA
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Palm Beach
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

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



Christopher P. Mouill

President

Jeffrey R. Enen

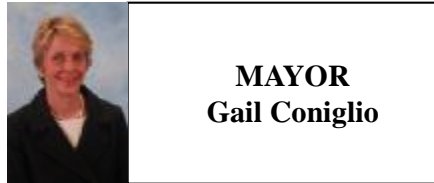
Executive Director



TOWN OF PALM BEACH ORGANIZATIONAL STRUCTURE

CITIZENS OF PALM BEACH

ELECT



TOWN COUNCIL



APPOINTS





NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Palm Beach, Florida as of and for the year ended September 30, 2012, 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, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Palm Beach Retirement System - Police Officers and the Town of Palm Beach Retirement System - Firefighters, two fiduciary funds of the Town of Palm Beach, which together represent 47 percent, 47 percent, and 39 percent, respectively of the assets, fund balance/net assets, and additions/revenue of the aggregate remaining fund information of the Town of Palm Beach, Florida. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Palm Beach Retirement System - Police Officers and the Town of Palm Beach Retirement System - Firefighters, is based on the report of other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Palm Beach, Florida as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2013, on our consideration of the Town of Palm Beach, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, the budgetary comparison information on pages 89 through 93, the schedule of funding progress - pension plans on page 94, the schedule of contributions from employer - Town of Palm Beach Retirement System - General Employees on page 95, and the schedule of funding progress - other postemployment benefits on page 96 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Nowlen, Holt & Mimer, P.A.

West Palm Beach, Florida
March 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Palm Beach, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Town of Palm Beach for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-v of this report.

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

Financial Highlights

1. The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$183,067,588 (net assets). Of this amount, \$67,001,417 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.
2. At the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$69,701,821, a decrease of \$10,314,762 in comparison with the prior year. Approximately 30% of the total amount is available for spending at the Town's discretion (unassigned fund balance).
3. At the end of the current fiscal year unassigned fund balance is \$20,968,592.
4. The Town's total government-wide revenue was \$65,393,145, while total expenses were \$62,269,711.
5. Governmental Activities generated \$60,977,628 in revenue (excluding transfers) with \$58,687,484 in expenses.
6. Business-type Activities generated \$4,415,517 in revenue (excluding transfers) with \$3,582,227 in expenses.
7. The Town's long-term debt decreased by \$3,315,924 during the current fiscal year.

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all of the Town of Palm Beach's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

The Town's government-wide financial statements are presented on pages 14-16 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Palm Beach, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Palm Beach can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and *governmental activities*.

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

The governmental fund financial statements can be found on pages 17-20 of this report.

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

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

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Recreation Enterprise Fund (enterprise fund) and the internal service funds, which are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the combining financial statements elsewhere in this report.

The proprietary fund financial statements can be found on pages 21-24 of this report.

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

The Town's fiduciary fund financial statements are presented on pages 25-26.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 27-88 of this report.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information containing a comparison between the Town's adopted budget and actual financial results for the general fund. The required supplementary information can be found on pages 89-96 of this report.

Combining financial statements referred to earlier in connection with nonmajor governmental funds, internal service funds and fiduciary funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 97-117 of this report.

Debt service requirements are detailed on pages 118-121 of this reports.

Government-wide Financial Analysis

Net assets. On the following page, is a summary of the fiscal year 2012 Statement of Net Assets found on page 14 and comparative information for fiscal year 2011.

Town of Palm Beach, Florida
Net Assets
September 30, 2012 and 2011

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
ASSETS						
Current and other assets	\$127,954,538	\$138,589,699	\$ 4,588,243	\$ 4,175,324	\$132,542,781	\$142,765,023
Capital assets, net	<u>121,024,851</u>	<u>112,591,243</u>	<u>16,029,772</u>	<u>16,521,594</u>	<u>137,054,623</u>	<u>129,112,837</u>
Total assets	<u>248,979,389</u>	<u>251,180,942</u>	<u>20,618,015</u>	<u>20,696,918</u>	<u>269,597,404</u>	<u>271,877,860</u>
LIABILITIES						
Current liabilities	10,512,250	12,302,404	756,692	717,419	11,268,942	13,019,823
Long-term liabilities	<u>75,130,693</u>	<u>78,756,474</u>	<u>130,181</u>	<u>157,409</u>	<u>75,260,874</u>	<u>78,913,883</u>
Total liabilities	<u>85,642,943</u>	<u>91,058,878</u>	<u>886,873</u>	<u>874,828</u>	<u>86,529,816</u>	<u>91,933,706</u>
NET ASSETS						
Invested in capital assets, net of related debt	76,021,164	80,099,513	16,029,772	16,521,594	92,050,936	96,621,107
Restricted	24,015,235	40,290,335			24,015,235	40,290,335
Unrestricted	<u>63,300,047</u>	<u>39,732,216</u>	<u>3,701,370</u>	<u>3,300,496</u>	<u>67,001,417</u>	<u>43,032,712</u>
Total net assets	<u>\$163,336,446</u>	<u>\$160,122,064</u>	<u>\$19,731,142</u>	<u>\$ 19,822,090</u>	<u>\$183,067,588</u>	<u>\$179,944,154</u>

Net assets may serve over time as a useful indicator of a government's financial position. At September 30, 2012, the Town's assets exceeded liabilities by \$183,067,588. Net assets increased by \$3,123,434 as a result of a \$3,214,382 increase in governmental activities and a decrease of \$90,948 in business-type activities. Unrestricted net assets, the portion of net assets that can be used to finance the day-to-day operations of the Town, totaled \$67,001,417.

Net assets invested in capital assets (e.g., land, buildings, improvements other than buildings, equipment infrastructure and construction in progress) less any related debt used to acquire those assets that is still outstanding and any unspent bond proceeds total \$92,050,936. The Town of Palm Beach uses those capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Palm Beach's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Change in Net Assets: The table on the following page is a summary of the changes in net assets for the year ended September 30, 2012, as compared to September 30, 2011:

Town of Palm Beach, Florida
Changes in Net Assets
For the Fiscal Years Ended September 30, 2012 and 2011

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue						
Program revenue:						
Charges for services	\$12,312,379	\$ 11,712,276	\$ 4,383,799	\$ 4,308,462	\$16,696,178	\$ 16,020,738
Operating grants and contributions	250,864	224,429			250,864	224,429
Capital grants and contributions	766,606	4,020,155	3,000		769,606	4,020,155
General revenue:						
Property taxes	36,662,916	36,635,343			36,662,916	36,635,343
Local option gas tax	301,240	301,900			301,240	301,900
Franchise fees	2,040,443	2,204,718			2,040,443	2,204,718
Utility service taxes	4,954,671	4,847,146			4,954,671	4,847,146
Business tax receipts	669,095	694,373			669,095	694,373
Intergovernmental	838,885	937,865			838,855	937,865
Investment earnings	660,689	940,069	28,718	27,311	689,407	967,380
Miscellaneous	1,025,368	2,054,027			1,025,368	2,054,027
Insurance Recoveries	494,502				494,502	
Total revenue	60,977,658	64,572,301	4,415,517	4,335,773	65,393,145	68,908,074
Expenses						
General government	10,569,463	11,580,425			10,569,463	11,580,425
Public safety	24,321,116	29,833,142			24,321,116	29,833,142
Physical environment	17,471,774	23,071,088			17,471,774	23,071,088
Transportation	1,427,144	1,459,738			1,427,144	1,459,738
Economic environment	331,806	2,369,146			331,806	2,369,146
Culture and recreation	1,488,135	1,642,346			1,488,135	1,642,346
Interest on long-term debt	3,078,046	3,163,237			3,078,046	3,163,237
Recreation						
Enterprise			3,582,227	3,661,337	3,582,227	3,661,337
Total expenses	58,687,484	73,119,122	3,582,227	3,661,337	62,269,711	76,780,459
Increase in Net Assets						
Before Transfers	2,290,144	(8,546,821)	833,290	674,436	3,123,434	(7,872,385)
Transfers	924,238	764,338	(924,238)	(764,338)		
Increase in net assets	3,214,382	(7,782,483)	(90,948)	(89,902)	3,123,434	(7,872,385)
Net assets at beginning of year						
	160,122,064	167,904,547	19,822,090	19,911,992	179,944,154	187,816,539
Net assets at end of year						
	\$163,336,446	\$160,122,064	\$19,731,142	\$ 19,822,090	\$183,067,588	\$179,944,154

The Town's combined net assets increased by \$3,123,434 or 1.7% during 2012. This increase can be attributed to governmental activities that increased \$3,214,382 net against a decrease of \$90,948 for the business-type activities. The increase in net assets of the governmental activities is attributable to a decrease in expenses for coastal protection projects in governmental operations and a decline in personnel expenses related to staffing reductions and a reduction in pension costs related to the implementation of pension reform measures.

Financial Analysis

Governmental funds. The fund financial statements for the governmental funds are provided on pages 17-20. The focus of the Town of Palm Beach's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town of Palm Beach's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the Town of Palm Beach's governmental funds reported combined ending fund balances of \$69,701,821, which decreased by \$10,314,762 from September 30, 2011. This decrease was primarily due to expenditures related to the accelerated capital improvement projects and debt service payments.

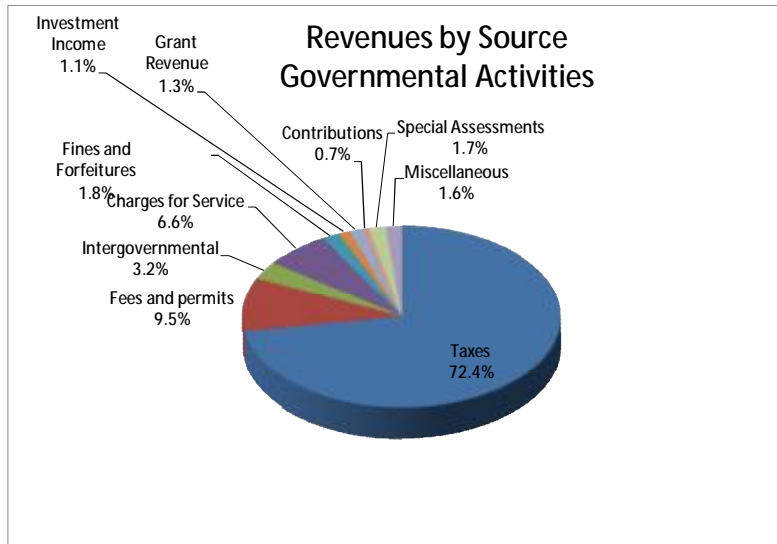
The following schedule presents a summary of all governmental fund revenue for the fiscal year ended September 30, 2012, and the amount and percentage of increases and decreases in relation to prior year revenues:

	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2011</u>	<u>Percent Increase (Decrease)</u>
Revenue				
Taxes	\$ 44,647,327	72.5%	\$ (81,662)	(0.2)%
Fees and permits	5,880,327	9.5	131,320	2.3%
Intergovernmental	1,967,946	3.2	67,617	3.6%
Charges for services	4,081,261	6.6	619,493	17.9%
Fines and forfeitures	1,106,676	1.8	(203,049)	(15.5)%
Investment income	704,692	1.1	(33,004)	(4.5)%
Grant revenue	771,909	1.3	(2,906,336)	(79.0)%
Contributions	459,050	0.7	236,404	106.2%
Special Assessments	1,068,133	1.7	78,319	7.9%
Miscellaneous	<u>1,011,340</u>	<u>1.6</u>	<u>158,476</u>	18.6%
Total Revenue	<u>\$ 61,698,661</u>	<u>100.0%</u>	<u>\$ (1,932,422)</u>	(3.0)%

The most significant changes in revenue are described below:

- § Property taxes decreased resulting from a decrease in the taxable value and maintaining the same millage rate.
- § License and permit revenue increased due to improvements in building permit activity.
- § Intergovernmental revenue increased due to an EMS Grant received in FY12 from Palm Beach County.
- § Charges for services increased due to increases in police special assignment usage and an increase in solid waste collection fees.
- § Fine and forfeiture income increased due to additional code enforcement fine revenue and increases in parking ticket fines.
- § Investment income decreased due to the depressed interest rate environment.

- § Grant revenue decreased due to funding received in FY11 from FEMA grants related to tropical storm Fay and a grant received for a mobile firefighter training tower.
- § Contributions to the Town increased in FY12.
- § Miscellaneous revenue increased due to an insurance settlement received during the year.



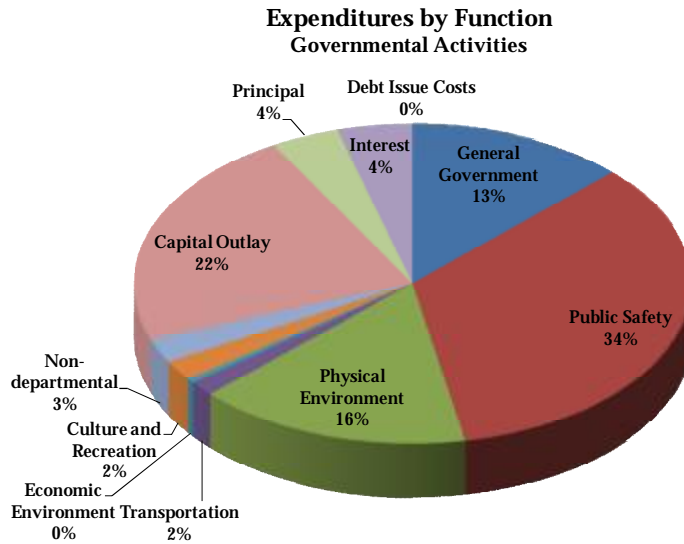
The following schedule presents a summary of all governmental funds expenditures for the fiscal year ended September 30, 2012, and the percentage of increases and decreases in relation to prior year amounts:

	<u>Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2011</u>	<u>Percent Increase (Decrease)</u>
Expenditures				
Current:				
General government	9,328,868	12.7%	\$ (137,623)	(1.5)%
Public safety	25,095,341	34.1	(5,415,949)	(17.8)%
Physical environment	11,676,641	15.9	(5,604,769)	(32.4)%
Transportation	1,099,438	1.5	(212,018)	(16.2)%
Economic Environment	331,806	0.5	(2,037,340)	(86.0)%
Culture and recreation	1,508,402	2.1	(133,681)	(8.1)%
Non-departmental	1,804,439	2.5	(100,959)	(5.3)%
Capital Outlay	16,389,104	22.4	11,726,896	251.5%
Debt Service:				
Principal	2,885,619	3.9	1,512,781	110.2%
Interest	3,190,196	4.4	(70,496)	(2.2)%
Debt issue costs	<u>0</u>	<u>0.0</u>	<u>(27,341)</u>	<u>(100.0)%</u>
Total Expenditures	<u>\$ 73,309,854</u>	<u>100.0%</u>	<u>\$ (500,499)</u>	<u>(0.7)%</u>

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

- § General government expenditures decreased due to reductions in personnel and employee benefits and other cost saving measures.
- § Public safety expenditures decreased due to the decreases in personnel and employee benefit expenditures.
- § Physical environment costs decreased due to expenditures for beach restoration that occurred in FY11 and decreases in personnel and employee benefit expenditures.
- § Transportation expenditures decreased due to a reduction in street repair projects from FY11.

- § Culture and recreation expenditures decreased due to reductions in personnel and employee benefit costs.
- § Non-departmental expenditures represent the transfer to the Internal Service Insurance Funds, these expenditures decreased due to savings in personnel and employee benefit costs.
- § Capital outlay increased due to the expenditures related to the accelerated capital improvement program projects completed during FY12.
- § Debt service payments decreased due to lower annual debt service payments for the year.



General Fund. The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$21,424,261, while the total fund balance was \$28,223,130. The total fund balance of the General Fund increased by \$3,268,320 due, in part, to personnel and benefit cuts made during the year. As a measure of the General Fund's liquidity, it is useful to compare unassigned fund balance to total General Fund expenditures. Unassigned fund balance represents 37% of total General Fund expenditures including transfers out.

The restricted fund balance of the Accelerated Capital Fund was \$22,943,683. The fund was established in FY10 as a result of the 2010 Revenue Bond issue. The fund balance decreased due to the expenditure of funds for capital projects.

The assigned fund balance of the Beach Restoration Fund is \$11,325,762. These funds will be used for future coastal protection projects.

Other governmental funds which include debt service, special revenue and capital funds had fund balances totaling \$7,209,246.

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

Unrestricted net assets of the Recreation Enterprise Fund were \$3,697,167 at September 30, 2012. Net assets for this fund decreased \$109,870. Revenues from the marina operations were less than anticipated.

General Fund Budgetary Highlights

The annual General Fund budget is adopted after two public hearings and approval of the Town Council. Any amendments that would exceed the original budget at the fund level would require a formal budget

amendment requiring an ordinance and two readings by the Town Council. The General Fund appropriation was amended by ordinance during the year. The FY2012 budget was also increased by the amount of commitments (unpaid purchase orders) from the prior year. Funds were transferred from an appropriated General Fund contingency account to program accounts in the budget to provide for unanticipated expenditures in accordance with specific Town Council authorizations.

Actual revenues, excluding transfers, were 2.9% more than the final budget due to higher than anticipated ad valorem, building permit, public safety, code enforcement, and license revenue. In addition, the Town received a large insurance reimbursement. Actual expenditures were 6.1% less than the final budget due to reductions in personnel, employee benefits other cost containment measures implemented in FY12.

Capital Assets and Debt Administration

Capital Assets

Capital assets are those assets (capital assets and infrastructure) that are used in the performance of the Town's functions. As of September 30, 2012, net capital assets of governmental activities totaled \$121,024,851 and the net capital assets of the business-type activities totaled \$16,029,772 (both net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure and construction in progress.

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

**Town of Palm Beach
Capital Assets
September 30, 2012 and 2011**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$9,946,951	\$ 9,946,951	\$ 5,623,777	\$ 5,623,777	\$15,570,728	\$ 15,570,728
Construction in Progress	17,246,406	5,789,231			17,246,406	5,789,231
Buildings	28,529,959	29,485,989	2,396,869	2,461,184	30,926,828	31,947,173
Improvements other than buildings	3,912,276	4,227,126	7,788,580	8,193,138	11,700,856	12,420,264
Equipment	8,641,681	9,061,370	220,546	243,495	8,862,227	9,304,865
Infrastructure	52,576,997	53,880,330			52,576,997	53,880,330
Intangible assets- Facilities rights of use	170,581	200,246			170,581	200,246
	<u>\$121,024,851</u>	<u>\$112,591,243</u>	<u>\$ 16,029,772</u>	<u>\$ 16,521,594</u>	<u>\$137,054,623</u>	<u>\$ 129,112,837</u>

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

- § Completed North Lake Way and Tangier Avenue Infrastructure Improvements (drainage lines, water mains, gravity, sanitary sewer and curbing).
- § Completed North Lake Way and Laurian Lane Infrastructure Improvements (storm sewer, drainage structures, gutter/curbing, sanitary sewer lines).

- § The Town is continuing to work with the City of West Palm Beach to upgrade water mains throughout the Town that fall either within Town planned projects or stand-alone West Palm Beach Projects.
- § Completed the Subaqueous Force Main Crossing project that replaced an existing force main crossing the Intracoastal Waterway from Bradley Park to Providencia Park in West Palm Beach.
- § Started construction of the Mid-Town Beach Restrooms.
- § Completed Pendleton Avenue and Pendleton Lane utility and roadway improvements
- § Started work on the A-39 to A-7 Force Main replacement project.
- § Started work on the S-2 Inline Booster Station to replace the existing wetwell and submersible pump station.
- § Continued work on the D-15 (D-6 & D-7) Pump Station Rehabilitation that will consolidate stormwater infrastructure in the Lakeside Park area.
- § Substantially completed the Street Lighting Improvement Project that replaced existing street lights with decorative street lights at various locations throughout the Town.
- § Town Council requested that the Shore Protection Board's 10-Year forecast be independently peer reviewed by the Woods Hole Group, with recommendations to be provided to the Town Council in March 2013.

Debt Administration

As of September 30, 2012, the Town had \$67,765,000 par value in revenue bonds outstanding representing a 3.9% decrease due to debt service payments made during 2012 and an extraordinary mandatory redemption of the 2010B bonds in the amount of \$1,485,000. The debt outstanding as of the end of the fiscal year was secured by various revenue sources.

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

**Town of Palm Beach
Outstanding Debt
September 30, 2012 and 2011**

	2012	2011
Revenue Bonds – Par Value	\$ 67,765,000	\$ 70,540,000
Loan Payable	0	540,924
Total	\$ 67,765,000	\$ 71,080,924

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

Economic Factors and Next Year's Budgets and Rates

For FY2013, the Town Council adopted a General Fund budget, including transfers out, of \$59,711,280 representing a 2.0% increase from FY2012. The FY2013 budget includes an increase in property tax revenue of \$866,200 and an anticipated increase in building permit revenue of \$467,500 due to improved building activity. Pension costs increased by \$1,035,548. These costs had been anticipated to increase based upon the actuaries forecast for the second year after the pension reform measures were implemented. The taxable value increased by 2.69% in FY2013 and the Town's millage rate remained constant at 3.2512.

General economic conditions both nationally and in the State of Florida will require the Town to closely monitor revenue and expenditure trends. The Town has annually prepared a Long Term Financial Plan. To reduce projected deficits, staff has reviewed pension benefits, health insurance benefits, compensation program for all Town employees, and reductions in staffing. Pension reform measures were adopted during FY12 that have saved over \$5 million per year in pension costs.

Requests for Information

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

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

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF NET ASSETS

September 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 53,193	\$ 2,300	\$ 55,493
Equity in pooled cash and investments	102,733,364	4,503,028	107,236,392
Accounts receivable, net	1,028,440	10,034	1,038,474
Interest receivable	149,752		149,752
Due from other governments	1,098,198	58,202	1,156,400
Internal balances	(2,928)	2,928	
Inventory	518,358		518,358
Prepays	35,078	11,751	46,829
Net OPEB asset	14,761,811		14,761,811
Debt issue costs	640,421		640,421
Investment in joint venture	6,865,285		6,865,285
Equity in pooled cash and investments - restricted	73,566		73,566
Capital assets			
Land	9,946,951	5,623,777	15,570,728
Construction in progress	17,246,406		17,246,406
Capital assets being depreciated and amortized, net	93,831,494	10,405,995	104,237,489
Total assets	<u>248,979,389</u>	<u>20,618,015</u>	<u>269,597,404</u>
LIABILITIES			
Accounts and contracts payable	4,371,992	117,520	4,489,512
Accrued liabilities	3,586,356	40,576	3,626,932
Accrued interest payable	780,730		780,730
Restricted payable	73,566		73,566
Due to other governments	239,781	35,160	274,941
Deposits	357,172	200,159	557,331
Unearned revenue	1,102,653	363,277	1,465,930
Long-term debt			
Due within one year	1,946,763	53,904	2,000,667
Due in more than one year	73,183,930	76,277	73,260,207
Total Liabilities	<u>85,642,943</u>	<u>886,873</u>	<u>86,529,816</u>
NET ASSETS			
Invested in capital assets, net of related debt	76,021,164	16,029,772	92,050,936
Restricted for:			
Debt service	294,150		294,150
Public safety	49,807		49,807
Capital projects	23,196,850		23,196,850
Other purposes	474,428		474,428
Unrestricted	63,300,047	3,701,370	67,001,417
Total net assets	<u>\$ 163,336,446</u>	<u>\$ 19,731,142</u>	<u>\$ 183,067,588</u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF ACTIVITIES

Year Ended September 30, 2012

Functions / Programs	Expenses	Program Revenue		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Government activities				
General government	\$ 10,569,463	\$ 6,024,307	\$ 96,850	\$ 239,000
Public safety	24,321,116	3,107,463	148,133	304,651
Physical environment	17,471,774	1,260,317	5,000	35,321
Transportation	1,427,144	1,920,292		
Economic environment	331,806			
Culture and recreation	1,488,135		881	187,634
Interest on long-term debt	3,078,046			
Total governmental activities	58,687,484	12,312,379	250,864	766,606
Business-type activities				
Leisure services	3,582,227	4,383,799		3,000
Total	\$ 62,269,711	\$ 16,696,178	\$ 250,864	\$ 769,606

General Revenue

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

Transfers

Total general revenue and transfers

Change in net assets

Net assets - beginning of year

Net assets - end of year

Net Revenue (Expense) and
Changes in Net Assets

Governmental Activities	Business-type Activity	Total
\$ (4,209,306)	\$	\$ (4,209,306)
(20,760,869)		(20,760,869)
(16,171,136)		(16,171,136)
493,148		493,148
(331,806)		(331,806)
(1,299,620)		(1,299,620)
(3,078,046)		(3,078,046)
(45,357,635)		(45,357,635)
	804,572	804,572
(45,357,635)	804,572	(44,553,063)
36,662,916		36,662,916
301,240		301,240
2,040,443		2,040,443
4,954,671		4,954,671
669,095		669,095
838,855		838,855
660,689	28,718	689,407
1,025,368		1,025,368
494,502		494,502
924,238	(924,238)	
48,572,017	(895,520)	47,676,497
3,214,382	(90,948)	3,123,434
160,122,064	19,822,090	179,944,154
<u>\$ 163,336,446</u>	<u>\$ 19,731,142</u>	<u>\$ 183,067,588</u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2012

	Major Governmental Funds				
	General Fund	Beach Restoration Project Fund	Accelerated Capital Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 3,650	\$	\$	\$	\$ 3,650
Equity in pooled cash and investments	29,626,058	11,453,965	24,422,687	8,185,813	73,688,523
Accounts receivable, net	1,014,385			14,055	1,028,440
Interest receivable	7,407	59,158	52,899	5,967	125,431
Due from other governments	150,444	27,527	762,620	157,607	1,098,198
Due from other funds	454,435		69,955	5,190	529,580
Inventory	518,358				518,358
Prepaid items	8,788			3,890	12,678
Restricted cash				73,566	73,566
TOTAL ASSETS	\$ 31,783,525	\$ 11,540,650	\$ 25,308,161	\$ 8,446,088	\$ 77,078,424
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts and contracts payable	\$ 1,138,860	\$ 185,977	\$ 2,364,330	\$ 295,447	\$ 3,984,614
Accrued liabilities	931,653				931,653
Restricted payable				73,566	73,566
Due to other governments	212,122	1,384			213,506
Due to other funds			148	528,157	528,305
Deposits	175,107			182,065	357,172
Deferred revenue	1,102,653	27,527		157,607	1,287,787
TOTAL LIABILITIES	3,560,395	214,888	2,364,478	1,236,842	7,376,603
FUND BALANCES					
Non-spendable:					
Inventory	518,358				518,358
Prepays	8,788				8,788
Restricted for:					
Capital projects			22,943,683		22,943,683
Public safety				49,807	49,807
Special projects				474,428	474,428
Debt service				294,150	294,150
Worth avenue				253,167	253,167
Committed to:					
Compensated absences	3,315,135				3,315,135
Assigned to:					
Subsequent year's expenditures	2,956,588				2,956,588
Capital projects				5,623,928	5,623,928
Beach restoration		11,325,762			11,325,762
Town facilities				969,435	969,435
Unassigned	21,424,261			(455,669)	20,968,592
TOTAL FUND BALANCES	28,223,130	11,325,762	22,943,683	7,209,246	69,701,821
TOTAL LIABILITIES AND FUND BALANCES	\$ 31,783,525	\$ 11,540,650	\$ 25,308,161	\$ 8,446,088	\$ 77,078,424

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

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

September 30, 2012

Total Governmental Fund Balances	\$ 69,701,821
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	112,383,170
Revenue is recognized when earned in the government-wide statements regardless of when it is collected. Governmental funds recognize revenue when both measurable and available. Deferred revenue	185,134
Net OPEB asset created through funding of the employer contribution to the defined benefit OPEB plan is not recognized in the funds.	14,761,811
Investment in joint venture is not a financial resource and, therefore is not reported in the funds.	6,865,285
Internal service funds are used by management to charge costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	34,695,610
The internal service funds have operated with cumulative positive income results over the years. The surplus in charges have decreased the fund balances of the total governmental funds reported above. Since internal service funds should operate at a breakeven basis, the cumulative surplus charges are added to the above fund balance.	(4,203)
Debt issue costs are reported as expenditures in governmental funds when debt is issued. These items are deferred and amortized over the life of the related debt in the government-wide statements. Unamortized debt issue costs	640,421
Long-term liabilities, including accrued interest payable, are not due and payable in the current period and, therefore, are not reported in the funds. Revenue bonds payable Bond premiums Bond discounts Deferred loss on refunding Accrued interest payable Compensated absences Accrued landfill closure and postclosure care costs	(67,765,000) (2,636,777) 362,580 521,382 (780,730) (3,315,135) (2,278,923)
Net Assets of Governmental Activities	<u>\$ 163,336,446</u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2012

	Major Governmental Funds				
	General Fund	Beach Restoration Project Fund	Accelerated Capital Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 44,647,327	\$	\$	\$	\$ 44,647,327
Fees and permits	5,880,327				5,880,327
Intergovernmental	1,967,946				1,967,946
Charges for services	4,081,261				4,081,261
Fines and forfeitures	1,106,436			240	1,106,676
Investment earnings	495,312	75,695	81,217	52,468	704,692
Grant revenue	8,073	573,010		190,826	771,909
Contributions				459,050	459,050
Special assessments				1,068,133	1,068,133
Miscellaneous	189,033		762,620	59,687	1,011,340
Total revenues	58,375,715	648,705	843,837	1,830,404	61,698,661
EXPENDITURES					
Current					
General government	9,218,833		13,616	96,419	9,328,868
Public safety	24,972,083			123,258	25,095,341
Physical environment	10,109,435	840,103	220,666	506,437	11,676,641
Transportation	957,104			142,334	1,099,438
Economic environment				331,806	331,806
Culture and recreation	1,503,089			5,313	1,508,402
Non-departmental	1,804,439				1,804,439
Capital outlay	21,551	333,611	15,291,782	742,160	16,389,104
Debt service					
Principal	110,619			2,775,000	2,885,619
Interest and fiscal charges	12,501			3,177,695	3,190,196
Total expenditures	48,709,654	1,173,714	15,526,064	7,900,422	73,309,854
Revenue over (under) expenditures	9,666,061	(525,009)	(14,682,227)	(6,070,018)	(11,611,193)
OTHER FINANCING SOURCES (USES)					
Insurance recoveries	494,502				494,502
Transfers in	800,000	3,960,000		7,014,938	11,774,938
Transfers out	(8,460,000)			(2,513,009)	(10,973,009)
Total other financing sources (uses)	(7,165,498)	3,960,000		4,501,929	1,296,431
Net Change in Fund Balances	2,500,563	3,434,991	(14,682,227)	(1,568,089)	(10,314,762)
Fund balances - beginning of year	25,722,567	7,890,771	37,625,910	8,777,335	80,016,583
Fund balances - end of year	\$ 28,223,130	\$ 11,325,762	\$ 22,943,683	\$ 7,209,246	\$ 69,701,821

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2012

Net change in fund balances - total governmental funds	\$(10,314,762)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives	
Expenditure for capital assets	16,389,102
Less current year depreciation and amortization	(5,946,250)
Net book value of asset disposals	(1,543,907)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds	
Change in investment in joint venture	(282,344)
Governmental funds report revenue when earned and available. However, the government-wide statements recognize revenue when earned, regardless of availability	
Grant revenues	146,022
Intergovernmental revenues	(771,664)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets of governmental activities.	
Repayment of debt principal	2,885,619
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Amortization of bond issue costs	(23,501)
Amortization of loss on refunding	(38,566)
Amortization of bond premiums	149,692
Amortization of bond discounts	(20,343)
Change in accrued interest payable	21,367
Change in compensated absences	306,780
Change in net OPEB asset	(50,189)
Change in accrued landfill closure and postclosure care costs	(86,454)
Internal service funds are used to charge the costs of certain activities certain activities to individual governmental and enterprise funds. The net income of certain activities of internal service funds are reported with governmental activities in the Statement of Activities.	
Transfers	122,309
Consolidation of operating income (loss) related to governmental funds	1,654,434
Nonoperating revenue	617,037
	<hr/>
Change in net assets of governmental activities	<u>\$ 3,214,382</u>

See notes to financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

September 30, 2012

	Business-type Activities - Recreation Enterprise Fund	Governmental Activities - Internal Service Funds
	<u> </u>	<u> </u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,300	\$ 49,543
Equity in pooled cash and investments	4,503,028	29,044,841
Account receivable	10,034	
Interest receivable		24,321
Due from other governments	58,202	
Prepaid expenses	11,751	22,400
	<u>4,585,315</u>	<u>29,141,105</u>
Total current assets		
Noncurrent assets		
Capital assets		
Land	5,623,777	
Buildings	3,182,585	
Improvements other than buildings	11,125,292	
Equipment	563,908	17,912,411
	<u>20,495,562</u>	<u>17,912,411</u>
Less accumulated depreciation	(4,465,790)	(9,270,730)
	<u>16,029,772</u>	<u>8,641,681</u>
	Total capital assets, net of accumulated depreciation	
	<u>16,029,772</u>	<u>8,641,681</u>
	Total assets	
	20,615,087	37,782,786
LIABILITIES		
Current liabilities		
Accounts payable	117,520	387,378
Accrued liabilities	40,576	2,654,703
Due to other governments	35,160	26,275
Due to other funds	1,275	
Compensated absences payable	53,904	1,883
Customer deposits	200,159	
Deferred revenue	363,277	
	<u>811,871</u>	<u>3,070,239</u>
	Total current liabilities	
Noncurrent liability		
Compensated absences payable	76,277	16,937
	<u>888,148</u>	<u>3,087,176</u>
	Total liabilities	
	888,148	3,087,176
NET ASSETS		
Invested in capital assets	16,029,772	8,641,681
Unrestricted	3,697,167	26,053,929
	<u>\$ 19,726,939</u>	<u>\$ 34,695,610</u>
	Total net assets	
	<u>\$ 19,726,939</u>	<u>\$ 34,695,610</u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2012

	Business-type Activities - Recreation Enterprise Fund	Governmental Activities - Internal Service Funds
	<u>Fund</u>	<u>Funds</u>
OPERATING REVENUES		
Golf fees and related revenue	\$ 870,359	\$
Marina fees and related revenue	2,908,865	
Charges for services	586,281	8,134,290
Other operating revenue	18,294	21,523
Total operating revenues	<u>4,383,799</u>	<u>8,155,813</u>
OPERATING EXPENSES		
Personal services	1,670,210	166,884
Contractual services	416,248	35,878
Repairs and maintenance	232,357	
Equipment rental	18,226	
Materials and supplies	229,099	
Utilities	440,034	
Insurance		1,847,921
Claims		4,224,605
Depreciation	523,507	1,422,068
Other	71,468	573,647
Total operating expenses	<u>3,601,149</u>	<u>8,271,003</u>
Operating income	782,650	(115,190)
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	28,718	238,341
Insurance recoveries		301,527
Miscellaneous revenue		3,109
Loss on disposal of capital assets		(114,386)
Total nonoperating revenues (expenses)	<u>28,718</u>	<u>428,591</u>
Income (loss) before capital contributions and transfers	811,368	313,401
Capital contributions	3,000	188,446
Transfers in		167,957
Transfers out	(924,238)	
Change in net assets	(109,870)	669,804
Net assets - beginning of year	<u>19,836,809</u>	<u>32,237,260</u>
Net assets - end of year	<u>\$ 19,726,939</u>	<u>\$ 32,907,064</u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

RECONCILIATION OF THE ENTERPRISE FUND
TO THE BUSINESS-TYPE ACTIVITIES

September 30, 2012

	<u>Net Assets</u>	<u>Changes in Net Assets</u>
Amounts reported for the Recreation Enterprise Fund	\$ 19,726,939	\$ (109,870)
<p>The Town uses internal service funds to charge the costs of risk management, group health insurance, and equipment replacement to individual governmental and enterprise funds. The operating income or loss of certain activities of internal service funds related to the enterprise fund are included with business-type activities in the government-</p> <p>The following reflects the consolidation of internal service fund activities related to the enterprise fund.</p>		
Current year adjustment	18,922	18,922
Cumulative prior year adjustments	<u>(14,719)</u>	<u> </u>
Amounts reported for the Business-Type Activities	<u><u>\$ 19,731,142</u></u>	<u><u>\$ (90,948)</u></u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended September 30, 2012

	Business-type Activities - Recreation Enterprise Fund	Governmental Activities - Internal Service Fund
OPERATING ACTIVITIES		
Receipts from customers and users	\$ 4,382,993	\$
Receipts from interfund services provided		8,134,146
Payments to employees	(1,698,768)	(152,095)
Payments to suppliers	(1,362,470)	(7,010,794)
Payments to other funds		(10,310)
Other receipts	18,294	21,523
Net cash provided by operating activities	<u>1,340,049</u>	<u>982,470</u>
NONCAPITAL FINANCING ACTIVITY		
Transfers to other funds	(924,238)	
Net cash used in noncapital financing activities	(924,238)	
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(28,685)	(1,102,237)
Proceeds from sale of assets		72,676
Capital contributions		150,000
Receipts from other funds		122,309
Insurance recoveries		301,527
Net cash used in capital and related financing activities	<u>(28,685)</u>	<u>(455,725)</u>
INVESTING ACTIVITY		
Investment earnings received	27,655	250,275
Net cash provided (used) by investing activities	<u>27,655</u>	<u>250,275</u>
Net decrease in cash and cash equivalents	414,781	777,020
Cash and cash equivalents - beginning of year	4,090,547	28,317,364
Cash and cash equivalents - end of year	<u>\$ 4,505,328</u>	<u>\$ 29,094,384</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 782,650	\$ 1,673,356
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	523,507	1,422,068
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	16,830	
(Increase) decrease in due from other governments	4,314	
(Increase) decrease in prepaid expenses	559	(15,900)
Increase (decrease) in accounts payable	44,403	(312,843)
Increase (decrease) in accrued liabilities	(1,330)	(1,785,319)
Increase (decrease) in due to other funds	(919)	(144)
Increase (decrease) in customer deposits	(10,152)	
Increase (decrease) in unearned revenue	7,415	
Increase (decrease) in compensated absences payable	(27,228)	1,252
Net cash provided by operating activities	<u>\$ 1,340,049</u>	<u>\$ 982,470</u>
NONCASH ACTIVITIES		
Donated capital asset	\$ 3,000	\$
Insurance claims adjustment		1,788,546
	<u>\$ 3,000</u>	<u>\$ 1,788,546</u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

September 30, 2012

	<u>Trust Funds</u>
ASSETS	
Cash and cash equivalents	\$ 2,480,187
Equity in pooled cash and investments	1,029,077
Interest and dividends receivable	9,867
State contributions receivable	161,013
Due from broker for securities sold	125,834
Other receivables	278,601
Prepaid expenses and other assets	258,643
Investments, at fair value	
U.S. government securities	1,755,811
Corporate bonds and notes	13,436,509
Common stock	22,030,096
Domestic equity funds	46,843,438
International equity funds	28,232,453
Domestic fixed income funds	37,147,409
Inflation hedging funds	10,249,820
Alternative investments	45,538,410
Private equity funds	1,598,599
Share and DROP mutual funds held outside the Plan	2,994,058
Total Assets	<u><u>214,169,825</u></u>
LIABILITIES	
Accounts payable	476,073
Accrued liabilities	8,317
Due to broker for securities purchased	18,944
Deferred retirement option plan payable	274,326
Prepaid town contributions	2,169,324
Share and deferred retirement option plan payable - held outside the Plan	2,994,058
Total liabilities	<u><u>5,941,042</u></u>
NET ASSETS	
Held in trust for pension and retiree health benefits	<u><u>\$ 208,228,783</u></u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

Year Ended September 30, 2012

	<u>Trust Funds</u>
ADDITIONS	
Contributions	
Employer	\$ 4,374,791
Employee	3,108,484
State	830,571
Other	95,383
Total contributions	<u>8,409,229</u>
Investment income (loss)	
Net appreciation in fair value of investments	27,608,083
Interest and dividends	1,540,983
Other	11,121
	<u>29,160,187</u>
Less investment expense	(740,414)
Allocation of investment income:	
Deferred retirement option plan	(19,336)
	<u>(19,336)</u>
Net investment income	28,400,437
Other Income	64,379
Total additions	<u>36,874,045</u>
DEDUCTIONS	
Benefit payments	16,532,796
Share account distributions	8,760
Refunds of participants' contributions	111,362
Administrative expense	578,266
Other	151,905
Total deductions	<u>17,383,089</u>
Net increase	19,490,956
Net assets held in trust for pension and retiree health benefits - beginning of year	<u>188,737,827</u>
NET ASSETS HELD IN TRUST FOR PENSION AND RETIREE HEALTH BENEFITS - END OF YEAR	<u><u>\$ 208,228,783</u></u>

See notes to the financial statements.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Town maintains four trust funds: three pension trust funds and one for other postemployment benefits. Prior to April 1, 2012 separate pension plans were maintained for the general and lifeguard employees, police officers, and firefighters. Effective April 1, 2012, the general employees and lifeguard employees board of trustees, police officer board of trustees, and firefighter board of trustees were eliminated and a new consolidated board of trustees was created. The existing contracts, investment holdings, assets and liabilities of the general employees and lifeguard employees, police officers', and firefighters' retirement plans were transferred and became contracts, investment holdings, assets and liabilities of the new board. In conjunction with the new board consolidation, effective May 1, 2012, a new consolidated plan was established, covering all employees of the Town. The new plan is known as the Town of Palm Beach Retirement System (the "Plan").

The Plan is governed by a nine member board of trustees. The trustees consist of (a) one employee who is a member of the benefit group general or benefit group lifeguard elected by the members of those benefit groups (b) one employee who is a member of the benefit group firefighter elected by the members of that

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

benefit group (c) one employee who is a member of the benefit group police officers elected by the members of that benefit group (d) five residents of the Town who are not officers or employees of the Town, retirees or beneficiaries of the retirement system, appointed by the Town Council and (e) the Town Manager or, in the Town Manager's absence, the Acting Town Manager, who shall serve as a voting ex-officio member.

These trust funds are described as follows:

General Employees' Pension Trust Fund: Prior to May 1, 2012 this fund was used to account for the activities of the Town of Palm Beach General Employees' Retirement System. Since May 1, 2012, this fund has been used to account for the activities of the general employees and lifeguard employees portion of the Town of Palm Beach Retirement System.

Police Officers' Pension Trust Fund: Prior to May 1, 2012 this fund was used to account for the activities of the Town of Palm Beach Police Officers' Retirement System. Since May 1, 2012, this fund has been used to account for the activities of the police officers' portion of the Town of Palm Beach Retirement System.

Firefighters' Pension Trust Fund: Prior to May 1, 2012 this fund was used to account for the activities of the Town of Palm Beach Firefighters' Retirement System. Since May 1, 2012, this fund has been used to account for the activities of the firefighters' portion of the Town of Palm Beach Retirement System.

OPEB Trust Fund: This fund is used to account for the activities of the Town of Palm Beach Other Postemployment Benefits Plan.

The Town participates in the following joint venture:

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

Government-wide Financial Statements: The government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities and report information on all non-fiduciary activities of the Town. These statements include separate columns for the governmental activities, which are normally supported by taxes and intergovernmental revenue, and business-type activities, which rely primarily on fees and charges for support. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and business-type activities, which are presented as internal balances and eliminated in the Total Column. In the Statement of Activities, interfund services provided and used are not eliminated in the process of consolidation, because elimination of such charges would distort the direct costs and program revenues reported for the various functions concerned.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements: The underlying accounting system of the Town is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures or expenses, as appropriate.

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

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

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

The *Beach Restoration Project Fund* accounts for beach improvements, restoration and renourishment through the placement of sand and possible groin fields and environmental mitigation for beach stabilization in all or a portion of the beaches located within the Town.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

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

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

The *Property, Liability and Workers' Compensation Insurance Fund* and the *Group Health Insurance Fund* are used to account for the Town's internal service funds which provide risk management services to other departments of the Town. In addition, the *Equipment Replacement Fund* is used to account for the Town's internal service fund which provides for the accumulation of resources for the procurement and maintenance of major equipment and vehicles.

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

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

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

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenue is recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All franchise fees are based on gross receipts. Agency funds have no measurement focus.

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

Proprietary fund financial statements distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Recreation Enterprise Fund are charges to customers for greens fees, dockage and recreation programs. Operating expenses for the enterprise fund includes the cost of operating and maintaining the golf course and marina, the cost of providing recreation programs, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

Property Tax Calendar: Ad valorem taxes are levied each November 1st based on the assessed property valuations at January 1st as established by the County Property Appraiser. These taxes are payable November 1st, with discounts of one to four percent allowed for payments prior to March 1st of the following calendar year. Ad valorem taxes are due March 31st, and become delinquent and subject to lien on April 1st. Ad valorem taxes are billed and collected by the Palm Beach County Tax Collector and remitted to the Town.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Tax Reform: During 2007, the Florida Legislature passed property tax reform legislation limiting the property tax levies of local governments in the State of Florida. Local governments that adopt a property tax levy in excess of the limit under State law will lose their Half-Cent Sales Tax distribution from the State for the succeeding twelve months. For the fiscal year ending September 30, 2012, the maximum tax levy allowed by a majority vote of the governing body is generally based on a percentage reduction applied to the prior year (2010/2011) property tax revenue.

The State law allows local governments to adopt a higher millage rate based on the following approval of the governing body: 1) a majority vote to adopt a rate equal to the adjusted current year rolled-back millage rate plus an adjustment for growth in per capita Florida personal income; 2) a two-thirds vote to adopt a rate equal to the adjusted current year rolled-back millage rate plus 10%; or 3) any millage rate approved by unanimous vote or referendum. For the fiscal year ending September 30, 2012 the Town adopted a millage rate of 3.2512. This millage rate results in a total tax levy of \$35,999,200 for 2012, representing a decrease of 0.7%, from the property tax levy of 2011. Beginning in 2009, future property tax growth is limited to the annual growth rate of per capita personal income plus the value of new construction.

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

For purposes of the statement of cash flows, cash and cash equivalents also include each respective fund's equity in pooled cash and investments. Each fund is able to withdraw cash at any time without prior notice or penalty and there is sufficient liquidity to meet the daily cash needs of each fund.

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

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

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Capital Assets: The Town has reported all capital assets, including infrastructure assets (roads, sidewalks and similar items), in the government-wide statement of net assets. Capital assets are defined by the Town as assets with an estimated useful life in excess of one year and the capitalization thresholds presented below. Capital assets are recorded at cost or, if donated, fair value at the date of donation. All infrastructure assets are reported in the accompanying government-wide financial statements. Expenses, which materially extend the useful life of existing assets, are capitalized. Certain costs for professional services and interest associated with the acquisition and construction of capital assets have been capitalized. The cost of capital assets sold or retired is removed from the appropriate accounts and any resulting gain or loss is included in the increase in net assets. Depreciation is computed using the straight-line method over the assets' estimated useful lives for all reported capital assets, except land and construction in progress.

The capitalization thresholds and estimated useful lives assigned to the various categories of assets are as follows:

<u>Classification</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Life In Years</u>
Buildings	\$50,000	40
Improvements other than buildings	50,000	25
Infrastructure	50,000	6-50
Computer software	25,000	10
Equipment, furniture and machinery	2,500	2-20
Computer equipment	1,500	3-10

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

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets: Equity in the government-wide statement of net assets utilize a net assets presentation. Net assets are categorized as follows:

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

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

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

Fund Balance: Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance is reported under the following classifications:

Nonspendable fund balance - This component indicates amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. "Not in spendable form" includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than the nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

Restricted fund balance - This component indicates amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. It is the Town's policy to have no restricted fund balance in the General Fund. Restricted amounts will be budgeted and reported in special revenue funds, capital projects funds, or debt service funds.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

Committed fund balance – This component includes amounts that can be used only for specific purposes pursuant to constraints imposed by the Town Council by the adoption of an ordinance, the Town’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Town removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts.

Commitment of fund balance may be made for such purposes including, but not limited to: a) major maintenance and repair projects; b) meeting future obligations resulting from a natural disaster; c) accumulating resources pursuant to stabilization arrangements; d) establishing reserves for disasters; and or e) setting aside amounts for specific projects or purposes.

Assigned fund balance – This component includes amounts intended to be used by the Town for specific purposes, but are neither restricted nor committed. Assignment of fund balance may be a) made for a specific purpose that is narrower than the general purposes of the government itself; and/or b) used to reflect the appropriation of a portion of existing unassigned fund balance to eliminate a projected deficit in the subsequent year’s budget in an amount no greater than the projected excess of expected expenditures over expected revenues. Assignments can be made by formal action of the Town Council.

Assigned fund balance shall reflect management’s intended use of resources as set forth in the annual budget (and any amendments thereto). Assigned fund balance may or may not be appropriated for expenditure in the subsequent year depending on the timing of the project/reserve for which it was assigned.

Unassigned fund balance – This component includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

The Town will maintain a minimum level of unassigned fund balance of 25% of general und operating expenditures. If after the annual audit, prior committed or assigned fund balance causes the unassigned fund balance to fall below 25% of general fund operating expenditures, the Town Manager will so advise the Town Council in order for necessary action to be taken to restore unassigned fund balance to 25% of General Fund operating expenditures.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

The Town Manager will prepare and submit a plan to the Town Council, that may include expenditure reductions, revenue increases, use of non-recurring revenues, budget surpluses and excess resources in other funds to restore fund balance to the minimum level. The Town shall take action necessary to restore the unassigned fund balance to acceptable levels within two years.

Unrestricted fund balance – The total of committed fund balance, assigned fund balance, and unassigned fund balance

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or assigned) amounts are available, it is the Town's policy to reduce the restricted amounts first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Town's policy to reduce committed amounts first, followed by assigned amounts, and then unassigned amounts. The Town will use excess unassigned fund balance first before spending any of the unassigned fund balance below 25 %.

Encumbrances: Budgets in governmental funds are encumbered upon issuance of purchase orders, contracts, or other forms of legal commitments. Appropriations expire at year end, even if encumbered, but it is the Town's policy to re-appropriate such amounts at the beginning of the next fiscal year.

Compensated Absences: The Town accrues accumulated vacation and sick leave time for all permanent, full-time employees, subject to certain limitations. The Town's policy provides that employees shall receive 100% of their accrued vacation and 50% of their accrued sick leave over 320 hours for full-time employees and 160 hours for part-time employees, upon termination of service. Upon retirement, an employee will be paid 50% of all accrued and unused sick leave not to exceed 800 hours for full-time employees and 400 hours for part-time employees. The liability for compensated absences attributable to the Town's governmental funds is recorded in the government-wide financial statements. The amount attributable to the business-type activities is charged to expense with a corresponding liability established in the government-wide financial statements as well as the Enterprise Fund. The Town includes all applicable payroll taxes and benefits in the accrual for compensated absences.

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Recent Accounting Pronouncements: A brief description of new accounting pronouncements that might have a significant impact on the Town's financial statements is presented below.

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for the fiscal year ending September 30, 2013. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 directly incorporates the applicable guidance from FASB and AICPA pronouncements into the state and local government accounting and financial reporting standards, with provisions modified, as appropriate, to recognize the effects of the governmental environment and the needs of governmental financial statement users without affecting the substance of the applicable guidance. This statement is effective for the fiscal year ending September 30, 2013. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement is effective for the fiscal year ending September 30, 2013. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. GASB 66 improves accounting and financial reporting of a governmental reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for the fiscal year ending September 30, 2014. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*. GASB 67 improves financial reporting by state and local governmental pension plans primarily through enhanced note disclosures and schedules of required supplementary information. This Statement is effective for fiscal year ending September 30, 2014. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*. GASB 68 improves financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for the fiscal year ending September 30, 2015. Management is currently evaluating the impact of the adoption of this statement on the Town's financial statements.

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk: Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized. All deposits with financial institutions were entirely covered by a combination of federal depository insurance and a collateral pool pledged to the State Treasurer of Florida by financial institutions which comply with the requirements of Florida Statutes and have been designated as a qualified public depository by the State Treasurer. Qualified public depositories are required to pledge collateral to the State Treasurer with a fair value equal to a percentage of the average daily balance of all government deposits in excess of any federal deposit insurance. In the event of a default by a qualified public depository, all claims for government deposits would be satisfied by the State Treasurer from the proceeds of federal deposit insurance, pledged collateral of the public depository in default and, if necessary, a pro rata assessment to the other qualified public depositories in the collateral pool. The Town’s deposits are considered insured for custodial credit risk purposes. At September 30, 2012, the carrying amount of the Town’s deposits with financial institutions was \$8,810,961 and the bank balance was \$6,848,994, excluding pension trust funds. The Town also had \$4,900 in petty cash.

Equity in Pooled Cash and Investments: The Town maintains a cash and investment pool that is available for use by all funds. Each fund’s portion of this pool is displayed as “Equity in pooled cash and investments.” Investment earnings are allocated to the participating funds based on each fund’s relative percentage of investments.

At September 30, 2012, the Town’s pooled cash and investments consisted of the following:

Description	Weighted Average Maturity	Fair Value
Deposits with financial institutions		\$ 8,760,369
Commercial paper	245 days	20,916,286
Money market mutual fund	53 days	169,766
Money market mutual fund	47 days	14,081,443
U.S. Treasuries	761 days	16,274,983
Federal Agencies	515 days	15,624,972
Florida Municipal Investment Trust		
1-3 Year High Quality Bond Fund	1.67 years	23,034,188
Intermediate High Quality Bond Fund	3.30 years	9,477,028
Total pooled cash and investments		\$108,339,035

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

Investments

Investment Authorization: Florida Statutes and the Town Code authorize the Town to invest in the Florida Municipal Investment Trust; negotiable direct obligations of or obligations unconditionally guaranteed by the U.S. Government; interest-bearing time deposits or savings accounts in financial institutions located in Florida and organized under federal or Florida laws; obligations of the Federal Farm Credit Banks, Freddie Mac, the Federal Home Loan Association; corporate bonds rated B or higher; and any additional investments specifically authorized by the Town Pension Boards for pension funds. Pursuant to the Town Code, the Town Pension Boards have full power and authority to invest and reinvest subject to the general terms, conditions, limitations and restrictions imposed by Florida Statutes on the investments of public employee retirement systems.

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Town and its pension plans require all securities to be held by a third party custodian in the name of the Town. Securities transactions between a broker-dealer and the custodian involving the purchase or sale of securities must be made on a “delivery versus payment” basis to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Investments in open-end mutual funds and external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. Consequently, the Town’s investments in mutual funds, alternative investments, and the Florida Municipal Investment Trust are not exposed to custodial credit risk.

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

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

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the time to maturity, the greater the exposure to interest rate risks. The Town's investment policy minimizes interest rate risk by structuring its investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Operating funds are invested primarily in shorter-term securities, money market mutual funds, or similar investment pools. Generally, investments are limited to instruments maturing within five years of purchase.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. While there was no direct exposure to foreign currency risk in the Town's general operating investments at September 30, 2012, the Town's General Employees' Pension Trust Fund, OPBB Trust Fund, the Police Officers' Retirement Trust Fund, and the Firefighters' Retirement Trust Fund held investments in international equity mutual funds.

The Town's investments in international equity mutual funds as of September 30, 2012 are as follows:

<u>Fund</u>	<u>Fair Value</u>
General Employees' Pension Trust Fund	\$ 6,994,038
OPEB Trust Fund	3,717,001
Police Officers' Pension Trust Fund	8,945,762
Firefighters' Pension Trust Fund	<u>8,575,652</u>
Total international equity mutual funds	<u><u>\$28,232,453</u></u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

General Operating Investments

As a means of limiting its exposure to interest rate risk, the Town diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations of maturities. Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Plan's investments by maturity at September 30, 2012:

Investment	Fair Value	Investment Maturities in Years	
		Less than 1	1 to 5
U.S. Treasuries	\$ 16,274,983	\$ 7,341,622	\$ 8,933,361
Federal agencies	15,624,972	4,710,232	10,914,740
Commercial paper	20,916,286	19,678,165	1,238,121
Money market mutual funds	14,251,209	14,251,209	
Florida Municipal Investment Trust			
1-3 Year High Quality Bond Fund	23,034,188		23,034,188
Intermediate High Quality Bond Fund	9,477,028		9,477,028
Total general operating investments	\$ 99,578,666	\$ 45,981,228	\$ 53,597,438

The Town's investment policy addresses credit risk by limiting investments to the safest types of securities and diversifying the investment portfolio. Credit rating is also an indication of credit risk. The ratings for the general operating investments at September 30, 2012 are summarized below

Investment Type	S&P Rating	Moody's Rating	Fair Value
U.S. Treasuries	AA+	Aaa	\$ 16,274,983
Federal Agencies	AA+	Aaa	15,624,972
Commercial paper	AAA	Aaa	507,335
Commercial paper	AA+	A-1	730,786
Commercial paper	A-1+	P-1	19,678,165
Money market mutual funds	AAAm	Aaa	169,766
Money market mutual funds	AAAm	Not Rated	14,081,443
Florida Municipal Investment Trust			
1-3 Year High Quality Bond Fund	Not Rated	Not Rated	23,034,188
Intermediate High Quality Bond Fund	Not Rated	Not Rated	9,477,028
Total investments			\$ 99,578,666

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

General Operating Investments (Continued)

The Florida Municipal Investment Trust (the “Trust”) is an external investment pool established in 1993 and administered by the Florida League of Cities, Inc. pursuant to the laws of the State of Florida. The Trust is exempt from registration under the Securities Act of 1933, the Investment Company Act of 1940 and the Florida Securities and Investors Protection Act. Participants in the Trust are limited to governmental entities in the State of Florida. The Trust operates four portfolios with differing investment goals. The Town invests in the 1-3 Year High Quality Bond portfolio and the Intermediate High Quality Bond portfolio. These bond portfolios are designed to provide an investment horizon and yield greater than that of money market instruments. As of September 30, 2012, the 1-3 Year High Quality Bond Fund was rated AAA/V2 and the Intermediate High Quality Bond Fund was rated AAA/V3 by Fitch. The Trust has adopted GASB Statement No. 31 and the fair value of the Town’s position in the Trust is the same as the fair value of the Trust shares. Purchases and redemption of shares in the Trust may only be made on or about the end of each month and the Town must maintain an account balance of at least \$50,000.

OPEB Trust Fund Investments

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

As of September 30, 2012, the OPEB Trust Fund had the following investments:

<u>Investment</u>	<u>Fair Value</u>
State Street Government STIF	\$ 164,602
Domestic equity funds	6,183,858
International equity funds	3,717,001
Domestic fixed income funds	5,449,824
Real Asset Funds	928,470
Alternative investments	
Forester Offshore LTD	1,693,617
Archstone Market	2,099,462
Total OPEB investments	<u>\$ 20,236,834</u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

OPEB Trust Fund Investments (Continued)

At September 30, 2012, approximately 19% of the OPEB Trust Fund investments were invested in alternative investments. These alternative investment funds invest primarily in domestic and foreign private equity partnerships and other alternative investment equity funds. The investments in the underlying funds are generally valued at fair value as determined by the management of the fund by reference to the value of the underlying fund's assets, if available, or by the valuations of a fund's underlying assets as provided by the general partner or investment manager, if the assets are not publicly traded. The funds may also hold certain investments which may be valued by a single market maker. While the fund managers use their best judgment in estimating the fair values of underlying funds, there are inherent limitations in any estimation technique. Accordingly, the fair values of alternative investment funds have been estimated by the Town's management and investment advisors in the absence of readily ascertainable market values. Therefore, the values of such funds are not necessarily indicative of the amount that could be realized in a current transaction. The fair values may differ significantly from the values that would have been used had a ready market for the underlying funds existed, and the differences could be material. Future confirming events will also affect the estimates of fair value, and the effect of such events on the estimates of fair value could be material.

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

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

OPEB Trust Fund Investments (Continued)

As a means of limiting its exposure to interest rate risk, the OPEB Trust Fund diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations of maturities. Information about the sensitivity of the fair values of the Trust Fund's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the investments by maturity at September 30, 2012:

Investment	Fair Value	Investment Maturities in Years			
		Less Than 1	1 to 5	6 to 10	More Than 10
State Street Government STIF	\$ 164,602	\$ 164,602	\$	\$	\$
Domestic fixed income funds	5,449,824		2,523,261	2,926,563	
Total fixed income	\$ 5,614,426	\$ 164,602	\$ 2,523,261	\$ 2,926,563	\$

The Trust Fund's investment policy addresses credit risk by limiting investments to the safest types of securities and diversifying the investment portfolio. Credit rating is also an indication of credit risk. As of September 30, 2012, the OPEB Trust Fund investments have not been rated by a nationally recognized statistical rating organization ("NRSRO"). The underlying investments for the Domestic fixed income funds and State Street Government STIF have been rated by S&P and range from a rating a AA to AAA.

Town of Palm Beach Retirement System General Employees' Investments

Investment Authorization: In addition to the Town's investment policy, the General Employees' Retirement System is authorized to invest in domestic and international equity securities, corporate bonds, mutual funds, and investment partnerships and other alternative investments within certain limitations established by the Town Code. The Plan's investment policies provide that no investment manager may purchase an equity or fixed income security in any one issuer that would cause the holding of that one issuer to exceed 5% of the manager's respective equity or fixed income portfolio. In addition, not more than 2% of each investment manager's portfolio shall be invested in the commercial paper of a single issuer or in bank certificates of deposit of a single issuer. Investments in broadly-based index funds, mutual funds, alternative investments, and U.S. Government and Agency securities are excluded from this limitation.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

Town of Palm Beach Retirement System General Employees’ Investments (Continued)

As of September 30, 2012, the General Employees’ Retirement System had the following investments:

Investment	Fair Value
State Street STIF	\$ 641,962
Common stock	11,003,536
Domestic equity funds	25,797,881
International equity funds	6,994,038
Domestic fixed income funds	21,415,919
Alternative investments	
Mesirow absolute return fund	7,001,514
Total investments	\$ 72,854,850

At September 30, 2012, approximately 10% of the General Employees’ Retirement System investments were invested in alternative investments. These alternative investment funds invest primarily in domestic and foreign private equity partnerships and other alternative investment equity funds. The investments in the underlying funds are generally valued at fair value as determined by the management of the fund by reference to the value of the underlying fund’s assets, if available, or by the valuations of a fund’s underlying assets as provided by the general partner or investment manager, if the assets are not publicly traded. The funds may also hold certain investments which may be valued by a single market maker. While the fund managers use their best judgment in estimating the fair values of underlying funds, there are inherent limitations in any estimation technique. Accordingly, the fair values of alternative investment funds have been estimated by the Town’s management and investment advisors in the absence of readily ascertainable market values. Therefore, the values of such funds are not necessarily indicative of the amount that could be realized in a current transaction. The fair values may differ significantly from the values that would have been used had a ready market for the underlying funds existed, and the differences could be material. Future confirming events will also affect the estimates of fair value, and the effect of such events on the estimates of fair value could be material.

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

Town of Palm Retirement System General Employees’ Investments (Continued)

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

As a means of limiting its exposure to interest rate risk, the Plan diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations of maturities. Information about the sensitivity of the fair values of the Plan’s investments to market interest rate fluctuations is provided by the following tables that show the distribution of the Plan’s investments by maturity at September 30, 2012:

Investment Type	Fair Value	Investment Maturities in Years	
		Less than 1	1 to 5
State Street STIF	\$ 641,962	\$ 641,962	\$
Domestic fixed income funds	21,415,919		21,415,919
Total fixed income	\$ 22,057,881	\$ 641,962	\$ 21,415,919

The Plan’s investment policies address credit risk by limiting investments to bonds or preferred stocks rated investment grade or above, unless specifically approved by the Board. Securities which are unrated may be purchased, if in the judgment of the investment manager, they would carry an investment grade rating. No short-term money market instrument shall be purchased which has a rating less than A-1 or P-1. The ratings for the General Employees’ Pension Plan investments at September 30, 2012 are summarized below.

Investment Type	S&P Rating	Moody’s Rating	Fitch Rating	Fair Value
State Street STIF	Not Rated	Not Rated	Not Rated	\$ 641,962
Domestic fixed income funds	AA	Not Rated	Not Rated	21,415,919
Total fixed income				\$ 22,057,881

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

Town of Palm Beach Retirement Systems Police Officers' Investments

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

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

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

Type of Investments: Florida statutes and the Plan investment policy authorize the Trustees to invest funds in various investments. The current target allocation of these investments at market as of September 30, 2012 is as follows:

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

Town of Palm Beach Retirement Systems Police Officers' Investments (Continued)

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

Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following tables that show the distribution of the Plan's investments by maturity at September 30, 2012:

Investment Type	Fair Value	Investment Maturities in Years			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. bonds	\$ 280,150	\$	\$ 130,190	\$ 14,984	\$ 134,976
U.S. agencies	1,475,661		436,531	64,477	974,653
Corporate bonds and notes	2,191,600	152,753	695,059	539,453	804,335
Bond funds	10,281,666			10,281,666	
Total fixed income	\$14,229,077	\$152,753	\$1,261,780	\$10,900,580	\$ 1,913,964

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

Town of Palm Beach Retirement Systems Police Officers’ Investments (Continued)

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

The following table discloses credit ratings by investment type, at September 30 2012, as applicable:

<u>Rating of Debt Securities</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
U.S. Government Securities*	\$ 1,755,811	12.3%
AAA	361,090	2.6
AA	29,326	0.2
AA-	87,058	0.6
A+	282,122	1.9
A	513,013	3.6
A-	529,272	3.7
BBB+	298,610	2.1
BBB	80,677	0.6
BBB-	10,432	0.1
Bond fund	<u>10,281,666</u>	<u>72.3</u>
 Total fixed income securities	 <u>\$ 14,229,077</u>	 <u>100.00%</u>

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

Town of Palm Beach Retirement Systems Firefighters' Investments

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

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

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

Type of Investments: Florida statutes and Plan investment policy authorize the Trustees to invest funds in various investments. The current target allocation of these investments at market as of September 30, 2012 is as follows:

<u>Authorized Investments</u>	
Equity (domestic)	20%
Fixed income	20%
Equity (international)	15%
Alternative investments	30%
Inflation hedging funds	15%
Cash	0%

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

Town of Palm Beach Retirement Systems Firefighters’ Investments (Continued)

Interest Rate Risk: As a means of limiting its exposure to interest rate risk, the Plan diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations of maturities. Information about the sensitivity of the fair values of the Plan’s investments to market interest rate fluctuations is provided by the following tables that show the distribution of the Plan’s investments by maturity at September 30, 2012.

Investment Type	Fair Value	Investment Maturities in Years			
		Less than 1	1 to 5	6 to 10	More than 10
Corporate bonds and notes	\$11,244,909	\$ -	\$ -	\$11,244,909	\$ -
Total fixed income	\$11,244,909	\$ -	\$ -	\$11,244,909	\$ -

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

The following table discloses credit ratings by investment type, at September 30, 2012, as applicable:

Rating of Debt Securities	Fair Value	Percentage of Portfolio
AAA	\$ 8,208,784	73.0%
AA	449,796	4.0
A	1,349,389	12.0
BBB	1,236,940	11.0
Total fixed income securities	\$ 11,244,909	100.0%

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B – DEPOSITS AND INVESTMENTS (Continued)

Town of Palm Beach Retirement Systems Firefighters’ Investments (Continued)

Concentration of Credit Risk: The investment policy of the Plan contains limitations on the amount that can be invested in any one issuer as well as maximum portfolio allocation percentages. There were no individual investments that represent 5% or more of plan net asset at September 30, 2012.

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

NOTE C – RECEIVABLES

Accounts receivable at September 30, 2012, are comprised of the following:

Fund	Accounts Receivable	Due From Other Government	Allowance For Doubtful Accounts	Net Receivable
Governmental Funds				
General Fund	\$ 1,730,590	\$ 150,444	\$ (716,205)	\$ 1,164,829
Grants Fund		157,607		157,607
Capital Improvement Fund	14,055			14,055
Beach Restoration Project Fund		27,527		27,527
Enterprise Funds				
Recreation Enterprise Fund	10,034	58,202		68,236
Fiduciary Funds				
General Employees’ Pension Trust Fund	353,425			353,425
Police Officers’ Retirement Trust Fund	43,603			43,603
Firefighters’ Retirement Trust Fund	168,420			168,420

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE D - CAPITAL ASSETS

The capital asset activity for the year ended September 30, 2012 was as follows:

<u>Governmental Activities</u>	<u>Balance at Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at End of Year</u>
Capital assets not being depreciated				
Land	\$ 9,946,951	\$	\$	\$ 9,946,951
Construction in progress	5,789,231	16,343,454	(4,886,279)	17,246,406
Total capital assets not being depreciated	15,736,182	16,343,454	(4,886,279)	27,193,357
Capital assets being depreciated				
Buildings	36,565,051			36,565,051
Improvements other than buildings	4,696,126			4,696,126
Equipment	18,322,063	1,588,215	(1,997,867)	17,912,411
Infrastructure	92,848,763	3,923,370	(1,087,000)	95,685,133
Intangible assets – facilities rights of use	1,186,607			1,186,607
Total capital assets being depreciated	153,618,610	5,511,585	(3,084,867)	156,045,328
Less accumulated depreciation and				
Buildings	(7,079,062)	(956,030)		(8,035,092)
Improvements other than buildings	(469,000)	(314,850)		(783,850)
Equipment	(9,260,693)	(1,422,068)	1,412,031	(9,270,730)
Infrastructure	(38,968,433)	(4,645,705)	506,002	(43,108,136)
Intangible assets – facilities rights of use	(986,361)	(29,665)		(1,016,026)
Total accumulated depreciation	(56,763,549)	(7,368,318)	1,918,033	(62,213,834)
Total capital assets being depreciated, net	96,855,061	(1,856,733)	(1,166,834)	93,831,494
Governmental activities capital assets, net	<u>\$112,591,243</u>	<u>\$14,486,721</u>	<u>\$(6,053,113)</u>	<u>\$121,024,851</u>

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

<u>Governmental Activities</u>	
General government	\$ 640,802
Public safety	1,603,634
Physical environment	5,069,937
Transportation	53,945
Total depreciation and amortization	
Expense – governmental activities	<u>\$7,368,318</u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE D - CAPITAL ASSETS (Continued)

<u>Business-type Activities</u>	<u>Balance at Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at End of Year</u>
Capital assets not being depreciated				
Land	\$ 5,623,777	\$	\$	\$ 5,623,777
Construction in progress				
Total capital assets not being depreciated	<u>5,623,777</u>			<u>5,623,777</u>
Capital assets being depreciated				
Buildings	3,182,585			3,182,585
Improvements other than buildings	11,125,292			11,125,292
Equipment	544,494	31,685	(12,271)	563,908
Total capital assets being depreciated	<u>14,852,371</u>	<u>31,685</u>	<u>(12,271)</u>	<u>14,871,785</u>
Less accumulated depreciation				
Buildings	(721,401)	(64,315)		(785,716)
Improvements other than buildings	(2,932,154)	(404,558)		(3,336,712)
Equipment	(300,999)	(54,634)	12,271	(343,362)
Total accumulated depreciation	<u>(3,954,554)</u>	<u>(523,507)</u>	<u>12,271</u>	<u>(4,465,790)</u>
Total capital assets being depreciated, net	<u>10,897,817</u>	<u>(491,822)</u>		<u>10,405,995</u>
Business-type activities capital assets, net	<u>\$ 16,521,594</u>	<u>\$ (491,822)</u>	<u>\$</u>	<u>\$ 16,029,772</u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE E - INVESTMENT IN JOINT VENTURE

In September 1992, the Town entered into a joint interlocal agreement (the "Agreement") with Palm Beach County and three municipalities (West Palm Beach, Riviera Beach and Lake Worth) whereby prior separate agreements were consolidated into a single unified agreement to establish rules and procedures for the operation and management of the existing East Central Regional Wastewater Treatment Facilities (the "ECR") in which each participating entity had a financial interest. The ECR was created to receive, treat, and dispose of sewage generated within each municipality and the County. The initial term of the Agreement is for thirty years with a renewable term of thirty years. In the event the ECR is sold or disposed of, proceeds of the sale or disposition shall be prorated among the entities, based on their reserve capacity as of the date of disposition. As of September 30, 2012, the Town had a 7.1429% interest in the ECR. Under generally accepted accounting principles, the Town is required to account for this joint venture using the equity method. Accordingly, the Town recorded its initial investment at cost and is required to record its proportionate share of the ECR's income or loss as well as additional contributions made or distributions received. At September 30, 2012, the Town's 7.1429% equity interest in the ECR totaled \$6,865,285. This investment is reported in the Governmental Activities Statement of Net Assets as Investment in Joint Venture. The Town's investment in ECR was estimated using unaudited ECR financial information for the fiscal year ended September 30, 2012. The Town's management believes the investment in ECR, as reported, is fairly stated.

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

All costs of operating the ECR, excluding depreciation, are shared by each of the entities based on actual flows of wastewater. Costs associated with capital projects, renewal and replacement, and debt service are shared among the participating governments based on their pro-rata share of reserve capacity. The ECR Board is updating an engineering report on processing and disposal of biosolids at the facility, including the possibility of generating electricity on site. The initial study was prompted by changes in regulations regarding biosolids disposal. A substantial capital investment will be necessary to update the facilities. However, anticipated savings in the operation and maintenance costs as a result of the improvements should significantly reduce the impact of the increased debt service.

Based on a "Participatory Agreement" signed by all participants in April 1993, the ECR constructed improvements amounting to approximately \$22,377,000, which was financed by the State of Florida, Department of Environmental Protection Revolving Loan Fund. Pledged revenue consisting of all fees and payments received by ECR will be used to repay the debt. As of September 30, 2011, the outstanding balance due to the State Loan Fund was \$6,507,923 and the Town's share of this debt was \$540,924 which was reflected as a liability in the Governmental Activities Statement of Net Assets. On September 14, 2012, the ECR, utilizing part of the proceeds of a \$14,000,000 bank loan, advance refunded the outstanding balance of the State Revolving Loan thereby extinguishing the Town's portion of the related debt.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE E - INVESTMENT IN JOINT VENTURE (Continued)

The above referenced bank loan is a debt of the ECR and its debt service will be included in ECR operations and maintenance costs (and billed to the Town as such).

The ECR issues separate financial statements which are audited by other accountants. The latest available audited financial statements for the ECR are for the fiscal year ending September 30, 2011. Other accountants issued an unqualified opinion on those financial statements, which may be obtained from the City of West Palm Beach, Finance Department, 401 Clematis Street, West Palm Beach, Florida 33401.

Summarized financial information relating to the ECR as of and for the year ended September 30, 2011 is as follows:

Net Assets September 30, 2011	
Current and other assets	\$ 24,356,441
Capital assets, net	75,501,904
Total assets	<u>99,858,345</u>
Current liabilities	4,122,346
Non-current liabilities	5,270,088
Total liabilities	<u>9,392,434</u>
Net assets	<u>\$ 90,465,911</u>

Change in Net Assets Year Ended September 30, 2011	
Charges for services	\$ 12,422,777
Other operating revenue	2,217,446
Total operating revenue	<u>14,640,223</u>
Operating expenses	17,833,694
Operating loss	<u>(3,193,471)</u>
Non-operating revenue, net	34,024
Loss before capital contributions	<u>(3,159,447)</u>
Capital contributions	3,375,005
Decrease in net assets	<u>215,558</u>
Net assets - beginning of year	<u>90,250,353</u>
Net assets - end of year	<u>\$ 90,465,911</u>

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE E - INVESTMENT IN JOINT VENTURE (Continued)

At September 30, 2011, the ECR participants and their respective interest in the ECR were as follows:

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

NOTE F - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

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

Interfund receivables and payables and interfund transfers at September 30, 2012 are summarized as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Recreation Enterprise Fund	\$ 1,275
	Accelerated Capital Fund	148
2010B Debt Service Fund	Worth Avenue Assessment Fund	5,190
Accelerated Capital Fund	Capital Improvement Fund	<u>69,955</u>
		<u>\$ 76,568</u>

Interfund transfers:

	<u>Transfer In – Reported In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Beach Restoration Project Fund</u>	<u>Nonmajor Funds</u>	<u>Internal Service Funds</u>	
Transfers out:					
Reported in					
General Fund	\$	\$ 3,960,000	\$ 4,500,000	\$	\$ 8,460,000
Recreation Enterprise Fund	800,000		124,238		924,238
Nonmajor Funds			2,390,700	122,309	2,513,009
				45,648	45,648
	<u>\$ 800,000</u>	<u>\$ 3,960,000</u>	<u>\$ 7,014,938</u>	<u>\$ 167,957</u>	<u>\$ 11,942,895</u>

Governmental activities reassigned capital assets in the amount of \$45,648 to the Equipment Replacement Fund, an internal service fund. In the Equipment Replacement Fund, this transaction is recorded as a transfer in, but there is no corresponding transfer out in the governmental funds.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE G - LONG-TERM LIABILITIES

Changes in the Town's long-term liabilities for the year ended September 30, 2012 are summarized as follows:

<u>Governmental Activities</u>	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at End of Year</u>	<u>Amounts Due Within One Year</u>
Revenue bonds payable	\$ 70,540,000	\$	\$ (2,775,000)	\$ 67,765,000	\$ 1,290,000
Loan payable	540,924		(540,924)		
Unamortized bond premiums	2,786,469		(149,692)	2,636,777	
Unamortized bond discounts	(382,923)		20,343	(362,580)	
Unamortized loss on refunding	(559,948)		38,566	(521,382)	
Total bonds, notes, and loans payable	72,924,522		(3,406,707)	69,517,815	1,290,000
Compensated absences	3,639,483	446,226	(751,754)	3,333,955	656,763
Landfill closure and postclosure	2,192,469	86,454		2,278,923	
Total long-term liabilities	\$ 78,756,474	\$ 532,680	\$ (4,158,461)	\$ 75,130,693	\$ 1,946,763
<u>Business-type Activities</u>					
Compensated absences	\$ 157,409	\$ 39,811	\$ (67,039)	\$ 130,181	\$ 53,904

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

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

On February 25, 2010, the Town issued \$57,035,000 of the Public Improvement Revenue and Refunding Bonds, Series 2010A (Capital Improvement Program) to (i) finance or refinance (a) replacements and improvements to portions of the Town's sanitary sewer, storm water, street lighting and traffic signal infrastructure (the "Town Infrastructure Project"); (b) renovation of the Town's par 3 golf course (the "Golf Course Project"); (ii) refund the Town's Revenue Refunding Bonds, Series 2003B (Capital Improvement Project) and prepay the Town's Public Improvement Revenue Note, Series 2008; (iv) pay capitalized interest on the Bonds through July 2010; and (v) pay the costs of issuing the Bonds. The Series 2010A Bonds were issued at a net original issue premium of \$2,990,255 and bear interest at rates ranging from 2.0% to 5.0%. Principal payments are due on January 1, and interest payments are due on January 1 and July 1 until maturity on January 1, 2040. The Series 2010A bonds are payable solely from and secured by a pledge of non-ad valorem revenue.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE G - LONG-TERM LIABILITIES (Continued)

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

Year Ending September 30	Principal	Interest	Total
2013	\$ 1,010,000	\$ 2,609,213	\$ 3,619,213
2014	1,040,000	2,580,988	3,620,988
2015	1,075,000	2,549,263	3,624,263
2016	1,110,000	2,510,937	3,620,937
2017	1,160,000	2,465,538	3,625,538
2018-2022	6,600,000	11,515,587	18,115,587
2023-2027	8,435,000	9,672,812	18,107,812
2028-2032	10,755,000	7,360,843	18,115,843
2033-2037	13,795,000	4,316,875	18,111,875
2038-2040	10,095,000	773,875	10,868,875
	<u>\$ 55,075,000</u>	<u>\$ 46,355,931</u>	<u>\$ 101,430,931</u>

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

On February 25, 2010, the Town issued \$14,770,000 of the Public Improvement Revenue Bonds, Series 2010B (Worth Avenue Commercial District Project) to (i) finance or refinance public capital improvement in the Worth Avenue Commercial District (the "Worth Avenue Project"); (ii) prepay amounts drawn on the Town's Public Improvement Revenue Note, Series 2009; (iii) pay capitalized interest on the Bonds through July 2010; and (iv) pay the costs of issuing the Bonds. The Series 2010B Bonds were issued at a net original issue discount of \$410,712 and bear interest at rates ranging from 2.0% to 4.25%. Principal payments are due on January 1, and interest payments are due on January 1 and July 1 until maturity on January 1, 2040. The Series 2010B bonds are payable from and secured by a pledge of non-ad valorem revenue and non-ad valorem capital special assessments that the Town levies on real property located in the Worth Avenue Commercial District.

The final cost of the Worth Avenue Project was \$1,485,944 less than anticipated. In accordance with the Bond Resolution and Bond Purchase Agreement, the Town used to excess funds for a pro rata extraordinary mandatory redemption of \$1,485,000 of the Bonds on January 1, 2012.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE G - LONG-TERM LIABILITIES (Continued)

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

Year Ending September 30	Principal	Interest	Total
2013	\$ 280,000	\$ 498,281	\$ 778,281
2014	280,000	492,681	772,681
2015	285,000	487,031	772,031
2016	295,000	480,678	775,678
2017	300,000	473,050	773,050
2018-2022	1,655,000	2,218,301	3,873,301
2023-2027	1,975,000	1,892,860	3,867,860
2028-2032	2,425,000	1,490,922	3,915,922
2033-2037	3,025,000	1,090,688	4,115,688
2038-2040	2,170,000	389,813	2,559,813
	<u>\$ 12,690,000</u>	<u>\$ 9,514,305</u>	<u>\$ 22,204,305</u>

Joint Venture Loan Payable

In April 1993, the Town entered into a "Participatory Agreement" with the Palm Beach County Water Utilities Department and three municipalities (West Palm Beach, Riviera Beach, and Lake Worth) for certain improvement to the East Central Regional Wastewater Facilities. The improvements were completed in fiscal year 1998 at a total cost of \$38,755,000. The Town's share of the cost was \$1,776,429. Partial funding was provided by the State of Florida, Department of Environmental Protection Revolving Loan Funds approved in March and September 1994. The actual amounts borrowed were \$21,319,410 and \$648,738, respectively. The loans are payable over twenty year periods and carry effective interest rates ranging from 2.30% to 3.17%. The Town's \$540,924 Note Payable to ECR (receivable by the ECR from its participating Entities) for the amounts drawn on a State Revolving Loan was extinguished (see Note E - Investment in Joint Venture) as a result of an advanced refunding of the loan on September 14, 2012.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE G - LONG-TERM LIABILITIES (Continued)

Interest Expense: Total interest costs incurred and paid on all Town debt for the year ended September 30, 2012 totaled \$3,067,923 and \$3,180,073, respectively. No interest was capitalized in the enterprise fund for the year ended September 30, 2012.

Defeased Debt: As previously discussed, the Town has defeased the Series 2003B Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At September 30, 2012, Series 2003B Revenue Bonds in the amount of \$5,025,000 are outstanding and considered defeased.

Pledged Revenues: As previously discussed, the Town has pledged future non-ad valorem revenues to pay principal and interest on the Series 2010A and Series 2010B Revenue Bonds. At September 30, 2012, principal and interest to maturity on January 1, 2040 to be paid from pledged future revenues totaled \$123,635,236. Principal and interest paid for the current fiscal year on these Bonds totaled \$5,940,135 and pledged non-ad valorem revenue totaled \$20,761,396 for the year. It is estimated that annual principal and interest payments will require approximately 21% of pledged revenues.

NOTE H - SHORT-TERM DEBT

On August 15, 2011, the Town adopted Resolution No. 96-11 authorizing a revolving line of credit with Wells Fargo Bank, N.A. in the principal amount not to exceed \$2,000,000, for the purpose of providing interim financing of burying certain utility cables within the Town, certain streetscape improvements, and related capital projects in anticipation of the issuance of bonds or other debt. The obligation of the Town to repay draws made on the line of credit shall be evidenced by the delivery by the Town of its Revolving Line of Credit Note, Series 2011 in the principal amount of \$2,000,000 (the "Note").

The Note shall bear interest at the variable rate equal to London Interbank Offered Rate (LIBOR) for U.S. dollar deposits of a stated maturity plus one hundred basis points (1.00%), adjusted monthly. Accrued interest on the Note was payable on December 1, 2011, March 1, 2012, June 1, 2012, and August 14, 2012. Draws on the Note could be made from the date of issuance to July 31, 2012. The Note does not constitute a general obligation or indebtedness of the Town and is payable from and solely secured by a covenant of the Town to budget and appropriate non-ad valorem revenues, and a lien on and pledge of the proceeds from any obligations specifically issued to refund the Note. The Note matured on August 31, 2012 and was paid off and retired.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE H – SHORT-TERM DEBT (Continued)

The following is a summary of changes in short-term debt for the year ended September 30, 2012.

	Beginning Balance	Additions	Deletions	Ending Balance
Note Payable	\$ 169,542	\$ 94,320	\$ (263,862)	\$

NOTE I – OBLIGATION UNDER UTILITY AGREEMENT AND INTANGIBLE ASSETS

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

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

The Series E Loan was originally issued by the City on October 1, 1976, at a face value of \$7,585,000. The loan matured in varying amounts through June 30, 2006. The Town's pro rata share of the loan was 11.7625%. The present value, discounted at the same rate as the Series E Loan, of the Town obligation to the City was \$1,186,607 at issuance. Intangible wastewater usage rights were recorded at the same amount and are being amortized over the 40-year contract period that the Town is entitled to use the City's wastewater facilities. At September 30, 2012, the intangible assets had a net book value of \$170,581 and are recorded with the capital assets of the governmental activities.

Under the terms of the agreement, the Town makes annual payments to the City for operations and maintenance costs based on the Town's actual usage, for its pro rata share of the renewal and replacement costs, and for a pro rata share of the City's debt service payments to the ECR. For the year ended September 30, 2012, the Town made payments of \$382,587 to the City pursuant to the agreement.

NOTE J – ON-BEHALF PAYMENTS

The Town receives on-behalf payments from the State of Florida to be used for Police and Fire-Rescue pension benefits. Such payments are recorded as intergovernmental revenue and public safety expenditures in the Governmental Activities Statement of Activities and in the GAAP basis General Fund financial statements, but are not budgeted and therefore are not included in the General Fund budgetary comparison schedule. On-behalf payments paid to the Town by the State totaled \$924,586 for the fiscal year ended September 30, 2012.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM

Plan Description

Prior to April 1, 2012 separate pension plans were maintained for the general and lifeguard employees, police officers, and firefighters. Effective April 1, 2012, the general employees and lifeguard employees board of trustees, police officer board of trustees, and firefighter board of trustees were eliminated and a new consolidated board of trustees was created. The existing contracts, investment holdings, assets and liabilities of the general employees' and lifeguard employees', police officers', and firefighters' retirement plans were transferred and became contracts, investment holdings, assets and liabilities of the new board. In conjunction with the new board consolidation, effective May 1, 2012, a new consolidated plan was established, covering all employees of the Town. The new plan is known as the Town of Palm Beach Retirement System (the "Plan"). The Plan is a single-employer defined benefit pension plan.

The Plan is administered by the Town of Palm Beach Retirement System Board of Trustees. There are nine members on the board of trustees. The trustees consist of (a) one employee who is a member of the benefit group general or benefit group lifeguard elected by the members of those benefit groups (b) one employee who is a member of the benefit group firefighter elected by the members of that benefit group (c) one employee who is a member of the benefit group police officers elected by the members of that benefit group (d) five residents of the Town who are not officers or employees of the Town, retirees or beneficiaries of the retirement system, appointed by the Town Council and (e) the Town Manager or, in the Town Manager's absence, the Acting Town Manager, who shall serve as a voting ex-officio member.

All employees working in excess of 1040 hours per year are covered by the Plan. The Town Council is authorized to establish benefit levels and to approve the actuarial assumptions used in the determination of contribution levels. The contributions and benefits are segregated between general employees and lifeguards, police officers, and firefighters.

Prior to March 14, 2012, the police officers' and firefighters' portions of the Plan also received payments from the State of Florida pursuant to Chapters 185 and 175 of the Florida Statutes for the benefit of police officers and firefighters, respectively. Monies received pursuant to Chapters 185 and 175 can only be used to finance the benefits of participants who are police officers or firefighters, respectively. Effective March 14, 2012, the Town of Palm Beach withdrew from participation under Chapters 175 and 185.

The police officers' portion and firefighters' portion of the Plan issue publicly available financial reports that include financial statements and required supplementary information. The financial reports may be obtained by writing to the Town of Palm Beach, P. O. Box 2029, Palm Beach, Florida 33480 or by calling (561) 838-5444. The general employees' and lifeguards' portion of the Plan does not issue a stand alone financial report.

The following brief description of the general employees and lifeguards portion of the Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more detailed information.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM (Continued)

General Employees and Lifeguards

Prior to May 1, 2012

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

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

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

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

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

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

All employees working in excess of 1,040 hours per year were required to participate.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM (Continued)

General Employees and Lifeguards (Continued)

Effective May 1, 2012:

Normal Retirement

General employees who attained normal retirement eligibility based on credited service as of May 1, 2012 and who are employed by the Town and not participating in the DROP on that date, shall be eligible for normal retirement after 30 years of service, or age 55 with 10 years of service. Such general employees retirement benefits are determined by multiplying Average Final Compensation (highest two consecutive years out of the last five), times the sum of (a) 2.75% per year for service earned after September 30, 1990, to a maximum of 82.5%, plus 2.35% for service earned on or before September 30, 1990, for the first 30 years of service, plus (b) 1% for service in excess of 30 years.

Lifeguards who attained normal retirement eligibility based on credited service as of May 1, 2012 and who are employed by the Town and not participating in the DROP on that date, shall be eligible for normal retirement upon attaining age 50 with 10 or more years of credited service or when the individual's age plus credited service total 65 or more years and the individual has at least 10 years of service. Such lifeguards retirement benefits are determined by multiplying Average Final Compensation (highest two consecutive years out of the last five), times the sum of (a) 2.85% per year for the first 25 years of service to a maximum of 71.25%, plus (b) 1% for service in excess of 25 years.

General employees who did not attain normal retirement eligibility based on credited service as of May 1, 2012, excluding credited service purchased, and who were employed by the Town and not participating in the DROP on that date, shall be eligible for normal retirement upon attaining age 55, or 30 or more years of credited service without regard to age, and upon such retirement shall be eligible to receive the frozen accrued benefit based on credited service and Average Final Compensation on April 30, 2012 and the above formulas. Such members shall be eligible to receive the accrued benefit based on credited service on and after May 1, 2012 upon attaining age 65 with 10 or more years of credited service. For credited service on or after May 1, 2012, the benefit formula shall be Average Final Compensation multiplied by 1.25% per year of credited service after April 30, 2012. Average Final Compensation after April 30, 2012 will be over a period increasing up to the final 5 years of credited service.

Lifeguards who did not attain normal retirement eligibility based on credited service as of May 1, 2012, excluding credited service purchased, and who were employed by the Town and not participating in the DROP on that date, shall be eligible for normal retirement upon termination of Town employment and attaining age 50, or when the member's age to last completed month plus credited service totals 65 years or more. Upon such retirement, the member shall be eligible to receive the frozen accrued benefit based on credited service and Average Final Compensation on April 30, 2012. Such member shall be eligible to receive the accrued benefit based on credited service on or after May 1, 2012 upon attaining age 65 with ten or more years of credited service. For credited service on or after May 1, 2012, the benefit formula shall be Average Final Compensation multiplied by 1.25% per year of credited service after April 30, 2012. Average Final Compensation after April 30,

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM (Continued)

General Employees and Lifeguards (Continued)

Effective May 1, 2012 (Continued):

Normal Retirement (continued)

2012 will be over a period increasing up to the final 5 years of credited service. General employees and lifeguards hired on or after May 1, 2012, shall be eligible for normal retirement upon attaining age 65 with 10 or more years of credited service.

Early Retirement

General Employees 20-Year Early Retirement Option: General employees who did not attain normal retirement eligibility based on credited service as of May 1, 2012, excluding credited service purchased, and who were employed by the Town and not participating in the DROP on that date, may elect to retire, subject to an early retirement reduction, upon attaining age 50 or older with 20 or more years of credited service.

General Employees 10-Year Early Retirement Option: General employees who did not attain normal retirement eligibility based on credited service as of May 1, 2012, excluding credited service purchased, and who were employed by the Town and not participating in the DROP on that date, may elect to retire, subject to an early retirement reduction, upon attaining age 50 or older with 10 or more years of credited service.

General Employees Age 60 Early Retirement Option: General employees who did not attain normal retirement eligibility based on credited service as of May 1, 2012, excluding credited service purchased, and who were employed by the Town and not participating in the DROP on that date, may elect to retire at age 60, subject to an early retirement reduction.

Lifeguards Age 60 Early Retirement Option: Lifeguards who did not attain normal retirement eligibility based on credited service as of May 1, 2012, excluding credited service purchased, and who were employed by the Town and not participating in the DROP on that date, and members hired on or after May 1, 2012, may elect to retire at age 60, subject to an early retirement reduction.

DROP Retirement

General employees and lifeguards may elect to enter the Deferred Retirement Option Program (“DROP”) within 7 years of the date the member first reaches normal retirement eligibility. The member receives 98% of their accrued benefit at the date of their election to participate in DROP.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM (Continued)

General Employees and Lifeguards (Continued)

Effective May 1, 2012 (Continued):

Deferred Retirement (Vested Termination Benefit)

General employees and lifeguards with 10 or more years of service are eligible for a deferred retirement benefit. The pension begins upon meeting the requirements for normal retirement. Contributions must be left on deposit in the Plan. Failure to do so results in forfeiture of the vested benefit. The pension amount is computed as for normal retirement, based upon service and final average compensation at time of termination.

Duty Disability Retirement

There are no age or service requirements for duty disability for general employees or lifeguards. The pension amount to the earliest normal retirement eligibility date is computed as a regular retirement with additional serviced credit granted from the date of disability to the earliest normal retirement eligibility date. The pension amount at the earliest normal retirement eligibility date is computed as a regular retirement. The minimum shall be applicable for 5 years if the member attains such age for retirement less than 5 years after duty disability benefits commence.

Non-Duty Disability Before Retirement

General employees and lifeguards are eligible for non-duty disability benefits before retirement after 10 years or more of credited service. The pension amount is computed as for normal retirement.

Duty Death Before Retirement

There are no age or service requirements for duty death benefits before retirement for general employees or lifeguards. The pension amount to each surviving child is 25% of the member's Average Final Compensation not to exceed 50% or equal share of 75% of the member's Average Final Compensation when there are 4 or more surviving children being paid. The widow shall receive a pension benefit of the difference, if any, between 75 % of the member's Average Final Compensation and the aggregate amount paid to the children.

Non-Duty Death Before Retirement

General employees and lifeguards are eligible for non-duty death benefits before retirement after 10 years or more of credited service. The pension amount is computed as 75% of normal retirement benefit to a surviving spouse or equal shares of 75% of the normal retirement benefit to surviving unmarried children under age 18.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM (Continued)

General Employees and Lifeguards (Continued)

Effective May 1, 2012 (Continued):

Automatic Death After Retirement Pension

If the member chooses the standard option, general employees and lifeguards who had attained normal retirement eligibility based on credited service as of May 1, 2012 are eligible for an automatic after death retirement pension. The benefit to surviving children shall be 25% of the retiree's pension payable to age 18, not to exceed an equal share of 75% of the retiree's pension. Payments to surviving children may be paid to age 25 if no spouse benefits are payable. The benefit to the surviving spouse shall be the difference, if any, between 75% of the retiree's pension and the aggregate amount paid to any surviving children.

General employees and lifeguards who had not attained retirement eligibility as of May 1, 2012 shall have frozen accrued benefits as described in the preceding paragraph. New plan benefits accrue after April 30, 2012. Reduced optional forms of payment are available.

Post-Retirement Cost-of-Living Adjustment

General employees and lifeguards that retired after September 30, 1968 and prior to October 1, 1990 receive an annual 1.0% increase computed on base benefit. Other adjustments have been made periodically. General employees and lifeguards that retired after September 30, 1990 and before May 1, 2012 receive an annual 2.0% increase based on the total pension payable subsequent to an initial 3-year deferral period.

General employees and lifeguards who had attained normal retirement eligibility based on credited service as of May 1, 2012 will receive an annual 2.0% increase based on pension benefits accrued and frozen as of April 30, 2012, subject to an initial 3-year deferral period.

General employees and lifeguards who had not attained retirement eligibility as of May 1, 2012 do not receive any cost-of-living adjustment for benefits derived from service accrued on or after May 1, 2012. General employees and lifeguards who have accrued service as of April 30, 2012 will receive a 2.0% cost of living adjustment for benefits derived for service accrued to that date.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM (Continued)

General Employees and Lifeguards (Continued)

The financial statements of the general employees and lifeguards portion of the Town of Palm Beach Retirement System are presented below.

Statement of Plan Net Assets
September 30, 2012

Assets	
Cash and cash equivalents	\$ 732,055
Equity in pooled cash and investments	72,116
Interest and dividends receivable	6,281
Due from broker for securities sold	82,231
Other receivables	271,194
Prepaid expenses and other assets	153,096
Investment at fair value	
Common stock	11,003,536
Domestic equity funds	25,797,881
International equity funds	6,994,038
Domestic fixed income funds	21,415,919
Alternative investments	7,001,514
Total assets	<u>73,529,861</u>
Liabilities	
Accounts payable	117,511
Due to broker for securities purchased	18,944
Prepaid Town contributions	614,844
Total liabilities	<u>751,299</u>
Net assets held in trust for pension benefits	<u><u>\$ 72,778,562</u></u>

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM (Continued)

General Employees and Lifeguards (Continued)

Statement of Change in Plan Net Assets
Year Ended September 30, 2012

Additions	
Contributions	
Employer	\$ 811,440
Employee	1,241,326
Total contributions	<u>2,052,766</u>
Investment income (loss)	
Net appreciation in fair value of investments	12,126,216
Interest and dividends	94,055
Other	11,121
Total investment income	<u>12,231,392</u>
Less investment expense	<u>(303,010)</u>
Net investment income	<u>11,928,382</u>
Total additions	13,981,148
Deductions	
Benefit payments	5,087,927
Refunds of participants' contributions	63,267
Administrative expense	152,381
Total deductions	<u>5,303,575</u>
Net increase	8,677,573
Net assets held in trust for pension benefits – beginning of year	<u>64,100,989</u>
Net assets held in trust for pension benefits – end of year	<u><u>\$ 72,778,562</u></u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM (Continued)

General Employees and Lifeguards (Continued)

At September 30, 2011, the date of the most recent actuarial valuation, the general employees and lifeguards membership of the Town of Palm Beach Retirement System consisted of the following:

	General Employees	Lifeguards	Total
Retirees and beneficiaries currently receiving benefits	168	10	178
Terminated members entitled to benefits but not yet receiving them	11		11
Current employees - vested	80	2	82
Current employees - non-vested	84	2	86
	343	14	357

Basis of Accounting

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

Funding Policy

The contribution requirements of Plan members and the Town are established and may be amended by the Town Council. Plan members are required to contribute a percentage of their annual covered salary as described in the following table. The Town is required to contribute at an actuarially determined rate. Administrative expenses of the Plans are reimbursed on a retrospective basis by an addition to the Town's contribution rate.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM (Continued)

Funding Policy (Continued)

The contribution rates for the fiscal year ended September 30, 2012, as a percentage of the employees' annual compensation, were as follows:

	Member Contributions		Town and State Contributions
	10/01/11 through 04/31/12	05/01/12 through 09/30/12	10/01/11 through 09/30/12
General employees hired before 05/01/92	6.47%	4.47%	7.34%
General employees hired after 05/01/92	6.47%	2.47%	7.34%
Lifeguards hired before 05/01/92	7.21%	5.21%	21.01%
Lifeguards hired after 05/01/92	7.21%	3.21%	21.01%
Police officers	6.98%	4.98%	24.50%
Firefighters	6.82%	4.82%	36.80%

Net Pension Obligation

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

	General Employees and Lifeguards	Police Officers	Firefighters
Annual required contribution	\$ 811,440	\$ 1,180,884	\$ 1,280,926
Interest on net pension obligation	0	0	0
Adjustment to annual required contribution	0	0	0
Annual pension cost	811,440	1,180,884	1,280,926
Contributions made	(811,440)	(1,180,884)	(1,280,926)
Increase (decrease) in net pension obligation	0	0	0
Net pension obligation, beginning of year	0	0	0
Net pension obligation, end of year	\$ 0	\$ 0	\$ 0

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM (Continued)

Actuarial Assumptions

The annual pension cost, net pension obligation and required contribution for the fiscal year ended September 30, 2012 were determined as part of the actuarial valuation of the Plans as of September 30, 2011 using the entry age actuarial cost method. Significant actuarial assumptions used in the latest actuarial valuations of the Plans are summarized as follows:

	<u>General Employees</u>	<u>Police Officers</u>	<u>Firefighters</u>
Valuation date	September 30, 2011	September 30, 2011	September 20, 2011
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level Percent of Payroll Closed Amortization	Level Percent of Payroll Closed Amortization	Level Percent of Payroll Closed Amortization
Remaining amortization period	20-30 years	15-30 years	20-30 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:			
Investment rate of return	8.00%	8.00%	8.00%
Projected salary increases	8.3% to 4.7%	8.3% to 4.7%	8.3% to 4.5%
Includes inflation and other general increases at	4.5%	4.5%	4.5%
Cost-of-living adjustments	Members who retire after 9/60/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Members retiring after 9/30/90 will be increased 2.0% annually based on their total pension benefit after a 3-year deferral period. Benefits accrued after 4/30/12 are not adjusted for those not eligible for normal retirement as of 5/1/12. Other adjustments have been made periodically.	Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Members retiring after 9/30/90 will be increased 2.0% annually based on their total pension benefit after a 3-year deferral period. Benefits accrued after 4/30/12 are not adjusted for those not eligible for normal retirement as of 5/1/12. Other adjustments have been made periodically.	Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Members retiring after 9/30/90 will be increased 2.0% annually based on their total pension benefit after a 3-year deferral period. Benefits accrued after 4/30/12 are not adjusted for those not eligible for normal retirement as of 5/1/12. Other adjustments have been made periodically.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM (Continued)

Annual Pension Cost

Information about the Town’s annual pension cost for the last three fiscal years ended September 30th is shown below:

<u>Plan / Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
<u>General Employees</u>			
2010	\$2,616,484	100%	\$ 0
2011	2,460,540	100%	0
2012	811,440	100%	0
<u>Police Officers</u>			
2010	\$2,491,095	100%	\$ 0
2011	2,496,264	100%	0
2012	1,180,844	100%	0
<u>Firefighters</u>			
2010	\$2,997,164	100%	\$ 0
2011	2,919,314	100%	0
2012	1,280,926	100%	0

Funded Status

The funded status of the Plans as of September 30, 2011, the date of the most recent actuarial valuations, is as follows (dollar amounts in thousands):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
<u>General Employees</u>						
09/30/2011	\$74,247	\$82,974	\$8,727	89.5%	\$10,926	79.9%
<u>Police Officers</u>						
09/30/2011	\$63,554	\$72,421	\$8,867	87.8%	\$5,222	169.8%
<u>Firefighters</u>						
09/30/2011	\$58,899	\$72,928	\$14,029	80.8%	\$5,142	272.8%

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K – TOWN OF PALM BEACH RETIREMENT SYSTEM (Continued)

Funding Progress

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

NOTE L – DEFINED CONTRIBUTION PENSION PLAN

The Town established the Town of Palm Beach Defined Contribution Retirement Plan in the form of the ICMA Retirement Corporation Governmental Money Purchase Plan & Trust effective May 1, 2012 to provide benefits at retirement to the Town's employees. The Plan is a single-employer defined contribution pension plan administered by the ICMA Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings.

The Plan covers all employees working in excess of 1040 hours per year. Police officers, firefighters, general employees hired before May 1, 1992, and lifeguards hired before May 1, 1992 are required to make mandatory pre-tax contributions equal to 2% of covered compensation. General employees hired on or after May 1, 1992 and lifeguards hired on or after May 1, 1992 are required to make mandatory pre-tax contributions of 4% of covered compensation. The Town is required to match mandatory contributions. Covered compensation includes base pay (inclusive of all leave time) but excludes overtime and bonuses.

Employees are allowed to make voluntary contributions up to the maximum allowable under IRS Regulations. The Town is required to match up to 2% for voluntary contributions by police officers, firefighters, general employees hired before May 1, 1992, and lifeguards hired before May 1, 1992. The Town is not required to match voluntary contributions for general employees hired on or after May 1, 1992 and lifeguards hired on or after May 1, 1992. However, total Town contributions will not exceed 4% for any benefit group and will not be less than \$1,000 per fiscal year per enrolled member.

Both the Town and the covered employees made the required contributions of \$238,364 and \$243,973, respectively, for a total of \$482,337 for the year ended September 30, 2012.

The Town does not hold or administer resources of the Plan. Consequently, the Plan does not meet the requirements for inclusion in the Town's financial statements as a fiduciary fund. The Plan does not issue a stand alone financial report. Plan provisions are established and may be amended only by the Town Council.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE M - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan has 207 retirees receiving benefits and a total of 312 active participants as of September 30, 2012.

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

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

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

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

Annual required contribution	\$1,939,723
Interest on net OPEB asset	(1,190,241)
Adjustment to annual required contribution	<u>859,721</u>
Annual OPEB cost	1,609,203
Contributions made	<u>(1,493,000)</u>
Decrease in net OPEB asset	116,203
Net OPEB asset, October 1, 2011	<u>(14,878,014)</u>
Net OPEB asset, September 30, 2012	<u><u>\$(14,761,811)</u></u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

The most recent actuarial valuation of the Plan was done as of October 1, 2012. The projected unit credit actuarial cost method was used. The actuarial assumptions included an 8% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the Town's own investments calculated based on the funded level of the plan at the valuation date, an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 5% in the year 2023 and a salary increase assumption of 3.5% per annum. All three rates included a 3.0% inflation assumption. The actuarial value of assets was determined based on the actual fair value of assets as of the valuation date. The UAAL will be amortized over a period of 30 years as a level percentage of projected payroll on an open basis.

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
9-30-10	\$1,134,870	\$ 1,550,000	137%	\$(14,812,000)
9-30-11	1,466,986	1,533,000	104%	(14,878,014)
9-30-12	1,609,203	1,493,000	93%	(14,761,811)

Funded Status:

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
10-01-12	\$20,942	\$29,289	\$8,347	71.5%	21,754	38.4%

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

Statement of Plan Net Assets
September 30, 2012

Assets	
Cash and cash equivalents	\$ 164,602
Equity in pooled cash and investments	956,961
Interest and dividends receivable	3,586
Investment at fair value	
Domestic equity funds	6,183,858
International equity funds	3,717,001
Real asset funds	928,470
Domestic fixed income funds	5,449,824
Alternative investments	3,793,079
Total assets	21,197,381
Liabilities	
Accounts payable	253,316
Accrued liabilities	1,812
Total liabilities	255,128
Net assets held in trust for retiree health benefits	\$ 20,942,253

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE M - OTHER POSTEMPLOYMENT BENEFITS (Continued)

**Statement of Change in Plan Net Assets
Year Ended September 30, 2012**

Additions	
Contributions	
Employer	\$ 1,493,000
Employee	1,263,754
Other	95,383
Total contributions	2,852,137
Investment income (loss)	
Net depreciation in fair value of investments	2,027,395
Interest and dividends	386,409
Total investment income	2,413,804
Less investment expense	(92,081)
Net investment income	2,321,723
Other income	48,379
Total additions	5,222,239
Deductions	
Benefit payments	2,389,939
Administrative expense	62,432
Other	701
Total deductions	2,453,072
Net increase	2,769,167
Net assets held in trust for retiree health benefits – beginning of year	18,173,086
Net assets held in trust for retiree health benefits – end of year	\$ 20,942,253

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE N - INSURANCE PROGRAM

The Town retains the risk of loss for certain claims related to general liability and property risks, group accident and health, and workers' compensation. These insurance activities are accounted for in the Internal Service Funds. The Internal Service Funds charge departments of the Town for insurance coverage based upon historical claims experience, insurance costs and relative share of total risk. A claims liability of approximately \$2,648,000 is included in accrued liabilities of the Internal Service Funds at September 30, 2012. This liability is based on the provisions of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be accrued if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accordingly, the accrued liability for claims includes the estimated future liability on a case-by-case basis for all reported claims and an amount for claims incurred but not reported. The accrued claims liabilities at September 30, 2012 were determined by actuarial valuations performed by Willis Casualty Actuarial Services for group health and Glicksman Consulting, LLC. for general liability, workers' compensation, and property.

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

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

The insurance coverage and accrued claims liability of the Internal Service Funds at September 30, 2012 are summarized on the following page.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE N - INSURANCE PROGRAM (Continued)

	<u>Accrued Claims Liability</u>
<p>Group Accident and Health: Certain employees and retirees of the Town contribute through payroll deductions or deductions from pension payments to the cost of group benefits. The remainder of the necessary funding is contributed by the Town based on an actuarially determined amount. As of September 30, 2012, these benefits covered 290 active employees, 160 retirees and 554 dependents. Net costs for the year ended September 30, 2012 were approximately \$4,086,000. The Town retains the risk of loss up to \$100,000 per occurrence. Insurance coverage for claims in excess of these specific limits (up to the policy maximum of \$2,000,000 per person, per life-time) has been obtained from a commercial carrier. The Town makes available certain health insurance benefits for its retired employees and their dependents in accordance with State Statute. Retiree health care benefits are accounted for in the Town's OPEB plan.</p>	\$ 371,000
<p>General Liability, Automobile Liability, Public Official Liability, Workers' Compensation and Property: The Town retains the risk of loss for most exposures and maintains excess insurance coverage above the Town's retained risk of loss of \$100,000 per occurrence for Public Official Liability, \$200,000 per occurrence, \$300,000 aggregate for General Liability, \$100,000 per occurrence, \$200,000 aggregate for Automobile Liability, and \$500,000 per claim for Workers' Compensation. An aggregate retention (Loss Fund) of \$780,000 applies to each fiscal year. The loss fund does not include the 5% deductible for a "named" windstorm.</p>	
<p>Excess liability coverage of \$5,000,000 per occurrence, \$10,000,000 aggregate is maintained with commercial carriers for General Liability and Automobile Liability. Public Official Liability coverage of \$5,000,000 per occurrence and \$5,000,000 in the aggregate is also maintained. Excess Workers' Compensation coverage is maintained with commercial carriers at statutory limits and Property coverage is maintained with commercial carriers at \$39,090,840 for buildings and contents with a \$5,000 deductible per occurrence plus a 5% deductible per insured location for a "named" windstorm.</p>	
<p>Florida Statutes limit the Town's maximum loss for most liability claims to \$200,000 per person and \$300,000 per occurrence under the Doctrine of Sovereign Immunity. However, under certain circumstances a plaintiff can seek to recover damages in excess of statutory limits by introducing a claims bill to the Florida Legislature. The limits addressed in the Florida Statutes do not apply to claims filed in Federal courts.</p>	<u>2,277,000</u>
	<u>\$ 2,648,000</u>

TOWN OF PALM BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE N - INSURANCE PROGRAM (Continued)

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

	Year Ended September 30, 2012	Year Ended September 30, 2011
Accrued claims liability at beginning of fiscal year	\$ 4,436,000	\$ 3,963,000
Current year claims and changes in estimates	2,223,000	4,936,000
Claim payments	(4,011,000)	(4,463,000)
Accrued claims liability at end of fiscal year	\$ 2,648,000	\$ 4,436,000

NOTE O - COMMITMENTS AND CONTINGENCIES

Contractual Commitments: The Town has various long-term contractual obligations for construction projects on which work has not been completed. The remaining commitments on these obligations at September 30, 2012 are as follows:

	Revised Contract Amount	Amount Expended at September 30, 2012	Balance at September 30, 2012
General Fund	\$ 85,540	\$ 70,500	\$ 15,040
Donation Fund	182,065	133,140	48,925
Underground Utility Assessment Fund	429,228		429,228
Capital Improvement Fund	966,580	67,459	899,121
Accelerated Capital Fund	14,523,119	8,760,292	5,762,827
Worth Avenue Construction Fund	12,045,034	11,972,144	72,890
Equipment Replacement Fund	672,309	128,221	544,088
Total	\$ 28,903,875	\$ 21,131,756	\$ 7,772,119

Grants: Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the Federal government and State of Florida. Any disallowed claims, including amounts already received, might constitute a liability of the Town for the return of those funds. As of September 30, 2012, approximately \$215,000 of such amounts to be refunded by the Town is included in "Due to Other Governments" in the accompanying statement of net assets of the Town's governmental activities.

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE O - COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies: In September 2010, the City of Lake Worth filed a complaint against the Town of Palm Beach and six other bulk sewer customers claiming that the Town has underpaid the City for sewage transmission service in the City of Lake Worth Subregional Sewer System. The City alleges that in underpaying for service, the Town has breached certain contracts dating back to 1978, has been unjustly enriched, and has violated the terms of the Prompt Payment Act. Currently, the lawsuit has been abated until (1) the completion of an audit of the City of Lake Worth's financial and operational records by the Florida Auditor General, and (2) the completion of the negotiation process spelled out by Chapter 164, Florida Statutes. It is unclear when both of these processes will be completed. In July 2012, Florida's Auditor General issued an audit report critical of Lake Worth's accounting and rate setting practices. Later that month, Lake Worth sent a letter to the Auditor General acknowledging most, if not all, of the main points contained in the audit report. The parties met in December 2012 to resolve all disputes among the parties. The lawsuit remains abated.

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

In February 2013, a tentative agreement was reached that will resolve all disputes among the parties. Under the terms of the agreement, the Town will receive a refund in the amount of \$262,406. The agreement will not become final until approved by the governing bodies of all the parties involved.

Encumbrances: At September 30, 2012, the following amounts were encumbered in the governmental funds:

Major Funds	
General Fund	\$ 1,799,555
Beach Restoration Project Fund	680,709
Accelerated Capital Fund	6,572,779
Total Major Funds	<u>9,053,043</u>
Non-Major Governmental Funds	1,699,705
Total Encumbrances	<u><u>\$ 10,752,748</u></u>

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE P – POLLUTION REMEDIATION OBLIGATIONS

During the replacement of a fuel storage tank in Phipps Park, non-petroleum contamination was detected. The contaminants include arsenic and chlorinated pesticides in both soil and groundwater samples. As required by state and federal laws and regulations, this information was submitted to Palm Beach County Environmental Resources Management, the authorized regulatory agency. Representatives of the Town have also met with representatives of the Florida Department of Environmental Protection to relay the preliminary information and request guidance. The Town engaged consultants to develop a remediation plan. The removal of the contaminated soil has been completed at an approximate cost of \$446,000. Post remediation monitoring of groundwater will be required, which could result in additional remediation requirements. The cost of additional remediation can not be reasonably estimated at this time.

NOTE Q – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

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

As of September 30, 2012, the estimated liability for landfill closure and postclosure care costs were \$1,343,167 for the Skees Road site and \$935,756 for the Okeechobee Boulevard site for a total of \$2,278,923. This represents the cumulative amounts reported to date based on the use of 57.1% of the estimated capacity of the Skees Road site and 75.0% of the Okeechobee Boulevard site. The total liability is reported in the Governmental Activities in the entity-wide Statement of Net Assets. The Town will recognize the remaining estimated costs of closure and postclosure care of \$1,008,591 for the Skees Road Site and \$311,919 for the Okeechobee Boulevard site as the remaining estimated capacity is filled. The landfills have remaining estimated lives of 50 years and 16 years for the Skees Road site and Okeechobee Boulevard site, respectively.

The estimated total current cost of the landfill closure and post closure care is \$2,351,759 for the Skees Road site and \$1,247,674 for the Okeechobee Boulevard site for a total of \$3,599,433. This is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of September 30, 2012. However, the actual cost of closure and postclosure may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

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

TOWN OF PALM BEACH, FLORIDA

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE R - DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS

As of September 30, 2012, the Grants Special Revenue Fund and the Underground Utility Assessment Special Revenue Fund had unassigned fund balance deficits in the amounts of \$157,707 and \$297,962, respectively.

NOTE S - SUBSEQUENT EVENT

In October 2012, Hurricane Sandy struck south Florida resulting in approximately \$300,000 of damage to the Town's sand transfer plant. The Town's beaches also experienced significant erosion.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PALM BEACH, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Ad valorem	\$ 35,999,100	\$ 35,999,100	\$ 36,662,916	\$ 663,816
Local option gas tax	300,000	300,000	301,240	1,240
Franchise fees	2,360,000	2,360,000	2,040,443	(319,557)
Utility service	4,982,000	4,982,000	4,973,633	(8,367)
Business tax receipts	745,000	745,000	669,095	(75,905)
Total taxes	44,386,100	44,386,100	44,647,327	261,227
Fees and permits				
Building permits	4,809,300	4,809,300	5,514,910	705,610
Fees and other permits	243,500	243,500	365,417	121,917
Total fees and permits	5,052,800	5,052,800	5,880,327	827,527
Intergovernmental				
State shared revenue	1,008,500	1,008,500	966,780	(41,720)
Shared revenue-local	38,000	38,000	20,781	(17,219)
Total intergovernmental	1,046,500	1,046,500	987,561	(58,939)
Charges for services				
General government	42,000	42,000	39,000	(3,000)
Public safety	1,542,600	1,542,600	2,001,027	458,427
Physical environment	1,178,000	1,178,000	1,260,317	82,317
Transportation	908,136	908,136	780,917	(127,219)
Total charges for services	3,670,736	3,670,736	4,081,261	410,525
Fines and forfeitures	843,000	843,000	1,106,436	263,436
Investment earnings	1,110,000	1,110,000	495,312	(614,688)
Grant revenue	5,500	5,500	63,872	58,372
Miscellaneous				
Rents and royalties	93,200	93,200	104,980	11,780
Other miscellaneous	94,000	94,000	84,053	(9,947)
Total miscellaneous	187,200	187,200	189,033	1,833
Total revenues	56,301,836	56,301,836	57,451,129	1,149,293

See notes to the budgetary comparison schedule.

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
General government				
Town manager	\$ 1,937,493	\$ 2,394,332	\$ 2,284,463	\$ 109,869
Human resources	671,057	680,856	572,455	108,401
Information systems	1,651,100	1,706,890	1,696,917	9,973
Town clerk	292,012	302,607	291,187	11,420
Finance	1,468,302	1,494,862	1,492,269	2,593
Planning, zoning and building	541,770	551,103	523,550	27,553
Permit issuance	945,300	1,003,401	886,543	116,858
Employee benefits	1,493,000	1,493,000	1,493,000	
Total general government	<u>9,000,034</u>	<u>9,627,051</u>	<u>9,240,384</u>	<u>386,667</u>
Public safety				
Inspection and compliance	1,073,500	1,122,640	988,760	133,880
Fire-rescue	11,187,310	10,953,156	10,487,211	465,945
Police	12,536,616	12,788,607	12,549,954	238,653
Emergency/disaster response	856,297	49,309	21,572	27,737
Total public safety	<u>25,653,723</u>	<u>24,913,712</u>	<u>24,047,497</u>	<u>866,215</u>
Physical environment				
Administration	800,285	822,432	821,636	796
Sewer and sanitation	7,348,790	8,125,844	6,903,471	1,222,373
Public works	2,710,103	3,224,289	2,507,448	716,841
Total physical environment	<u>10,859,178</u>	<u>12,172,565</u>	<u>10,232,555</u>	<u>1,940,010</u>
Transportation				
Streets and repairs	370,293	408,574	323,450	85,124
Traffic control	684,590	748,749	633,654	115,095
Total transportation	<u>1,054,883</u>	<u>1,157,323</u>	<u>957,104</u>	<u>200,219</u>
Culture and recreation				
Recreation	134,200	143,695	141,183	2,512
Library	280,572	280,572	272,400	8,172
Parks and beaches	1,301,339	1,345,579	1,089,506	256,073
Total culture and recreation	<u>1,716,111</u>	<u>1,769,846</u>	<u>1,503,089</u>	<u>266,757</u>
Non-departmental	1,791,507	1,804,507	1,804,439	68
Total expenditures	50,075,436	51,445,004	47,785,068	3,659,936

(continued)

See notes to the budgetary comparison schedule.

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Proceeds sale of capital assets	\$	\$	\$	\$
Insurance recoveries			494,502	494,502
Transfers In	800,000	800,000	800,000	
Transfers Out	(8,460,000)	(8,460,000)	(8,460,000)	
	<u>(7,660,000)</u>	<u>(7,660,000)</u>	<u>(7,165,498)</u>	<u>494,502</u>
Revenue and other sources under expenditures and other uses	<u>\$ (1,433,600)</u>	<u>\$ (2,803,168)</u>	2,500,563	<u>\$ 5,303,731</u>
Fund balances - beginning of year			<u>25,722,567</u>	
Fund balance - end of year			<u>\$ 28,223,130</u>	

See notes to the budgetary comparison schedule.

TOWN OF PALM BEACH, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO BUDGETARY COMPARISON SCHEDULE

September 30, 2012

NOTE A - BUDGETARY ACCOUNTING

Budgets: Budgets are legally adopted for the General Fund, all Debt Service Funds, and all Capital Projects Funds. Special Revenue Funds are not budgeted. All governmental fund budgets are prepared on the modified accrual basis of accounting.

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

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

All budget amounts presented in the accompanying supplementary information reflect the original budget and the amended budget based on legally authorized revisions to the original budgets during the year. Unexpended appropriations lapse at year end.

Encumbrances: Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control. Encumbrances lapse at year end and become obligations of the subsequent year's budget. At September 30, 2012, the Town had commitments related to unperformed contracts, which have been re-appropriated in the 2012-2013 annual budget. These amounts are not included in the current year's expenditures as reported in these financial statements. The amended budget at September 30, 2012, includes \$1,369,068 of prior year encumbrances that were re-appropriated.

NOTE B - BUDGET AND ACTUAL COMPARISONS

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

TOWN OF PALM BEACH, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO BUDGETARY COMPARISON SCHEDULE (CONTINUED)

September 30, 2012

NOTE B - BUDGET AND ACTUAL COMPARISONS (Continued)

	<u>Revenue</u>	<u>Expenditures</u>
Budgetary basis	\$ 57,451,129	\$ 47,785,068
State on-behalf payments for Police and Fire-Rescue pension contributions not included in budgetary basis	<u>924,586</u>	<u>924,586</u>
GAAP basis	<u><u>\$ 58,375,715</u></u>	<u><u>\$ 48,709,654</u></u>

TOWN OF PALM BEACH, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS - PENSION PLANS

September 30, 2012

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Town of Palm Beach Retirement System - General Employees</u>						
09/30/06	\$ 64,608	\$ 73,054	\$ 8,446	88.4%	\$ 12,422	68.0%
09/30/07	72,161	77,632	5,471	93.0%	12,697	43.1%
09/30/08	73,732	83,758	10,026	88.0%	12,687	79.0%
09/30/09	72,370	89,658	17,288	80.7%	13,304	129.9%
09/30/10	73,809	93,147	19,338	79.2%	11,580	167.0%
09/30/11	74,247	82,974	8,727	89.5%	10,926	79.9%
<u>Town of Palm Beach Retirement System - Police Officers</u>						
09/30/06	\$ 52,614	\$ 60,835	\$ 8,221	86.5%	\$ 5,769	142.5%
09/30/07	58,486	63,742	5,256	91.8%	5,334	98.5%
09/30/08	61,668	68,525	6,857	90.0%	5,309	129.2%
09/30/09	63,000	74,257	11,257	84.8%	6,187	181.9%
09/30/10	64,079	76,694	12,615	83.6%	6,043	208.8%
09/30/11	63,554	72,421	8,867	87.8%	5,222	169.8%
<u>Town of Palm Beach Retirement System - Firefighters</u>						
09/30/06	\$ 49,236	\$ 64,220	\$ 14,984	76.7%	\$ 5,710	262.4%
09/30/07	54,723	67,027	12,304	81.6%	5,573	220.8%
09/30/08	57,652	71,813	14,161	80.3%	5,823	243.2%
09/30/09	57,852	78,139	20,287	74.0%	6,398	317.1%
09/30/10	59,219	81,598	22,379	72.6%	6,219	359.8%
09/30/11	58,899	72,928	14,029	80.8%	5,142	272.8%

TOWN OF PALM BEACH, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
TOWN OF PALM BEACH RETIREMENT SYSTEM - GENERAL EMPLOYEES

Year Ended September 30, 2012

<u>Year Ended September 30</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2007	\$ 2,415,000	\$ 2,417,000 (a)	100%
2008	2,614,902	2,614,902	100%
2009	2,420,128	2,420,128	100%
2010	2,616,484	2,616,484	100%
2011	2,460,540	2,460,540	100%
2012	811,440	811,440	100%

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

TOWN OF PALM BEACH, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

Year Ended September 30, 2012

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
10/01/06	N/A	N/A	N/A	N/A	N/A	N/A
10/01/08	\$ 15,786	\$ 26,720	\$ 10,934	59.1%	\$ 30,878	35.4%
10/01/10	17,701	27,769	10,068	63.7%	26,281	38.3%
10/01/12	20,942	29,289	8,347	71.5%	21,754	38.4%

The schedule of funding progress presented above presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Since the plan was initially funded subsequent to October 1, 2006, there was no funding information available as of that date.

OTHER SUPPLEMENTARY INFORMATION

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

**MAJOR CAPITAL PROJECTS FUNDS
BUDGETARY COMPARISON SCHEDULES**

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - BEACH RESTORATION PROJECT FUND

Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 20,000	\$ 20,000	\$ 75,695	\$ 55,695
Grant revenue			573,010	573,010
Total revenues	\$ 20,000	\$ 20,000	\$ 648,705	\$ 628,705
EXPENDITURES				
Current				
Physical environment	\$	\$ 2,843,748	\$ 840,103	\$ 2,003,645
Non-departmental	7,668,594	3,530,518		3,530,518
Capital outlay		1,534,328	333,611	1,200,717
Total expenditures	\$ 7,668,594	\$ 7,908,594	\$ 1,173,714	\$ 6,734,880
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 3,960,000	\$ 3,960,000	\$ 3,960,000	\$
Total other financing sources (uses)	\$ 3,960,000	\$ 3,960,000	\$ 3,960,000	\$

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - ACCELERATED CAPITAL FUND

Year Ended September 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Investment earnings	\$ 100,000	\$ 100,000	\$ 81,217	\$ (18,783)
Miscellaneous			762,620	762,620
Total revenues	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 843,837</u>	<u>\$ 743,837</u>
EXPENDITURES				
Current				
General government	\$	\$ 40,933	\$ 13,616	\$ 27,317
Physical environment		740,669	220,666	520,003
Non-departmental	38,493,974	15,611,422		15,611,422
Capital outlay		22,100,950	15,291,782	6,809,168
Total expenditures	<u>\$ 38,493,974</u>	<u>\$ 38,493,974</u>	<u>\$ 15,526,064</u>	<u>\$ 22,967,910</u>

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes. The Town reports the following nonmajor special revenue funds.

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

Federal Forfeiture Fund - To account for Federal forfeiture receipts.

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

Grants Fund - To account for revenue from ARRA and UASI Grants.

Underground Utility Assessment Fund - To account for revenue levied for Underground Utility.

DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for, and the payment of debt principal, interest, and related costs. The Town reports the following nonmajor debt service funds

Series 2010A Debt Service Fund

Series 2010B Debt Service Fund

CAPITAL PROJECTS FUNDS

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

Capital Improvement Fund

Town Facilities Fund

Worth Avenue Assessment Fund

Worth Avenue Construction Fund

TOWN OF PALM BEACH, FLORIDA

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

September 30, 2012

	Special Revenue				Underground Utility Assessment Fund
	State Forfeiture Fund	Federal Forfeiture Fund	Donation Fund	Grants Fund	
ASSETS					
Equity in pooled cash and investments	\$ 14,392	\$ 35,415	\$ 723,153	\$	\$
Accounts receivable					
Interest receivable					
Due from other governments				157,607	
Due from other funds					
Prepaid items			3,890		
Restricted cash					
Total assets	\$ 14,392	\$ 35,415	\$ 727,043	\$ 157,607	\$
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts and contracts payable	\$	\$	\$ 70,550	\$	\$ 2,657
Restricted payable					
Due to other funds				157,707	295,305
Deposits			182,065		
Deferred revenue				157,607	
Total liabilities			252,615	315,314	297,962
FUND BALANCES					
Restricted for:					
Public safety	14,392	35,415			
Special projects			474,428		
Debt service					
Worth avenue					
Assigned to:					
Capital projects					
Town facilities					
Unassigned				(157,707)	(297,962)
Total fund balances	14,392	35,415	474,428	(157,707)	(297,962)
Total liabilities and fund balances	\$ 14,392	\$ 35,415	\$ 727,043	\$ 157,607	\$

Debt Service		Capital Projects				Total Nonmajor Governmental Funds
2010A Debt Service Fund	2010B Debt Service Fund	Capital Improvement Fund	Town Facilities Fund	Worth Avenue Assessment Fund	Worth Avenue Construction Fund	
\$ 257,610	\$ 31,350	\$ 5,882,844 14,055	\$ 969,943 5,967	\$ 179,665	\$ 91,441	\$ 8,185,813 14,055 5,967 157,607 5,190 3,890 73,566
	5,190	73,566				
<u>\$ 257,610</u>	<u>\$ 36,540</u>	<u>\$ 5,970,465</u>	<u>\$ 975,910</u>	<u>\$ 179,665</u>	<u>\$ 91,441</u>	<u>\$ 8,446,088</u>
\$	\$	\$ 203,016 73,566 69,955	\$ 6,475	\$ 5,240 5,190	\$ 7,509	\$ 295,447 73,566 528,157 182,065 157,607 1,236,842
		346,537	6,475	10,430	7,509	
257,610	36,540	5,623,928	969,435	169,235	83,932	49,807 474,428 294,150 253,167 5,623,928 969,435 (455,669) 7,209,246
<u>257,610</u>	<u>36,540</u>	<u>5,623,928</u>	<u>969,435</u>	<u>169,235</u>	<u>83,932</u>	<u>7,209,246</u>
<u>\$ 257,610</u>	<u>\$ 36,540</u>	<u>\$ 5,970,465</u>	<u>\$ 975,910</u>	<u>\$ 179,665</u>	<u>\$ 91,441</u>	<u>\$ 8,446,088</u>

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2012

	Special Revenue				Underground Utility Assessment Fund
	State Forfeiture Fund	Federal Forfeiture Fund	Donation Fund	Grants Fund	
REVENUES					
Fines and forfeitures	\$ 240	\$	\$	\$	\$
Investment earnings	122	61			
Grant revenue					
Contributions			449,050		
Special assessments					
Miscellaneous					
Total revenues	<u>362</u>	<u>61</u>	<u>449,050</u>		
EXPENDITURES					
Current					
General government			89,961		
Public safety	9,876	8,171	48,343	50,000	
Physical environment			15,993	74,173	62,773
Transportation					
Economic Environment					
Culture and recreation			2,163		
Capital outlay	11,024	4,818	162,811	8,255	
Debt service					
Principal retirement					
Interest and fiscal charges					6,320
Total expenditures	<u>20,900</u>	<u>12,989</u>	<u>319,271</u>	<u>132,428</u>	<u>69,093</u>
Revenue over (under) expenditures	(20,538)	(12,928)	129,779	(132,428)	(69,093)
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers out	(122,309)				
Total other financing sources (uses)	<u>(122,309)</u>				
Net change in fund balances	(142,847)	(12,928)	129,779	(132,428)	(69,093)
Fund balances - beginning of year	157,239	48,343	344,649	(25,279)	(228,869)
Fund balances - end of year	<u>\$ 14,392</u>	<u>\$ 35,415</u>	<u>\$ 474,428</u>	<u>\$ (157,707)</u>	<u>\$ (297,962)</u>

		Capital Projects				
2010A Debt Service Fund	2010B Debt Service Fund	Capital Improvement Fund	Town Facilities Fund	Worth Avenue Assessment Fund	Worth Avenue Construction Fund	Total Nonmajor Governmental Funds
\$ 289	\$	\$ 46,786 190,826	\$ 2,759	\$ 702	\$ 1,749	\$ 240 52,468 190,826 459,050 1,068,133 59,687
<u>289</u>	<u>5,190</u>	<u>53,494</u> <u>291,106</u>	<u>2,759</u>	<u>10,000</u> <u>1,068,133</u> <u>1,003</u> <u>1,079,838</u>	<u>1,749</u>	<u>59,687</u> <u>1,830,404</u>
			6,458			96,419
		6,868				123,258
		353,498				506,437
		142,334				142,334
		3,150		182,280	149,526	331,806
		555,252				5,313 742,160
990,000	1,785,000					2,775,000
<u>2,635,578</u>	<u>534,106</u>				<u>1,691</u>	<u>3,177,695</u>
<u>3,625,578</u>	<u>2,319,106</u>	<u>1,061,102</u>	<u>6,458</u>	<u>182,280</u>	<u>151,217</u>	<u>7,900,422</u>
(3,625,289)	(2,313,916)	(769,996)	(3,699)	897,558	(149,468)	(6,070,018)
3,624,238	2,349,300	1,000,000		41,400		7,014,938
				(864,300)	(1,526,400)	(2,513,009)
<u>3,624,238</u>	<u>2,349,300</u>	<u>1,000,000</u>		<u>(822,900)</u>	<u>(1,526,400)</u>	<u>4,501,929</u>
(1,051)	35,384	230,004	(3,699)	74,658	(1,675,868)	(1,568,089)
<u>258,661</u>	<u>1,156</u>	<u>5,393,924</u>	<u>973,134</u>	<u>94,577</u>	<u>1,759,800</u>	<u>8,777,335</u>
<u>\$ 257,610</u>	<u>\$ 36,540</u>	<u>\$ 5,623,928</u>	<u>\$ 969,435</u>	<u>\$ 169,235</u>	<u>\$ 83,932</u>	<u>\$ 7,209,246</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - SERIES 2010A DEBT SERVICE FUND

Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 1,000	\$ 1,000	\$ 289	\$ (711)
EXPENDITURES				
Debt service				
Principal retirement	\$ 990,000	\$ 990,000	\$ 990,000	\$
Interest and fiscal charges	2,641,800	2,641,800	2,635,578	6,222
Total expenditures	\$ 3,631,800	\$ 3,631,800	\$ 3,625,578	\$ 6,222
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 3,624,500	\$ 3,624,500	\$ 3,624,238	\$ (262)
Total other financing sources (uses)	\$ 3,624,500	\$ 3,624,500	\$ 3,624,238	\$ (262)

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - SERIES 2010B DEBT SERVICE FUND

Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 500	\$ 500	\$	\$ (500)
Miscellaneous			5,190	5,190
Total revenues	\$ 500	\$ 500	\$ 5,190	\$ 4,690
EXPENDITURES				
Debt service				
Principal retirement	\$ 300,000	\$ 1,785,000	\$ 1,785,000	\$
Interest and fiscal charges	564,300	564,300	534,106	30,194
Total expenditures	\$ 864,300	\$ 2,349,300	\$ 2,319,106	\$ 30,194
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 864,300	\$ 2,349,300	\$ 2,349,300	\$
Total other financing sources (uses)	\$ 864,300	\$ 2,349,300	\$ 2,349,300	\$

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - CAPITAL IMPROVEMENT FUND

Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUE				
Investment earnings	\$ 10,000	\$ 10,000	\$ 46,786	\$ 36,786
Grant revenue			190,826	190,826
Miscellaneous	800,000	800,000	53,494	(746,506)
Total revenues	\$ 810,000	\$ 810,000	\$ 291,106	\$ (518,894)
EXPENDITURES				
Current				
General government	\$	\$	\$	\$
Public safety		55,000	6,868	48,132
Physical environment		1,896,777	388,118	1,508,659
Transportation		750,770	142,334	608,436
Culture and recreation		6,526	3,150	3,376
Non-departmental	7,231,000	1,582,012		1,582,012
Capital outlay		3,499,269	520,632	2,978,637
Total expenditures	\$ 7,231,000	\$ 7,790,354	\$ 1,061,102	\$ 6,729,252
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$
Total other financing sources (uses)	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - TOWN FACILITIES FUND

Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 1,000	\$ 1,000	\$ 2,759	\$ 1,759
Total revenues	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 2,759</u>	<u>\$ 1,759</u>
EXPENDITURES				
Current				
General government	\$	\$	\$ 6,458	\$ (6,458)
Non-departmental	454,400			
Capital outlay		967,949		967,949
Total expenditures	<u>\$ 454,400</u>	<u>\$ 967,949</u>	<u>\$ 6,458</u>	<u>\$ 961,491</u>

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - WORTH AVENUE ASSESSMENT FUND

Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 1,000	\$ 1,000	\$ 702	\$ (298)
Contributions			10,000	10,000
Special assessments	1,058,400	1,058,400	1,068,133	9,733
Miscellaneous	35,000	35,000	1,003	(33,997)
Total revenues	\$ 1,094,400	\$ 1,094,400	\$ 1,079,838	\$ (14,562)
EXPENDITURES				
Current				
Economic environment	\$ 230,687	\$ 291,259	\$ 182,280	\$ 108,979
Total expenditures	\$ 230,687	\$ 291,259	\$ 182,280	\$ 108,979
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 63,400	\$ 63,400	\$ 41,400	\$ (22,000)
Transfers out	(864,300)	(864,300)	(864,300)	
Total other financing sources (uses)	\$ (800,900)	\$ (800,900)	\$ (822,900)	\$ (22,000)

TOWN OF PALM BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE - WORTH AVENUE CONSTRUCTION FUND

Year Ended September 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Investment earnings	\$ 2,000	\$ 2,000	\$ 1,749	\$ (251)
Total revenues	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 1,749</u>	<u>\$ (251)</u>
 EXPENDITURES				
Current				
Economic environment	\$	\$	\$ 149,526	\$ (149,526)
Non-departmental	1,784,187	96,674		96,674
Capital outlay		202,513		202,513
Debt service				
Interest and fiscal charges			1,691	(1,691)
Total expenditures	<u>\$ 1,784,187</u>	<u>\$ 299,187</u>	<u>\$ 151,217</u>	<u>\$ 147,970</u>
 OTHER FINANCING SOURCES (USES)				
Transfers out	<u>\$ (63,400)</u>	<u>\$ (1,548,400)</u>	<u>\$ (1,526,400)</u>	<u>\$ 22,000</u>

INTERNAL SERVICE FUNDS

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

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

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

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

TOWN OF PALM BEACH, FLORIDA

COMBINING BALANCE SHEET - INTERNAL SERVICE FUNDS

September 30, 2012

	Property, Liability and Workers Compensation Insurance Fund	Group Health Insurance Fund	Equipment Replacement Fund	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 20,000	\$ 29,543	\$ 14,872,466	\$ 49,543
Equity in pooled cash and investments	10,268,301	3,904,074	14,872,466	29,044,841
Interest receivable	11,821	695	11,805	24,321
Prepaid expenses		22,400		22,400
Total current assets	<u>10,300,122</u>	<u>3,956,712</u>	<u>14,884,271</u>	<u>29,141,105</u>
Noncurrent assets				
Capital assets				
Equipment	63,600		17,848,811	17,912,411
Accumulated depreciation	(22,454)		(9,248,276)	(9,270,730)
Total capital assets, net of accumulated depreciation	<u>41,146</u>		<u>8,600,535</u>	<u>8,641,681</u>
Total assets	<u>10,341,268</u>	<u>3,956,712</u>	<u>23,484,806</u>	<u>37,782,786</u>
LIABILITIES				
Current liabilities				
Accounts payable	27,989	345,306	14,083	387,378
Accrued liabilities	2,279,514	375,189		2,654,703
Due to other governments	26,275			26,275
Due to other funds				
Compensated absences payable		1,883		1,883
Total current liabilities	<u>2,333,778</u>	<u>722,378</u>	<u>14,083</u>	<u>3,070,239</u>
Noncurrent liability				
Compensated absences payable	16,937			16,937
Total liabilities	<u>2,350,715</u>	<u>722,378</u>	<u>14,083</u>	<u>3,087,176</u>
NET ASSETS				
Invested in capital assets	41,146		8,600,535	8,641,681
Unrestricted	7,949,407	3,234,334	14,870,188	26,053,929
Total net assets	<u>\$ 7,990,553</u>	<u>\$ 3,234,334</u>	<u>\$ 23,470,723</u>	<u>\$ 34,695,610</u>

TOWN OF PALM BEACH, FLORIDA

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

Year Ended September 30, 2012

	Property, Liability and Workers Compensation Insurance Fund	Group Health Insurance Fund	Equipment Replacement Fund	Total
OPERATING REVENUES				
Charges for services	\$ 1,791,507	\$ 4,483,015	\$ 1,859,768	\$ 8,134,290
Other	21,479	44		21,523
Total operating revenues	<u>1,812,986</u>	<u>4,483,059</u>	<u>1,859,768</u>	<u>8,155,813</u>
OPERATING EXPENSES				
Personal services	113,850	53,034		166,884
Contractual services	9,003	26,875		35,878
Insurance	924,862	923,059		1,847,921
Claims	1,146,185	3,078,420		4,224,605
Claims adjustment	(1,788,546)			(1,788,546)
Depreciation	2,758		1,419,310	1,422,068
Other	514,965	5,005	53,677	573,647
Total operating expenses	<u>923,077</u>	<u>4,086,393</u>	<u>1,472,987</u>	<u>6,482,457</u>
Operating Income (Loss)	889,909	396,666	386,781	1,673,356
NONOPERATING REVENUE (EXPENSE)				
Investment earnings	82,319	6,895	149,127	238,341
Insurance recoveries	154,650	146,877		301,527
Miscellaneous revenue			3,109	3,109
Loss on disposal of assets			(114,386)	(114,386)
Total nonoperating revenue (expense)	<u>236,969</u>	<u>153,772</u>	<u>37,850</u>	<u>428,591</u>
Income before capital contributions and transfers	1,126,878	550,438	424,631	2,101,947
Capital contributions			188,446	188,446
Transfers in			167,957	167,957
Change in net assets	1,126,878	550,438	781,034	2,458,350
Net assets - beginning of year	<u>6,863,675</u>	<u>2,683,896</u>	<u>22,689,689</u>	<u>32,237,260</u>
Net assets - end of year	<u>\$ 7,990,553</u>	<u>\$ 3,234,334</u>	<u>\$ 23,470,723</u>	<u>\$ 34,695,610</u>

TOWN OF PALM BEACH, FLORIDA

COMBINING STATEMENT OF CASH FLOWS -
INTERNAL SERVICE FUNDS

Year Ended September 30, 2012

	Property, Liability and Workers Compensation Insurance Fund	Group Health Insurance Fund	Equipment Replacement Fund	Total
OPERATING ACTIVITIES				
Receipts from interfund services provided	\$ 1,791,363	\$ 4,483,015	\$ 1,859,768	\$ 8,134,146
Payments to employees	(102,699)	(49,396)		(152,095)
Payments to suppliers	(2,636,528)	(4,175,872)	(198,394)	(7,010,794)
Payments to other funds	(10,310)			(10,310)
Other receipts	21,479	44		21,523
Net cash provided by (used in) operating activities	(936,695)	257,791	1,661,374	982,470
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of property and equipment			(1,102,237)	(1,102,237)
Proceeds from sale of assets			72,676	72,676
Capital contributions			150,000	150,000
Receipts from other funds			122,309	122,309
Insurance recoveries	154,650	146,877		301,527
Net cash provided by (used in) capital and related financing activities	154,650	146,877	(757,252)	(455,725)
INVESTING ACTIVITY				
Investment earnings received	88,390	6,689	155,196	250,275
Net cash provided by (used in) investing activity	88,390	6,689	155,196	250,275
Net increase (decrease) in cash and cash equivalents	(693,655)	411,357	1,059,318	777,020
Cash and cash equivalents - beginning of year	10,981,956	3,522,260	13,813,148	28,317,364
Cash and cash equivalents - end of year	<u>\$ 10,288,301</u>	<u>\$ 3,933,617</u>	<u>\$ 14,872,466</u>	<u>\$ 29,094,384</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 889,909	\$ 396,666	\$ 386,781	\$ 1,673,356
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	2,758		1,419,310	1,422,068
Changes in operating assets and liabilities:				
Increase (decrease) in prepaid expenses	100	(16,000)		(15,900)
Increase (decrease) in accounts payable	(41,613)	(126,513)	(144,717)	(312,843)
Increase (decrease) in accrued liabilities	(1,788,689)	3,370		(1,785,319)
Increase (decrease) in due to other funds	(144)			(144)
Increase (decrease) in compensated absences payable	984	268		1,252
Net cash provided by (used in) operating activities	<u>\$ (936,695)</u>	<u>\$ 257,791</u>	<u>\$ 1,661,374</u>	<u>\$ 982,470</u>
NONCASH ACTIVITY				
Insurance claims adjustment	<u>\$ 1,788,546</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,788,546</u>

FIDUCIARY FUNDS

TRUST FUNDS

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

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

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

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

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

AGENCY FUNDS

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

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

TOWN OF PALM BEACH, FLORIDA

COMBINING STATEMENT OF PLAN NET ASSETS -
TRUST FUNDS

September 30, 2012

	General Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	Firefighters' Pension Trust Fund	OPEB Trust Fund	Total
ASSETS					
Cash and cash equivalents	\$ 732,055	\$ 899,454	\$ 684,076	\$ 164,602	\$ 2,480,187
Equity in pooled cash and investments	72,116			956,961	1,029,077
Interest and dividends receivable	6,281			3,586	9,867
State contributions receivable			161,013		161,013
Due from broker for securities sold	82,231	43,603			125,834
Other receivables	271,194		7,407		278,601
Prepaid expenses and other assets	153,096	54,614	50,933		258,643
Investments, at fair value					
U.S. government securities		1,755,811			1,755,811
Corporate bonds and notes		2,191,600	11,244,909		13,436,509
Common stock	11,003,536	5,755,034	5,271,526		22,030,096
Domestic equity funds	25,797,881	7,398,005	7,463,694	6,183,858	46,843,438
International equity funds	6,994,038	8,945,762	8,575,652	3,717,001	28,232,453
Domestic fixed income funds	21,415,919	10,281,666		5,449,824	37,147,409
Inflation hedging funds		4,298,700	5,022,650	928,470	10,249,820
Alternative investments	7,001,514	17,180,206	17,563,611	3,793,079	45,538,410
Private equity funds			1,598,599		1,598,599
Share and DROP mutual funds held outside the Plan			2,994,058		2,994,058
Total assets	<u>73,529,861</u>	<u>58,804,455</u>	<u>60,638,128</u>	<u>21,197,381</u>	<u>214,169,825</u>
LIABILITIES					
Accounts payable	117,511	32,071	73,175	253,316	476,073
Accrued liabilities		6,505		1,812	8,317
Due to broker for securities purchased	18,944				18,944
Deferred retirement option plan payable			274,326		274,326
Prepaid town contributions	614,844	651,488	902,992		2,169,324
Share and deferred retirement option plan payable held outside the Plan			2,994,058		2,994,058
Total liabilities	<u>751,299</u>	<u>690,064</u>	<u>4,244,551</u>	<u>255,128</u>	<u>5,941,042</u>
NET ASSETS HELD IN TRUST FOR PENSION AND RETIREE HEALTH BENEFITS					
	<u>\$ 72,778,562</u>	<u>\$ 58,114,391</u>	<u>\$ 56,393,577</u>	<u>\$ 20,942,253</u>	<u>\$ 208,228,783</u>

TOWN OF PALM BEACH, FLORIDA

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
TRUST FUNDS

Year Ended September 30, 2012

	General Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	Firefighters' Pension Trust Fund	OPEB Trust Fund	Total
ADDITIONS					
Contributions					
Employer	\$ 811,440	\$ 1,004,917	\$ 1,065,434	\$ 1,493,000	\$ 4,374,791
Employee	1,241,326	323,938	279,466	1,263,754	3,108,484
State		229,923	600,648		830,571
Other				95,383	95,383
Total contributions	<u>2,052,766</u>	<u>1,558,778</u>	<u>1,945,548</u>	<u>2,852,137</u>	<u>8,409,229</u>
Investment income (loss)					
Net appreciation (depreciation)					
in fair value of investments	12,126,216	6,764,243	6,690,229	2,027,395	27,608,083
Interest and dividends	94,055	489,087	571,432	386,409	1,540,983
Other	11,121				11,121
Total investment income	<u>12,231,392</u>	<u>7,253,330</u>	<u>7,261,661</u>	<u>2,413,804</u>	<u>29,160,187</u>
Less investment expense	(303,010)	(209,938)	(135,385)	(92,081)	(740,414)
Allocation of investment income:					
Deferred retirement option plan			(19,336)		(19,336)
Net investment income	<u>11,928,382</u>	<u>7,043,392</u>	<u>7,106,940</u>	<u>2,321,723</u>	<u>28,400,437</u>
Other income		16,000		48,379	64,379
Total additions	<u>13,981,148</u>	<u>8,618,170</u>	<u>9,052,488</u>	<u>5,222,239</u>	<u>36,874,045</u>
DEDUCTIONS					
Benefit payments	5,087,927	4,443,665	4,611,265	2,389,939	16,532,796
Share account distributions			8,760		8,760
Refunds of participants' contributions	63,267	32,529	15,566		111,362
Administrative expense	152,381	181,684	181,769	62,432	578,266
Other			151,204	701	151,905
Total deductions	<u>5,303,575</u>	<u>4,657,878</u>	<u>4,968,564</u>	<u>2,453,072</u>	<u>17,383,089</u>
Net increase (decrease)	<u>8,677,573</u>	<u>3,960,292</u>	<u>4,083,924</u>	<u>2,769,167</u>	<u>19,490,956</u>
Net assets held in trust for pension and retiree health benefits - beginning of year	<u>64,100,989</u>	<u>54,154,099</u>	<u>52,309,653</u>	<u>18,173,086</u>	<u>188,737,827</u>
NET ASSETS HELD IN TRUST FOR PENSION AND RETIREE HEALTH BENEFITS - END OF YEAR					
	<u>\$ 72,778,562</u>	<u>\$ 58,114,391</u>	<u>\$ 56,393,577</u>	<u>\$ 20,942,253</u>	<u>\$ 208,228,783</u>

TOWN OF PALM BEACH, FLORIDA

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND

Year Ended September 30, 2012

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
KREUSLER PARK FUND				
ASSETS				
Accounts receivable	\$ 9,766	\$	\$ (9,766)	\$
Total assets	<u>\$ 9,766</u>	<u>\$</u>	<u>\$ (9,766)</u>	<u>\$</u>
LIABILITIES				
Accounts payable	\$ 9,766	\$	\$ (9,766)	\$
Total liabilities	<u>\$ 9,766</u>	<u>\$</u>	<u>\$ (9,766)</u>	<u>\$</u>

DEBT SERVICE REQUIREMENTS

TOWN OF PALM BEACH, FLORIDA

**SUMMARY SCHEDULE OF DEBT SERVICE REQUIREMENTS
PRINCIPAL AND INTEREST TO MATURITY**

September 30, 2012

Fiscal Year Ending September 30	Revenue and Refunding Bonds Series 2010A	Revenue Bonds Series 2010B	Total
2013	\$ 3,619,213	\$ 778,281	\$ 4,397,494
2014	3,620,988	772,681	4,393,669
2015	3,624,263	772,031	4,396,294
2016	3,620,937	775,678	4,396,615
2017	3,625,538	773,050	4,398,588
2018	3,623,238	774,275	4,397,513
2019	3,624,037	774,825	4,398,862
2020	3,621,187	774,663	4,395,850
2021	3,623,937	773,350	4,397,287
2022	3,623,188	776,188	4,399,376
2023	3,618,937	773,359	4,392,296
2024	3,620,938	774,619	4,395,557
2025	3,623,812	774,594	4,398,406
2026	3,622,438	773,494	4,395,932
2027	3,621,687	771,794	4,393,481
2028	3,624,968	774,116	4,399,084
2029	3,623,750	770,450	4,394,200
2030	3,624,125	775,656	4,399,781
2031	3,619,250	785,350	4,404,600
2032	3,623,750	810,350	4,434,100
2033	3,622,250	830,350	4,452,600
2034	3,624,500	855,350	4,479,850
2035	3,620,250	823,138	4,443,388
2036	3,624,125	785,925	4,410,050
2037	3,620,750	820,925	4,441,675
2038	3,624,750	845,925	4,470,675
2039	3,620,750	880,925	4,501,675
2040	3,623,375	832,963	4,456,338
	<u>\$ 101,430,931</u>	<u>\$ 22,204,305</u>	<u>\$ 123,635,236</u>

TOWN OF PALM BEACH, FLORIDA

DEBT SERVICE REQUIREMENTS
PUBLIC IMPROVEMENT REVENUE AND REFUNDING BONDS, SERIES 2010A

September 30, 2012

<u>Fiscal Year Ending September 30</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal Balance Outstanding End of Year</u>
2013	2.500%	\$ 1,010,000	\$ 2,609,213	\$ 3,619,213	\$ 54,065,000
2014	3.000%	1,040,000	2,580,988	3,620,988	53,025,000
2015	3.000%	1,075,000	2,549,263	3,624,263	51,950,000
2016	4.000%	1,110,000	2,510,937	3,620,937	50,840,000
2017	4.000%	1,160,000	2,465,538	3,625,538	49,680,000
2018	4.000%	1,205,000	2,418,238	3,623,238	48,475,000
2019	4.000%	1,255,000	2,369,037	3,624,037	47,220,000
2020	5.000%	1,310,000	2,311,187	3,621,187	45,910,000
2021	5.000%	1,380,000	2,243,937	3,623,937	44,530,000
2022	5.000%	1,450,000	2,173,188	3,623,188	43,080,000
2023	5.000%	1,520,000	2,098,937	3,618,937	41,560,000
2024	5.000%	1,600,000	2,020,938	3,620,938	39,960,000
2025	5.000%	1,685,000	1,938,812	3,623,812	38,275,000
2026	5.000%	1,770,000	1,852,438	3,622,438	36,505,000
2027	5.000%	1,860,000	1,761,687	3,621,687	34,645,000
2028	4.125%	1,950,000	1,674,968	3,624,968	32,695,000
2029	5.000%	2,040,000	1,583,750	3,623,750	30,655,000
2030	5.000%	2,145,000	1,479,125	3,624,125	28,510,000
2031	5.000%	2,250,000	1,369,250	3,619,250	26,260,000
2032	5.000%	2,370,000	1,253,750	3,623,750	23,890,000
2033	5.000%	2,490,000	1,132,250	3,622,250	21,400,000
2034	5.000%	2,620,000	1,004,500	3,624,500	18,780,000
2035	5.000%	2,750,000	870,250	3,620,250	16,030,000
2036	5.000%	2,895,000	729,125	3,624,125	13,135,000
2037	5.000%	3,040,000	580,750	3,620,750	10,095,000
2038	5.000%	3,200,000	424,750	3,624,750	6,895,000
2039	5.000%	3,360,000	260,750	3,620,750	3,535,000
2040	5.000%	3,535,000	88,375	3,623,375	
		<u>\$ 55,075,000</u>	<u>\$ 46,355,931</u>	<u>\$ 101,430,931</u>	

TOWN OF PALM BEACH, FLORIDA

DEBT SERVICE REQUIREMENTS
PUBLIC IMPROVEMENT REVENUE BONDS, SERIES 2010B

September 30, 2012

<u>Fiscal Year Ending September 30</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal Balance Outstanding End of Year</u>
2013	2.000%	\$ 280,000	\$ 498,281	\$ 778,281	\$ 12,410,000
2014	2.000%	280,000	492,681	772,681	12,130,000
2015	2.000%	285,000	487,031	772,031	11,845,000
2016	2.375%	295,000	480,678	775,678	11,550,000
2017	2.750%	300,000	473,050	773,050	11,250,000
2018	3.000%	310,000	464,275	774,275	10,940,000
2019	3.000%	320,000	454,825	774,825	10,620,000
2020	3.250%	330,000	444,663	774,663	10,290,000
2021	3.500%	340,000	433,350	773,350	9,950,000
2022	3.500%	355,000	421,188	776,188	9,595,000
2023	3.625%	365,000	408,359	773,359	9,230,000
2024	3.750%	380,000	394,619	774,619	8,850,000
2025	4.000%	395,000	379,594	774,594	8,455,000
2026	4.000%	410,000	363,494	773,494	8,045,000
2027	4.000%	425,000	346,794	771,794	7,620,000
2028	4.125%	445,000	329,116	774,116	7,175,000
2029	4.125%	460,000	310,450	770,450	6,715,000
2030	4.250%	485,000	290,656	775,656	6,230,000
2031	4.500%	505,000	280,350	785,350	5,725,000
2032	4.500%	530,000	280,350	810,350	5,195,000
2033	4.500%	550,000	280,350	830,350	4,645,000
2034	4.500%	575,000	280,350	855,350	4,070,000
2035	4.500%	605,000	218,138	823,138	3,465,000
2036	4.500%	630,000	155,925	785,925	2,835,000
2037	4.500%	665,000	155,925	820,925	2,170,000
2038	4.500%	690,000	155,925	845,925	1,480,000
2039	4.500%	725,000	155,925	880,925	755,000
2040	4.500%	755,000	77,963	832,963	
		<u>\$ 12,690,000</u>	<u>\$ 9,514,305</u>	<u>\$ 22,204,305</u>	

STATISTICAL SECTION

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

Contents	Page
Financial Trends <i>These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.</i>	122
Revenue Capacity <i>These schedules contain information to help the reader assess the Town's most significant local source, the property tax.</i>	128
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.</i>	135
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place and to help make comparisons over time and with other governments.</i>	140
Operating Information <i>These schedules contain information about the Town's operations and resources to help the reader understand how the information in the Town's report relates to the services the Town provides and the activities it performs.</i>	142

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

Town of Palm Beach, Florida

Net Assets by Component

Last Ten Fiscal Years

Accrual Basis of Accounting

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	\$ 51,595,063	\$ 50,906,153	\$ 52,423,983	\$ 70,412,738	\$ 71,453,781	\$ 75,658,381	\$ 80,983,936	\$ 89,404,386	\$ 80,099,513	\$ 76,021,164
Restricted	0	250,907	199,674	234,245	276,523	1,184,132	611,489	45,184,112	40,290,335	24,015,235
Unrestricted	75,213,296	80,397,271	86,813,836	83,756,838	94,548,246	90,855,890	91,088,326	36,551,306	39,732,216	63,300,047
Total governmental activities net assets	\$ 126,808,359	\$ 131,554,331	\$ 139,437,493	\$ 154,403,821	\$ 166,278,550	\$ 167,698,403	\$ 172,683,751	\$ 171,139,804	\$ 160,122,064	\$ 163,336,446
Business-type activities										
Invested in capital assets, net of related debt	\$ 8,946,928	\$ 10,515,063	\$ 10,679,781	\$ 10,965,117	\$ 10,971,879	\$ 12,635,374	\$ 17,120,652	\$ 17,020,243	\$ 16,521,594	\$ 16,029,772
Restricted	0	0	0	0	0	800,000	0	0	0	0
Unrestricted	2,781,185	3,129,161	4,091,466	4,117,835	4,715,002	4,798,209	2,955,244	2,891,749	3,300,496	3,701,370
Total business-type activities net assets	\$ 11,728,113	\$ 13,644,224	\$ 14,771,247	\$ 15,082,952	\$ 15,686,881	\$ 18,233,583	\$ 20,075,896	\$ 19,911,992	\$ 19,822,090	\$ 19,731,142
Primary government										
Invested in capital assets, net of related debt	\$ 60,541,991	\$ 61,421,216	\$ 63,103,764	\$ 81,377,855	\$ 82,425,660	\$ 88,293,755	\$ 98,104,588	\$ 106,424,629	\$ 96,621,107	\$ 92,050,936
Restricted	0	250,907	199,674	234,245	276,523	1,984,132	611,489	45,184,112	40,290,335	24,015,235
Unrestricted	77,994,481	83,526,432	90,905,302	87,874,673	99,263,248	95,654,099	94,043,570	39,443,055	43,032,712	67,001,417
Total primary government net assets	\$ 138,536,472	\$ 145,198,555	\$ 154,208,740	\$ 169,486,773	\$ 181,965,431	\$ 185,931,986	\$ 192,759,647	\$ 191,051,796	\$ 179,944,154	\$ 183,067,588

Town of Palm Beach, Florida

Changes in Net Assets

Last Ten Fiscal Years

Accrual Basis of Accounting

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	\$ 8,402,847	\$ 12,881,165	\$ 10,541,925	\$ 10,770,654	\$ 11,620,148	\$ 14,194,382	\$ 11,687,399	\$ 13,535,702	\$ 11,580,425	\$ 10,569,463
Public safety	19,803,167	22,872,573	27,865,411	27,115,822	30,526,540	29,688,750	30,755,445	29,321,521	29,833,142	24,321,116
Physical environment	9,307,102	11,851,242	12,267,718	19,746,156	15,169,120	19,802,683	17,536,687	16,553,051	23,071,088	17,471,774
Transportation	582,376	773,122	1,042,556	1,179,979	864,359	1,131,044	1,206,068	898,456	1,459,738	1,427,144
Economic Environment	0	0	0	0	0	0	0	0	2,369,146	331,806
Culture and recreation	2,489,073	1,561,430	1,677,604	1,919,405	1,854,023	1,814,544	1,796,409	3,293,395	1,642,346	1,488,135
Interest on long-term debt	1,277,118	1,590,795	1,138,344	1,030,985	913,297	825,899	741,244	2,081,998	3,163,237	3,078,046
Total governmental activities expenses	41,861,683	51,530,327	54,533,558	61,763,001	60,947,487	67,457,302	63,723,252	65,684,123	73,119,122	58,687,484
Business-type activities:										
Leisure services	1,528,543	2,935,651	3,099,168	3,474,250	3,546,363	3,450,003	3,666,342	3,774,682	3,661,337	3,582,227
Total business-type activities expenses	1,528,543	2,935,651	3,099,168	3,474,250	3,546,363	3,450,003	3,666,342	3,774,682	3,661,337	3,582,227
Total primary government expenses	\$ 43,390,226	\$ 54,465,978	\$ 57,632,726	\$ 65,237,251	\$ 64,493,850	\$ 70,907,305	\$ 67,389,594	\$ 69,458,805	\$ 76,780,459	\$ 62,269,711
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 5,859,442	\$ 6,317,510	\$ 7,094,336	\$ 6,745,625	\$ 7,308,586	\$ 8,016,246	\$ 5,035,126	\$ 4,239,229	\$ 5,879,837	\$ 6,024,307
Public safety	2,233,350	1,827,503	1,551,196	1,913,437	2,449,825	2,330,239	2,464,558	2,023,808	2,716,885	3,107,463
Physical environment	2,707,891	869,451	925,645	1,354,292	1,022,063	1,041,072	1,131,884	1,098,951	1,219,036	1,260,317
Transportation	398,614	433,041	393,012	410,584	540,123	657,135	650,537	1,268,087	1,841,501	1,920,292
Culture and recreation	354,790	0	0	0	54,004	84,663	61,388	37,381	55,017	0
Operating grants and contributions:										
General government	0	2,378,073	3,892,522	2,995,182	28,427	847,910	39,649	576,737	68,200	96,850
Public safety	713,611	182,917	1,394,472	963,866	1,214,891	1,253,809	842,282	322,706	145,364	148,133
Physical environment	722,869	60,470	1,612,048	9,672,675	163,213	158,231	319,781	0	5,000	5,000
Transportation	0	0	0	78,013	71,204	694,700	42,347	9	0	0
Culture and recreation	0	177,157	32,932	49,728	74,614	15,831	39,894	3,526	5,865	881
Capital grants and contributions:										
General government	0	0	0	0	0	0	0	4,421	120,895	239,000
Public safety	52,768	478,202	68,524	179,952	30,837	10,957	1,885,000	103,102	379,170	304,651
Physical environment	2,567,523	607,209	0	0	3,154,725	672,290	2,490	396,979	3,512,898	35,321
Transportation	0	0	0	0	0	0	0	0	7,192	0
Culture and recreation	0	21,791	0	0	0	0	445,251	10,962	0	187,634
Total governmental activities program revenues	15,610,858	13,353,324	16,964,687	24,363,354	16,112,512	15,783,083	12,960,187	10,085,898	15,956,860	13,329,849
Business-type activities:										
Charges for services:										
Leisure Services Fund	3,137,471	3,543,090	3,786,711	3,984,307	4,291,969	4,523,039	4,160,010	4,350,130	4,308,462	4,383,799
Operating grants and contributions	0	0	0	67,183	0	0	0	0	0	0
Capital grants and contributions	0	0	0	0	0	1,884,649	1,830,934	6,500	0	3,000
Total business-type activities program revenues	3,137,471	3,543,090	3,786,711	4,051,490	4,291,969	6,407,688	5,990,944	4,356,630	4,308,462	4,386,799
Total primary government program revenues	\$ 18,748,329	\$ 16,896,414	\$ 20,751,398	\$ 28,414,844	\$ 20,404,481	\$ 22,190,771	\$ 18,951,131	\$ 14,442,528	\$ 20,265,322	\$ 17,716,648
Net (expense)/revenue										
Governmental activities	\$ (26,250,825)	\$ (38,177,003)	\$ (37,568,871)	\$ (37,399,647)	\$ (44,834,975)	\$ (51,674,219)	\$ (50,763,065)	\$ (55,598,225)	\$ (57,162,262)	\$ (45,357,635)
Business-type activities	1,608,928	607,439	687,543	577,240	745,606	2,957,685	2,324,602	581,948	647,125	804,572
Total primary government net expense	\$ (24,641,897)	\$ (37,569,564)	\$ (36,881,328)	\$ (36,822,407)	\$ (44,089,369)	\$ (48,716,534)	\$ (48,438,463)	\$ (55,016,277)	\$ (56,515,137)	\$ (44,553,063)

Town of Palm Beach, Florida

Changes in Net Assets (continued)

Last Ten Fiscal Years

Accrual Basis of Accounting

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes:										
Property taxes	\$ 29,815,341	\$ 32,778,331	\$ 35,539,136	\$ 39,008,774	\$ 43,096,605	\$ 41,457,249	\$ 42,887,217	\$ 41,508,570	\$ 36,635,343	\$ 36,662,916
Local option gas tax	224,517	219,755	222,226	360,210	360,853	337,785	324,077	321,246	301,900	301,240
Franchise fees	1,726,221	1,881,195	1,989,980	2,433,811	2,478,487	2,447,544	2,454,232	2,152,817	2,204,718	2,040,443
Utility service taxes	4,156,003	3,983,261	4,160,185	4,167,844	4,105,957	4,496,507	4,608,088	4,885,696	4,847,146	4,954,671
Business tax receipts	0	0	0	0	0	0	726,239	716,018	694,373	669,095
Intergovernmental, unrestricted	958,145	1,730,628	1,192,382	1,158,415	1,249,609	1,108,340	1,190,409	905,276	937,865	838,855
Investment earnings	2,285,717	1,676,047	2,661,913	4,709,493	4,891,708	2,666,647	2,728,147	2,061,399	940,069	660,689
Miscellaneous	850,582	1,905,491	0	0	51,565	0	280,004	232,309	2,054,027	1,025,368
Transfers	675,000	(1,251,733)	(313,789)	527,428	474,920	580,000	550,000	550,000	764,338	1,418,740
Total governmental activities	40,691,526	42,922,975	45,452,033	52,365,975	56,709,704	53,094,072	55,748,413	53,333,331	49,379,779	48,572,017
Business-type activities										
Investment earnings	55,287	56,939	125,691	261,893	333,243	169,017	67,711	26,142	27,311	28,718
Transfers	(675,000)	1,251,733	313,789	(527,428)	(474,920)	(580,000)	(550,000)	(550,000)	(764,338)	(924,238)
Total business-type activities	(619,713)	1,308,672	439,480	(265,535)	(141,677)	(410,983)	(482,289)	(523,858)	(737,027)	(895,520)
Total primary government	\$ 40,071,813	\$ 44,231,647	\$ 45,891,513	\$ 52,100,440	\$ 56,568,027	\$ 52,683,089	\$ 55,266,124	\$ 52,809,473	\$ 48,642,752	\$ 47,676,497
Changes in Net Assets										
Governmental activities	\$ 14,440,701	\$ 4,745,972	\$ 7,883,162	\$ 14,966,328	\$ 11,874,729	\$ 1,419,853	\$ 4,985,348	\$ (2,264,894)	\$ (7,782,483)	\$ 3,214,382
Business-type activities	989,215	1,916,111	1,127,023	311,705	603,929	2,546,702	1,842,313	58,090	(89,902)	(90,948)
Total primary government	\$ 15,429,916	\$ 6,662,083	\$ 9,010,185	\$ 15,278,033	\$ 12,478,658	\$ 3,966,555	\$ 6,827,661	\$ (2,206,804)	\$ (7,872,385)	\$ 3,123,434

Town of Palm Beach, Florida

Fund Balances of Governmental Funds

Last Ten Fiscal Years

Modified Accrual Basis of Accounting

	Fiscal Year Pre-GASB 54							
	2003	2004	2005	2006	2007	2008	2009	2010
General Fund								
Reserved	\$ 918,224	\$ 2,881,233	\$ 1,213,317	\$ 1,379,142	\$ 2,188,726	\$ 515,591	\$ 478,285	\$ 512,860
Unreserved	20,511,244	23,413,449	24,761,271	23,010,110	28,447,330	31,858,624	30,304,216	26,919,376
Total General Fund	<u>\$ 21,429,468</u>	<u>\$ 26,294,682</u>	<u>\$ 25,974,588</u>	<u>\$ 24,389,252</u>	<u>\$ 30,636,056</u>	<u>\$ 32,374,215</u>	<u>\$ 30,782,501</u>	<u>\$ 27,432,236</u>
All other governmental funds								
Reserved	\$ 8,988,509	\$ 8,233,283	\$ 9,932,425	\$ 4,569,597	\$ 3,879,869	\$ 1,184,132	\$ 3,645,534	\$ 18,579,324
Unreserved, reported in:								
Special Revenue Funds	0	0	0	0	0	0	0	598,762
Capital Projects funds	47,027,447	42,062,662	35,813,734	34,579,119	22,254,563	29,111,356	18,107,668	42,765,725
Debt Service Funds	0	0	0	0	0	0	291,518	147,236
Total all other governmental funds	<u>\$ 56,015,956</u>	<u>\$ 50,295,945</u>	<u>\$ 45,746,159</u>	<u>\$ 39,148,716</u>	<u>\$ 26,134,432</u>	<u>\$ 30,295,488</u>	<u>\$ 22,044,720</u>	<u>\$ 62,091,047</u>

	Fiscal Year Post-GASB 54	
	2011	2012
General Fund		
Non Spendable	567,775	527,146
Restricted	0	0
Committed	4,196,183	3,315,135
Assigned	2,802,668	2,956,588
Unassigned	18,155,941	21,424,261
Total General Fund	<u>\$ 25,722,567</u>	<u>\$ 28,223,130</u>
All other governmental funds		
Non Spendable	0	0
Restricted	40,902,673	24,015,235
Committed	0	0
Assigned	13,645,491	17,919,125
Unassigned	(254,148)	(455,669)
Total all other governmental funds	<u>\$ 54,294,016</u>	<u>\$ 41,478,691</u>

Town of Palm Beach, Florida

Tax Revenues by Source, Governmental Funds

Last Ten Fiscal Years

Fiscal Year	Property Taxes*	Local Option Gas Tax	Franchise Fees	Utility Service Taxes	Business Tax Receipts (1)	Total
2003	\$ 29,815,341	\$ 224,517	\$ 1,726,221	\$ 4,156,003	\$ 0	\$ 35,922,082
2004	32,778,331	219,755	1,881,195	3,983,261	0	38,862,542
2005	35,539,136	222,226	1,989,980	4,160,185	0	41,911,527
2006	39,008,774	360,210	2,433,811	4,167,844	0	45,970,639
2007	43,096,605	360,853	2,478,487	4,105,957	0	50,041,902
2008	41,457,249	337,785	2,447,544	4,496,507	0	48,739,085
2009	42,887,217	324,077	2,454,232	4,608,088	726,239	50,999,853
2010	41,508,570	321,246	2,152,817	4,931,205	716,018	49,629,856
2011	36,635,343	301,900	2,204,718	4,892,655	694,373	44,728,989
2012	36,662,916	301,240	2,040,443	4,973,633	669,095	44,647,327

Change:

2003-2012	23.0%	34.2%	18.2%	19.7%	N/A	24.3%
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*Property taxes received for both General Fund and Debt Service Fund (debt service taxes ended in FY2005).

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

Town of Palm Beach, Florida
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
Modified Accrual Basis of Accounting

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 35,323,171	\$ 38,862,542	\$ 41,911,527	\$ 45,970,639	\$ 50,041,902	\$ 48,739,085	\$ 50,999,853	\$ 49,629,856	\$ 44,728,989	\$ 44,647,327
Fees and permits	5,654,137	6,116,488	6,913,397	6,473,831	7,147,383	7,835,468	4,865,780	4,102,878	5,749,007	5,880,327
Intergovernmental	3,671,884	1,927,469	2,072,960	2,153,286	2,312,236	2,107,927	1,937,338	1,852,267	1,900,329	1,967,946
Charges for services	2,560,809	2,054,178	2,097,306	2,487,444	2,448,829	2,808,298	3,277,981	3,194,361	3,461,768	4,081,261
Fines and forfeitures	1,477,456	1,079,973	822,112	874,351	1,572,285	1,194,275	927,863	620,978	1,309,725	1,106,676
Contributions	0	0	0	0	0	0	0	795,161	222,646	459,050
Investment earnings	2,055,825	1,282,245	2,119,210	3,663,648	3,618,646	2,036,192	2,389,974	1,814,395	737,696	704,692
Grant revenue	2,620,291	2,720,018	5,106,760	12,674,928	3,313,649	2,331,850	792,662	83,306	3,678,245	771,909
Special assessments	0	0	0	0	0	0	0	564,419	989,814	1,068,133
Miscellaneous	1,034,628	1,185,826	781,153	495,349	567,739	613,605	568,455	302,124	852,864	1,011,340
Total revenues	54,398,201	55,228,739	61,824,425	74,793,476	71,022,669	67,666,700	65,759,906	62,959,745	63,631,083	61,698,661
Expenditures										
General government	5,610,928	6,647,556	7,817,780	8,315,398	8,932,304	9,986,924	10,923,177	10,716,676	9,466,491	9,328,868
Public safety	18,716,632	21,444,642	27,088,862	26,417,211	28,458,944	29,464,707	31,367,667	30,556,992	30,511,290	25,095,341
Physical environment	7,879,102	10,350,736	10,928,714	18,557,179	12,773,809	15,175,670	13,252,050	11,576,185	17,281,410	11,676,641
Transportation	582,376	769,745	1,043,893	1,185,987	838,808	1,160,600	1,248,445	909,308	1,311,456	1,099,438
Economic environment	0	0	0	0	0	0	0	0	2,369,146	331,806
Culture and recreation	2,448,947	1,561,430	1,678,681	1,938,137	1,748,780	1,829,385	1,858,634	1,640,889	1,642,083	1,508,402
Non-departmental	2,746,915	4,822,927	2,510,033	2,390,000	2,220,201	2,414,968	1,918,051	1,902,388	1,905,398	1,804,439
Capital outlay	12,360,305	7,627,971	8,062,746	20,270,287	8,089,774	7,859,165	11,429,915	23,045,739	4,662,208	16,389,104
Debt service										
Principal	765,063	3,825,289	4,135,584	3,564,637	3,672,904	3,811,297	3,875,000	4,020,000	1,372,838	2,885,619
Interest and other fiscal charges	1,158,641	1,372,527	1,014,223	864,847	763,674	614,269	650,150	1,336,179	3,260,692	3,190,196
Bond issue costs	0	0	0	0	0	30,500	24,303	701,133	27,341	0
Total expenditures	52,268,909	58,422,823	64,280,516	83,503,683	67,499,198	72,347,485	76,547,392	86,405,489	73,810,353	73,309,854
Revenues over (under) expenditures	2,129,292	(3,194,084)	(2,456,091)	(8,710,207)	3,523,471	(4,680,785)	(10,787,486)	(23,445,744)	(10,179,270)	(11,611,193)
Other financing sources (uses)										
Transfers in	10,333,656	9,761,263	11,392,115	14,210,192	8,602,057	7,039,939	10,606,800	10,758,475	11,309,406	11,774,938
Transfers out	(9,658,656)	(9,386,855)	(13,805,904)	(13,682,764)	(8,127,137)	(6,459,939)	(10,056,800)	(10,208,475)	(10,554,963)	(10,973,009)
Proceeds from sale of capital assets	0	1,964,879	0	0	0	0	0	1,047,156	0	0
Insurance recoveries	0	0	0	0	0	0	0	0	0	494,502
Bonds/Notes proceeds	6,108,358	0	0	0	0	10,000,000	395,004	68,742,596	0	0
Redemption of bonds	(18,936,555)	0	0	0	0	0	0	(10,589,028)	0	0
Proceeds of refunding note	19,016,765	0	0	0	0	0	0	0	0	0
Total other financing sources (uses)	6,863,568	2,339,287	(2,413,789)	527,428	474,920	10,580,000	945,004	59,750,724	754,443	1,296,431
Net change in fund balances	\$ 8,992,860	\$ (854,797)	\$ (4,869,880)	\$ (8,182,779)	\$ 3,998,391	\$ 5,899,215	\$ (9,842,482)	\$ 36,304,980	\$ (9,424,827)	\$ (10,314,762)
Debt service as a percentage of non-capital expenditures	4.82%	10.23%	9.16%	7.00%	7.47%	6.91%	6.99%	9.39%	6.77%	8.88%

Town of Palm Beach, Florida

Historic and Projected General Fund Non-Ad Valorem Revenues

Last Ten Fiscal Years Actual and Next Year Budgeted

	Actual FY2003	Actual FY2004	Actual FY2005	Actual FY2006	Actual FY2007	Actual FY2008	Actual FY2009	Actual FY2010	Actual FY2011	Actual FY2012	Budget FY2013
Franchise fees (1)	\$ 1,726,221	\$ 1,881,195	\$ 1,989,980	\$ 2,433,811	\$ 2,478,487	\$ 2,447,544	\$ 2,454,232	\$ 2,169,801	\$ 2,204,718	\$ 2,040,443	\$ 2,210,000
Utility service tax	4,156,003	3,983,261	4,160,185	4,167,844	4,105,957	4,496,507	4,608,088	4,879,860	4,892,655	4,973,633	4,957,500
Business tax receipts	617,974	697,297	695,544	721,659	740,875	741,535	726,238	716,018	694,373	669,095	625,000
Building permits	4,906,964	5,273,284	6,073,756	5,628,019	6,201,211	6,844,875	4,701,645	3,934,213	5,535,510	5,514,910	5,333,300
Other license fees & permits	129,199	145,907	144,097	124,153	205,297	249,058	164,135	168,665	213,497	365,417	306,000
State shared revenue (2)	846,318	893,193	954,356	1,029,461	1,142,553	1,072,734	1,081,727	980,556	1,058,101	954,387	986,600
Grants	52,768	150,735	165,216	162,824	135,131	71,745	353,590	9,753	220,815	63,872	3,850
Local shared revenue	290,620	196,841	207,581	204,636	40,077	24,700	39,997	46,223	29,536	20,781	20,000
Charges for services											
General government	36,095	46,244	49,565	46,062	41,094	34,413	27,618	33,650	42,628	39,000	40,850
Public safety	940,784	705,442	729,084	1,065,595	908,376	1,146,921	1,539,385	1,450,893	1,419,660	2,001,027	1,582,700
Physical environment	892,634	869,451	925,645	991,712	1,022,063	1,041,072	1,131,884	1,098,950	1,219,035	1,260,317	1,217,566
Transportation	398,614	433,054	393,012	410,584	477,295	585,892	579,292	632,425	780,444	780,917	811,000
Culture - Recreation (3)	292,682	0	0	0	0	0	0	0	0	0	0
Fines & forfeitures	863,474	846,677	811,038	770,067	1,541,448	1,183,318	1,152,807	594,473	1,297,226	1,106,436	1,299,000
Contributions	0	150,000	4,035	900	0	10,000	0	0	0	0	0
Investment earnings	583,091	527,686	905,025	1,902,793	2,287,127	1,368,751	1,923,224	1,168,997	495,649	495,312	900,500
Rents & royalties	60,573	72,377	50,460	39,634	80,961	111,320	44,291	102,702	88,202	104,980	95,981
Sale of capital assets (4)	0	0	0	0	0	0	0	1,047,156	0	0	0
Miscellaneous other	69,386	83,894	140,317	243,602	147,348	190,761	158,625	188,989	671,609	577,163	94,000
Total Non-Ad Valorem Revenues	\$ 16,863,400	\$ 16,956,538	\$ 18,398,896	\$ 19,943,356	\$ 21,555,300	\$ 21,621,146	\$ 20,686,778	\$ 19,223,325	\$ 20,863,658	\$ 20,967,690	\$ 20,483,847

- (1) In FY2002 the Simplified Telecommunications Tax went into effect eliminating franchise fees for cable and telephone companies and combining them into the public service tax for a new simplified tax.
- (2) Excludes 8th cent motor fuel tax and fuel tax refund.
- (3) The Recreation activities were consolidated with the Marina and Golf Fund to create the Leisure Services Enterprise Fund in FY2004.
- (4) Proceeds from the sale of capital assets are deposited in the Equipment Replacement Fund. Proceeds in FY10 represent the sale of Town owned property.

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

Franchise Fees

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

Utility Service Tax

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

Business Tax Receipts

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

Building Permits

Building permit fees include all building, electrical, mechanical and plumbing permits as well as architectural fees, variance application fees, and landmark application fees. Building permit fees were reduced in FY2008.

Other License Fees and Permits

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

State Shared Revenue

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

Grant Revenue

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

Local Shared Revenue

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

General Government Revenues

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

Public Safety Revenue

Public Safety Revenue includes special detail pay for police and fire officers, EMS transport fees, burglar alarm registration and false alarm fees, police ID cards, and Direct Connect Alarm fees. In FY2006 new fire inspection fees were approved by the Town Council. In FY2008, fees were increased for false alarm charges.

Physical Environment Revenue

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

Transportation

Revenues include parking meter and permit collections. In FY2008, parking meter fees were increased.

Fines and Forfeitures

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

Contributions

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

Investment Earnings

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

Rents and Royalties

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

Sale of Capital Assets

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

Miscellaneous Other Revenue

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

Outstanding Town Indebtedness

The Town does not have any general obligation bonds outstanding as of September 30, 2012. In February, 2010, the Town issued Public Improvement Revenue and Refunding Bonds in the principal amount of \$57,035,000, which refunded with the Series 2003B bonds, and the 2008 Revenue Note and financed a portion of the Town's 20 year capital improvement program. The 2010A bonds are special obligations of the Town payable solely from and secured solely by non-ad valorem revenue and any unused debt proceeds and related investment income. The Town also issued 2010B Worth Avenue Commercial District Project bonds in the principal amount of \$14,770,000. The Town imposed a capital special assessment against real property in the Worth Avenue Commercial District to pay the cost of the Worth Avenue projects. The assessments will be security for the 2010B bonds.

Town of Palm Beach, Florida

Assessed Value and Actual Value of Taxable Property

Last Ten Fiscal Years

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Other Property	Less: Tax-exempt Property	Total Taxable Value	Total Direct Tax Rate	Total Assessed Value	Assessed Value as a % of Actual Value
2003	\$ 8,080,983,466	\$ 718,908,958	\$ 582,176	\$ 191,393,118	\$ (1,484,871,904)	\$ 7,506,995,814	4.0541	\$ 8,991,867,718	83%
2004	8,988,874,192	748,443,954	582,895	216,411,548	(1,681,379,665)	8,272,932,924	4.0529	9,954,312,589	83%
2005	9,931,612,775	812,906,404	584,205	213,751,855	(1,945,418,542)	9,013,436,697	4.0287	10,958,855,239	82%
2006	11,779,370,251	847,044,936	613,890	246,102,739	(2,619,553,324)	10,253,578,492	3.9080	12,873,131,816	80%
2007	14,127,084,784	999,659,666	750,509	283,725,731	(3,500,257,437)	11,910,963,253	3.7273	15,411,220,688	77%
2008	14,861,022,194	1,067,802,643	752,116	294,479,830	(3,605,041,339)	12,619,015,444	3.3637	16,224,056,783	78%
2009	16,446,919,025	1,144,245,693	1,283,286	319,200,545	(4,347,624,821)	13,564,023,728	3.2512	17,911,648,549	76%
2010	15,424,701,553	1,055,167,871	1,995,000	411,729,501	(3,796,459,546)	13,097,134,379	3.2512	16,893,593,925	78%
2011	12,548,944,226	926,346,754	1,995,000	365,999,807	(2,312,807,898)	11,530,477,889	3.2512	12,043,094,460	96%
2012	12,455,771,607	917,204,438	1,795,500	348,994,178	(2,213,575,366)	11,510,190,357	3.2512	12,013,987,648	96%

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

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

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

Town of Palm Beach, Florida
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years

Fiscal Year	Town Direct Rates			Overlapping Rates			Total All
	General Fund	Debt Service	Total Direct	School District	Palm Beach County	Special Taxing Districts	
2003	3.9706	0.0835	4.0541	8.7790	4.8084	2.4883	20.1298
2004	3.9768	0.0761	4.0529	8.5710	4.7910	2.5557	19.9706
2005	3.9594	0.0693	4.0287	8.4320	4.7677	2.5257	19.7541
2006	3.9080	0.0000	3.9080	8.1060	4.7192	2.5042	19.2374
2007	3.7273	0.0000	3.7273	7.8720	4.4775	2.3254	18.4022
2008	3.3637	0.0000	3.3637	7.3560	3.9813	2.1308	16.8318
2009	3.2512	0.0000	3.2512	7.2510	3.9656	2.2569	16.7247
2010	3.2512	0.0000	3.2512	7.9830	4.5614	2.4934	18.2890
2011	3.2512	0.0000	3.2512	8.1540	4.9960	2.5549	18.9561
2012	3.2512	0.0000	3.2512	8.1800	4.9925	2.3433	18.7670

- Tax rate limits - Ten mills per Florida Statute 200.81 (one mill equals \$1 per \$1,000 of assessed valuation).
- Scope of tax rate limit - No municipality shall levy ad valorem taxes for real and tangible personal property in excess of ten mills of the assessed value, except for special benefits and debt service obligations issued with the approval of those taxpayers subject to ad valorem taxes.
- Taxes assessed - January 1
- Taxes due - March 31
- Taxes delinquent - April 1
- Discount allowed - 4% November; 3% December; 2% January; 1% February
- Penalties delinquent - 2.5% after April 1, increase 0.5% each ten days ; maximum 5%
- Tax collector - Palm Beach County
- Tax collector's commission - None

Town of Palm Beach, Florida

Principal Property Tax Payers

September 30, 2012 and Ten Years Ago

	2012				2003			
	Taxable Assessed Value	Taxes Paid	Rank	Percentage of Town Taxable Assessed Value	Taxable Assessed Value	Taxes Paid	Rank	Percentage of Town Taxable Assessed Value
The Breaker's	\$ 151,100,000	\$ 491,256	1	1.31%	\$ 178,662,904	\$ 768,250	1	2.34%
Nelson Peltz	79,037,855	256,968	2	0.69%	50,782,128	218,363	2	0.67%
County Road Property LLC	56,104,735	182,408	3	0.49%				
Sydell Miller	50,973,787	165,726	4	0.44%	41,819,213	179,823	4	0.55%
JV Associates	49,500,000	160,934	5	0.43%	49,000,000	210,700	3	0.64%
Dwight Schar	45,543,025	148,069	6	0.40%				
James H Clark	40,757,775	132,512	7	0.35%				
John L. Thorton	40,751,702	132,492	8	0.35%				
White Sea Holdings LLC	35,245,675	114,591	9	0.31%				
Worth Avenue Associates LTD	32,576,017	105,911	10	0.28%	32,900,000	141,470	6	0.43%
Thirty Eight East Corporation					29,603,449	127,295	8	0.39%
The Everglades Club					31,023,065	133,399	7	0.41%
Sydney Spiegel Trust					28,500,000	122,550	9	0.37%
Mar-a-Lago Club					27,496,097	118,233	10	0.36%
Sidney Kimmel					33,859,782	145,597	5	0.44%
Totals	\$ 581,590,571	\$ 1,890,867		5.05%	\$ 503,646,638	\$ 2,165,681		6.60%

Source: Palm Beach County Property Appraiser

Town of Palm Beach, Florida

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	Net Tax Levy*	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Property Tax Collections	Collections as a Percent of Current Levy
2003	\$ 31,072,246	\$ 29,815,341	95.95%	\$ 14,019	\$ 29,829,360	96.00%
2004	34,130,901	32,778,331	96.04%	57,193	32,835,524	96.20%
2005	36,908,773	35,539,136	96.29%	15,151	35,554,287	96.33%
2006	40,661,213	39,003,587	95.92%	5,187	39,008,774	95.94%
2007	44,882,990	43,028,136	95.87%	68,469	43,096,605	96.02%
2008	43,129,948	41,337,264	95.84%	119,985	41,457,249	96.12%
2009	44,766,064	42,684,473	95.35%	202,744	42,887,217	95.80%
2010	43,506,736	41,076,426	94.41%	432,144	41,508,570	95.41%
2011	38,073,972	36,634,834	96.22%	509	36,635,343	96.22%
2012	37,421,931	36,636,311	97.90%	26,605	36,662,916	97.97%

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

* Tax levy, net of allowance for discounts.

Town of Palm Beach, Florida

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Governmental Activities								
Fiscal Year	General Obligation Bonds	Revenue Refunding Bonds	Revenue Bonds/Notes	Loan Payable ECR	Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita
2003	\$ 1,325,000	\$ 18,385,000	\$ 6,130,000	\$ 1,331,427	\$ 484,711	\$ 27,656,138	2.62%	\$ 2,856
2004	680,000	18,275,000	6,065,000	1,241,191	349,422	26,610,613	2.52%	2,754
2005	-	18,045,000	5,945,000	1,148,628	263,838	25,402,466	2.41%	2,629
2006	-	14,685,000	5,825,000	1,053,679	179,201	21,742,880	1.94%	2,233
2007	-	11,225,000	5,700,000	956,282	91,297	17,972,579	1.41%	1,844
2008	-	7,630,000	15,575,000	856,374	-	24,061,374	1.88%	2,456
2009	-	3,885,000	15,445,000	753,889	-	20,083,889	1.59%	2,081
2010	-	-	71,805,000	648,762	-	72,453,762	6.63%	8,679
2011	-	-	70,540,000	540,924	-	71,080,924	6.51%	8,515
2012	-	-	67,765,000	-	-	67,765,000	6.19%	8,108

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

Town of Palm Beach, Florida

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Assessed Value of Taxable Property	Per Capita
2003	\$ 1,325,000	\$ 199,000	\$ 1,126,000	0.01%	\$ 116
2004	680,000	111,000	569,000	0.01%	59
2005	0	0	0	N/A	0
2006	0	0	0	N/A	0
2007	0	0	0	N/A	0
2008	0	0	0	N/A	0
2009	0	0	0	N/A	0
2010	0	0	0	N/A	0
2011	0	0	0	N/A	0
2012	0	0	0	N/A	0

Note: For each fiscal year ending September 30, property is valued as of January 1st of the preceding calendar year.

General Obligation Bonds were retired in 2005

Town of Palm Beach, Florida
Direct and Overlapping Governmental Activities Debt
September 30, 2012

	Total Outstanding	Percentage Applicable to Town of Palm Beach ⁽¹⁾	Amount Applicable to Town of Palm Beach
Direct:			
Town of Palm Beach	\$ 67,765,000	100.00%	\$ 67,765,000
Overlapping:			
Palm Beach County	\$ 1,009,974,309	9.23%	93,267,549
Palm Beach County School District	1,832,003,064	9.23%	169,178,992
Total overlapping debt	2,841,977,373		262,446,541
Total direct and overlapping debt payable from ad valorem taxes	\$ 2,909,742,373		\$ 330,211,541
Estimated population			8,358
Total direct and overlapping debt per capita			\$ 39,508

⁽¹⁾ Based on 2012 ratio of assessed taxable values.

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

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

Town of Palm Beach, Florida

Legal Debt Margin Information

Last Ten Fiscal Years

	Fiscal Year					Fiscal Year				
	2003	2004	2005	2006	2007	2008	2008	2010	2011	2012
Debt limit	\$ 375,349,791	\$ 413,646,646	\$ 450,671,835	\$ 512,678,925	\$ 595,548,163	\$ 630,950,772	\$ 630,950,772	\$ 654,867,189	\$ 576,523,894	\$ 575,509,518
Total net debt applicable to limit	1,125,981	568,576	0	0	0	0	0	0	0	0
Legal debt margin	<u>\$ 374,223,810</u>	<u>\$ 413,078,070</u>	<u>\$ 450,671,835</u>	<u>\$ 512,678,925</u>	<u>\$ 595,548,163</u>	<u>\$ 630,950,772</u>	<u>\$ 630,950,772</u>	<u>\$ 654,867,189</u>	<u>\$ 576,523,894</u>	<u>\$ 575,509,518</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>0.30%</u>	<u>0.14%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>

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

Town of Palm Beach, Florida

Pledged Revenue Coverage

Last Ten Fiscal Years

Fiscal Year	Non-Ad Valorem Revenue Available for Debt Coverage	Current Debt Service			Current Coverage
		Principal	Interest	Total	
2003	\$ 16,863,400	\$ 0	\$ 1,211,858	\$ 1,211,858	13.92
2004	16,956,538	3,045,000	2,203,824	5,248,824	3.23
2005	18,398,896	3,370,000	1,884,144	5,254,144	3.50
2006	19,943,356	3,480,000	854,485	4,334,485	4.60
2007	21,555,300	3,585,000	750,354	4,335,354	4.97
2008	21,621,146	3,720,000	612,163	4,332,163	4.99
2009	20,686,778	3,875,000	648,649	4,523,649	4.57
2010	19,278,424	4,020,000	1,331,915	5,351,915	3.60
2011	20,863,658	1,265,000	3,149,663	4,414,663	4.73
2012	20,761,396	2,775,000	3,165,134	5,940,134	3.50

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

Town of Palm Beach, Florida

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year	Population ⁽¹⁾	Estimated	Per	Median Age ⁽²⁾	Education	School Enrollment ⁽²⁾	Unemployment Rate ⁽³⁾
		Total Personal Income	Capita Personal Income ⁽²⁾		Level in Years of Schooling		
2003	9,682	1,057,458,358	109,219	66.6	N/A	382	6.4%
2004	9,662	1,055,273,978	109,219	66.6	N/A	382	5.8%
2005	9,662	1,055,273,978	109,219	66.6	N/A	382	5.8%
2006	9,735	1,274,223,885	130,891	66.6	N/A	318	4.7%
				66.6	N/A	468	4.8%
				66.6	N/A	468	7.5%
				66.6	N/A	455	9.5%
				66.6	N/A	477	10.8%
				66.6	N/A	415	9.7%
				66.6	N/A	406	0.0%

⁽¹⁾ The population for 2003 through 2009 was obtained from the University of Florida, Bureau of Economic Business Administration. The population for 2002, 2010 and 2011 was obtained from the U.S. Census Bureau count.

⁽²⁾ Source: U.S. Census Bureau/Palm Beach County School District

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

N/A - Not Available

Town of Palm Beach, Florida

Principal Employers

September 30, 2012 and Ten Years Ago

Employer	2012			2003		
	Employees ⁽¹⁾	Rank	Percentage of Total Town Employment ⁽²⁾	Employees	Rank	Percentage of Total Town Employment
Breakers Hotel	2,644	1	18.59%	N/A	N/A	N/A
Four Seasons Resort	420	2	2.95%	N/A	N/A	N/A
Town of Palm Beach	363	3	2.55%	N/A	N/A	N/A
Everglades Club	360	4	2.53%	N/A	N/A	N/A
Gunster, Yoakley & Stewart	253	5	1.78%	N/A	N/A	N/A
Testa's Restaurant	221	6	1.55%	N/A	N/A	N/A
Bath and Tennis	150	7	1.05%	N/A	N/A	N/A
Coldwell Banker/Century 21	144	8	1.01%	N/A	N/A	N/A
CSC Palm Beach LLP	140	9	0.98%	N/A	N/A	N/A
Charley's Crab	130	10	0.91%	N/A	N/A	N/A
Totals	4,825		33.92%	N/A		N/A

Sources: (1) Various Town employers
 (2) Daytime Population Source - Business Development Board of Palm Beach County

N/A Not Available

Town of Palm Beach, Florida

Full-time Equivalent Town Government Employees by Function / Program

Last Ten Fiscal Years

	Full-time Equivalent Employees as of September 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	83.52	82.02	86.84	86.98	86.45	85.5	84.5	82.43	73.46	75.05
Public Safety										
Building official	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Land development	8.40	8.90	8.90	10.40	10.90	10.90	10.90	12.35	12.35	11.85
Police officers	78.00	78.00	78.00	78.00	78.00	78.00	78.00	77.00	71.00	71.00
Firefighters	74.00	77.00	77.00	79.00	80.00	80.00	80.00	79.00	74.00	71.50
Civilian police/fire	58.25	58.20	59.20	59.20	59.20	59.20	59.70	54.45	48.25	46.25
Physical Environment										
Sanitation	44.26	44.26	44.27	44.27	44.24	44.24	44.24	41.51	37.06	37.06
Storm sewer maintenance	15.43	15.43	15.32	17.32	17.60	17.66	17.66	17.51	16.94	17.44
Transportation										
Roads and streets	6.03	6.03	5.91	5.91	5.61	5.61	5.61	5.70	5.79	5.79
Culture and recreation										
Leisure services	29.24	30.13	29.83	30.28	32.23	29.17	28.78	29.03	27.48	25.71
Total	398.13	400.97	406.27	412.36	415.23	411.28	410.39	399.98	367.33	362.65

Town of Palm Beach, Florida

Operating Indicators by Function / Program

Last Ten Fiscal Years

Function	Fiscal Year					Fiscal Year				
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety										
Police										
Physical arrests	1,791	1,617	2,151	2,134	1,889	1,715	2,120	2,033	1,703	1,404
Parking violations	23,948	23,591	23,060	23,328	21,835	16,832	13,514	12,178	15,936	14,485
Traffic violations	4,070	4,050	6,859	4,904	4,210	4,658	4,989	4,799	4,293	3,529
Fire										
Number of fire calls	1,101	1,471	1,853	1,220	1,364	1,373	1,175	1,092	1,147	1,003
Number of EMS Calls	1,499	1,383	1,429	1,074	1,644	1,598	1,319	1,372	1,464	1,603
Physical Environment										
Sanitation										
Refuse collected (tons)	10,131	10,407	10,891	10,744	10,534	10,976	9,877	9,341	8,452	8,443
Recyclables collected (tons)	1,730	1,736	1,758	1,751	1,780	1,844	1,579	1,642	1,645	1,624
Transportation										
Roads and Streets										
Street resurfacing (miles)	2	2	2	8	7	8	6	5	6	17
Pot holes repaired	50	50	50	50	46	61	72	67	75	26
Culture and Recreation										
Leisure Services										
Youth athletic participants	N/A	N/A	3,729	4,600	7,628	4,942	3,278	2,395	4,746	3,209
Camp program participants	N/A	N/A	4,567	6,339	10,089	10,243	10,626	10,031	11,525	10,862
Youth enrichment participants	N/A	N/A	5,262	5,469	6,263	9,365	6,759	4,475	3,613	2,841
Adult enrichment/fitness participants	N/A	N/A	4,188	4,051	9,202	9,201	3,447	2,250	2,259	2,287
Special events offered	5	5	5	6	7	6	5	4	3	3
Special events participants	N/A	1,175	1,233	1,450	1,461	1,438	1,950	1,515	1,275	1,250
Tennis participants	N/A	28,338	30,827	35,091	35,136	29,109	29,766	27,074	27,868	26,529
Rounds of golf	35,426	35,468	33,875	31,118	28,952	25,275	14,226	19,660	26,598	29,063
Range buckets sold	20,717	20,258	20,456	21,080	19,180	14,746	8,313	7,303	8,707	12,712
Annual marina leases	81	81	82	82	82	81	78	72	68	73
Seasonal marina leases	3	3	2	2	2	2	5	5	5	5
Total transient vessels	655	701	785	785	681	626	649	466	387	396

Sources: Town departments

N/A: Not available.

Town of Palm Beach, Florida
Capital Asset Statistics by Function / Program
Last Ten Fiscal Years

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public Safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	22	22	22	21	21	21	21	21	21	21
Fire										
Fire stations	3	3	3	3	3	3	3	3	3	3
Fire trucks	7	7	7	7	7	7	7	7	7	7
ALS rescue vehicles	4	5	5	5	5	5	5	5	5	5
Physical Environment										
Sanitation										
Garbage trucks	17	17	17	17	17	17	17	17	17	17
Trash trucks	12	12	12	12	12	12	12	12	12	12
Transportation										
Roads and Streets										
Street lights	826	826	826	826	878	922	972	972	985	991
Lane miles	103	103	103	102.6	103	103	103	103	103	103
Culture and Recreation										
Leisure Services										
Basketball courts	1	1	1	1	1	1	1	1	1	1
Multi-purpose fields	1	1	1	1	1	1	1	1	1	1
Tennis courts	11	12	12	14	14	14	13	13	13	13
Dock slips	88	88	88	88	88	88	88	88	88	88
Golf courses	1	1	1	1	1	1	1	1	1	1
Playgrounds	1	1	1	1	1	1	1	1	1	1
Recreation centers	1	1	1	1	1	1	1	1	1	1
Tennis pro-shops	2	2	2	2	2	2	2	2	2	2
Parks	10	10	10	10	10	10	11	11	11	11

Sources: Town departments
 Note: Data is not available for general government.
 N/A: Not available.



NOWLEN, HOLT & MINER, P.A.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Palm Beach, Florida, as of and for the year ended September 30, 2012, which collectively comprise Town of Palm Beach, Florida's basic financial statements and have issued our report thereon dated March 13, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Town of Palm Beach Police Officers' Retirement System and the Town of Palm Beach Firefighters' Retirement System. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matter that are reported on separately by those auditors. The financial statements of the Town of Palm Beach Police Officers' Retirement System and the Town of Palm Beach Firefighters' Retirement System were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the Town of Palm Beach, Florida in the accompanying Management Letter dated March 13, 2013.

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

Nowlen, Holt & Mimer, P.A.

West Palm Beach, Florida
March 13, 2013



NOWLEN, HOLT & MINER, P.A.

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

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

We have audited the financial statements of the Town of Palm Beach, Florida, as of and for the year ended September 30, 2012, and have issued our report thereon dated March 13, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated March 13, 2013, should be considered in conjunction with this Management Letter.

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

PRIOR YEAR COMMENTS

Rules of the Auditor General, require that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. We noted that the following comments made in the prior year were adequately addressed or no longer apply:

- 2011-1 Grant Management
- 2011-2 Project Reports

CURRENT YEAR COMMENTS

Investment of Public Funds

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

Recommendations to Improve Financial Management

Rules of the Auditor General require that we address in the Management Letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Violations of Provisions of Contracts or Grant Agreements, Fraud, Illegal Acts, or Abuse

Rules of the Auditor General require that we address violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Matters Inconsequential to the Financial Statements

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

Oversight Unit and Component Units

Rules of the Auditor General require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this Management Letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements, but has been repeated here. The Town of Palm Beach, Florida was incorporated as a municipality in 1911. The Town Charter was enacted by the Legislature of the State of Florida by Special Acts 1917, Chapter 7863. Pursuant to authority granted by the Florida Constitution and Florida Statutes Chapter 165, the Town enacted its current charter by Town Ordinance No. 18-99, and approved by referendum held February 9, 2000. Based upon the application of criteria defined in publications cited in Chapter 10.553, Rules of the Auditor General, the Town has determined that there are no component units to include within the Town's financial reporting entity.

Consideration of Financial Emergency Criteria

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

Annual Financial Report

Rules of the Auditor General requires that we determine whether the annual financial report for the Town of Palm Beach, Florida filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. As of the date of this report, the annual financial report has not been filed.

Financial Condition Assessment Procedures

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

Excess of Expenditures Over Appropriations

There were no departments that had expenditures in excess of appropriations for the fiscal year ended September 30, 2012.

Single Audits

The Town expended less than \$500,000 of federal awards and less than \$500,000 of state financial assistance for the year ended September 30, 2012 and was not required to have a federal single audit or state single audit.

Response to Management Letter

There were no items that required a response by management.

Our Management Letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, management of the Town of Palm Beach, members of the Town Commission, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nowlen, Holt & Mimer, P.A.

West Palm Beach, Florida
March 13, 2013