



The Town of  
**Highland Beach, Florida**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
Fiscal Year Ended September 30, 2007



*The Town of  
Highland Beach, Florida*

**COMPRHENSIVE ANNUAL FINANCIAL REPORT**

**Fiscal Year Ended September 30, 2007**

**Prepared by:  
Finance Department**

**Stanley Novak  
Director of Finance**

TOWN OF HIGHLAND BEACH, FLORIDA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FISCAL YEAR ENDED SEPTEMBER 30, 2007  
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## **INTRODUCTORY SECTION**



# Town of Highland Beach

3614 SOUTH OCEAN BOULEVARD • HIGHLAND BEACH, FLORIDA 33487

Palm Beach County, Florida

561-278-4548  
FAX 561-265-3582

Mayor:  
Jim Newill, CPA  
Vice Mayor:  
Miriam S. Zwick  
Commissioners:  
Doris M. Trinley  
John J. Sorrelli  
John J. Pagliaro  
Town Manager:  
Dale S. Sugarman, Ph. D.

May 16, 2008

Honorable Mayor and Members of the Town Commission  
Town of Highland Beach, Florida

Presented for your consideration and review is the Town's Comprehensive Annual Financial Report for the year ended September 30, 2007. This report was prepared by the Town's Finance Department. Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the Town. We believe the data, as presented, is accurate in all material respects, that it is presented in a manner designed to fairly set forth the financial position and results of operations of the Town as measured by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain the maximum understanding of the Town's financial affairs have been included.

This is the fifth year the financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The Town's financial information has been prepared in compliance with GASB 34 which requires two new financial statements that provide a government-wide perspective using the accrual basis of accounting. The two government-wide statements present governmental activities separately from business-type activities. The inclusion of the government-wide statements in this format enables a more thorough understanding of the financial operations and condition of the Town.

While fund financial statements are still presented, their presentation has changed. Long-term liabilities and capital assets that had been previously reported in account groups are now excluded from the governmental fund financial statements. Instead, this information is now presented in the government-wide statement of net assets. Also, capital assets which had been recorded in the general fixed assets account group are now subject to depreciation.

The fund financial statements now focus on individual major funds. Each major fund is presented in a separate column in the fund financial statements. Nonmajor funds are aggregated and presented in a combined column. Budget to actual comparisons are presented as required supplementary information and are limited to the general fund and major special revenue funds. The comparisons are now more informative, including both the original adopted budget and the final amended budget. We believe the new reporting model will assist in making economic, social, and political decisions and in assessing accountability to the residents by:

- comparing actual financial results with the legally adopted budget, where appropriate;
- assessing financial condition and results of operations;
- assisting in determining compliance with fiscally-oriented laws, rules and regulations; and
- assisting in evaluating the efficiency and effectiveness of Town operations

## **ORGANIZATION AND CONTENT**

The organization and content of this report are based primarily on the financial reporting standards set by the Governmental Accounting Standards Board (GASB) and recommendations of the Government Finance Officers Association of the United States and Canada. The report is designed to meet the needs of a wide variety of readers and is divided into four principal sections. These sections consist of:

The **introductory section**, which is unaudited, includes this transmittal letter, the Town's organizational chart and a list of principal officials. This section is designed to provide an overview and general understanding of the report.

The **financial section** provides a detailed presentation of the financial position and results for the fiscal year ended September 30, 2007. The financial section is divided into four main subsections:

- Management's Discussion and Analysis
- Basic Financial Statements
- Required Supplementary Information
- Combining Financial Statements

Readers are encouraged to pay particular attention to Management's Discussion and Analysis and to the footnotes in the basic financial statements. These provide valuable analysis and explanation of the financial statements.

The **statistical section**, which is unaudited, includes a number of multi-year tables and other data designed to present social, economic, and financial trends of the Town of Highland Beach, providing an overall view of the fiscal capacity of the Town. This section has been revised in accordance with GASB Statement 44, Economic Condition Reporting: The Statistical Section.

The **compliance section** includes the report of the independent auditors on compliance and on internal control over financial reporting in accordance with Government Auditing Standards and the management letter.

The financial reporting entity includes all the funds of the primary government (i.e., the Town of Highland Beach, Florida as legally defined), as well as all of its component units in accordance with GASB *Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, "Defining the Reporting Entity."* Although the Palm Beach County Board of County Commissioners, Palm Beach County School Board, and South Florida Water Management District, among other governments, levy and collect taxes on property located within the corporate limits of Highland Beach, financial information on these taxing authorities is not included in this report since the Town is not financially accountable for these agencies. Annual financial reports of these other taxing authorities are available upon request from each authority.



## *THE TOWN*

The Town of Highland Beach is located in the southern portion of eastern Palm Beach County, which is in the southeastern part of the State of Florida. The Town encompasses 0.6 square miles and is bounded on the north and northwest by the City of Delray Beach and on the south and southwest by the City of Boca Raton. The Atlantic Ocean lies adjacent to the Town on the east and the Intracoastal Waterway lies to the west. The Town is a residential community with a year round population of 4,155 (April 2007 Census), which increases to approximately 7,900 during the winter months. The 2000 U.S. Census Bureau identified 53.3 percent of the population was over the age of 65, with 46.7 percent being less than 65 years old.

The governing body of the Town consists of a five member Town Commission, each of whom is elected for three year overlapping terms. Commission members may serve two consecutive terms. The Town was incorporated under the laws of Florida governing municipal corporations in 1949 and operates under a Charter adopted by its citizens. Day-to-day operations of the Town are under the leadership of a Town Manager who is appointed by the Town Commission.

The Town provides general municipal services such as police protection, water and wastewater utility services, public works, street maintenance, landscaping as well as a municipal library. The Town also provides fire protection, solid waste services and a postal substation through contracts with others.

## *ECONOMIC CONDITION AND OUTLOOK*

The present economic condition of the general operations of the Town of Highland Beach is healthy. General Fund Ad Valorem tax revenues continue to exceed expenditures. During the course of the past few years, significant new development has added substantially to the tax base of the community. Historically, the Town has also benefited from a steady increase in assessed value assigned by the Palm Beach County Property Appraiser's Office which had insured a reliable increase in Ad Valorem tax revenues year over year. That trend, however, ended during the fiscal year which closed on September 30, 2007. The Town's Ad Valorem taxable value for the reported fiscal year actually decreased by \$54,035,700 year over year. The decrease experienced during the fiscal year was equal to 2.34 percent of the assessed value. It is not known if this trend in decreasing tax values will continue in future years, however, all trends point to a continued down turn in values over the short term. The "mood" coming out of the State Legislature in Tallahassee is to hold down local government's ability to self determine what taxes it wants to collect and in turn how to spend those taxes. There have been a number of statewide property tax reform initiatives. Some of which have succeeded and some of which have failed. Knowing the level of uncertainty about future tax collection capabilities of the Town, the staff and the elected officials of the community are keeping an ever watchful eye on both the Town's revenue trends and the expenditure trends.

In 2006, a cost-of-service and rate study was conducted to determine the health of the water and wastewater enterprise funds. While the rates established for the wastewater fund were determined to be adequate through fiscal year 2011, it was determined that the rates for the water fund were not meeting the cost of service. During the prior budget year, the General Fund had to provide a subsidy to the Water Fund in excess of \$850,000. New water rates were approved by the Town Commission during the reported fiscal year and the General Fund annual subsidy to the Utility Fund (Water Department) was reduced to just over \$850,000. It is anticipated that another rate adjustment will have to be implemented in the 2007-2008 fiscal year in order to reduce the subsidy even further.

As has been the case for the past several years, the overall economic outlook for the Town continues to appear relatively bright. The new construction of residential units and condominiums will allow the Town's assessed value to continue a modest but steady growth. The only interruption to this trend might be some of the proposed, but not yet approved modifications to the statewide property tax system.

The following chart is an illustration of the previously mentioned points regarding the growth in assessed value in the Town:

Year	Taxable Assessed Valuation	Population	Assessed Value Per Capita
1997	707,294,358	3,285	215,310
1998	721,608,034	3,396	212,488
1999	745,926,944	3,477	214,532
2000	807,510,758	3,518	229,537
2001	858,637,171	3,775	227,454
2002	1,037,144,177	3,885	266,961
2003	1,203,859,271	3,961	303,928
2004	1,356,599,854	4,019	337,547
2005	1,546,615,892	4,157	372,051
2006	1,875,187,592	4,157	451,092
2007	2,300,831,999	4,155	553,750
2008 (est.)	2,254,116,427	4,155	542,507

### *MAJOR INITIATIVES*

**For the Year:**

In fiscal year 2006-2007 the Town continued on its path to enhance and improve municipal services. The Phase II expansion of the Reverse Osmosis Water Treatment Plant to a capacity of 3.0 million gallons per day was completed. This included the construction of a third raw water well, expansion of the membrane filtration system, replacement of high service pumps, the installation of a 1,750 KW emergency stand-by generator and new interior piping and electrical work within the water treatment plant.

The Town entered into a promissory note with Bank of America, N.A. on February 7, 2007 authorizing a loan in the principal amount not to exceed \$4,400,000 to finance the Phase II expansion of the Reverse Osmosis Water Treatment Plant. The loan is secured by the Town's covenant to budget and appropriate, from the Non Ad Valorem Revenues, amounts sufficient to pay debt service on the note. The Town drew down \$4,000,000 on the loan this year.

The Town still awaits the conclusion of the court action between Mrs. Lucia Milani and Palm Beach County regarding the proposed county park at the south end of the Town. This park would entail parking on the west side of the road, as well as beach access and restroom facilities on the east side of the road. In addition, the County has pledged to mark and note historical data about the site on numerous displays on the east side of the road.

**For the Future:**

Major projects for the future include the planned replacement of the combination 6" and 8" AC water transmission line on SR A1A, along with plans to expand the Police Department into the space formerly occupied by the Town Library. That renovation may also include modifications to the Town Commission Chambers located immediately adjacent to the former library space.

## *FINANCIAL INFORMATION*

### **Accounting and Administrative Controls**

Management of the Town is responsible for establishing and maintaining an internal control structure. In developing and altering the Town's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable assurance regarding:

- the safeguarding of assets against loss from unauthorized use or disposition, and
- the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that:

- the cost of a control should not be disproportionately high compared to the benefits likely to be derived, and
- the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the Town's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

### **Budgetary Control**

In addition, the Town maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Town Commission. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level within an individual fund. The Town utilizes the encumbrance accounting system.

### **Employee Retirement System**

Effective October 1, 2005 employees of the Town were given the option to either remain in the current International City Management Association Retirement Plan (ICMA-RC) defined contribution Money Purchase 401 (a) Plan or join the Florida Retirement System (FRS). Employees who elected to join the Florida Retirement System agreed to transfer their ICMA-RC pension balances to the Town in order to buy back past service with FRS. The Town agreed to buy back past service time for employees that made the selection.

Membership in FRS is compulsory for all full-time and part-time employees hired after October 1, 2005. Retirement coverage is employee noncontributory. The Town pays all contributions. The plan offers both the FRS Pension Plan and the FRS Investment Plan.

Effective September 5, 2006 the Town established an additional 401 defined contribution plan also administered by ICMA-RC. Employees may voluntarily contribute up to 100% of the employee's earnings to the plan each year, to a maximum combined plan contribution of \$45,000 in 2007.

Also, employees may voluntarily contribute up to 25% of their base salary, to a maximum of \$15,500 in 2007 to a Deferred Compensation Plan administered by the International City Management Association. Participants age 50 and older may make an additional contribution of \$5,000.

## **Cash Management**

The Town uses pooled cash procedures which allow better control over funds and greater investment flexibility and return. All governmental and proprietary funds are deposited in one central account with a financial institution registered with the State Treasurer as a qualified public depository. The majority of cash balances in excess of current needs were invested in a money market reserve account with the Town's bank. Interest earned on invested balances is allocated to each fund based on its average monthly balance.

## **Risk Management**

The Town purchases insurance coverage for general liability, property damage, and workers' compensation through an insurance trust. This insurance coverage assumes all risk of loss up to the policy maximum. Insurance coverage is evaluated annually by management and adjusted as necessary to provide the most cost effective protection for the Town.

## ***OTHER INFORMATION***

### **Independent Audit**

As required by Florida Statutes, an audit of the books of account, financial records, and transactions of all departments of the Town has been conducted by a firm of independent Certified Public Accountants. The report of Nowlen, Holt & Miner, P.A. on page eleven of this report contains their opinion as to the fair presentation of the Town's financial statements. The Town continues to receive an unqualified opinion on its financial statements.

### **Awards**

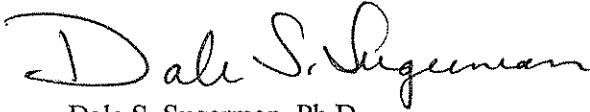
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Highland Beach for its comprehensive annual financial report for the fiscal year ended September 30, 2006. This was the sixteenth consecutive year that the Town received this prestigious award. In order to be awarded a Certificate of Achievement, the Town published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

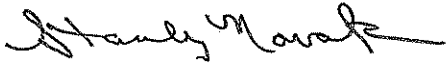
## Acknowledgments

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We express our appreciation to all members of the Department who assisted and contributed to its preparation. We also wish to thank the Mayor and Commission members for their interest and support in planning and conducting the financial operations of the Town in a responsible and progressive manner.

Respectfully submitted,



Dale S. Sugerman, Ph.D.  
Town Manager



Stanley Novak  
Finance Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Highland Beach  
Florida

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2006

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.



*Oliver S. Cox*

President

*Jeffrey R. Emer*

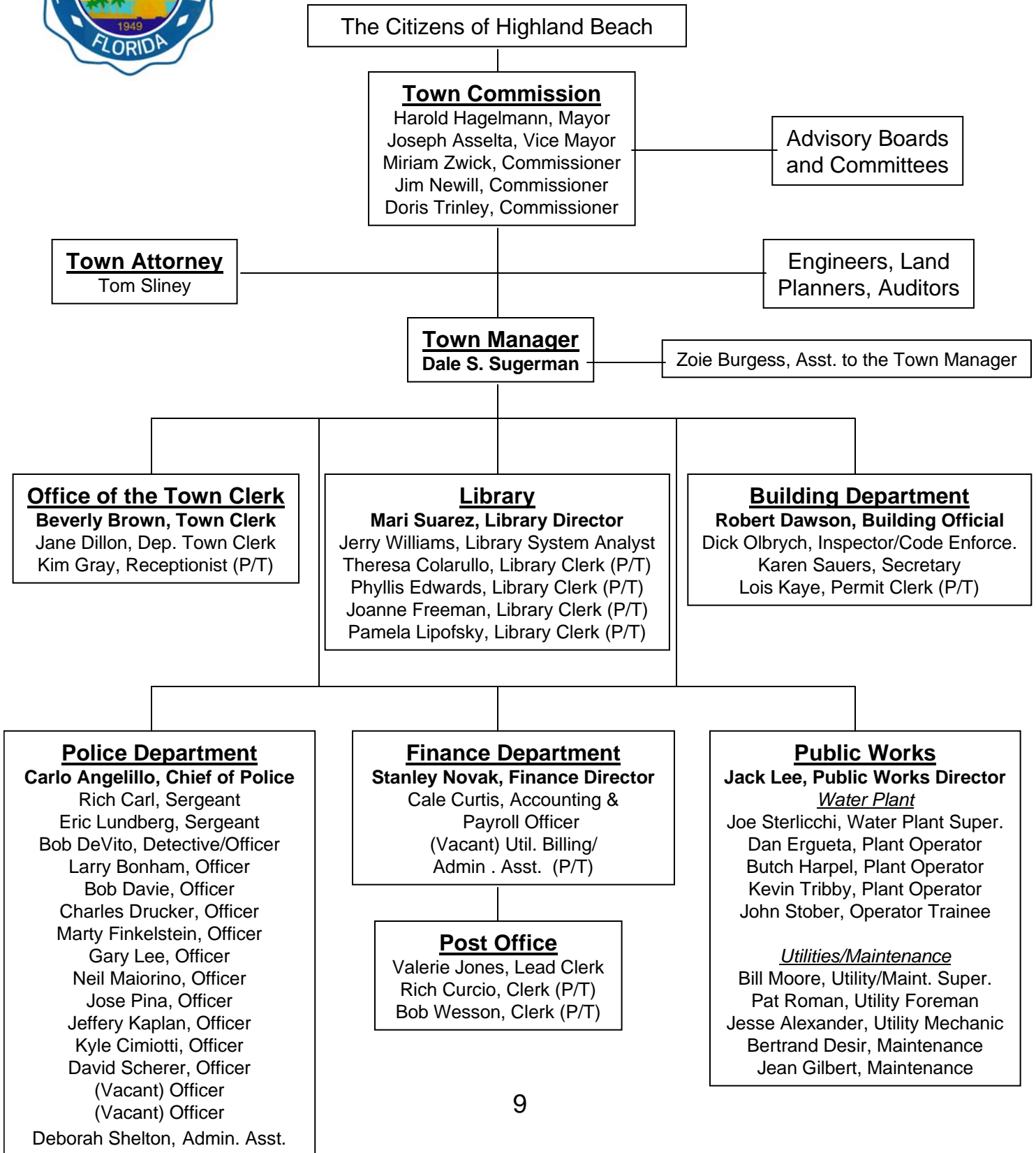
Executive Director



# TOWN OF HIGHLAND BEACH

## Organization Chart

As of September 30, 2007



TOWN OF HIGHLAND BEACH, FLORIDA

LIST OF PRINCIPAL OFFICIALS

SEPTEMBER 30, 2007

<u>TITLE</u>	<u>NAME</u>
Mayor	Harold R. Hagelmann
Vice Mayor	Joseph J. Asselta
Commissioner	Miriam S. Zwick
Commissioner	James W. Newill
Commissioner	Doris M. Trinley
Town Manager	Dale S. Sugerman
Town Clerk	Beverly M. Brown
Finance Director	Stanley Novak
Chief of Police	Carlo Angelillo
Building Official	Robert S. Dawson
Public Works Director	Jack W. Lee
Library Director	Maria T. Suarez
Town Attorney	Thomas E. Sliney



**FINANCIAL SECTION**



NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

INDEPENDENT AUDITORS' REPORT

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

The Honorable Mayor and Members of the Town Commission  
The Town of Highland Beach, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Highland Beach, Florida as of and for the year ended September 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Highland Beach, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Highland Beach, Florida as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2008, on our consideration of the Town of Highland Beach, Florida's internal control over

financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 13 through 19 and the required supplementary information on pages 58 through 60 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Highland Beach, Florida's basic financial statements. The introductory section, combining fund statements, other supplemental information, and statistical data listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town of Highland Beach, Florida. The combining fund statements and other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

West Palm Beach, Florida  
May 16, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Town of Highland Beach's discussion and analysis is designed to assist the reader by providing a narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2007. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting in changes and currently known facts, please read it in conjunction with the accompanying transmittal letter in the introductory section (beginning on page 1) and the Town's financial statements (beginning on page 20).

### **FINANCIAL HIGHLIGHTS**

The following are the highlights of financial activity for the fiscal year ending September 30, 2007.

- The Town's total net assets exceeded its liabilities at September 30, 2007 by \$11.9 million (net assets). Of this amount, \$5.7 million was from governmental funds and \$6.2 million was from business-type activities.
- The total net assets for Governmental Funds increased by \$2.6 million. This increase is largely attributable to an increase in property taxes of \$1.7 million and a reduction in transfers out of \$408,000. The business type activities showed a small decrease in net assets due to operations.
- The Town's revenues for governmental activities, excluding transfers, were \$11.3 million an increase of 15% or \$1.5 million. The expenses for governmental activities increased slightly and were \$7.7 million for the year.
- The business-type activities experienced an increase in revenues of \$432,000. Expenses increased by \$274,000. The Water and Sewer Funds had a combined operating loss of \$876,000 compared to an operating loss of \$1,059,000 in the prior year.
- The General Fund unreserved fund balance at September 30, 2007 was \$4.1 million, an increase of \$1.9 million from the prior year. This unreserved fund balance is 43% of total general fund expenditures and transfers out. \$100,000 of the unreserved fund balance is designated for disaster recovery which is designed to grow by \$50,000 per fiscal year up to a maximum amount of \$500,000.
- The Town's long-term debt increased by \$2.8 million or 17%. This increase is the result of the Town's draw down of \$4 million on a promissory note to finance improvements to the Town's water treatment plant. This was offset by principal payments of \$1.2 million on other Town debt.

### **OVERVIEW OF FINANCIAL STATEMENTS**

The basic financial statements are comprised of government-wide statements that offer a summary of financial activity and more specific fund statements that present more detail information.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (pages 20 through 22) are designed to provide the reader with a broad overview of the Town's finances in a manner similar to private-sector business. The statements include the statement of net assets and the statement of activities. They are new to government reporting and are designed to provide a broad overview of the Town as a whole. The *statement of net assets* shows the total assets and liabilities for the Town with the difference being net assets. The change in net assets over time may be an indicator of the Town's financial health. The *statement of activities* provides a breakdown of revenues and expenses by function. The functions primarily supported by taxes and intergovernmental revenues, such as police, fire, and other public services are considered governmental activities. Those functions that are primarily funded through user fees and charges are identified as business-type activities. In the Town of Highland Beach, the latter consist of the water and sewer activities.

## FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on major funds, rather than the previous reporting model's fund types. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal obligations. The funds of the Town can be divided into three categories: governmental funds; proprietary funds; and fiduciary funds.

*Governmental Funds* (beginning on page 23) are used for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirement. Most of the Town's basic services are reported in the governmental funds.

*Proprietary Funds* (beginning on page 27) provide the same type of information as the government-wide financial statements, only in more detail. The Town's proprietary funds consist of the water and sewer funds. These enterprise funds are the equivalent of business-type activities in the government-wide statements.

*Fiduciary Funds* (beginning on page 31) are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the Town's own programs. The only fiduciary fund presented in this section is the Town's Money Purchase 401 (a) Retirement Plan.

*Notes to the Financial Statements* (beginning on page 33) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements were designed so that the user could determine if the Town is in a better or worse financial condition from the prior year.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$11.9 million as of September 30, 2007.

**Town of Highland Beach**  
**Net Assets**  
(In thousands of dollars)

	<b>Governmental Activities 2007</b>	<b>Business Activities 2007</b>	<b>Total Activities 2007</b>	<b>Governmental Activities 2006</b>	<b>Business Activities 2006</b>	<b>Total Activities 2006</b>
<b>Assets:</b>						
Current and other assets	\$4,970	\$2,231	\$7,201	\$2,815	\$1,574	\$4,389
Capital assets	6,367	18,801	\$25,168	6,278	15,702	\$21,980
<b>Total assets</b>	<b>\$11,337</b>	<b>\$21,032</b>	<b>\$32,369</b>	<b>\$9,093</b>	<b>\$17,276</b>	<b>\$26,369</b>
<b>Liabilities:</b>						
Long-term debt outstanding	\$5,078	\$14,269	\$19,347	\$5,658	\$10,831	\$16,489
Other liabilities	511	570	1,081	258	201	459
<b>Total liabilities</b>	<b>\$5,589</b>	<b>\$14,839</b>	<b>\$20,428</b>	<b>\$5,916</b>	<b>\$11,032</b>	<b>\$16,948</b>
Net Assets:						
Invested in capital assets, net of debt	2,736	4,807	7,543	3,188	5,152	8,340
Restricted for:						
Renewal and replacement						
Debt service						
Special projects	207		207	196		196
Unrestricted	2,805	1,386	4,191	(207)	1,092	885
<b>Total net assets</b>	<b>\$5,748</b>	<b>\$6,193</b>	<b>\$11,941</b>	<b>\$3,177</b>	<b>\$6,244</b>	<b>\$9,421</b>

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

A portion of the Town's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the Town's ongoing obligations to citizens and creditors.

**Town of Highland Beach**  
**Changes in Net Assets**  
(In thousands of dollars)

	<b>Governmental Activities 2007</b>	<b>Business Activities 2007</b>	<b>Total Activities 2007</b>	<b>Governmental Activities 2006</b>	<b>Business Activities 2006</b>	<b>Total Activities 2006</b>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$912	\$2,552	\$3,464	\$850	\$2,126	\$2,976
Operating grants and contribution	11		11	4		4
Capital grants and contributions				200	3	203
General revenues:						
Property taxes	8,902		8,902	7,228		7,228
Utility taxes	733		733	701		701
Sales and use taxes	345		345	357		357
State revenue sharing	95		95	98		98
Investment earnings	287	78	365	222	70	292
Miscellaneous	54	5	59	164	2	166
Gain on disposal of assets					2	2
<b>Total revenues</b>	<b>11,339</b>	<b>2,635</b>	<b>13,974</b>	<b>9,824</b>	<b>2,203</b>	<b>12,027</b>
<b>Expenses:</b>						
Program expenses:						
General government	1,964		1,964	2,338		2,338
Public safety	4,677		4,677	4,387		4,387
Sanitation	403		403	364		364
Culture and recreation	499		499	370		370
Interest on long-term debt	156		156	168		168
Water and sewer		3,755	3,755		3,481	3,481
<b>Total expenses</b>	<b>7,699</b>	<b>3,755</b>	<b>11,454</b>	<b>7,627</b>	<b>3,481</b>	<b>11,108</b>
Excess (deficiency) before transfers	3,640	(1,120)	2,520	2,197	(1,278)	919
Transfers	(1,069)	1,069		(1,477)	1,477	
Increase (decrease) in net assets	2,571	(51)	2,520	720	199	919
Net assets – October 1, 2006	3,177	6,244	9,421	2,457	6,045	8,502
<b>Net assets – September 30, 2007</b>	<b>\$5,748</b>	<b>\$6,193</b>	<b>\$11,941</b>	<b>\$3,177</b>	<b>\$6,244</b>	<b>\$9,421</b>

Net assets of the Governmental Activities at September 30, 2007, were \$5.7 million. Property taxes are the main source of revenues and represent approximately 79 percent of the revenue for governmental activities. Expenditures for Public Safety (Police, Fire Rescue, and Building Inspection) represent approximately 61 percent of Governmental activity expenditures.

Net assets of the Business Type Activities (water and sewer) at September 30, 2007, were \$6.2 million. The cost of providing all Proprietary (Business Type) activities this year was \$3.8 million. As shown in the Statement of Activities, amounts paid by customers for water and sewer services were less than operating expenses. The operating loss of approximately \$876,000 was primarily due to an increase in operating expenses associated with the new reverse osmosis plant.

## **FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS**

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

*Governmental Funds*-The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At September 30, 2007 the Town's governmental funds reported combined ending fund balances of \$4.5 million, an increase of approximately \$ 2.0 million from the prior year. Approximately 91% of the combined ending fund balances (\$4.1 million) constitutes unreserved fund balance, which is available for spending at the government's discretion. The unreserved fund balance is within the General Fund, the chief operating fund of the Town. The remainder of the balance is reserved to indicate that it is not available for new spending because it has already been committed to pay for restricted purposes.

*Budgetary Highlights*-Budget to actual comparison schedules are provided in the Required Supplementary Information (RSI) Section of the report (beginning on page 58). The budget and actual schedules show the original budgets, the final revised budget, actual results, and variance between the final budget and actual results for the General Fund. Total General Fund expenditures of \$8.5 million were significantly less than the final amended budget of \$10.3 million a difference of \$1.8 million. This is mainly attributed to a positive balance in the contingency account of approximately \$ 1.1 million, personnel vacancies and related costs in the Police Department, and \$197,000 of encumbrances which were carried over to next year's budget.



## CAPITAL ASSET AND DEBT ADMINISTRATION

The Town's investment in capital assets for its governmental and business type activities as of September 30, 2007 amounted to \$25 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment. The total increase in the Town's investment in capital assets for the current fiscal year was \$3.2 million. Major capital asset events during the current fiscal year included the following:

### Town of Highland Beach Capital Assets (In thousands of dollars)

	Governmental Activities 2007	Business Activities 2007	Total 2007	Total 2006
Land	\$ 324	\$ 25	\$ 349	\$ 349
Construction in progress		4,374	4,374	
Buildings and improvements	5,141	9,251	14,392	14,704
Improvements other than buildings	1,657	6,371	8,028	7,928
Furniture, fixtures and equipment	2,746	5,100	7,846	7,791
<b>Total assets</b>	<b>9,868</b>	<b>25,121</b>	<b>34,989</b>	<b>30,772</b>
Less accumulated depreciation	(3,501)	(6,320)	(9,821)	(8,792)
<b>Total</b>	<b>\$6,367</b>	<b>\$18,801</b>	<b>\$25,168</b>	<b>\$ 21,980</b>

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

### Debt Outstanding

The Town's outstanding bonded indebtedness (considering new borrowing and debt retirement) increased by \$ 2.8 million as follows:

### Town of Highland Beach Outstanding Debt (In thousands of dollars)

	Governmental Activities 2007	Business Activities 2007	Total 2007	Total 2006
General Obligation Promissory Notes	4,792	4,530	9,322	6,036
Revolving Fund Loan		9,650	9,650	10,102
<b>Total</b>	<b>\$4,792</b>	<b>\$14,180</b>	<b>\$18,972</b>	<b>\$16,138</b>

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

## **NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

The Town's 2008 fiscal year budget includes items that continue to accomplish the goals of the Town. These goals included enhancing the level of services, increase the responsiveness of the local government to the needs of the public and to technologically improve the operation of the Town government.

Property taxes are the main source of revenues for governmental activities and represent approximately 78 percent of the General Fund budgeted revenues. The Town's property tax millage rate decreased from a total of 4.0000 mills in 2007 to 3.9500 mills in 2008.

The assessed taxable value of the Town decreased by approximately 3% resulting in a \$205,000 reduction in tax revenue. Other estimated General Fund revenues, were sufficient to cover the expenditures in the fiscal year 2008 budget.

The Town's General Fund will continue to subsidize the Town's 2007-2008 Water Fund in an amount of approximately \$650,000. In order to do so, a rate adjustment will have to be implemented in the upcoming budget. To date, this increase has not been approved.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town's Finance Department, at the Town of Highland Beach, 3614 S. Ocean Boulevard, Highland Beach, Florida 33487.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Statement of Net Assets**  
**September 30, 2007**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 4,743,908	\$ 1,575,442	\$ 6,319,350
Receivables (net)	78,623	442,341	520,964
Due from other governments	145,459		145,459
Inventories	2,300	25,598	27,898
Prepaid items		2,000	2,000
<b>Capital assets</b>			
<b>Non-depreciable</b>			
Land	323,889	24,730	348,619
Construction in progress		4,374,202	4,374,202
<b>Depreciable</b>			
Buildings and improvements	5,141,640	9,251,504	14,393,144
Improvements other than buildings	1,656,989	6,371,014	8,028,003
Books, furniture and equipment	2,745,774	5,099,900	7,845,674
Less: accumulated depreciation	(3,501,411)	(6,320,181)	(9,821,592)
Intangible assets		185,718	185,718
<b>Total assets</b>	<u>11,337,171</u>	<u>21,032,268</u>	<u>32,369,439</u>
<b>Liabilities</b>			
Accounts payable	412,865	341,586	754,451
Accrued liabilities	71,761	37,336	109,097
Contracts and retainage payable		191,296	191,296
Accrued interest payable	26,732		26,732
<b>Non-current liabilities</b>			
Due within one year	627,882	607,436	1,235,318
Due in more than one year	4,450,142	13,661,777	18,111,919
<b>Total liabilities</b>	<u>5,589,382</u>	<u>14,839,431</u>	<u>20,428,813</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,736,193	4,806,874	7,543,067
<b>Restricted for:</b>			
Special projects	206,652		206,652
Unrestricted	2,804,944	1,385,963	4,190,907
<b>Total net assets</b>	<u>\$ 5,747,789</u>	<u>\$ 6,192,837</u>	<u>\$ 11,940,626</u>

See notes to the financial statements

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Statement of Activities**  
**For the Year Ended September 30, 2007**

Function/ Program Activities	Expenses	Program Revenues	
		Charges For Services	Operating Grants and Contributions
<b>Governmental activities:</b>			
General government	\$ 1,963,868	\$ 71,754	\$
Public safety	4,676,539	453,299	
Culture recreation	499,442	4,879	10,575
Sanitation	403,190	381,775	
Interest on long term debt	155,786		
Total governmental activities	<u>7,698,825</u>	<u>911,707</u>	<u>10,575</u>
<b>Business-type activities:</b>			
Water utility	2,898,869	1,705,302	
Sewer utility	856,530	847,096	
Total business-type activities	<u>3,755,399</u>	<u>2,552,398</u>	
Total government	<u>\$ 11,454,224</u>	<u>\$ 3,464,105</u>	<u>\$ 10,575</u>

General revenues:

Property taxes  
Utility taxes  
Sales and use taxes  
State revenue sharing unrestricted  
Investment earnings  
Miscellaneous  
Transfers  
Total general revenues and transfers

Change in net assets

Net assets, beginning of year  
Net assets, end of year

Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$	\$ (1,892,114)	\$	\$ (1,892,114)
	(4,223,240)		(4,223,240)
	(483,988)		(483,988)
	(21,415)		(21,415)
	(155,786)		(155,786)
	(6,776,543)		(6,776,543)
		(1,193,567)	(1,193,567)
		(9,434)	(9,434)
		(1,203,001)	(1,203,001)
\$	(6,776,543)	(1,203,001)	(7,979,544)
	8,901,807		8,901,807
	732,989		732,989
	345,079		345,079
	95,488		95,488
	287,194	77,393	364,587
	53,679	4,979	58,658
	(1,069,065)	1,069,065	
	9,347,171	1,151,437	10,498,608
	2,570,628	(51,564)	2,519,064
	3,177,161	6,244,401	9,421,562
\$	5,747,789	\$ 6,192,837	\$ 11,940,626

See notes to the financial statements

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2007**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 4,539,493	\$ 204,415	\$ 4,743,908
Receivables (net)			
Accounts	76,298	2,325	78,623
Due from other governments	145,459		145,459
Inventory	2,300		2,300
Total assets	\$ 4,763,550	\$ 206,740	\$ 4,970,290
<b>Liabilities and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 412,777	\$ 88	\$ 412,865
Accrued liabilities	71,761		71,761
Total liabilities	484,538	88	484,626
<b>Fund balances</b>			
Reserved for:			
Inventory	2,300		2,300
Special projects		206,652	206,652
Encumbrances	197,427		197,427
Unreserved			
Designated for disaster recovery	100,000		100,000
Undesignated	3,979,285		3,979,285
Total fund balances	4,279,012	206,652	4,485,664
Total liabilities and fund balances	\$ 4,763,550	\$ 206,740	\$ 4,970,290

See notes to the financial statements

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Reconciliation of the Balance Sheet – Governmental Funds**  
**To the Statement of Net Assets**  
**September 30, 2007**

Fund balances total governmental funds		\$ 4,485,664
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	9,868,292	
Less accumulated depreciation	<u>(3,501,411)</u>	6,366,881
Long-term liabilities, including notes and bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. Long term liabilities at year-end consist of:		
Compensated absences	(286,113)	
Bonds payable	(4,791,911)	
Accrued interest on long-term debt	<u>(26,732)</u>	(5,104,756)
Net assets of governmental activities		<u><u>\$ 5,747,789</u></u>

See notes to the financial statements

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Statement of Revenues, Expenditures, and Changes In Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2007**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 9,671,871	\$	\$ 9,671,871
Licenses and permits	445,304		445,304
Intergovernmental	428,413	2,325	430,738
Fines and forfeitures	14,905		14,905
Rent	48,134		48,134
Interest	277,380	9,814	287,194
Charges for services	388,118		388,118
Miscellaneous	223,126	4,760	227,886
<b>Total revenues</b>	<u>11,497,251</u>	<u>16,899</u>	<u>11,514,150</u>
<b>Expenditures:</b>			
Current			
General government	1,933,810		1,933,810
Public safety	4,530,219		4,530,219
Culture and recreation	322,675	9,175	331,850
Sanitation	361,924		361,924
Capital outlay	582,655		582,655
Debt service:			
Principal	588,403		588,403
Interest and fiscal charges	158,602		158,602
<b>Total expenditures</b>	<u>8,478,288</u>	<u>9,175</u>	<u>8,487,463</u>
Excess (deficiency) of revenues over (under expenditures)	<u>3,018,963</u>	<u>7,724</u>	<u>3,026,687</u>
<b>Other financing sources (uses):</b>			
Transfers in		2,464	2,464
Transfers out	(1,071,529)		(1,071,529)
<b>Total other financing sources (uses)</b>	<u>(1,071,529)</u>	<u>2,464</u>	<u>(1,069,065)</u>
Net change in fund balances	1,947,434	10,188	1,957,622
Fund balances, beginning of year	<u>2,331,578</u>	<u>196,464</u>	<u>2,528,042</u>
Fund balances, end of year	<u>\$ 4,279,012</u>	<u>\$ 206,652</u>	<u>\$ 4,485,664</u>

See notes to the financial statements



**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances of the Governmental Funds to the Statement of Activities**  
**For the Year Ended September 30, 2007**

Net change in fund balances - Total governmental funds \$ 1,957,622

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

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

Expenditures for capital assets	582,655	
Less: current year depreciation	<u>(492,033)</u>	90,622
Net book value of capital asset dispositions		(1,416)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of debt principal is an expenditure. Neither transaction, however, has an effect on net assets:

Decrease in accrued interest payable	2,817	
Principal payments on debt	<u>588,403</u>	591,220

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in long-term compensated absences		(9,002)
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Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund:

Grant revenues - prior year		<u>(58,418)</u>
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Change in net assets		<u><u>\$ 2,570,628</u></u>
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See notes to the financial statements

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Statement of Net Assets**  
**Proprietary Funds**  
**September 30, 2007**

	Water Utility	Sewer Utility	Totals
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 596,123	\$ 979,319	\$ 1,575,442
Receivables (net)			
Accounts	301,605	140,736	442,341
Prepaid items	2,000		2,000
Supplies inventory	25,598		25,598
Total current assets	<u>925,326</u>	<u>1,120,055</u>	<u>2,045,381</u>
<b>Non-current assets</b>			
<b>Capital assets</b>			
<b>Non depreciable</b>			
Land	24,730		24,730
Construction in progress	4,374,202		4,374,202
<b>Depreciable</b>			
Building and improvements	7,549,062	1,702,442	9,251,504
Improvements other than buildings	5,191,952	1,179,062	6,371,014
Books, furniture, and equipment	4,847,088	252,812	5,099,900
Less accumulated depreciation	(4,500,117)	(1,820,064)	(6,320,181)
Intangible assets (net)	185,718		185,718
Total non-current assets	<u>17,672,635</u>	<u>1,314,252</u>	<u>18,986,887</u>
Total assets	<u>18,597,961</u>	<u>2,434,307</u>	<u>21,032,268</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	298,481	43,105	341,586
Accrued liabilities	37,336		37,336
Contracts and retainage payable	191,296		191,296
Compensated absences payable	11,175		11,175
Current portion of long-term debt	596,261		596,261
Total current liabilities	<u>1,134,549</u>	<u>43,105</u>	<u>1,177,654</u>
<b>Non-current liabilities</b>			
Compensated absences payable	78,022		78,022
Long-term debt	13,583,755		13,583,755
Total non-current liabilities	<u>13,661,777</u>		<u>13,661,777</u>
Total liabilities	<u>14,796,326</u>	<u>43,105</u>	<u>14,839,431</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	3,492,622	1,314,252	4,806,874
Unrestricted	309,013	1,076,950	1,385,963
Total net assets	<u>\$ 3,801,635</u>	<u>\$ 2,391,202</u>	<u>\$ 6,192,837</u>

See notes to the financial statements

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended September 30, 2007**

	Water Utility	Sewer Utility	Total
Operating revenue			
Charges for services	\$ 1,703,862	\$ 847,096	\$ 2,550,958
Administrative fee	86,478		86,478
Miscellaneous	4,979		4,979
Total operating revenues	<u>1,795,319</u>	<u>847,096</u>	<u>2,642,415</u>
Operating expenses			
Personal services	855,411		855,411
Sewage disposal costs		604,742	604,742
Contractual services	32,660		32,660
Maintenance and repair	106,428	31,691	138,119
Meters and supplies	193,898	108	194,006
Utilities	388,030		388,030
Depreciation	709,705	117,559	827,264
Amortization	21,739		21,739
Administrative charges	117,214	86,478	203,692
Other	239,078	13,575	252,653
Total operating expenses	<u>2,664,163</u>	<u>854,153</u>	<u>3,518,316</u>
Operating income(loss)	<u>(868,844)</u>	<u>(7,057)</u>	<u>(875,901)</u>
Nonoperating revenues (expenses)			
Interest revenue	30,564	46,829	77,393
Connection fees	1,440		1,440
Interest expense	(304,552)		(304,552)
Loss on disposal of assets	(16,632)	(2,377)	(19,009)
Total nonoperating revenues (expenses)	<u>(289,180)</u>	<u>44,452</u>	<u>(244,728)</u>
Income (loss) before contributions and transfers	<u>(1,158,024)</u>	<u>37,395</u>	<u>(1,120,629)</u>
Transfers in	<u>1,069,065</u>		<u>1,069,065</u>
Change in net assets	(88,959)	37,395	(51,564)
Net assets - beginning	<u>3,890,594</u>	<u>2,353,807</u>	<u>6,244,401</u>
Net assets - ending	<u>\$ 3,801,635</u>	<u>\$ 2,391,202</u>	<u>\$ 6,192,837</u>

See notes to the financial statements

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2007**

	Water Utility	Sewer Utility	Totals
Cash flows from operating activities:			
Receipts from customers	\$ 1,684,464	\$ 845,218	\$ 2,529,682
Payments to suppliers	(862,726)	(772,794)	(1,635,520)
Payments to employees	(835,110)		(835,110)
Net cash provided (used) by operating activities	(13,372)	72,424	59,052
Cash flows from non-capital financing activities:			
Transfers from other funds	1,069,065		1,069,065
Net cash (used) by non-capital financing activities	1,069,065		1,069,065
Cash flows from capital and related financing activities:			
Proceeds from debt issuance	4,000,000		4,000,000
Principal paid on long term debt	(577,559)		(577,559)
Interest paid on long-term debt	(305,139)		(305,139)
Payments to acquire and construct capital assets	(3,760,316)		(3,760,316)
Net cash (used) by capital and related financing activities	(643,014)		(643,014)
Cash flows from investing activities:			
Interest and dividends on investments	30,564	46,829	77,393
Connection fees received	1,440		1,440
Net cash provided by investing activities	32,004	46,829	78,833
Net increase in cash and cash equivalents	444,683	119,253	563,936
Cash and cash equivalents at beginning of year	151,440	860,066	1,011,506
Cash and cash equivalents at end of year	<u>\$ 596,123</u>	<u>\$ 979,319</u>	<u>\$ 1,575,442</u>

See notes to the financial statements

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Statement of Cash Flows**  
**Proprietary Funds (continued)**  
**For the Year Ended September 30, 2007**

	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	<u>\$ (868,844)</u>	<u>\$ (7,057)</u>	<u>\$ (875,901)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	731,444	117,559	849,003
(Increase) decrease in:			
Accounts receivable	(110,855)	(1,879)	(112,734)
Inventory	(2,311)		(2,311)
Increase (decrease) in:			
Accounts payable	216,893	(36,199)	180,694
Accrued liabilities	4,897		4,897
Compensated absences	15,404		15,404
Total adjustments	<u>855,472</u>	<u>79,481</u>	<u>934,953</u>
Net cash provided (used) by operating activities	<u>\$ (13,372)</u>	<u>\$ 72,424</u>	<u>\$ 59,052</u>

See notes to the financial statements

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Statement of Fiduciary Net Assets**  
**Pension Trust Funds**  
**September 30, 2007**

	Pension Trust Funds
Assets:	
Investments - retirement plan mutual funds	\$ 618,658
Participant loans receivable	6,126
Total assets	624,784
Net Assets:	
Held in trust for employees' pension benefits	624,784
Total net assets	\$ 624,784

See notes to the financial statements

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Statement of Changes in Fiduciary Net Assets**  
**Pension Trust Funds**  
**For the Year Ended September 30, 2007**

	<u>Pension Trust Funds</u>
Additions	
Contributions	
Employer	\$ 50,977
Plan members	25,992
Total contributions	<u>76,969</u>
Investment income	
Net increase in fair value	81,092
Investment expense	(105)
Total net investment income	<u>80,987</u>
Total additions	<u>157,956</u>
Deductions	
Benefits	<u>69,510</u>
Total deductions	<u>69,510</u>
Change in net assets	88,446
Net assets held in trust for pension benefits	
Net assets - beginning	<u>536,338</u>
Net assets - ending	<u><u>\$ 624,784</u></u>

See notes to the financial statements

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town of Highland Beach, Florida (the Town) was incorporated in 1949 pursuant to Senate Bill No. 418. The Town is governed by a Town Commission comprised of an elected Mayor, Vice Mayor and three Town Commissioners. The Town Commission appoints a Town Manager. The Town provides the following services: public safety, water and sewer systems, sanitation, streets and roads, planning and zoning, library, contract postal substation, and general administrative services.

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

*Financial Reporting Entity*

As required by generally accepted accounting principles, these basic financial statements present the primary government and its component units. Component units are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the Town's combined financial statements to be misleading or incomplete. The primary government is considered financially accountable if it appoints a voting majority of an organization's governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization's governing board. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government.

Based on the application of the criteria set forth by the GASB, management has determined that no component units exist which would require inclusion in this report. Further, the Town is not aware of any entity which would consider the Town to be a component unit.



**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Town. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*, as are the enterprise fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues 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.

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

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Measurement Focus, Basis of Accounting and Financial Statement Presentation* (Continued)

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

The Town reports the following major governmental fund:

General Fund

The general fund is the primary operating fund and is used to account for all financial resources applicable to the general operations of the Town government except those required to be accounted for in another fund.

The Town reports the following major enterprise funds:

Water Utility System Fund

The water utility system fund accounts for the activities of providing water treatment and distribution service to the property owners of the Town.

Sewer Utility System Fund

The sewer utility system fund accounts for the operation of the sewage pumping stations and collection systems to customers inside the Town's boundaries.

Additionally, the Town reports the following non-major funds:

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Town reports the following special revenue funds:

- Open Space and Recreation Land Fund
- Library Donation Fund
- Cultural Society Fund
- Law Enforcement Fund

All special revenue funds except the Open Space and Recreation Land Fund have legally adopted budgets.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Measurement Focus, Basis of Accounting and Financial Statement Presentation* (Continued)

Additionally, the Town reports the following fund type:

Fiduciary Funds

Pension trust funds are fiduciary funds that account for the activities of the Town of Highland Beach Retirement Plan and the Town of Highland Beach Voluntary Retirement Plan which accumulate resources for pension benefit payments to Town employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Town has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected to not follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's utility functions and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Enterprise funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues 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 revenues of the Town's water and sewer utility funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*Assets, Liabilities, and Net Assets or Equity*

Pooled Cash and Investments

Pooled cash and investments include cash on hand and investments with the State Board Investment Pool. Resources of all funds, with the exception of the pension trust fund, have been combined into a pooled cash and investment system for the purpose of maximizing earnings. Interest earned on pooled cash and investments is allocated monthly based upon equity balances of the individual funds.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Assets, Liabilities, and Net Assets or Equity* (Continued)

Pooled Cash and Investments (Continued)

Investments are reported at fair value, which is determined by using various third party pricing sources. The Investment Pool, administered by the Florida State Board of Administration, is a "2A-7 like" pool and, thus, these investments are valued using the pooled share price.

Cash and cash equivalents, for purposes of the statement of cash flows, includes pooled cash and investments which are defined as short-term, highly liquid investments with original maturities of three months or less.

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.

Inventories

Inventories are valued at cost determined on a first-in, first-out basis. Inventories in the enterprise funds consist of expendable parts and supplies held for consumption. The initial cost is recorded as an asset at the time the individual items are purchased and is charged against operations in the period when used. Inventories in the governmental funds consist of fuel. The Town accounts for these inventories using the consumption method, under which an expenditure is recognized only when inventory items are used. Reported inventories are equally offset by a fund balance reserve which indicates that it does not constitute "available spendable resources" even though it is a component of net current assets.

Capital Assets

Capital assets, which include property, plant, and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, bike paths, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial individual cost of \$1,000 or more and an estimated life in excess of one year. Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair market value at the date of donation. The Town has elected to retroactively apply the capitalization requirements of GASB Statement No. 34 to major general infrastructure assets acquired in years prior to implementation of the Statement.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40-50 years
Improvements other than buildings	5-50 years
Equipment and vehicles	3-10 years
Library books and materials	3-5 years

Compensated Absences

The Town's employees are granted compensated absence pay for vacation and sick leave in varying amounts based on length of service. Unused compensated absences are payable upon separation from service. Vacation and sick pay are accrued when incurred in the government-wide and enterprise fund financial statements. A liability is reported in the governmental funds only if it has matured, for example, as a result of employee resignations or retirement. The general fund is used to liquidate such amounts.

Long-Term Obligations

In the government-wide financial statements and enterprise funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or enterprise fund statement of net assets. Fees incurred in connection with a loan accounted for in the Water Utility enterprise fund have been deferred and capitalized as intangible assets and are being amortized over the term of the loan. The amortization commenced in October 2004 when loan repayments commenced.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Assets, Liabilities, and Net Assets or Equity* (Continued)

Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector, respectively. All property is reassessed according to its fair market value on January 1 of each year and each assessment roll is submitted to the State Department of Revenue for review to determine if the assessment rolls meet all of the appropriate requirements of State law. The assessed value of property within the corporate limits of the Town at January 1, 2006, upon which the 2006-07 levy was based, was approximately \$2.3 billion. State Statutes permit municipalities to levy ad valorem property taxes at a rate of up to 10 mills.

The tax levy of the Town is established by the Commission prior to October 1 of each year during the budget process. The Palm Beach County Property Appraiser incorporates the Town's millage into the total tax levy, which includes the County, County School Board, and special district tax requirements. The millage rate assessed by the Town for the year ended September 30, 2007, was 4.000 (\$4.00 for each \$1,000 of assessed valuation).

Taxes may be paid less a 4% discount in November or at declining discounts each month through the month of February. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Delinquent taxes bear interest at 18% per year until the tax is satisfied either by seizure and sale of the property or by the five-year statute of limitations. Liens are filed on April 1 and tax certificates are sold July 1 to satisfy the lien. After sale, tax certificates bear interest at 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold certificates are held by the County.

The Town does not accrue property taxes receivable based on the County's allocation of the Town's portion of County-held certificates for prior years, since they are immaterial.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Usage of reserves has been limited to the following:

- Reserved for prepaid items - Indicates that a portion of fund balance is segregated since these items do not represent "available spendable resources".

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Assets, Liabilities, and Net Assets or Equity* (Continued)

Fund Equity (Continued)

- Reserved for special projects - Restricted for acquiring and developing recreational facilities and open space areas.
- Reserved for debt service - Represents spendable resources restricted to the payment of future debt service of long-term debt of the governmental funds.
- Reserved for inventory - Indicates that a portion of fund balance is segregated since these items do not represent “available spendable resources”.

Use of Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectability of accounts receivable, the use and recoverability of inventory, and useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

*Deposits*

In addition to insurance provided by the Federal Depository Insurance Corporation, deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral. In the event of failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. The Town’s deposits at year end are considered insured for custodial credit risk purposes.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 2 - DEPOSITS AND INVESTMENTS** (Continued)

*Investments*

The Town has adopted an investment policy to establish guidelines for the efficient management of its cash reserves. The policy permits investments as follows:

1. The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Chapter 163, Florida Statutes.
2. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
3. Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Chapter 280, Florida Statutes.
4. Direct obligations of the U.S. Treasury.
5. Securities of, or other interests in, any open-end or closed-end management-type investment company, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof, and to repurchase agreements fully collateralized by such United States Government obligations.
6. Repurchase agreements whose underlying purchased securities consist of the permitted investments listed above.
7. Other investments authorized by ordinance of the Town of Highland Beach.

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



**TOWN OF HIGHLAND BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007**

**NOTE 2 - DEPOSITS AND INVESTMENTS** (Continued)

*Investments* (Continued)

As of September 30, 2007, the Town had the following investments. The investment in the State Board of Administration Investment Pool is reported as cash and cash equivalents.

	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
State Board of Administration Investment Pool	34 days	\$174,875
Mutual funds	NA	<u>618,658</u>
		<u>\$793,533</u>

*Credit Risk*

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Town's investment policies limit its investments to high quality investments to control credit risk. As of September 30, 2007, the State Board of Administration Investment Pool and the mutual funds were not rated.

*Interest Rate Risk*

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

**TOWN OF HIGHLAND BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007**

**NOTE 3 - RECEIVABLES**

Receivables as of September 30, 2007, for the Town's individual major fund's governmental activities and business-type activities are as follows:

	Governmental Activities	Business-Type Activities		Total
	General Fund	Water Utility	Sewer Utility	
Receivables:				
Accounts receivable	\$76,298	\$301,605	\$140,736	\$518,639
Intergovernmental	145,459			145,459
Less allowance for uncollectibles				
Net total receivables	<u>\$221,757</u>	<u>\$301,605</u>	<u>\$140,736</u>	<u>\$664,098</u>

**NOTE 4 – CAPITAL ASSETS**

Depreciation expense was charged to functions as follows:

<u>Governmental activities:</u>	
General government	\$141,974
Public safety	141,989
Highways and streets	41,266
Culture and recreation	<u>166,804</u>
Total depreciation expense-governmental activities	<u>\$492,033</u>
<u>Business-type activities:</u>	
Water utility system	\$709,705
Sewer utility system	<u>117,559</u>
Total depreciation expense-business-type activities	<u>\$827,264</u>

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 4 – CAPITAL ASSETS** (Continued)

Capital assets activity for the year ended September 30, 2007, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 323,889	\$	\$	\$ 323,889
Total capital assets not being depreciated	323,889			323,889
Capital assets being depreciated:				
Buildings	5,122,068	19,572		5,141,640
Improvements other than buildings	1,415,474	241,515		1,656,989
Equipment, furniture, and books	2,556,411	321,568	(132,205)	2,745,774
Total capital assets being depreciated	9,093,953	582,655	(132,205)	9,544,403
Less accumulated depreciation for:				
Buildings	(870,399)	(134,017)		(1,004,416)
Improvements other than buildings	(651,003)	(81,124)		(732,127)
Equipment, furniture and books	(1,618,765)	(276,892)	130,789	(1,764,868)
Total accumulated depreciation	(3,140,167)	(492,033)	130,789	(3,501,411)
Governmental activities Capital assets, net	<u>\$ 6,277,675</u>	<u>\$ 90,622</u>	<u>\$ (1,416)</u>	<u>\$ 6,366,881</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 24,730	\$	\$	\$ 24,730
Construction in progress	440,179	3,934,023		4,374,202
Total capital assets not being depreciated	464,909	3,934,023		4,398,932
Capital assets being depreciated:				
Buildings	9,240,565	10,939		9,251,504
Improvements other than buildings	6,414,500		(43,486)	6,371,014
Equipment	5,234,689		(134,789)	5,099,900
Total capital assets being depreciated	20,889,754	10,939	(178,275)	20,722,418
Less accumulated depreciation for:				
Buildings	(1,762,188)	(227,909)		(1,990,097)
Improvements other than buildings	(2,590,279)	(208,443)	42,684	(2,756,038)
Equipment	(1,299,716)	(390,912)	116,582	(1,574,046)
Total accumulated depreciation	(5,652,183)	(827,264)	159,266	(6,320,181)
Business-type activities Capital assets, net	<u>\$ 15,702,480</u>	<u>\$ 3,117,698</u>	<u>\$ (19,009)</u>	<u>\$ 18,801,169</u>

At September 30, 2007, the business-type activities had idle assets with a carrying value of \$1,576,706.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 5 - LONG-TERM LIABILITIES**

Long-term debt at September 30, 2007, consists of the following individual issues:

*Promissory Note, 2005*

The \$3,828,668 promissory note was issued to refinance the \$4,485,000 Water and Sewer Revenue Bonds, Series 2005. The note is secured by a pledge of the half-cent sales tax revenues and the discretionary communication service tax revenues. The note bears interest at the rate of 2.88% per annum. The principal and interest are payable in twenty equal installments of \$222,097 beginning on January 1, 2006, and on the first day of January and July thereafter, until July 1, 2015.

The note is allocated between governmental activities and business-type activities in the government-wide statements according to the use of the bond proceeds. The amount reported as business-type activities is also reported in the enterprise funds and is expected to be repaid from enterprise revenues. Amounts reported as governmental activities will be repaid from the general fund. The balance of the note outstanding as of September 30, 2007, is as follows:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 3,083,578
Business-type activities	<u>70,323</u>
	<u>\$ 3,153,901</u>

Annual debt service requirements to maturity are as follows:

*Governmental Activities:*

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 347,840	\$ 86,450	\$ 434,290
2009	358,155	76,135	434,290
2010	368,434	65,856	434,290
2011	379,121	55,169	434,290
2012	390,061	44,229	434,290
2013-2015	<u>1,239,967</u>	<u>62,905</u>	<u>1,302,872</u>
Total	<u>\$3,083,578</u>	<u>\$390,744</u>	<u>\$3,474,322</u>

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 5 - LONG-TERM LIABILITIES** (Continued)

*Promissory Note, 2005* (Continued)

*Business-Type Activities:*

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 7,933	\$ 1,971	\$ 9,904
2009	8,168	1,736	9,904
2010	8,402	1,502	9,904
2011	8,646	1,258	9,904
2012	8,896	1,008	9,904
2013-2015	<u>28,278</u>	<u>1,435</u>	<u>29,713</u>
Total	<u>\$ 70,323</u>	<u>\$ 8,910</u>	<u>\$ 79,233</u>

*General Obligation Promissory Note, 2000*

This is a \$1,000,000 promissory note for the purpose of financing pre-construction capital expenditures of the reverse osmosis water treatment facility. Debt service payments are due in semi-annual installments of \$71,791 through December 2010, with interest at 4.63% per annum. Annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 123,654	\$ 19,927	\$ 143,581
2009	129,506	14,075	143,581
2010	<u>206,457</u>	<u>8,795</u>	<u>215,252</u>
Total	<u>\$ 459,617</u>	<u>\$ 42,797</u>	<u>\$ 502,414</u>

*Provisions of General Obligation Promissory Note, 2000*

The covenants require the Town to fix, establish, maintain and collect ad valorem taxes which will equal 120% of the general obligation debt for each fiscal year.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 5 - LONG-TERM LIABILITIES** (Continued)

*General Obligation Promissory Note, 2004B*

The \$2,000,000 promissory note was obtained for the purpose of financing construction of a new library. Interest only is due for the first twenty-four months. Thereafter, interest is due monthly and principal is due in semi-annual installments through July 2014. For the interest only period, the annual interest rate is 63.7% of the 30 day LIBOR plus 67 basis points. After the interest only period, the interest rate will be 67.5% of the 8 year U.S. Swap “ask” rate plus 15 basis points. As of September 30, 2007, the interest rate was 3.401%.

Based on the rate as of September 30, 2007, annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 250,000	\$ 54,211	\$ 304,211
2009	250,000	45,708	295,708
2010	250,000	37,204	287,204
2011	250,000	28,700	278,700
2012	250,000	20,196	270,196
2013-2014	<u>458,333</u>	<u>14,941</u>	<u>473,274</u>
Total	<u>\$1,708,333</u>	<u>\$ 200,960</u>	<u>\$1,909,293</u>

*Provisions of General Obligation Promissory Note, 2004B*

The note is secured by a general obligation pledge of the Town. The covenants require the Town to demonstrate debt service coverage of no less than 110% from the pledged source of revenues.

*Revolving Fund Loan*

The State of Florida Department of Environmental Protection, State Revolving Fund Loan was obtained for the purpose of constructing a reverse osmosis water treatment facility. The loan is payable from and secured by ad valorem taxes, not to exceed \$8,000,000, and Florida Power and Light utility franchise fees. As of September 30, 2007, outstanding principal, including capitalized interest, was \$9,650,076. The loan bears interest at 2.85%.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 5 - LONG-TERM LIABILITIES** (Continued)

*Provisions of Revolving Fund Loan*

The Town must fix, establish, maintain and collect ad valorem taxes which will at least equal 115% of the debt service requirements each fiscal year plus 100% of all additional debt service requirements.

Estimated annual debt service requirements to maturity based on the outstanding balance on the loan as of September 30, 2007 are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 464,674	\$ 273,750	\$ 738,424
2009	478,101	260,323	738,424
2010	491,917	246,507	738,424
2011	506,133	232,291	738,424
2012	520,762	217,662	738,424
2013-2017	2,838,528	853,591	3,692,119
2018-2022	3,273,400	418,719	3,692,119
2023-2024	<u>1,076,561</u>	<u>31,075</u>	<u>1,107,636</u>
Total	<u>\$ 9,650,076</u>	<u>\$2,533,918</u>	<u>\$12,183,994</u>

*Promissory Note, 2007*

The \$4,400,000 promissory note was obtained for the purpose of financing the expansion of the Town's water treatment plant. As of September 30, 2007, \$4,000,000 of proceeds has been received from the note. Interest only is due for the first twenty-four months. Thereafter, interest and principal is due in monthly installments through February, 2029. For the interest only period, the annual interest rate shall be 0.67% plus 63.7% of the LIBOR. After the interest only period, the interest rate will be a fixed rate at 84% of the ask yield on the non-callable U.S. Treasury obligation with a maturity closest to but not less than 10 years after the Fixed Rate Conversion Date, as quoted in the Wall Street Journal on the date two business days before the Fixed Rate Conversion Date. As of September 30, 2007, the interest rate was 3.94%.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 5 - LONG-TERM LIABILITIES** (Continued)

*Promissory Note, 2007* (Continued)

Based on the rate as of September 30, 2007, annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$	\$ 157,600	\$ 157,600
2009	77,618	156,839	234,457
2010	137,275	152,080	289,355
2011	142,782	146,573	289,355
2012	148,510	140,845	289,355
2013-2017	836,851	609,925	1,446,776
2018-2022	1,018,742	428,034	1,446,776
2023-2027	1,240,167	206,609	1,446,776
2028-2029	<u>398,055</u>	<u>11,867</u>	<u>409,922</u>
Total	<u>\$4,000,000</u>	<u>\$2,010,372</u>	<u>\$ 6,010,372</u>

*Interest Expense*

Total interest costs incurred and paid on all Town debt for the year ended September 30, 2007, were \$539,958 and \$543,361, respectively. Interest of \$76,803 was capitalized in the enterprise funds during the year.



**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 5 - LONG-TERM LIABILITIES** (Continued)

During the year ended September 30, 2007, the following changes occurred in long-term liabilities:

	Balance October 1, 2006	Additions	Deletions	Balance September 30, 2007	Due Within One Year
<b>Governmental activities</b>					
Promissory note, 2005	\$ 3,421,981	\$	\$ 338,403	\$ 3,083,578	\$ 347,840
Promissory note, 2004B	1,958,333		250,000	1,708,333	250,000
Compensated absences	277,111	9,002		286,113	30,042
<b>Total governmental activities</b>	<b>\$ 5,657,425</b>	<b>\$ 9,002</b>	<b>\$ 588,403</b>	<b>\$ 5,078,024</b>	<b>\$ 627,882</b>
<b>Business-type activities</b>					
Promissory note, 2005	\$ 78,040	\$	\$ 7,717	\$ 70,323	\$ 7,933
Promissory note, 2000	577,832		118,215	459,617	123,654
Revolving loan fund	10,101,701		451,625	9,650,076	464,674
Promissory note, 2007		4,000,000		4,000,000	
Compensated absences	73,793	15,404		89,197	11,175
<b>Total business-type activities</b>	<b>\$10,831,366</b>	<b>\$4,015,404</b>	<b>\$ 577,557</b>	<b>\$ 14,269,213</b>	<b>\$ 607,436</b>

**NOTE 6 - INTERFUND TRANSFERS**

The following is a summary of interfund transfers for the year ended September 30, 2007:

	Transfers In	Transfers Out
General fund	\$	\$ 1,071,529
Water utility fund	1,069,065	
Non-major governmental funds	2,464	
<b>Total transfers</b>	<b>\$ 1,071,529</b>	<b>\$ 1,071,529</b>

Transactions for services rendered or facilities provided are recorded as revenue in the receiving fund and expenditures in the disbursing fund. Transactions to transfer revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them are recorded as transfers in and out.

**TOWN OF HIGHLAND BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007**

**NOTE 7 - ADMINISTRATIVE CHARGE BY THE GENERAL FUND TO THE ENTERPRISE FUND**

During the year ended September 30, 2007, the cost of administrative services rendered by the general fund to the enterprise funds was shown as revenue in the general fund and as an operating expense in the enterprise funds. The amount charged by the general fund for 2007 was \$117,214.

**NOTE 8 - ADMINISTRATIVE CHARGE BY THE WATER DEPARTMENT TO THE SEWER DEPARTMENT**

During the year ended September 30, 2007, the cost of administrative services rendered by the Water Department to the Sewer Department was shown as revenue in the water fund and as an operating expense in the sewer fund. The amount charged by the water fund for 2007 was \$86,478.

**NOTE 9 - DEFINED CONTRIBUTION PLANS**

*Town of Highland Beach Retirement Plan*

The Town of Highland Beach Retirement Plan is a defined contribution Money Purchase 401(a) Plan established and administered by the Town to provide benefits at retirement to the employees of the Town. All full-time employees age 21 or over must participate in the Plan after six (6) months of continuous service. Employees' interest in the Town's contributions vest as follows:

Employees hired before September 30, 1991:

Years of Service Completed	Specified Percent Vested
One	50%
Two	75%
Three	100%

Employees hired after September 30, 1991:

Years of Service Completed	Specified Percent Vested
Three	33%
Four	66%
Five	100%

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 9 - DEFINED CONTRIBUTION PLANS** (Continued)

*Town of Highland Beach Retirement Plan* (Continued)

The total payroll for all employees and payroll for employees covered by the plan for the current year was \$2,646,584 and \$424,809, respectively. The Town is required to contribute 8% of each eligible employee's base salary. Plan members are required to contribute 2% of their base salary. If an employee contributes an additional 1% of base salary, the Town will contribute an additional 2% of the employee's base salary. If an employee contributes an additional 2% of base salary, the Town will contribute an additional 4% of the employee's base salary. Both the Town and the covered employees made the required contributions of \$50,977 and \$27,992, respectively, for a total of \$78,969.

Plan revisions and contribution requirements are established and may be amended by the Town Commission. Plan assets are invested in the International City Management Association Retirement Trust which provides participants with various pooled investment alternatives.

On August 2, 2005, the Town approved Resolutions 841 and 842 regarding participation in retirement plans for the Town's employees. Resolution 841 established the policy that all general employees of the Town, except those excluded by law, shall participate in the Florida Retirement System effective October 1, 2005. Resolution 842 amended the Money Purchase Pension Plan effective October 1, 2005. Plan assets were transferred directly to the Florida Retirement System. Employees participating in the Money Purchase Pension Plan, on October 1, 2005 had the option to:

- a. Elect to remain in the Money Purchase Pension Plan and to continue to participate according to plan provisions. .
- b. Elect to withdraw from the Money Purchase Pension Plan and join the Florida Retirement System. Employees allowed funds to revert back to the Town to purchase past service as follows:
  - 1) The entire ending account balance of the Town's portion of the Money Purchase Pension Plan as of September 30, 2006.
  - 2) The employee's ending account balance of the Money Purchase Pension Plan to the extent of the Florida Retirement System's buy back of past service amounts as of September 30, 2006.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 9 - DEFINED CONTRIBUTION PLANS** (Continued)

*Town of Highland Beach Retirement Plan* (Continued)

- c. Elect to retain their vested membership credit with the Money Purchase Pension Plan and begin membership in the Florida Retirement System effective October 1, 2005, with the understanding that they may not purchase past service in the Florida Retirement system for time credited under the Money Purchase Pension Plan.

*Town of Highland Beach Voluntary Retirement Plan*

On September 5, 2006, the Town approved Resolution 864 establishing the Town of Highland Beach Voluntary Retirement Plan. The plan is a defined contribution Money Purchase 401 Plan to provide benefits at retirement to the employees of the Town. The effective date of the plan was October 1, 2006. All employees age 21 or over may participate in the plan. Participants may make voluntary pretax contributions to the plan based upon a percentage of their base payroll. The Town does not make contributions to the plan. For the year ended September 30, 2007, Town employees made voluntary contributions of \$9,000 to the plan.

The plan is administered by the International City Management Association Retirement Corporation, which provides various pooled investment alternatives. Plan revisions and contribution requirements are established and may be amended by the Town Commission.

**NOTE 10 - FLORIDA RETIREMENT SYSTEM**

*Plan Description*

Effective October 1, 2005, employees of the Town were given the option to either remain in the current defined contribution plan or join the Florida Retirement System (see Note 9). The Florida Retirement System (FRS), a cost sharing, multiple-employer, public retirement system controlled by the State Legislature and administered by the State of Florida Department of Administration, Division of Retirement. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A post-employment health insurance subsidy is also provided to eligible employees. Benefits are established by Chapter 121, Florida Statutes, and Chapter 22B, Florida Administrative Code. Amendments to the law can only be made by an act of the Florida Legislature.

The State of Florida issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report was for the fiscal year ended June 30, 2005. That report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, 2639-C North Monroe Street, Tallahassee, FL 32399-1560.

**TOWN OF HIGHLAND BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007**

**NOTE 10 - FLORIDA RETIREMENT SYSTEM** (Continued)

*Funding Policy*

Participating employers are required to make contributions based upon statewide contribution rates. The contribution rates by job class for the Town's employees at September 30, 2007, were as follows: regular employees 9.85%, special risk employees 20.92%, and senior management service employees 13.12%.

The Town's contributions to the FRS for the fiscal years ending September 30, 2007, were \$298,233, which was equal to the required contributions for the fiscal year.

**NOTE 11 - COMMITMENTS**

As of September 30, 2007, the Town had the following commitments for construction contracts for improvement to the reverse osmosis water treatment plant:

<u>Project</u>	Project Authorized Amount	Amount Completed 09/30/07	Contracts Payable 09/30/07	Retainage Payable 09/30/07	Balance to Complete
Reliability Improvements	\$ 1,814,193	\$ 1,748,157	\$ 125,080	\$ 174,816	\$ 66,036
Membrane Train Modifications	187,650	164,800	18,360	16,480	22,850
Totals	<u>\$ 2,001,843</u>	<u>\$ 1,912,957</u>	<u>\$ 143,440</u>	<u>\$ 191,296</u>	<u>\$ 88,886</u>

**NOTE 12 - INTERLOCAL GOVERNMENTAL AGREEMENTS**

The Town has an agreement with the City of Delray Beach (the City) under which the City provides fire protection and fire rescue services. The term of the agreement is for fifteen years, beginning October 1, 2002, and extending through September 30, 2017, with options to renew for additional periods of ten years each upon the mutual agreement of both parties. Under the terms of the agreement, the City charges the Town a flat rate, which is adjusted annually based on changes in the consumer price index. The amount paid in 2007 was \$2,581,157.

The Town has a second Interlocal Agreement with the City of Delray Beach under which the City provides sewage disposal services to the Town. Under the terms of the agreement, which will expire in 2030, the City charges the Town a rate per gallon based on the cost of providing the services. For the year ended September 30, 2007, the Town was charged \$569,095 for sewage disposal services.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 13 - RISK MANAGEMENT**

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

**NOTE 14 - CONTINGENCIES**

The Town is involved in various litigations and claims arising in the course of operations. It is the opinion of legal counsel that the likelihood of unfavorable outcome and the amounts of potential losses cannot be reasonably determined at this time. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements.

**NOTE 15 - SUBSEQUENT EVENTS**

**SBA Pool**

As discussed in Note 2, at September 30, 2007, the Town of Highland Beach had \$174,875 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On November 29, 2007, the State Board of Administration implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the Fund coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub prime mortgage risk. On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A consisted of all money market appropriate assets, which was approximately \$12 billion or 86% of Pool assets. Pool B consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately \$2 billion or 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B.

Currently, Pool A participants may withdraw 50% of their balance or \$8 million, whichever is greater, without penalty. Withdrawals from Pool A in excess of the above limit are subject to a 2% redemption fee. New investments in Pool A are not subject to the redemption fee or withdrawal restrictions. Future withdrawal provisions from Pool A will be subject to further evaluation based on the maturities of existing investments and the liquidity requirements of the

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 15 - SUBSEQUENT EVENTS** (Continued)

SBA Pool (Continued)

Pool. On December 21, 2007, Standard and Poor's Ratings Services assigned its "AAAM" principal stability fund rating to Pool A.

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

The Town deposited \$852,143 into the Pool during the months of October 2007 through January 2008. As of February 29, 2008, the Town of Highland Beach had \$610,238 and \$416,780 invested in Pool A and Pool B, respectively. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

Property Tax Amendment

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

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

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

Based on information received from the Palm Beach County Property Appraiser's Office, the estimated annual loss of property tax revenues for our Town from the additional homestead

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 12 – SUBSEQUENT EVENTS** (Continued)

*Property Tax Amendment* (Continued)

exemption is approximately \$162,000. At present, there is no accurate way to determine the impact of the \$25,000 exemption for tangible personal property or the impact of the portability and assessment cap on non-homestead property provisions in terms of potential loss of property tax revenues.



**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Required Supplemental Information**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**For the Year Ended September 30, 2007**

	Original Adopted Budget	Final Revised Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues:</b>				
Ad valorem taxes	\$ 8,863,304	\$ 8,863,304	\$ 8,901,807	\$ 38,503
Other local taxes	38,000	38,000	38,500	500
Franchise fees	695,000	695,000	732,989	37,989
Half cent sales tax	330,000	330,000	308,004	(21,996)
State revenue sharing	105,000	105,000	95,488	(9,512)
County occupational license	17,000	17,000	14,605	(2,395)
Grants	11,000	11,000	8,250	(2,750)
Alcoholic beverage licenses	650	650	641	(9)
Licenses and permits	303,400	303,400	445,304	141,904
Fines and forfeitures	26,750	26,750	14,905	(11,845)
Charges for services	362,050	387,050	388,118	1,068
Interest	215,000	215,000	277,380	62,380
Rent	50,200	50,200	48,134	(2,066)
Miscellaneous	137,914	137,914	223,126	85,212
<b>Total revenues</b>	<b>11,155,268</b>	<b>11,180,268</b>	<b>11,497,251</b>	<b>316,983</b>
<b>Expenditures:</b>				
<b>General government:</b>				
Town commission	255,435	255,435	133,869	121,566
Town manager	300,690	310,390	286,829	23,561
Town clerk	271,792	270,467	242,325	28,142
Finance	312,504	320,859	319,380	1,479
Legal	250,000	255,400	252,984	2,416
Public buildings	235,933	238,971	237,026	1,945
Post office	103,133	100,555	99,990	565
Non-departmental	378,951	379,621	361,407	18,214
<b>Total general government</b>	<b>2,108,438</b>	<b>2,131,698</b>	<b>1,933,810</b>	<b>197,888</b>
<b>Public safety:</b>				
Police	1,904,238	1,875,222	1,576,270	298,952
Protective inspections	401,564	401,564	359,793	41,771
Ambulance service	13,200	13,200	13,000	200
Fire rescue	2,581,156	2,581,156	2,581,156	
<b>Total public safety</b>	<b>4,900,158</b>	<b>4,871,142</b>	<b>4,530,219</b>	<b>340,923</b>
Culture and recreation	318,540	326,056	322,675	3,381
Sanitation	344,000	369,000	361,924	7,076
Contingency	1,196,617	1,054,398		1,054,398
Capital outlay	471,350	790,946	582,655	208,291

(continued)

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Required Supplemental Information**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**For the Year Ended September 30, 2007**  
**(Continued)**

	Original Adopted Budget	Final Revised Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures (continued):				
Debt service:				
Principal	\$ 588,150	\$ 588,403	\$ 588,403	\$
Interest	158,950	158,697	158,602	95
Total expenditures	10,086,203	10,290,340	8,478,288	1,812,052
Excess of revenues over (under) expenditures	1,069,065	889,928	3,018,963	(2,129,035)
Other financing sources (uses):				
Transfers out	(1,069,065)	(1,071,529)	(1,071,529)	
Total other financing sources (uses)	\$ (1,069,065)	\$ (1,071,529)	\$ (1,071,529)	\$
Net change in fund balances			1,947,434	
Fund balances, beginning of year			2,331,578	
Fund balances, end of year			\$ 4,279,012	

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Notes to the Budgetary Required Supplemental Information**  
**For the Year Ended September 30, 2007**

NOTE 1. Budgets and Budgetary Accounting

State of Florida Statutes required that all municipal governments establish budgetary systems and approve balanced annual operating budgets. The Town Commission annually adopts an operating budget and appropriates funds for the general fund, special revenue funds, debt service fund, and enterprise funds. The procedures for establishing budgetary data are as follows:

- In July of each year, the Town Manager submits a proposed operating budget to the Commission for the next fiscal year commencing the following October 1st.
- In September, the Commission holds public meetings to obtain taxpayer comments.
- Upon completion of the public hearings and prior to October 1, a final operating budget is legally enacted through the passage of an ordinance. Estimated beginning fund balances are considered in the budgetary process.

Changes or amendments to the total budgeted expenditures of the Town or a department must be approved by the Commission. Changes within a department which do not affect department totals may be approved on the administrative level. Budgets are adopted on a basis consistent with generally accepted accounting principles.

NOTE 2. Encumbrances

Encumbrance accounting is used for purposes of budgetary control and contract compliance. 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 integration. Because appropriations expire at year end, even if encumbered, it is the Town's policy to reappropriate such amounts at the beginning of the next fiscal year. Encumbrances outstanding at year end are reported as reservations of fund balances in the fund financial statements.

NOTE 3. Excess of Expenditures Over Appropriations

No departments had expenditures in excess of appropriations for the fiscal year ended September 30, 2007.

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Combining Balance Sheet**  
**Non-major Governmental Funds**  
**September 30, 2007**

	Special Revenue Funds				Total Non-major Funds
	Open Space and Recreation Land	Library Donation	Cultural Society	Law Enforcement	
Assets:					
Cash and cash equivalents	\$ 179,542	\$ 7,622	\$ 13,295	\$ 3,956	\$ 204,415
Accounts receivable			2,325		2,325
Total assets	<u>\$ 179,542</u>	<u>\$ 7,622</u>	<u>\$ 15,620</u>	<u>\$ 3,956</u>	<u>\$ 206,740</u>
Liabilities and fund balance:					
Liabilities:					
Accounts payable	<u>\$</u>	<u>\$</u>	<u>\$ 88</u>	<u>\$</u>	<u>\$ 88</u>
Total liabilities			<u>88</u>		<u>88</u>
Fund balance:					
Reserved for special projects	<u>179,542</u>	<u>7,622</u>	<u>15,532</u>	<u>3,956</u>	<u>206,652</u>
Total fund balance	<u>179,542</u>	<u>7,622</u>	<u>15,532</u>	<u>3,956</u>	<u>206,652</u>
Total liabilities and fund balance	<u>\$ 179,542</u>	<u>\$ 7,622</u>	<u>\$ 15,620</u>	<u>\$ 3,956</u>	<u>\$ 206,740</u>

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**Non-major Governmental Funds**  
**For the Year Ended September 30, 2007**

	Special Revenue Funds				Total Non-major Funds
	Open Space and Recreation Land	Library Donation	Cultural Society	Law Enforcement	
Revenues:					
Contributions	\$	\$ 1,075	\$ 3,235	\$ 450	\$ 4,760
Grants			2,325		2,325
Interest	8,632	359	638	185	9,814
Total revenues	<u>8,632</u>	<u>1,434</u>	<u>6,198</u>	<u>635</u>	<u>16,899</u>
Expenditures:					
Culture and recreation			9,175		9,175
Capital outlay					
Total expenditures			<u>9,175</u>		<u>9,175</u>
Excess (deficiency) of revenues over (under) expenditures	8,632	1,434	(2,977)	635	7,724
Other financing sources (uses):					
Transfers in			2,464		2,464
Excess of revenues and other financing sources over expenditures	8,632	1,434	(513)	635	10,188
Fund balance, beginning of year	<u>170,910</u>	<u>6,188</u>	<u>16,045</u>	<u>3,321</u>	<u>196,464</u>
Fund balance, end of year	<u>\$ 179,542</u>	<u>\$ 7,622</u>	<u>\$ 15,532</u>	<u>\$ 3,956</u>	<u>\$ 206,652</u>

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Combining Statement of Fiduciary Net Assets**  
**Pension Trust Funds**  
**September 30, 2007**

	Retirement Plan	Voluntary Retirement Plan	Total Pension Trust Funds
Assets:			
Investments - retirement plan mutual funds	\$ 609,418	\$ 9,240	\$ 618,658
Participant loans receivable	6,126	-	6,126
Total assets	615,544	9,240	624,784
Net Assets:			-
Held in trust for employees' pension benefits	615,544	9,240	624,784
Total net assets	\$ 615,544	\$ 9,240	\$ 624,784

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Pension Trust Funds**  
**For the Year Ended September 30, 2007**

	Retirement Plan	Voluntary Retirement Plan	Total Pension Trust Funds
Additions			
Contributions			
Employer	\$ 50,977	\$	\$ 50,977
Plan members	16,992	9,000	25,992
Total contributions	<u>67,969</u>	<u>9,000</u>	<u>76,969</u>
Investment income			
Net increase in fair value	80,852	240	81,092
Investment expense	(105)		(105)
Total net investment income	<u>80,747</u>	<u>240</u>	<u>80,987</u>
Total additions	<u>148,716</u>	<u>9,240</u>	<u>157,956</u>
Deductions			
Benefits	69,510		69,510
Total deductions	<u>69,510</u>		<u>69,510</u>
Change in net assets	79,206	9,240	88,446
Net assets held in trust for pension benefits			
Net assets - beginning	<u>536,338</u>		<u>536,338</u>
Net assets - ending	<u>\$ 615,544</u>	<u>\$ 9,240</u>	<u>\$ 624,784</u>

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Library Donation Fund**  
**Schedule of Revenues and Expenditures - Budget and Actual**  
**For the Year Ended September 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenues:			
Contributions	\$ 11,500	\$ 1,075	\$ (10,425)
Interest	<u>350</u>	<u>359</u>	<u>9</u>
Total revenues	<u>\$ 11,850</u>	<u>\$ 1,434</u>	<u>\$ (10,416)</u>
Adult programs	<u>\$ 11,850</u>	<u>                    </u>	<u>\$ 11,850</u>
Total expenditures	<u>\$ 11,850</u>	<u>\$</u>	<u>\$ 11,850</u>



**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Cultural Society Fund**  
**Schedule of Revenues and Expenditures - Budget and Actual**  
**For the Year Ended September 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenues:			
Contributions	\$	\$ 3,235	\$ 3,235
Grants	2,500	2,325	(175)
Interest	<u>250</u>	<u>638</u>	<u>388</u>
Total revenues	<u>\$ 2,750</u>	<u>\$ 6,198</u>	<u>\$ 3,448</u>
Expenditures:			
Culture and recreation	\$ 12,614	\$ 9,175	\$ 3,439
Capital outlay	<u>3,000</u>	<u></u>	<u>3,000</u>
Total expenditures	<u>\$ 15,614</u>	<u>\$ 9,175</u>	<u>\$ 6,439</u>
Other financing sources (uses)			
Transfers in	<u>\$ 2,464</u>	<u>\$ 2,464</u>	<u>\$</u>
Total other financing sources (uses)	<u>\$ 2,464</u>	<u>\$ 2,464</u>	<u>\$</u>

**TOWN OF HIGHLAND BEACH, FLORIDA**  
**Law Enforcement Fund**  
**Schedule of Revenues and Expenditures - Budget and Actual**  
**For the Year Ended September 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenues:			
Forfeited property	\$ 1,500	\$	\$ (1,500)
Contributions		450	450
Interest		185	185
Total revenues	<u>\$ 1,500</u>	<u>\$ 635</u>	<u>\$ (865)</u>
Operating expenses	<u>\$ 1,500</u>	<u>\$</u>	<u>\$ 1,500</u>
Total expenditures	<u>\$ 1,500</u>	<u>\$</u>	<u>\$ 1,500</u>

**STATISTICAL SECTION (UNAUDITED)**

## STATISTICAL SECTION

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

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*Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.*

**Town of Highland Beach, Florida**  
**Schedule 1**  
**Net Assets by Component (Unaudited)**  
**(Accrual Basis of Accounting)**

Fiscal Year Ended 9/30	2003	2004	2005	2006	2007
<b>Governmental activities</b>					
Invested in capital assets, net of related debt	\$ (770,020)	\$ 1,745,513	\$ 2,840,713	\$ 3,187,681	\$ 2,736,193
Restricted		780,382	177,936	196,464	206,652
Unrestricted	1,474,158	(1,270,667)	(561,376)	(206,984)	2,804,944
<b>Total governmental activities</b>	<b>\$ 704,138</b>	<b>\$ 1,255,228</b>	<b>\$ 2,457,273</b>	<b>\$ 3,177,161</b>	<b>\$ 5,747,789</b>
<b>Business type activities</b>					
Invested in capital assets, net of related debt	\$ 6,579,413	\$ 5,994,294	\$ 5,415,861	\$ 5,152,365	\$ 4,806,874
Restricted		102,369			
Unrestricted	(186,866)	923,425	629,199	1,092,036	1,385,963
<b>Total business type activities</b>	<b>\$ 6,392,547</b>	<b>\$ 7,020,088</b>	<b>\$ 6,045,060</b>	<b>\$ 6,244,401</b>	<b>\$ 6,192,837</b>
<b>Primary Government</b>					
Invested in capital assets, net of related debt	\$ 5,809,393	\$ 7,739,807	\$ 8,256,574	\$ 8,340,046	\$ 7,543,067
Restricted		882,751	177,936	196,464	206,652
Unrestricted	1,287,292	(347,242)	67,823	885,052	4,190,907
<b>Total primary government</b>	<b>\$ 7,096,685</b>	<b>\$ 8,275,316</b>	<b>\$ 8,502,333</b>	<b>\$ 9,421,562</b>	<b>\$ 11,940,626</b>

Note: Data not available prior to fiscal year 2003 implementation of Governmental Accounting Standards. Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

**Town of Highland Beach, Florida**  
**Schedule 2**  
**Changes in Net Assets (Unaudited)**  
**(Accrual Basis of Accounting)**

Fiscal Year Ended 9/30	2003	2004	2005	2006	2007
<b>Expenses</b>					
Governmental activities:					
General government	\$ 1,549,650	\$ 1,618,870	\$ 1,726,541	\$ 2,337,885	\$ 1,963,868
Public Safety	3,501,890	3,944,556	4,142,712	4,386,918	4,676,539
Culture/recreation	236,146	203,610	206,779	364,037	499,442
Physical environment	288,883	348,965	377,751	369,965	403,190
Interest on long term debt	251,554	232,031	184,431	168,583	155,786
<b>Total governmental activities</b>	<b>5,828,123</b>	<b>6,348,032</b>	<b>6,638,214</b>	<b>7,627,388</b>	<b>7,698,825</b>
Business type activities:					
Water utility	1,259,564	1,269,157	2,313,852	2,392,210	2,594,317
Sewer utility	713,593	836,290	839,257	737,138	856,530
Interest on long term debt	50,046		330,982	351,393	304,552
<b>Total business type activities</b>	<b>2,023,203</b>	<b>2,105,447</b>	<b>3,484,091</b>	<b>3,480,741</b>	<b>3,755,399</b>
<b>Total primary government expenses</b>	<b>\$ 7,851,326</b>	<b>\$ 8,453,479</b>	<b>\$ 10,122,305</b>	<b>\$ 11,108,129</b>	<b>\$ 11,454,224</b>
<b>Program Revenues</b>					
Charges for Services- Governmental Activities					
General Government	\$ 59,417	\$ 50,829	\$ 51,137	\$ 50,983	\$ 71,754
Public Safety	472,472	462,355	463,069	443,549	453,299
Culture recreation	2,527	4,429	5,272	4,992	4,879
Sanitation	339,661	349,672	353,015	350,127	381,775
<b>Total Charges for Services</b>	<b>874,077</b>	<b>867,285</b>	<b>872,493</b>	<b>849,651</b>	<b>911,707</b>
Operating Grants and Contributions	46,622	79,078	6,334	4,500	10,575
Capital Grants and Contributions			300,000	200,000	
<b>Total governmental activities program revenues</b>	<b>920,699</b>	<b>946,363</b>	<b>1,178,827</b>	<b>1,054,151</b>	<b>922,282</b>
Business type activities program revenue:					
Water utility	1,220,355	1,185,831	1,296,600	1,282,171	1,705,302
Sewer utility	809,041	824,727	839,337	844,200	847,096
Capital Grants and Contributions		300,000		3,000	
<b>Total business type activities program revenue</b>	<b>2,029,396</b>	<b>2,310,558</b>	<b>2,135,937</b>	<b>2,129,371</b>	<b>2,552,398</b>
<b>Total primary government program revenue</b>	<b>\$ 2,950,095</b>	<b>\$ 3,256,921</b>	<b>\$ 3,314,764</b>	<b>\$ 3,183,522</b>	<b>\$ 3,474,680</b>
Net (expense) revenue					
Governmental activities	\$ (4,907,424)	\$ (5,401,669)	\$ (5,459,387)	\$ (6,573,237)	\$ 6,776,543
Business type activities	6,193	205,111	(1,348,154)	(1,351,370)	1,203,001
<b>Total primary government net expense</b>	<b>\$ (4,901,231)</b>	<b>\$ (5,196,558)</b>	<b>\$ (6,807,541)</b>	<b>\$ (7,924,607)</b>	<b>\$ 7,979,544</b>
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental activities					
Taxes					
Property taxes	\$ 4,660,858	\$ 5,242,428	\$ 5,976,900	\$ 7,227,968	\$ 8,901,807
Utility service taxes	572,035	600,177	641,671	701,028	732,989
Sales and use taxes	312,962	340,247	343,457	357,251	345,079
State revenue sharing	60,786	68,842	94,302	97,404	95,488
Investment earnings	70,990	65,970	120,171	221,860	287,194
Miscellaneous revenues	124,730	41,517	86,366	164,599	53,679
Gain (loss) on disposal of assets			18,000	50	
Transfers	(143,581)	(406,422)	(619,435)	(1,477,035)	(1,069,065)
<b>Total general revenues</b>	<b>5,658,780</b>	<b>5,952,759</b>	<b>6,661,432</b>	<b>7,293,125</b>	<b>9,347,171</b>
Business type activities program revenue					
Investment earnings	17,992	10,150	28,559	70,343	77,393
Other miscellaneous revenues	80,000	5,858	87,483	1,747	4,979
Gain (loss) on disposal of assets			(362,351)	1,586	
Transfers	143,581	406,422	619,435	1,477,035	1,069,065
<b>Total business type activities program revenues</b>	<b>241,573</b>	<b>422,430</b>	<b>373,126</b>	<b>1,550,711</b>	<b>1,151,437</b>
<b>Total primary government</b>	<b>\$ 5,900,353</b>	<b>\$ 6,375,189</b>	<b>\$ 7,034,558</b>	<b>\$ 8,843,836</b>	<b>\$ 10,498,608</b>
<b>Changes in Net Assets</b>					
Government activities	\$ 751,356	\$ 551,090	\$ 1,202,045	\$ 719,888	\$ 2,570,628
Business type activities	247,766	627,541	(975,028)	199,341	(51,564)
<b>Total primary government</b>	<b>\$ 999,122</b>	<b>\$ 1,178,631</b>	<b>\$ 227,017</b>	<b>\$ 919,229</b>	<b>\$ 2,519,064</b>

Note: Data not available prior to fiscal year 2003 implementation of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*.

**Town of Highland Beach, Florida**  
**Schedule 3**  
**Fund Balances, Governmental Funds (Unaudited)**  
**(Modified Accrual Basis of Accounting)**

Fiscal Year Ended 9/30	1997	1998	1999	2000	2001
<b>General Fund</b>					
Reserved	\$ 24,383	\$ 22,737	\$ 14,395	\$ 8,101	\$ 5,790
Unreserved	1,281,166	1,252,835	1,396,132	1,193,827	1,019,070
<b>Total general fund</b>	<b>\$ 1,305,549</b>	<b>\$ 1,275,572</b>	<b>\$ 1,410,527</b>	<b>\$ 1,201,928</b>	<b>\$ 1,024,860</b>
<b>All Other Governmental Funds</b>					
Reserved	\$ 727,681	\$ 656,835	\$ 681,305	\$ 733,280	\$ 744,319
Unreserved, reported in:					
Special revenue funds					
Capital projects funds	77,643	13,135	8,270	4,714	
Debt service funds					
<b>Total all other governmental funds</b>	<b>\$ 805,324</b>	<b>\$ 669,970</b>	<b>\$ 689,575</b>	<b>\$ 737,994</b>	<b>\$ 744,319</b>

2002	2003	2004	2005	2006	2007
\$ 1,603	\$ 10,097	\$ 5,287	\$ 7,329	\$ 188,670	\$ 199,727
1,243,412	1,535,940	1,522,937	2,168,951	2,142,908	4,079,285
<u>\$ 1,245,015</u>	<u>\$ 1,546,037</u>	<u>\$ 1,528,224</u>	<u>\$ 2,176,280</u>	<u>\$ 2,331,578</u>	<u>\$ 4,279,012</u>
\$ 752,249	\$ 769,145	\$ 834,473	\$ 177,936	\$ 196,464	\$ 206,652
<u>\$ 752,249</u>	<u>\$ 769,145</u>	<u>\$ 834,473</u>	<u>\$ 177,936</u>	<u>\$ 196,464</u>	<u>\$ 206,652</u>



**Town of Highland Beach, Florida**  
**Schedule 4**  
**Changes in Fund Balances, Governmental Funds(Unaudited)**  
**(Modified Accrual Basis of Accounting)**

Fiscal Year Ended 9/30	1998	1999	2000	2001	2002
<b>Revenues</b>					
Taxes	\$ 3,205,372	\$ 3,322,024	\$ 3,577,556	\$ 3,826,431	\$ 4,629,819
Licenses and permits	183,901	377,950	275,785	411,463	374,287
Intergovernmental	272,660	289,963	344,062	375,057	430,113
Charges for services	386,982	400,240	345,662	333,807	347,748
Fines and forfeitures	8,835	11,409	23,193	47,643	36,568
Impact fees	7,000	15,000			
Interest	157,170	148,940	187,615	155,614	61,974
Miscellaneous revenues	110,295	119,708	134,011	143,223	194,952
<b>Total revenues</b>	<b>4,332,215</b>	<b>4,685,234</b>	<b>4,887,884</b>	<b>5,293,238</b>	<b>6,075,461</b>
<b>Expenditures</b>					
General government	953,519	957,772	1,346,423	1,330,360	1,364,278
Public safety	2,217,355	2,442,500	2,570,179	2,887,877	3,151,019
Culture/recreation	79,978	89,430	108,511	140,955	174,516
Physical environment	365,003	325,463	317,396	302,271	299,033
Capital outlay	343,002	176,459	171,945	222,349	200,465
Debt service					
Principal	220,000	230,000	235,000	337,995	347,880
Interest	317,679	307,990	297,551	286,626	266,794
Other debt service costs	1,010	1,060	1,059	1,150	1,100
<b>Total expenditures</b>	<b>4,497,546</b>	<b>4,530,674</b>	<b>5,048,064</b>	<b>5,509,583</b>	<b>5,805,085</b>
Excess of revenues over (under) expenditures	(165,331)	154,560	(160,180)	(216,345)	270,376
<b>Other Financing Sources (Uses)</b>					
Loan proceeds					
Transfers in	287,509	208,577	224,917	279,657	274,477
Transfers out	(287,509)	(208,577)	(224,917)	(287,769)	(316,768)
Proceeds from lease revenue bonds					
Payment to refunded bond escrow					
<b>Total other financing sources (uses)</b>				<b>(8,112)</b>	<b>(42,291)</b>
Net Change in fund balances	(165,331)	154,560	(160,180)	(224,457)	228,085
Fund balances - beginning, as restated	2,110,873	1,945,542	2,100,102	1,993,636	1,769,179
<b>Fund balance - ending</b>	<b>\$ 1,945,542</b>	<b>\$ 2,100,102</b>	<b>\$ 1,939,922</b>	<b>\$ 1,769,179</b>	<b>\$ 1,997,264</b>
Debt services (principal & interest) as a percentage of non-capital expenditures	12.97%	12.38%	10.94%	11.84%	10.99%

2003	2004	2005	2006	2007
\$ 5,270,094	\$ 5,881,529	\$ 6,652,530	\$ 7,967,255	\$ 9,671,871
437,529	425,888	396,994	405,004	445,304
407,586	397,381	725,852	639,256	430,738
347,651	357,063	362,096	356,373	388,118
33,699	36,334	49,436	23,837	14,905
8,000	9,000	7,000	1,000	
70,990	65,971	120,171	221,860	287,194
147,511	217,515	346,363	272,758	276,020
6,723,060	7,390,681	8,660,442	9,887,343	11,514,150
1,407,059	1,634,464	1,606,617	2,266,915	1,933,810
3,374,752	3,808,111	4,003,247	4,217,648	4,530,219
174,163	148,615	178,501	251,043	331,850
279,459	337,051	318,065	328,209	361,924
411,689	857,999	2,656,050	634,409	582,654
362,885	396,445	240,000	362,985	588,403
251,554	222,659	202,283	175,273	158,603
6,261,561	7,405,344	9,204,763	8,236,482	8,487,463
461,499	(14,663)	(544,321)	1,650,861	3,026,687
	468,600	5,360,068		
459,612	794,344	2,806,583	314,054	2,464
(603,193)	(1,200,766)	(3,426,018)	(1,791,089)	(1,071,529)
		(4,204,793)		
(143,581)	62,178	535,840	(1,477,035)	(1,069,065)
317,918	47,515	(8,481)	173,826	1,957,622
1,997,264	2,315,182	2,362,697	2,354,216	2,528,042
\$ 2,315,182	\$ 2,362,697	\$ 2,354,216	\$ 2,528,042	\$ 4,485,664
10.50%	9.46%	6.75%	7.08%	9.45%

**Town of Highland Beach, Florida**  
**Schedule 5**  
**Assessed Value and Actual Value of Taxable Property (Unaudited)**

Fiscal Year Ended 9/30	Residential Property	Commercial Property	Personal Property	Total Taxable Assessed Value	Total Direct Tax Rate	Total Actual Just Value
1998	711,040,577	5,943,967	4,623,490	721,608,034	20.77	772,325,019
1999	735,631,879	5,500,000	4,795,065	745,926,944	20.76	797,748,259
2000	796,883,835	5,500,000	5,116,923	807,500,758	20.18	872,244,894
2001	848,042,371	5,500,000	5,094,800	858,637,171	20.13	934,201,563
2002	1,023,824,786	8,120,433	5,198,958	1,037,144,177	20.35	1,131,263,386
2003	1,187,265,905	8,105,453	8,490,913	1,203,862,271	20.08	1,338,695,342
2004	1,337,767,321	10,500,000	8,332,533	1,356,599,854	19.92	1,542,246,322
2005	1,527,169,511	11,200,000	8,246,381	1,546,615,892	19.73	1,804,845,506
2006	1,854,650,291	11,200,099	9,337,202	1,875,187,592	19.34	2,213,968,392
2007	2,271,637,312	20,004,323	9,190,364	2,300,831,999	18.68	2,844,277,082

Source: Palm Beach County Property Appraiser's Office

**Town of Highland Beach, Florida**  
**Schedule 6**  
**Direct and Overlapping Property Tax Rates (Unaudited)**  
**(Per \$1,000 of Assessed Value)**

Tax Year	Highland Beach		Overlapping Rates (1)						Total
	General Fund	Debt Service Fund	Palm Beach County	Palm Beach		Palm Beach	South Florida	FIND(2) And Everglades	
				School Board	Children's Services Council	County Health Care District	Water Management District		
1998	3.73	0.27	4.86	9.68	0.44	1.05	0.59	0.14	20.76
1999	3.76	0.24	4.95	9.05	0.47	0.98	0.59	0.14	20.18
2000	3.77	0.23	4.94	8.92	0.50	1.03	0.60	0.14	20.13
2001	3.78	0.22	4.94	8.95	0.57	1.15	0.60	0.14	20.35
2002	3.70	0.30	4.81	8.78	0.62	1.13	0.60	0.14	20.08
2003	3.50	0.50	4.79	8.57	0.69	1.13	0.60	0.14	19.92
2004	3.55	0.45	4.77	8.43	0.69	1.10	0.60	0.14	19.73
2005	3.59	0.41	4.72	8.11	0.69	1.08	0.60	0.14	19.34
2006	3.58	0.42	4.48	7.87	0.62	0.97	0.60	0.14	18.68
2007	3.52	0.43	3.98	7.35	0.58	0.89	0.53	0.12	17.40

Source: Palm Beach County Property Appraiser's office.

(1) Overlapping rates are those of local and county governments that apply to property owners within the Town of Highland Beach

(2) Florida Inland Navigation District.

**Town of Highland Beach, Florida**  
**Schedule 7**  
**Principal Property Tax Payers (Unaudited)**  
**Current Year and Nine Years Ago**

2007			1998		
Taxpayers	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxpayers	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
Musa, Marc A	\$ 11,659,528	0.51%	Hidden Harbor Development Corp	\$ 8,540,000	1.21%
Kappel, James S &	10,000,000	0.43%	Highland Ocean Associates Ltd	8,035,229	1.14%
Kappel, Sarah A &	10,000,000	0.43%	Furnary, S J & C Grossman &	6,696,736	0.95%
Blake, Alfred J &	9,866,640	0.43%	Muller, Ralph P & Alice	3,801,526	0.54%
Muller, Ralph P	9,822,271	0.43%	Chauvier, Daniel & Carla	3,467,773	0.49%
Maldonado, Kathleen Tr	9,693,450	0.42%	Kappel, Sarah A & J S Kappel	3,000,000	0.42%
Knight, William L	9,156,382	0.40%	Loftin, Peter T	3,104,408	0.44%
Chaifetz, Jill B Trust	8,687,965	0.38%	Osherow, Shepard D Tr	3,101,190	0.44%
Tulin, Stanley B	7,870,700	0.34%	Phyle, Charles E Tr	3,084,298	0.44%
Musa, Marco	7,742,245	0.34%	Merkert, Eugene F	3,000,518	0.42%
<b>Total</b>	<b>\$ 94,499,181</b>	<b>4.11%</b>	<b>Total</b>	<b>\$ 45,831,678</b>	<b>6.49%</b>

Source: Palm Beach County Property Appraiser's Office.

**Town of Highland Beach, Florida**  
**Schedule 8**  
**Property Tax Levies and Collections (Unaudited)**  
**Last Ten Fiscal Years**

Fiscal Year Ended 9/30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1998	2,886,432	2,788,756	96.62%		2,788,756	96.62%
1999	2,983,708	2,876,590	96.41%		2,876,590	96.41%
2000	3,230,043	3,119,974	96.59%	1,773	3,121,747	96.65%
2001	3,434,549	3,316,182	96.55%	87	3,316,269	96.56%
2002	4,154,129	4,008,671	96.50%	72	4,008,743	96.50%
2003	4,815,437	4,652,659	96.62%	8,199	4,660,858	96.79%
2004	5,426,399	5,241,966	96.60%	562	5,242,528	96.61%
2005	6,186,464	5,974,234	96.57%	2,666	5,976,900	96.61%
2006	7,500,750	7,228,241	96.37%		7,228,241	96.37%
2007	9,203,328	8,921,067	96.93%	1,234	8,922,301	96.95%

Source: Tax Collector, Palm Beach County.

**Town of Highland Beach, Florida**  
**Schedule 9**  
**Ratios of Outstanding Debt by Type (Unaudited)**

Fiscal Year Ended 9/30	Population <sup>(1)</sup>	Median Family Income	Governmental Activities				Business Type Activity			Total Primary Government	Percentage	
			General Obligation Bonds	Revenue Bonds	Lease Revenue Bonds	Promissory Notes	Revenue Bonds	Promissory Notes	Revolving Loan Fund		Personal Income	Per Capita
1998	3,396	N/A	945,000	4,385,000	820,000		100,000			6,250,000	N/A	1,840
1999	3,477	N/A	800,000	4,385,000	735,000		100,000			6,020,000	N/A	1,731
2000	3,518	N/A	655,000	4,385,000	655,000		100,000			5,795,000	N/A	1,647
2001	3,775	N/A	500,000	4,297,005	550,000		97,995			5,445,000	N/A	1,442
2002	3,885	N/A	345,000	4,204,125	450,000		95,875	1,000,000	245,310	6,340,310	N/A	1,632
2003	3,961	N/A	175,000	4,111,240	350,000		93,760	901,571	4,360,638	9,992,209	N/A	2,523
2004	4,019	N/A		4,013,465	240,000	468,600	91,535	3,585,350	7,514,163	15,913,113	N/A	3,959
2005	4,157	N/A				5,743,300		3,668,091	7,117,397	16,528,788	N/A	3,976
2006	4,157	N/A				5,380,314		655,872	10,101,701	16,137,887	N/A	3,882
2007	4,155	N/A				4,791,912		4,529,938	9,650,076	18,971,926	N/A	4,566

Source: (1) Bureau of Economic & Business Research (BEER).

**Town of Highland Beach, Florida**  
**Schedule 10**  
**Ratios of General Bonded Debt Outstanding (Unaudited)**

Fiscal Year Ended 9/30	Population(1)	Taxable Value(2)	General Bonded Debt	Percentage of Actual Taxable Value of Property	Per Capita
1998	3,396	721,608,034	945,000	0.13%	278
1999	3,477	745,926,944	800,000	0.11%	230
2000	3,518	807,510,758	655,000	0.08%	186
2001	3,775	858,527,171	500,000	0.06%	132
2002	3,885	1,037,144,177	1,590,310	0.15%	409
2003	3,961	1,203,859,271	5,437,209	0.45%	1,373
2004	4,019	1,356,599,854	8,267,150	0.61%	2,057
2005	4,157	1,546,615,892	9,384,001	0.61%	2,257
2006	4,157	1,875,187,592	8,987,303	0.48%	2,162
2007	4,155	2,300,831,999	8,333,002	0.36%	2,006

Source: (1) Bureau of Economic & Business Research (BEBR).  
(2) Palm Beach County Property Appraiser's Office.



**Town of Highland Beach, Florida**  
**Schedule 11**  
**Direct and Overlapping Governmental Activities Debt (Unaudited)**

As of September 30, 2007

Governmental Unit	Net General Obligation Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
<b>Town direct debt:</b>			
Town of Highland Beach	<u>\$ 8,333,002</u>	100.00%	<u>\$ 8,333,002</u>
<b>Overlapping debt:</b>			
Palm Beach School District	\$ 66,345,000		
Palm Beach County	<u>313,515,000</u>		
	<u>\$ 379,860,000</u>	2.18%	<u>\$ 8,280,948</u>
<b>Total direct and overlapping debt:</b>			<u>\$ 16,613,950</u>
<b>Estimated population:</b>			<u>4,155</u>
<b>Direct and overlapping net debt per capita:</b>			<u>\$ 3,999</u>

Source: Palm Beach County School District.  
Town of Highland Beach.

**Town of Highland Beach, Florida**  
**Schedule 12**  
**Legal Debt Margin Information (Unaudited)**

*The Town of Highland Beach has no legal debt margin.*

**Town of Highland Beach, Florida**  
**Schedule 13**  
**Pledged-Revenue Coverage (Unaudited)**

Fiscal Year	Revenue Bonds Series 1995 (1)				1997 Lease Revenue Bond				
	Ended 9/30	Pledged Revenue	Debt Service		Coverage	Pledged Revenue	Debt Service		Coverage
			Principal	Interest			Principal	Interest	
1997	\$ 1,246,455	\$	\$ 228,638	5.45	\$ 381,759	\$ 100,000	\$ 21,817	3.13	
1998	745,639		228,638	3.26	397,497	80,000	45,886	3.16	
1999	416,518		228,638	1.82	409,634	85,000	41,797	3.23	
2000	735,047		228,638	3.21	419,378	90,000	37,449	3.29	
2001	989,581	90,000	228,638	3.11	472,904	95,000	32,831	3.70	
2002	712,024	95,000	224,768	2.23	409,634	100,000	23,681	3.31	
2003	438,793	95,000	220,588	1.39	572,035	100,000	17,572	4.87	
2004	263,766	100,000	216,313	0.83	600,177	110,000	13,667	4.85	
2005			147,611		641,671	240,000	9,353	5.16	

Fiscal Year	State Revolving Loan (2)				2005 Promissory Note				
	Ended 9/30	Pledged Revenue	Debt Service		Coverage	Pledged Revenue	Debt Service		Coverage
			Principal	Interest			Principal	Interest	
2004	\$ 406,422	\$	\$ 113,318	3.59	\$	\$	\$		
2005	1,005,473	396,766	220,625	1.63					
2006	1,073,105	390,696	282,475	1.59	562,171	328,646	115,548	1.27	
2007	1,087,143	451,625	286,798	1.47	568,421	346,120	98,074	1.28	

(1) Retired by advance funding in 2005.

(2) Funds to provide principal and interest payments for the first \$7,000,000 of the loan will be provided by ad valorem taxes.

**Town of Highland Beach, Florida**  
**Schedule 14**  
**Demographic & Economic Information (Unaudited)**

Fiscal Year Ended 9/30	Population(1)	Total Personal Income	Median Family Income(2)	Per Capita Personal Income(2)	Average House Sale	School Enrollment(3)	Unemployment Rate(4)
1998	3,396	N/A	N/A	N/A	N/A	N/A	6.7%
1999	3,477	N/A	N/A	N/A	N/A	N/A	5.7%
2000	3,518	N/A	73,200	66,748	N/A	N/A	5.5%
2001	3,775	N/A	N/A	N/A	N/A	23	5.9%
2002	3,885	N/A	N/A	N/A	N/A	38	5.4%
2003	3,961	N/A	N/A	N/A	N/A	38	4.8%
2004	4,019	N/A	N/A	N/A	N/A	39	4.6%
2005	4,157	N/A	N/A	N/A	N/A	40	4.0%
2006	4,157	N/A	83,415	81,091	N/A	39	3.6%
2007	4,155	N/A	N/A	N/A	N/A	38	4.8%

Sources: (1) Bureau of Economic & Business Research (BEBR).  
(2) Business Development Board of Palm Beach County  
(3) Palm Beach County School District.  
(4) Florida Department of Commerce, Division of Employment Security  
(Data is for Palm Beach County).

**Schedule 15**  
**Principal Employers - Palm Beach County (Unaudited)**  
**Current Year and Nine Years Ago**

2007			1998		
<b>Employer</b>	<b>Employees</b>	<b>Percentage of Total County Employment</b>	<b>Employer</b>	<b>Employees</b>	<b>Percentage of Total County Employment</b>
School Board	21,707	NA	School Board	16,800	NA
Palm Beach County	11,293	NA	Palm Beach County	9,000	NA
Tenet Healthcare Corp.	4,500	NA	Pratt & Whitney Aircraft	5,100	NA
HCA ( Hospital Corp. of America)	3,411	NA	Columbia Palm Beach Healthcare System	4,000	NA
Florida Power & Light	3,250	NA	Intracoastal Health Systems, Inc.	3,200	NA
Florida Atlantic University	2,923	NA	Motorola	2,300	NA
The Breakers	2,300	NA	Florida Power & Light	2,300	NA
Office Depot ( Hdqtrs)	2,180	NA	Boca Raton Community Hospital	2,000	NA
Boca Raton Community Hospital	1,860	NA	Boca Raton Resort & Club	1,850	NA
Boca Raton Resort & Club	1,650	NA	Bethesda Memorial Hospital	1,600	NA
<b>Total</b>	<b>55,074</b>	<b>NA</b>	<b>Total</b>	<b>48,150</b>	<b>NA</b>

Source: Business Development Board of Palm Beach County.

No information available for the Town of Highland Beach

**Town of Highland Beach, Florida**  
**Schedule 16**  
**Full Time Equivalent Town Government Employees by Function/Program (Unaudited)**  
**Last Ten Fiscal Years**

Fiscal Year Ended 9/30	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Function/Program</b>										
<b>General Government</b>										
Town Manager	1	1	1	1	1	1	2	2	2	2
Town Clerk	2	2	2	2	2	2	2	2	2	2
Finance	2	2	2	2	2	3	2	2	2	2
Maintenance	2	2	2	2	2	2	2	2	2	2
Post Office	1	1	1	1	1	1	1	1	1	1
<b>Public Safety</b>										
Building	2	2	3	3	3	3	3	3	3	3
Police	11	12	12	12	12	13	14	14	15	15
<b>Cultural and Recreation</b>										
Library	1	1	1	1	1	1	1	1	2	2
<b>Physical Environment</b>										
Utilities	7	7	7	7	8	8	9	10	9	9
<b>Total</b>	<b>29</b>	<b>30</b>	<b>31</b>	<b>31</b>	<b>32</b>	<b>34</b>	<b>36</b>	<b>37</b>	<b>38</b>	<b>38</b>

Source: Town of Highland Beach Finance Department.

**Town of Highland Beach, Florida**  
**Schedule 17**  
**Operating Indicators by Function/Program (Unaudited)**  
**Last Ten Fiscal Years**

Fiscal Year Ended 9/30	2002	2003	2004	2005	2006	2007
<u>Function/Program</u>						
<b>Public Safety</b>						
Number of arrests by police officers	30	10	10	17	15	4
Number of traffic citations issued	920	761	1,420	1,099	494	338
Number of fire calls (1)	234	255	255	256	271	224
Number of EMS calls (1)	389	425	347	369	421	364
Number of code enforcement inspections	28	25	8	31	9	9
Number of building permits issued	1,274	1,140	1,232	1,095	1,575	1,491
<b>Physical Environment</b>						
Number of water and sewer active accounts (meters)	425	427	433	439	448	450
Number of water and sewer units served	4,290	4,292	4,298	4,304	4,313	4,318
<b>Cultural &amp; Recreation</b>						
Number of library patrons	2,597	2,651	2,800	3,239	3,498	4,103
Number of items in collection	21,540	22,225	23,215	24,616	26,552	29,728
Number of community events presented	79	79	81	81	189	251

Note: Indicators are not available prior to fiscal year 2002.  
Fire Department contracted through Delray Beach.

Sources: Town of Highland Beach, FL  
(1) City of Delray Beach

**Town of Highland Beach, Florida**  
**Schedule 18**  
**Capital Asset Statistics by Function/Program**  
**Last Ten Fiscal Years**

<u>Fiscal Year Ended 9/30</u>	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<u>Function/Program</u>										
Public Safety										
Fire Trucks	1	1	1	1	1	1	1	1	1	1
EMS Units	1	1	1	1	1	1	1	1	1	1
Police Officers Vehicles	6	6	6	6	6	6	6	8	8	7
Vehicles- Protective Inspections	2	2	2	2	2	2	2	2	2	2
Transportation										
Street (miles)	3	3	3	3	3	3	3	3	3	3
Physical Environment										
Vehicles-Public Works	4	4	4	4	5	5	5	5	5	5

Source: Town of Highland Beach, FL



## **OTHER REPORTS**



NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

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

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

The Honorable Mayor and Members of the Town Commission  
Town of Highland Beach, Florida

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Highland Beach, Florida, as of and for the year ended September 30, 2007, which collectively comprise the Town of Highland Beach's basic financial statements and have issued our report thereon dated May 16, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Highland 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 Highland Beach, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Highland Beach, Florida's internal control over financial reporting.

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be 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 Highland 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 matters that we reported to the management of the Town of Highland Beach, Florida in the attached management letter dated May 16, 2008.

This report is intended solely for the information and use of the Town of Highland Beach, Florida's management, members of the Town Commission, and federal and state awarding agencies and pass-through entities, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

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

West Palm Beach, Florida  
May 16, 2008



NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

EVERETT B. NOWLEN (1930-1984), CPA  
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DANIEL A. KIRCHMAN, CPA  
ALEXIA G. VARGA, CPA  
BRIAN J. BRESCIA, PFS, CPA  
DONALD D. RINZEL, CPA

MANAGEMENT LETTER

The Honorable Mayor and Members of the Town Commission  
Town of Highland Beach, Florida

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

We have audited the basic financial statements of the Town of Highland Beach, Florida, as of and for the year ended September 30, 2007, and have issued our report thereon dated May 16, 2008.

We conducted our audit in accordance with United States generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated May 16, 2008, should be considered in conjunction with this management letter.

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

PRIOR YEAR COMMENTS

Section 10.554(1)(i)1., Rules of the Auditor General, requires 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.

The prior year comment was addressed by the Town and no longer applies.

## CURRENT YEAR COMMENTS

### Current Year Recommendations

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit for the fiscal year ended September 30, 2007, we have the following recommendations:

#### **Accounts Receivable**

**Condition:** During our audit, we noted the reconciliation between the accounts receivable detail to the general ledger in the Water Fund were not being prepared on a timely basis. As a result, outstanding balances owed to the Town were not reflected on the detail report.

**Recommendation:** In order to ensure proper valuation of the accounts, we recommend that the reconciliation be performed monthly and that reconciling items be resolved promptly. In addition, we recommend that accounting management review and initial the reconciliations to ensure propriety and completeness.

**Management Response:** As recommended, the Finance Department will perform a monthly reconciliation on the Water Fund accounts receivable. The Finance Director will review and initial the reconciliation.

#### **Payroll**

**Condition:** During our test of the payroll, we noted some errors in the calculation of gross pay as it relates to overtime. Such errors can cause an over or under payment of wages and misstate the financial statements if the errors are not detected and corrected.

**Recommendation:** We recommend that as a routing procedure, the accuracy of the payroll calculation be rechecked by an employee other than the one originally preparing the payroll.

**Management Response:** The incorrect calculation of gross pay applied only to employees that earned overtime. Overtime rates were calculated incorrectly. The Finance Department has recalculated the overtime rates based on the Fair Labor Standard Act and will apply these rates retroactively for all employees applicable.

As recommended, the accuracy of the payroll will be checked by an employee other than the one who originally prepares the payroll.

### Investment of Public Funds

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the Town's compliance with Section 218.415, Florida Statutes, regarding the investment of public funds. The results of our procedures did not disclose any instances of noncompliance with Section 218.415, Florida Statutes, by the Town of Highland Beach for the year ended September 30, 2007.

### Violations of Contracts and Grant Provisions or Abuse

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit for the fiscal year ended September 20, 2007, we did not have any such findings.

### Matters Inconsequential to the Financial Statements

Section 10.554(1)(i)5., Rules of the Auditor General, requires based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures; (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit for the fiscal year ended September 30, 2007, we did not have any such findings.

### Oversight Unit and Component Units

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements, but has been repeated here. The Town of Highland Beach, Florida is a municipal corporation originally incorporated in 1926 and reincorporated in 1947 pursuant to Special Act 24537, Laws of Florida 1947. Based upon the application of criteria defined in publications cited in Chapter 10.553, Rules of the Auditor General, the Town has determined that there are no component units related to the Town.

### Consideration of Financial Emergency Criteria

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, the results of our procedures did not disclose that the Town of Highland Beach has met any of the conditions described in Section 218.503(1) during the fiscal year ended September 30, 2007.

### Annual Financial Report

Section 10.554(1)(i)7.b., Rules of the Auditor General requires that we determine whether the annual financial report for the Town of Highland Beach for the fiscal year ended September 30, 2007, 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 20, 2007. In connection with our audit, we noted that the two reports were in substantial agreement.

### Financial Condition Assessment Procedures

Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The results of our procedures did not disclose any matters that are required to be reported.

### Excess of Expenditures Over Appropriations

As indicated in Note 2 to the Budgetary Required Supplementary Information for the year ended September 30, 2007, there were no departments that had expenditures in excess of appropriations.

### 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, 2007 and was not required to have a state or federal single audit.

Response to Management Letter

The Town of Highland Beach's response to the findings identified in our audit is described above. We did not audit the Town of Highland Beach's response and accordingly express no opinion on it.

This management letter is intended solely for the information of the Town of Highland Beach, members of the Town Commission, management, the Florida Auditor General, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

West Palm Beach, Florida  
May 16, 2008