

PALM BEACH COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

3. CASH AND INVESTMENTS

The County pools significant amounts of cash and investments so as to maximize earnings and facilitate cash management. Each fund's equity portion of total pooled amounts is reported as "Cash and cash equivalents- internal investment pool" on the entity-wide Statement of Net Assets. Cash and investments of certain funds are maintained separately due to legal and bond requirements and reported separately on the entity-wide Statement of Net Assets. For the fund statements, pool and separate cash equivalents are combined and reported as 'Cash and cash equivalents'.

Deposits

All of the County's deposits are held in qualified public depositories pursuant to the Florida Statutes, Chapter 280, "Florida Security for Public Deposits Act" and are covered by either federal depository insurance or collateral held by the State Treasurer.

In the event of a default by a qualified public depository, all claims for government deposits would be satisfied by the State Treasurer from the proceeds of federal deposit insurance, pledged collateral of the public depository in default and, if necessary, a pro rata assessment to the other qualified public depositories in the collateral pool. Accordingly, all deposits with financial institutions are considered fully insured in accordance with the provisions of Statement No. 3 of the Governmental Accounting Standards Board (GASB 3). At year-end, the carrying amount of deposits and cash on hand was \$74,581,896 and the bank balance was \$102,837,442.

Investments

Local Ordinance authorizes the County to invest in obligations of the U.S. Government, its agencies and instrumentalities, repurchase agreements, interest-bearing time deposits, savings accounts, the Local Government Surplus Funds Trust Fund (State Board of Administration), the Florida Local Government Investment Trust (FLGIT), collateralized mortgage obligations (CMO), and certain corporate securities.

The County's investments are categorized in accordance with GASB 3 to give an indication of the level of custodian risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party or by its trust department or agent but not in the County's name.

The County invests in CMO's as a means to diversify investments and increase yield in pursuit of the County's investment policy objectives of safety, liquidity and total return. These securities are based on cash flows from interest and principal payments on the underlying mortgages. At fiscal year end, the County's CMO investments had a fair value of \$111,014,345 which represents 10.3% of the fair value of the County's internal investment pool's total

PALM BEACH COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

investment value and represents 7.4% of total investments for the primary government as a whole.

Investment Valuation under GASB 31

GASB 31 (Accounting and Financial Reporting for Certain Investments and for External Investment Pools) requires most investments to be recorded at fair value.

1. Investments in U.S. Government and agency securities, collateralized mortgage obligations and corporate securities are recorded at fair value based on the last reported sales price for securities traded on a national exchange.
2. Investments in the Local Government Surplus Funds Trust Fund (State Board of Administration) are recorded at amortized cost. The trust fund is an external investment pool administered by the State of Florida and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Act allows the use of amortized cost rather than fair value in computing the share price of the pool.

Regulatory oversight of the State Board of Administration is provided by three elected officials who are accountable to the electorate: the Governor of the State of Florida, as Chairman; the State Treasurer, as Treasurer; and the State Comptroller, as Secretary. External oversight of the State Board of Administration is provided by the Investment Advisory Council which reviews the investments made by the staff of the Board of Administration and makes recommendations to the Board regarding investment policy, strategy, and procedures. Audit oversight is provided by the Florida Auditor General's Office.

These investments are not evidenced by securities that exist in physical or book entry form and, in accordance with GASB 3, they are classified as an investment but are not categorized for custodian risk.

3. Investments in the Florida Local Government Investment Trust (FLGIT) and the Federated Government Obligations Fund are recorded at their share price which represents the fair value of the fund's underlying investments.

The FLGIT is a local government investment pool developed jointly by the Florida Association of Court Clerks and the Florida Association of Counties. The FLGIT has no regulatory oversight, but has been recognized by an Internal Revenue Service private letter ruling as a tax-exempt organization, received a Standard and Poor's rating and is governed by a six member Board of Trustees.

The Federated Government Obligations Fund is an intermediate term bond mutual fund which invests exclusively in governmental obligations.

**PALM BEACH COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002**

These investments are not evidenced by securities that exist in physical or book entry form and, in accordance with GASB 3, they are classified as investments but are not categorized for custodian risk.

4. Investments in money market mutual funds, guaranteed investment contracts (nonparticipating), and repurchase agreements are recorded at amortized cost. These investments are not evidenced by securities that exist in physical or book entry form and, in accordance with GASB 3, they are classified as investments but are not categorized for custodian risk.

The following table summarizes the County's investments (carrying amount equals fair value as defined by GASB 31) as of September 30, 2002:

	<u>Category</u>			<u>Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Government and Agency securities	\$1,076,054,779	\$ -	\$ -	\$1,076,054,779
Corporate securities	13,003,840	-	-	13,003,840
Repurchase Agreements	<u>36,360,223</u>	<u>-</u>	<u>-</u>	<u>36,360,223</u>
	<u>\$1,125,418,842</u>	<u>\$ -</u>	<u>\$ -</u>	1,125,418,842
Local Government Surplus Funds Trust Fund				311,024,791
Federated Government Obligations Fund				17,142,083
Florida Local Government Investment Trust				23,496,671
Guaranteed investment contracts				21,149,922
Money market mutual funds				<u>3,719,569</u>
Total Investments				1,501,951,878
Total cash and bank deposits				<u>74,581,896</u>
Total Cash and Investments				<u>\$1,576,533,774</u>

Reconcile GASB 3 Deposits & Investments

	<u>Primary Government Entity Wide</u>	<u>Fiduciary Funds Statement</u>	<u>Total</u>
Cash & cash equivalents- internal investment pool	\$1,229,107,945	\$10,844,990	\$1,239,952,935
Cash & cash equivalents- separate accounts	253,192,131	47,241,301	300,433,432
Investments- separate accounts	<u>36,147,407</u>	<u>-</u>	<u>36,147,407</u>
	<u>\$1,518,447,483</u>	<u>\$58,086,291</u>	<u>\$1,576,533,774</u>

PALM BEACH COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2002

Interest Rate Exchange Agreement

The Solid Waste Authority (SWA) has entered into an interest rate exchange agreement with a brokerage firm to earn a guaranteed rate of interest. Under the terms of the exchange agreement SWA deposits the required, monthly, principal and interest sinking fund payments for all outstanding revenue bonds and the Series 1997C note payable, with the Local Government Surplus Funds Trust Fund (the "Fund") and receives interest earnings at the variable monthly rate earned by the Fund. SWA is guaranteed a fixed interest rate of 6.83% by the brokerage firm on the invested sinking funds and is obligated to pay the brokerage firm a variable interest rate equal to the rate on 30-day commercial paper, which was intended to approximate the earnings of the Fund. The net amount due to either party under the exchange agreement is calculated and paid semi-annually on April 1 and October 1. The exchange agreement was terminated on October 5, 2001. For the year ended September 30, 2002 SWA had earnings of \$1,775,535 including a termination payment of \$1,766,800 under the exchange agreement. The termination payment is reported as a special item.

COMPONENT UNITS:

Westgate/Belvedere Homes Community Redevelopment Agency (CRA)

At September 30, 2002, the carrying amount of CRA's cash balance was \$49,950 and the bank balance was \$52,476.

All of CRA's deposits are held in qualified public depositories pursuant to the Florida Statutes, Chapter 280, "Florida Security for Public Deposits Act" and are covered by either federal depository insurance or collateral held by the State Treasurer.

CRA's investments are invested in the Local Government Surplus Funds Trust Fund. The carrying value of the investments equals the fair value of \$687,841. The investment in the Local Government Surplus Funds Trust Fund is not classified into one of the custodian risk categories per GASB 3 because such investments are not evidenced by securities that exist in physical or book entry form.

Palm Beach County Housing Finance Authority (HFA)

All investments are recorded at fair value as required by GASB 31. At September 30, 2002, cash and cash equivalents consisted of the following:

Cash	\$ 38,966
Fidelity U.S. treasury portfolio	2,748,140
Local Government Surplus Funds Trust Fund	4,632,636
Cash in Federal Home Loan Bank	23,248,400
Total cash and cash equivalents	<u>\$30,668,142</u>

The carrying value of the above deposits equals the bank balance.