



March 20, 2007

To the Honorable Mayor and
City Commission
City Manager
City Staff
Citizens and Friends of Delray Beach
Delray Beach, Florida

Ladies and Gentlemen:

It is with pleasure that we present to you the Comprehensive Annual Financial Report (CAFR) of the City of Delray Beach for the fiscal year ended September 30, 2006. This report was prepared by the Finance Department and responsibility for the accuracy, completeness and the fairness of the data as presented rests with the City. 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 respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, and the respective changes in financial position and cash flows where applicable thereof of the City. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs and condition have been included.

The City of Delray Beach offers the readers of their financial statements the MD&A which is an overview and analysis of financial activities for the fiscal year ended September 30, 2006. **This analysis is considered “required supplementary information” for the annual audit and we encourage readers to review and consider this when presented with additional information provided in the financial statements.**

PRIMARY GOVERNMENT AND COMPONENT UNITS

This report includes all funds of the primary government (the City of Delray Beach) and all organizations and component units for which the City is financially accountable including the following:

- **South Central Regional Wastewater Treatment and Disposal Board (SCRWTDB)**- this entity was established as a joint venture with equity interests between the cities of Delray Beach and Boynton Beach on December 26, 1974, and is therefore accounted for using the equity method in the financial statements. This agreement created a legal entity which provides wastewater treatment and disposal services to the south central region of Palm Beach County without regard to political or governmental boundaries. The Board is governed by a body composed of the Commission members of each city.
- **Community Redevelopment Agency (CRA)**- this entity is a component unit of the City of Delray Beach and, based upon accounting and reporting criteria, is required to be discretely presented within the financial statements. Discrete presentation requires that the financial information will be presented in columns separate from that of the City's basic financial statements. The CRA is a dependent special district established by the City of Delray Beach under authority granted by Florida Statute Chapter 163, Part III. It is a legally separate entity established by Ordinance 46-85 passed by the City of Delray Beach City Commission on June 18, 1985. The CRA is governed by a seven member board appointed by the City Commission of the City of Delray Beach.

- **Downtown Development Authority (DDA)**- this entity is also a component unit of the City of Delray Beach and is also required to be discretely presented within the financial statements. The DDA was created after the City petitioned the State of Florida. An Act allowing the DDA became law on March 22, 1971. The original boundary of the DDA was established by Section 3, Chapter 71-604 Laws of Florida 1971. The expanded boundary was established by Chapter 94-476 Laws of Florida effective May 13, 1994.

THE CITY OF DELRAY BEACH

The City of Delray Beach is a political subdivision of the State of Florida and is located in the southeastern part of the state in Palm Beach County. Delray Beach was first settled as an agricultural community in 1895 and first incorporated in 1911. It was later incorporated as the City of Delray Beach on May 11, 1927. The City has a current estimated permanent population of 64,095 (2000 census permanent population was 62,400 with another estimated 12,600 seasonal residents).

The total land area of the City is slightly over 16 square miles. Delray Beach is primarily residential (58%) with a balance of commercial (10%), light industrial (4%), vacant and agricultural (11%), recreation and open space (13%) and education and government facilities (4%). It is a mature community with 97.8% build-out (based upon land area) and, therefore, its focus is not upon growth, but upon quality development of remaining vacant areas and redevelopment of areas in a state of decline or deterioration. This would include the redevelopment of commercial and industrial areas which are no longer functionally competitive in the regional marketplace.

The City of Delray Beach is a Commission-Manager form of local government. The citizens elect a Mayor every two (2) years who presides over four (4) Commissioners who are elected for two (2) year terms in alternating years. The City Commission appoints the City Manager, who is the Chief Operational Officer of the City, and the City Attorney, who acts on all legal matters pertaining to the City. The City Manager is charged with overseeing the business of the City and is responsible for the supervision of the City departments and employees.

The City of Delray Beach is considered a full service municipality providing citizens with police, fire, emergency medical services including transport, parks and recreation, beach lifeguards, public works, water, sewer, garbage and trash, community improvement and inspection services along with planning, personnel, management and financial support services. The City also provides services to unincorporated areas and adjacent municipalities. Water, fire protection, emergency medical services, emergency police dispatch services, and limited sewer services are provided to the Town of Gulfstream. Sewer services, fire protection and emergency medical services and limited water services are provided to the Town of Highland Beach. Both areas are serviced on a contractual basis.

The City encourages the participation of residents and business owners in educational forums, discussing problems within our community, and in contributing their input into resolving these problems. One venue for this is the Annual Town Hall Meeting held each year prior to the annual budget process which includes the distribution of the City's Annual Report. Other venues include area-wide meetings with neighborhood associations, established committees, charettes, a Resident's Academy, a Student's Academy, a Speaker's Bureau and special meetings along with neighborhood newsletters and information provided monthly on customer utility bills.

Delray Beach is known locally, regionally and nationally for its special events. Over the past year, there were over 50 special events including the women's Federation Cup tennis quarter finals with Lindsay Davenport and the William's sisters, the ATP International Tennis Championship, the Chris Evert Pro-Celebrity Challenge charity tournament. The Annual Delray Affair in April attracted over 150,000 visitors over a three-day period. The 4th of July fireworks display attracted over 40,000 observers. The City displayed its 100-foot Christmas tree and had over 25,000 attend its First Night event at Old School Square.

The Delray Beach Golf Club, designed by Donald Ross in 1923, on one of Palm Beach County's finest public golf courses, clubhouse, restaurant, and pro shop facilities. The Lakeview Golf Course is another public golf course which is an executive course favored by many senior citizens and casual golfers.

The Travel Holiday magazine (July/August, 1992 issue) recognized the City of Delray Beach as having one of the 36 best beaches in the United States and the best beach for swimming in the Southeast. Both the municipal beach and

Atlantic Dunes Park earned the Blue Wave designation from the Clean Beaches Council for our clean and well maintained beaches. The Blue Wave designation has been renewed this current year.

The City of Delray Beach has received the prestigious honor of being recognized as an All-America City in both 1993 and 2001. The City was also a finalist in the 1998 All-America City award competition. The City of Delray Beach is the only city in Florida to have received this prestigious honor twice.

The City of Delray Beach was recognized as "The Best Run Town in Florida" in the February 1995 issue of Florida Trend magazine.

The **Fire Department** currently maintains an Insurance Services Office (ISO) Class 2 rating for the Public Protection Classification Program (PPC). Only 23 cities out of 809 fire departments in the State of Florida have the distinction of being awarded this rating. The Fire Department has trained over 8,000 citizens in specialized life saving procedures including cardiopulmonary resuscitation (CPR), drowning prevention, automatic external defibrillation (AED), fire safety, injury prevention and hurricane preparation.

The **Police Department** received official accredited status by the Commission for Florida Law Enforcement Accreditation (CFA) in October, 2004. The CFA reviews all aspects of an agency's policies and procedures, management, operations, and support services to determine compliance with recognized standards of excellence. This on-site assessment is conducted jointly with assessors from the Commission on Accreditation for Law Enforcement Agencies (CALEA), the national accrediting body for law enforcement accreditation. There are approximately 276 national standards for state accreditation. This accreditation is held in the highest esteem by the criminal justice community.

This department is primarily responsible for the new Delray Youth Vocational Charter School which teaches at-risk students job and life skills. The Police Department received the 2006 Thomas H. Muehlenbeck Award for Excellence in Local Government for this project.

The **Finance Department** has received the prestigious "Certificate of Achievement for Excellence in Financial Reporting" award for twenty two (22) consecutive years and also received the "Distinguished Budget Presentation" award for twenty (20) consecutive years from the Government Finance Officers Association of the United States and Canada.

The **Parks & Recreation Department** is one of only 26 agencies that have received national accreditation from the Commission for Accreditation of Park and Recreation Agencies (CAPRA). This award was announced in Washington, D.C. at the 2000 National Recreation and Parks Association (NRPA) Mid-Year Forum and Legislative Conference. National accreditation requires park and recreation agencies to respond to 153 different standards which represent elements of effective and efficient park and recreation operations. The department received re-accreditation in 2005.

The Parks & Recreation Department is responsible for the maintenance and improvement to 18 parks, municipal beach, municipal marina, multiple community activity centers, the 505 Teen Center and the municipal cemetery. This department, with partial funding from the Children's Services Council and the Center Based Child Care Grant, has developed an active outreach program for after school activities for children that are unsupervised following their completion of the school day. There are presently over 300 children in this program. This department has an active program to assist at-risk students.

The **Community Improvement Department**, in conjunction with the Community Redevelopment Agency (CRA), has been funding programs from State and Federal grants and City funds to provide affordable housing and rehabilitation assistance with low interest loans. The City, in its effort to promote redevelopment, has implemented or assisted in the development of various programs to assist property owners in the rehabilitation of their property. The Bootstrap Program is financed through General Fund revenues. Federal HOPE 3 and Housing and Urban Development (HUD) CDBG grants and State of Florida State Housing Initiative Partnership (SHIP) grants and County HOME grants or matching funds, assist those qualified persons wanting homeownership or existing homeowners who want to improve their property.

CURRENT MAJOR INITIATIVES

Hurricane Impact

The City of Delray Beach was impacted by three (3) hurricanes two years ago. Hurricane Charlie on the west coast did not impact Delray Beach directly but required us to send Police, Fire, Parks & Recreation and Utility crews to the devastated areas to assist other communities in their recovery efforts. Hurricane Frances and Jeanne did impact the City of Delray Beach with primarily debris removal costs, minor building damage and power outages. The City experienced over \$5 million in costs. The Federal Emergency Management Agency, Florida Department of Transportation and the State of Florida reimbursed approximately 95% of these costs.

The City was impacted by Hurricane Wilma this past year with debris removal costs, building and equipment damage, damage to facilities (building roof, street lights, signage, towers and antennas, pump stations, lift stations, and parks) and incurred power outages for several weeks. As with residential homeowners and businesses, the City has had difficulty with roof, fence, awning, and window repairs due to the widespread damage across the State of Florida and the Gulf Coast communities from previous years. We have experienced over \$11 million in costs from debris removal and damage to municipal properties. The Federal Emergency Management Agency, Florida Department of Transportation and the State of Florida are expected to reimburse approximately 95-96% of these costs. Insurance recoveries will fund the remaining costs.

Parks, Recreation and Cultural Facilities

The City of Delray Beach passed a \$24 million parks, recreation and culture general obligation bond issue at a referendum on January 20, 2004. This bond issue is currently being used for the costs of land acquisition and construction, reconstruction and equipping of new and existing parks, new and existing recreation centers, a parking garage, downtown park and other capital improvements as part of the expansion of Old School Square, and the furnishings and fixtures for the new public library as well as the costs of issuing the bonds.

- Land acquisition has been completed and construction is in progress toward the new Old School Square 575-space parking garage and downtown park. Working with our state officials, we received a \$2 million grant for this downtown park.
- Land and a facility were purchased at the corner of Lake Ida Road and Congress Avenue for the new western senior center. Construction is anticipated starting in FY2006-07.
- Construction has been completed for the new Catherine Strong water park, Mike Machek Boy Scout Hut Park on Lake Ida Road, Cornell Park and Lake Ida Park. Construction is anticipated starting in FY2006-07 on Pompey Park and Bexley Park.

Educational Facilities

In 2005, the new Atlantic High School with its state of the art technology and two career academies opened.

On the old Atlantic Community High School site, we are working with the Palm Beach County School Board to build a new middle school and provide for additional soccer fields.

The new, vastly improved, \$12.7 million Delray Beach Public Library opened on West Atlantic Avenue and will serve as the intellectual center of our city with more materials, space, computer terminals, and new technology to improve means of locating and checking out materials.

The Beacon Center at the Village Academy was initiated which is a partnership between the City of Delray Beach, the Children's Services Council and the Community Child Care Center. More than 700 of our neediest families are receiving services ranging from parenting classes and academic enrichment to recreation and cultural opportunities.

Neighborhood Improvements

The City has developed a Neighborhood Strategic Task Team consisting of City personnel from various departments and neighborhood representatives with the purpose of identifying neighborhood problems and working together to develop a plan to identify recommended resources needed to resolve those problems. The Team coordinates the use of public and private resources in resolving such issues as crime, disorder, infrastructure deficiencies, code violations and other areas.

In 2004, the Neighborhood Advisory Council was formed to improve communications with neighborhoods throughout the City. Representatives from six (6) major districts meet and introduce the opinions and needs of their respective area neighborhoods to the Council and recommendations are forwarded to the City Commission.

The City recently completed a \$2.1 million infrastructure improvement project for the Seacrest Neighborhood Plan which provided beautification, road and sidewalk improvements, and water and sewer improvements. Several neighborhoods including Rainberry Woods, Chatelaine and Osceola Park will soon see improvements. The Southwest Neighborhood will see major improvements to include new sidewalks, water main upgrades, better housing options and landscaping. Plans are under way to improve our inventory of public housing, additional affordable and workforce housing.

The City installed over 40 new bus shelters at various locations throughout the City.

The City has developed a workforce housing initiative and has a workforce housing ordinance. We started a Community Land Trust whereby land is banked for the development of special workforce housing units. The renovation of the La France Hotel into housing for low-income seniors and the reconstruction of Carver Estates into a model mixed-income community are examples of recent projects.

Technology

In response to the City of Delray Beach Strategic Plan 2001-2006, the City established a consolidated departmental website which was activated in June, 2002. The site is called MyDelrayBeach.com and provides citizens and other viewers with important information about the operations of the City, facilities, services, events, schedules, budgetary and financial information, utility rates and includes links to major city and private organizations. The site allows for citizen comments, inquiries and complaints, utility bill payments, as well as responses from City officials. The site contains minutes of City Commission meetings, ordinances, and important information from all City departments. Major improvements to this site include a live video-cam of our beach area, a mail list subscription service which allows residents to receive copies of newsletters, agendas, minutes, and other City documents on a regular basis, and additional information such as full copies of the Comprehensive Annual Financial Report, Annual Budget, and the MIS Enterprise Technology Plan.

The Information Technology Division recently completed implementation of an interactive voice response system allowing for utility customers to view their account information and make payments over the phone and through the website. The system also allows for contractors with building permits to schedule inspections and for inspectors to record inspection results either by telephone or through the website.

The City has recently completed negotiations on a new 10-year cable franchise agreement and an institutional network agreement (I-Net Agreement) which provides fiber optic services to our remote City sites and the capability of the City to produce television coverage of municipal activities. The completion of this fiber optic infrastructure allows the City to transmit at 1 Gbps (1 billion bits per second) and provides the backbone for a wireless mesh network for data communications in the future.

The Finance Department has issued a [Management Information Systems Division- Enterprise Technology Plan](#) for Fiscal Year 2005-2009. This plan actually includes four (4) different plans to include the MIS Strategic Plan, MIS Tactical Plan, MIS Business Interruption/Continuity Plan, and the MIS Annual Project Work Plan. This plan received

the honor of being published on the International City Manager's Association (ICMA) technology website thereby receiving national recognition. The name of this division has now changed to the Information Technology Division.

The Finance Department Information Technology Division recently received national recognition for its 1st place finish in the Digital Cities Survey from the Center for Digital Government for cities under 75,000 in population. This award recognizes our efforts to provide information and services to the public through our website technology, recognizes our technology infrastructure improvements, and our long-range planning as seen in our 5-year Enterprise Technology Plan. This is the second year in a row that the IT Division has been awarded this prestigious 1st place award. The award was presented at the National League of Cities conference in Reno, Nevada in December, 2006.

The City Commission approved a project to provide city-wide wireless technology with free wi-fi services for the downtown corridor on Atlantic Avenue from I-95 to the beach. We are presently in negotiations with Team ATCI to provide these services.

The Finance Department Utility Customer Service Division is completing the installation of radio-read water meters east of the Intracoastal Waterway.

GENERAL FINANCIAL INFORMATION

Internal Accounting Controls

In the development and evaluation of the City's accounting and financial reporting systems, consideration is given to the adequacy and accuracy of the internal accounting controls. These controls are designed to provide reasonable, but not absolute, assurance that the assets of the City are safeguarded against loss from unauthorized use or disposition and that there are reliable financial records for the preparation of financial statements and for the accountability of those assets.

All internal control evaluations utilize these criteria. We believe that the City's system of internal accounting controls adequately safeguards the assets of this City and provides reasonable assurance of the proper recording of financial transactions.

Single Audit

As a recipient of Federal, State and County financial assistance, the City is also responsible for ensuring that an adequate system of internal controls is in place to maintain compliance with applicable laws, regulations and guidelines related to those programs. This internal control system is subject to periodic evaluation by management.

As a part of the single audit process, tests are made to determine the adequacy of the internal control structure, including the portion related to federal financial assistance programs, and to determine compliance with applicable laws and regulations.

The results of the City's single audit for the fiscal year ended September 30, 2005 disclosed no instances of material weaknesses in the internal control structure and disclosed no significant violation of applicable laws and regulations.

Budgetary Control

The City maintains a system of budgetary controls within its accounting and financial management systems. The objective of these budgetary controls is to monitor compliance with legal provisions embodied in the annual appropriated budget approved by the City Commission. Appropriated budgets are legally required to be adopted for the General Fund. Nonappropriated budgets, which are not legally required to be adopted, are also prepared for Special Revenue Funds, Enterprise Funds and Internal Service Funds. The level of budgetary control is at the division and departmental level.

As part of the budgetary control system, an encumbrance system is utilized. An encumbrance is a commitment to acquire goods or services (purchase order) which have not been paid for at a particular point in time. For operating

purposes, outstanding encumbrances lapse at year-end and are then reappropriated as part of the new year budget. Blanket purchase orders are closed at year-end and are not reappropriated.

Cash Management

The City has a Banking Services Agreement with a local banking institution based upon competitive bidding of its banking services. The City uses a pooled-cash concept for all operating funds with the exception of the pension trust plans which are administered by professional money managers and performance monitors. The deposits and investments of the City are safeguarded by utilizing State approved public depositories and by investing in fully collateralized instruments as required by the State of Florida.

OTHER INFORMATION

Independent Audit

Florida Statutes Chapter 166 requires that the City be audited on an annual basis by independent certified public accountants. The certified public accounting firm of Caler, Donten, Levine, Druker, Porter & Veil, P.A. was selected to perform the audit of the City's general purpose financial statements. In addition to meeting the requirements set forth in the Florida Statutes, the audit was also designed to meet the requirements of the Federal Single Audit Act and the related OMB Circular A-133. The auditors' reports related to the single audit are included in the Single Audit Section.

Financial Statement Awards

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Delray Beach, Florida, for its CAFR for the fiscal year ended September 30, 2005. This was the 23rd consecutive year the City received this prestigious award.

This award is the highest form of recognition in governmental accounting and financial reporting. Its attainment represents a significant accomplishment for the City and indicates that the contents of the CAFR conformed to strict program standards and satisfied Generally Accepted Accounting Principles (GAAP) and applicable legal requirements. A certificate is valid for a period of one year only. We believe our current report continues to conform to the requirements of the certificate program, and we will submit it to the GFOA to determine its eligibility for the Certificate of Achievement.

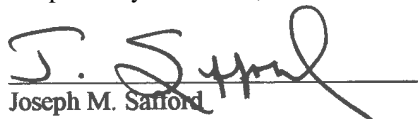
ACKNOWLEDGMENTS

A Comprehensive Annual Financial Report of this type and depth, illustrating the results of operations of the entire City and its various diversified funds and activities, could not have been prepared so completely and professionally without the dedication and efficiency of the entire Finance Department. The efforts of Milena Walinski, Assistant Finance Director, and her entire Financial Services Division and Rebecca O'Connor, Treasurer, deserve special individual recognition.

We believe this report clearly illustrates that the City of Delray Beach has developed and continues to maintain a strong financial condition and we wish to thank the City Commission and the citizens of the City of Delray Beach for their continued support for fiscal responsibility.

It is with great pride that we present this Comprehensive Annual Financial Report at this time.

Respectfully submitted,


Joseph M. Sanford
Finance Director


Milena Walinski, CGFO
Assistant Finance Director