

CITY OF SUNNY ISLES BEACH, FLORIDA

BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

CITY OF SUNNY ISLES BEACH, FLORIDA

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INTRODUCTORY SECTION

CITY OF SUNNY ISLES BEACH, FLORIDA

CITY OFFICIALS

SEPTEMBER 30, 2004

CITY COMMISSION

Norman S. Edelcup– Mayor
Gerry Goodman - Vice Mayor
Roslyn Brezin
Danny Iglesias
Lewis Thaler

CITY MANAGER

Christopher J. Russo

CITY ATTORNEY

Lynn M. Dannheisser

CITY CLERK

Jane A. Hines

FINANCE DIRECTOR

Jean Watson

CITY AUDITORS

Rachlin Cohen & Holtz LLP
Accountants • Consultants

FINANCIAL SECTION

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor, City Commission and City Manager
City of Sunny Isles Beach, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Sunny Isles Beach, Florida, as of and for the fiscal year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 and each major fund of the City of Sunny Isles Beach, Florida, as of September 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2005 on our consideration of the City'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 considered in assessing the results of our audit.

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Rachlin Cohen & Holtz LLP

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City of Sunny Isles Beach, Florida
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Management's Discussion and Analysis and the Required Supplementary Information on pages 3 to 8 and 32 to 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. 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.

Rachlin Cohen & Holtz LLP

Miami, Florida
February 22, 2005

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

Management's Discussion and Analysis

As management of the City of Sunny Isles Beach, we offer readers of the City of Sunny Isles Beach financial statements this narrative overview and analysis of the financial activities of the City of Sunny Isles Beach for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information throughout the report.

Financial Highlights

The assets of the City of Sunny Isles Beach exceeded its liabilities at the close of the most recent fiscal year by \$29,664,505 (net assets). Of this amount, \$9,904,848 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The City of Sunny Isles Beach's total net assets increased by \$7,567,403 this is attributed to the continuation of the construction on the City Hall Complex.

As of the close of the current fiscal year the City of Sunny Isles Beach governmental funds reported combined ending fund balances of \$24,258,925 a decrease of \$3,623,396 in comparison with the prior year. Approximately 26% of this balance \$6,310,799 is available for spending on the City's Capital Project Program.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$8,773,214 or 63% of the total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Sunny Isles Beach basic financial statements. The said financial statements comprise of three components: 1) Government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Sunny Isles Beach finances, in a manner similar to a private business.

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

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

Both of the government-wide financial statements distinguish function of the City of Sunny Isles Beach that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Sunny Isles Beach include

general government, public safety, highways and streets, economic development, and culture and recreation. The business-type activities of the City of Sunny Isles Beach are the Stormwater operations.

The government-wide financial statements include not only the City of Sunny Isles Beach itself (known as the primary government), but also included is the Stormwater Fund that is a business-type Fund. The government-wide financial statements can be found on pages 9 and 10 of this report.

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

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

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

The City of Sunny Isles Beach maintains (3) individual governmental funds. Information is presented separately in the governmental fund balances for the General Fund and the Capital Project fund both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Sunny Isles Beach adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 11 to 14 of this report.

Proprietary Funds. The City of Sunny Isles Beach maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statement. The City of Sunny Isles Beach uses enterprise funds to account for its Stormwater operations.

Proprietary funds provide the same type of information as the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 15-17 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-31 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Sunny Isles Beach, assets exceeded liabilities by \$29,664,505 at the close of the most recent financial year.

By far the largest portion of the City of Sunny Isles Beach net assets reflects its investment in capital assets, land, building, machinery and equipment, less any related debt used to acquire those assets that are still outstanding. The City of Sunny Isles Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Although the City of Sunny Isles Beach investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Sunny Isles Beach
Net Assets
September 30, 2004 and 2003
(In Thousands)

	2004			2003		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Current and other assets	\$ 27,291	\$ 2,093	\$ 29,384	\$ 28,881	\$ 2,052	\$ 30,933
Capital assets	<u>30,270</u>	<u>3,651</u>	<u>33,921</u>	<u>20,328</u>	<u>3,785</u>	<u>24,113</u>
Total assets	<u>57,561</u>	<u>5,744</u>	<u>63,305</u>	<u>49,209</u>	<u>5,837</u>	<u>55,046</u>
Long-term liabilities	27,590	2,550	30,140	28,554	2,700	31,254
Other liabilities	<u>3,211</u>	<u>290</u>	<u>3,501</u>	<u>2,145</u>	<u>314</u>	<u>2,459</u>
Total liabilities	<u>30,801</u>	<u>2,840</u>	<u>33,641</u>	<u>30,699</u>	<u>3,014</u>	<u>33,713</u>
Net assets	<u>\$ 26,760</u>	<u>\$ 2,904</u>	<u>\$ 29,664</u>	<u>\$ 18,510</u>	<u>\$ 2,823</u>	<u>\$ 21,333</u>
Invested in capital assets, net of related debt	\$ 3,531	\$ 847	\$ 4,378	\$ 8,550	\$ 943	\$ 9,493
Restricted	15,381	-	15,381	6,024	-	6,024
Unrestricted	<u>7,848</u>	<u>2,057</u>	<u>9,905</u>	<u>3,936</u>	<u>1,880</u>	<u>5,816</u>
Total net assets	<u>\$ 26,760</u>	<u>\$ 2,904</u>	<u>\$ 29,664</u>	<u>\$ 18,510</u>	<u>\$ 2,823</u>	<u>\$ 21,333</u>

Financial Analysis of the Government's Funds

As noted earlier, the City of Sunny Isles Beach uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Sunny Isles Beach governmental funds is to provide information regarding near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City of Sunny Isles Beach 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.

As of the end of the current fiscal year, the City of Sunny Isles Beach governmental funds reported combined ending fund balances of \$24,258,925 a decrease of \$3,623,396 in comparison with the prior year. This decrease indicates the City of Sunny Isles Beach is fulfilling its commitment to the City's capital project program.

The general fund is the chief operating fund of the City of Sunny Isles Beach. At the end of the current fiscal year, unreserved fund balance of the general fund was \$8,773,214 as measure of the general fund's liquidity it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 63% of total general fund expenditures.

City of Sunny Isles Beach
Statement of Activities
Years Ended September 30, 2004 and 2003
(In Thousands)

	2004			2003		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 2,898	\$ 533	\$ 3,431	\$ 1,768	\$ 526	\$ 2,294
Operating grants and conditions	516	-	516	739	-	739
Capital grants and contributions	2,674	-	2,674	1,746	750	3,033
General revenues:						
Property taxes	11,815	72	11,887	7,024	-	7,024
Intergovernmental	1,389	16	1,405	1,353	81	1,434
Other	2,635	-	2,635	3,745	13	8,458
Total revenues	<u>21,927</u>	<u>621</u>	<u>22,548</u>	<u>16,375</u>	<u>1,370</u>	<u>17,745</u>
Expenses:						
General Government	4,662	-	4,662	2,876	-	2,876
Public safety	7,035	-	7,035	6,602	-	6,602
Physical environment	1,350	-	1,350	1,032	-	9,478
Culture and recreation	892	-	892	561	-	561
Interest on long-term debt	502	-	502	1,539	-	1,539
Stormwater	-	540	540	-	384	2,100
Total expenses	<u>14,441</u>	<u>540</u>	<u>14,981</u>	<u>12,610</u>	<u>384</u>	<u>12,994</u>
Increase in net assets	<u>7,486</u>	<u>81</u>	<u>7,567</u>	<u>3,765</u>	<u>986</u>	<u>4,751</u>
Net assets, beginning, as previously reported	18,510	2,823	21,333	14,745	1,837	16,582
Prior period adjustment (Note 11)	764	-	764	-	-	-
Net assets, beginning, as restated	<u>19,274</u>	<u>2,823</u>	<u>22,097</u>	<u>14,745</u>	<u>1,837</u>	<u>16,582</u>
Net assets, ending	<u>\$ 26,760</u>	<u>\$ 2,904</u>	<u>\$ 29,664</u>	<u>\$ 18,510</u>	<u>\$ 2,823</u>	<u>\$ 21,333</u>

The general fund balance of the City of Sunny Isles Beach increased by \$1,487,108 during the current fiscal year. Key factors in this growth are as follows:

The assessed Property value increase by Dade County, also the continued growth of the City of Sunny Isles Beach.

Proprietary funds. The City of Sunny Isles Beach proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Capital Asset and Debt Administration

Capital Assets. The City of Sunny Isles Beach investment in capital assets for its governmental and business type activities as of September 30, 2004 amounts to \$35,115,479 (net of accumulated depreciation). This investment in capital assets include land, buildings and systems, improvements, machinery and equipment and park facilities. The total increase in the City of Sunny Isles Beach investment in capital assets for the current fiscal year was \$10,994,274.

Major capital asset events during the current fiscal year included the following:

Construction continued on the City Hall Complex. Construction in progress as of close of the fiscal year had reached \$14,891,359.

City of Sunny Isles Beach
Capital Assets
 September 30, 2004 and 2003
 (Net of Depreciation)
 (In Thousands)

	2004			2003		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Land	\$ 15,378	\$ -	\$ 15,378	\$ 15,428	\$ -	\$ 15,428
Machinery and equipment	4,080	21	4,101	3,238	21	3,259
Infrastructure	-	4,012	4,012	-	4,012	4,012
Construction in progress	14,891	-	14,891	3,792	-	3,792
	34,349	4,033	38,382	22,458	4,033	26,491
Less accumulated depreciation	2,889	378	3,267	2,131	239	2,370
Total	\$ 31,460	\$ 3,655	\$ 35,115	\$ 20,327	\$ 3,794	\$ 24,121

Additional information on the City of Sunny Isles Beach capital assets can be found in Note 5 on pages 25 to 26 of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Sunny Isles Beach had total bonded debt outstanding of \$29,563,000. The remainder of the City of Sunny Isles Beach debt represents bonds secured solely by specified sources (i.e. revenue bonds).

BASIC FINANCIAL STATEMENTS

CITY OF SUNNY ISLES BEACH, FLORIDA

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2004

	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 8,025,152	\$ 2,251,422	\$ 10,276,574
Accounts receivable - net	486,043	50,765	536,808
Prepaid items	25,141	16,517	41,658
Restricted cash and cash equivalents	16,881,947	-	16,881,947
Unamortized costs	452,783	-	452,783
Internal balances	229,766	(229,766)	-
Capital assets not being depreciated	30,269,830	-	30,269,830
Capital assets being depreciated, net	1,190,374	3,655,275	4,845,649
Total assets	57,561,036	5,744,213	63,305,249
<u>LIABILITIES</u>			
Accounts payable	1,845,379	29,458	1,874,837
Accrued liabilities	190,783	2,228	193,011
Noncurrent liabilities:			
The amount due in one year	1,175,000	258,092	1,433,092
The amount due more than one year	27,589,804	2,550,000	30,139,804
Total liabilities	30,800,966	2,839,778	33,640,744
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	3,654,830	847,183	4,502,013
Restricted for:			
Capital projects	14,109,737	-	14,109,737
Law enforcement	1,271,502	-	1,271,502
Unrestricted	7,724,001	2,057,252	9,781,253
Total net assets	\$ 26,760,070	\$ 2,904,435	\$ 29,664,505

See notes to basic financial statements.

CITY OF SUNNY ISLES BEACH, FLORIDA

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2004

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contribution	Capital Grants and Contribution	Governmental Activities	Business- type Activities	
Governmental activities:							
General government	\$ 4,661,557	\$ 1,171,454	\$ 113,021	\$ 180,186	\$ (3,196,896)	\$ -	\$ (3,196,896)
Public Safety	7,035,706	1,563,185	403,355	18,537	(5,050,629)	-	(5,050,629)
Physical Environment	1,350,102	16,525	-	2,475,174	1,141,597	-	1,141,597
Culture-recreation	891,683	146,425	-	-	(745,258)	-	(745,258)
Interest on long-term debt	502,117	-	-	-	(502,117)	-	(502,117)
Total governmental activities	<u>14,441,165</u>	<u>2,897,589</u>	<u>516,376</u>	<u>2,673,897</u>	<u>(8,353,303)</u>	<u>-</u>	<u>(8,353,303)</u>
Business-type activities:							
Stormwater	<u>539,549</u>	<u>533,304</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,245)</u>	<u>(6,245)</u>
Total business activities	<u>539,549</u>	<u>533,304</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,245)</u>	<u>(6,245)</u>
Total primary government	<u>\$ 14,980,714</u>	<u>\$ 3,430,893</u>	<u>\$ 516,376</u>	<u>\$ 2,673,897</u>	<u>(8,353,303)</u>	<u>(6,245)</u>	<u>(8,359,548)</u>
General revenues:							
Property taxes					7,998,059	-	7,998,059
Utility taxes					2,355,617	-	2,355,617
Franchise taxes on gross receipts					1,461,586	-	1,461,586
Intergovernmental					1,388,686	71,549	1,460,235
Unrestricted interest earnings					888,053	16,435	904,488
Gain on sales of capital assets					1,100,904	-	1,100,904
Miscellaneous					646,062	-	646,062
Total general revenues					<u>15,838,967</u>	<u>87,984</u>	<u>15,926,951</u>
Change in net assets					<u>7,485,664</u>	<u>81,739</u>	<u>7,567,403</u>
Net assets, beginning, as previously reported					18,510,058	2,822,696	21,332,754
Prior period adjustments (Note 10)					764,348	-	764,348
Net assets, beginning, as restated					<u>19,274,406</u>	<u>2,822,696</u>	<u>22,097,102</u>
Net assets, ending					<u>\$ 26,760,070</u>	<u>\$ 2,904,435</u>	<u>\$ 29,664,505</u>

See notes to basic financial statements.

CITY OF SUNNY ISLES BEACH, FLORIDA

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Fund Special Revenue</u>	<u>Totals Governmental Funds</u>
<u>ASSETS</u>				
Assets:				
Cash and cash equivalents	\$ 8,025,152	\$ -	\$ -	\$ 8,025,152
Receivables, net	486,042	-	-	486,042
Due from other funds	801,105	-	-	801,105
Prepaid costs	25,141	-	-	25,141
Restricted cash and cash equivalents	-	15,610,445	1,271,502	16,881,947
Total assets	<u>\$ 9,337,440</u>	<u>\$ 15,610,445</u>	<u>\$ 1,271,502</u>	<u>\$ 26,219,387</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 459,754	\$ 929,369	\$ -	\$ 1,389,123
Due to other funds	-	571,339	-	571,339
Total liabilities	<u>459,754</u>	<u>1,500,708</u>	<u>-</u>	<u>1,960,462</u>
Fund balances:				
Reserved for:				
Renewal and replacement	-	7,798,938	-	7,798,938
Law enforcement	-	-	1,271,502	1,271,502
Encumbrances	79,331	-	-	79,331
Prepaid costs	25,141	-	-	25,141
Unreserved:				
Designated for capital projects	-	6,310,799	-	6,310,799
Undesignated	8,773,214	-	-	8,773,214
Total fund balances	<u>8,877,686</u>	<u>14,109,737</u>	<u>1,271,502</u>	<u>24,258,925</u>
Total liabilities and fund balances	<u>\$ 9,337,440</u>	<u>\$ 15,610,445</u>	<u>\$ 1,271,502</u>	<u>\$ 26,219,387</u>

See notes to basic financial statements.

CITY OF SUNNY ISLES BEACH, FLORIDA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2004

Fund balances - total government funds (Page 11)	\$ 24,258,925
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.	31,460,204
Bond interest payable not reported in the governmental funds	(647,038)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds (unamortized costs)	452,783
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
Governmental revenue bonds payable	(27,805,374)
Compensated absences	<u>(959,430)</u>
Net assets of governmental activities (Page 9)	<u>\$ 26,760,070</u>

See notes to basic financial statements.

CITY OF SUNNY ISLES BEACH, FLORIDA

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

FISCAL YEAR ENDED SEPTEMBER 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Fund Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues:				
Real and personal property taxes	\$ 7,998,059	\$ -	\$ -	\$ 7,998,059
Utility taxes	2,355,616	-	-	2,355,616
Franchise fees	947,612	-	-	947,612
Impact fees	-	1,684,106	-	1,684,106
Intergovernmental	2,015,681	1,262,581	-	3,278,262
Licenses and permits	1,380,152	-	-	1,380,152
Charges for services	337,372	-	-	337,372
Fines and forfeitures	225,038	-	387,288	612,326
Interest	58,868	829,185	13,324	901,377
Miscellaneous	471,214	3,063,830	-	3,535,044
Total revenues	<u>15,789,612</u>	<u>6,839,702</u>	<u>400,612</u>	<u>23,029,926</u>
Expenditures:				
Current:				
General government	2,902,054	-	-	2,902,054
Public safety	6,668,194	-	169,382	6,837,576
Community services	1,979,334	-	-	1,979,334
Capital outlay	602,922	12,552,154	-	13,155,076
Debt service				
Principal	-	815,000	-	815,000
Interest	-	1,316,892	-	1,316,892
Total expenditures	<u>12,152,504</u>	<u>14,684,046</u>	<u>169,382</u>	<u>27,005,932</u>
Excess (deficiency) of revenues over expenditures	<u>3,637,108</u>	<u>(7,844,344)</u>	<u>231,230</u>	<u>(3,976,006)</u>
Other financing sources (uses):				
Transfers in	-	2,150,000	-	2,150,000
Transfers out	(2,150,000)	-	-	(2,150,000)
Total other financing sources (uses)	<u>(2,150,000)</u>	<u>2,150,000</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	<u>1,487,108</u>	<u>(5,694,344)</u>	<u>231,230</u>	<u>(3,976,006)</u>
Fund balances, beginning, as previously reported	7,390,578	19,451,471	1,040,272	27,882,321
Prior period adjustment (Note 10)	-	352,610	-	352,610
Fund balances, beginning, as restated	<u>7,390,578</u>	<u>19,804,081</u>	<u>1,040,272</u>	<u>28,234,931</u>
Fund balances, ending	<u>\$ 8,877,686</u>	<u>\$ 14,109,737</u>	<u>\$ 1,271,502</u>	<u>\$ 24,258,925</u>

See notes to basic financial statements.

CITY OF SUNNY ISLES BEACH, FLORIDA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2004

	<u>Stormwater</u>
Cash flows from operating activities:	
Cash received from customers, governments and other funds	\$ 604,572
Cash paid to suppliers	(193,451)
Cash paid to employees	(57,558)
Net cash provided by operating activities	<u>353,563</u>
Cash flows from capital and related financing activities:	
Principal retirements of long-term debt	(175,425)
Interest paid on long-term debt	(124,701)
Net cash used in capital and related financing activities	<u>(300,126)</u>
Cash flows from investing activities:	
Interest earnings	<u>16,435</u>
Net increase in pooled cash and cash equivalents	69,872
Cash and cash equivalents, beginning	<u>2,181,550</u>
Cash and cash equivalents, ending	<u>\$ 2,251,422</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 190,005
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	137,963
Changes in operating assets and liabilities:	
(Increase) in accounts receivable	(281)
Decrease in:	
Accounts payable	1,397
Due to other funds	<u>24,479</u>
Net cash provided by operating activities	<u>\$ 353,563</u>

See notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sunny Isles Beach, Florida (the City) was incorporated on June 16, 1997. The City operates under a Commission-Manager form of government and provides the following services as authorized by its charter: public safety, highways and streets, culture and recreation, public works and stormwater management.

The basic financial statements of the City have been prepared in accordance 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 governmental accounting and financial reporting. The more significant of the City's accounting policies are described below.

a. Financial Reporting Entity

The financial statements were prepared in accordance with government accounting standards which establishes standards for defining and reporting on the financial reporting entity. The definition of the financial reporting entity is based upon the concept that elected officials are accountable to their constituents for their actions. One of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of the elected officials. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City is financially accountable for a component unit if it appoints a voting majority of the organization's governing board and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. The City does not have any component units that meet the definition disclosed above.

b. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely 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*.

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Government-wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c. 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 is the proprietary 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 City 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. General capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes, 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 City.

The City of Sunny Isles Beach reports the following major governmental funds:

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

The *capital projects funds* accounts for the acquisition of equipment and construction of major capital projects not being financed by proprietary funds.

The City reports the following major proprietary fund:

The *stormwater management fund* is used to account for the provision of stormwater maintenance and capital improvements to the residents and commerce of the City.

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In addition, the City reports the following nonmajor fund:

The *special revenue law enforcement trust fund* is used to account for the revenue and expenditures related to law enforcement activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City has the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to 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 payments-in-lieu of taxes and other charges between the City's utilities function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, whose purpose has not been restricted to a specific program.

The Proprietary fund distinguishes *operating* revenues and expenses from *nonoperating* 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 City's stormwater enterprise fund, and of the City's are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

d. Property Taxes

Property taxes for the current year were assessed and collected by Miami-Dade County and subsequently remitted to the City.

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Property Taxes (Continued)

Under Florida law, the assessment of all properties and the collection of all county, municipal, school board and special district property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws for the State regulating tax assessments are also designed to assure a consistent property valuation method statewide. State statutes permit municipalities to levy property taxes at a rate of up to 10 mills (\$10 per \$1,000 of assessed taxable valuation). The millage rate assessed by the City for the year ended September 30, 2004 was 3.35 mills.

The tax levy of the City is established by the City Commission prior to October 1 of each year, and the County Property Appraiser incorporates the millage into the tax levy, which includes Miami-Dade County, Miami-Dade County School Board and special taxing districts.

All property is reassessed according to its fair market value as of January 1 of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of State Statutes.

All real and tangible personal property taxes are due and payable on November 1, each year or as soon as practicable thereafter as the assessment roll is certified by the County Property Appraiser. Miami-Dade County mails to each property owner on the assessment roll a notice of the taxes due and Miami-Dade County also collects the taxes for the City. Taxes may be paid upon receipt of such notice from Miami-Dade County, with discounts at the rate of four percent (4%) if paid in the month of November, three percent (3%) if paid in the month of December, two percent (2%) if paid in the month of January and one percent (1%) if paid in the month of February. Taxes paid during the month of March are without discount, and all unpaid taxes on real and tangible personal property become delinquent and liens are placed on April 1 of the year following the year in which taxes were assessed. Procedures for the collection of delinquent taxes by Miami-Dade County are provided for in the laws of Florida. There were no material delinquent property taxes at September 30, 2004.

e. Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Cash and cash equivalents, include cash on hand, demand deposits, investments in money market funds. Income from investments is recorded as earned.

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds. Any residual balances outstanding between the governmental activities and business activities are reported in the government-wide financial statements as "internal balances".

g. Prepaid Items and Unamortized Costs

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

h. Capital Assets

Capital assets, which include property, land, plant, equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets is defined by the City as assets with an initial, individual cost of more than \$1,000 for equipment and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Although the City has implemented GASB 34, the Capital Assets balance as of September 30, 2004 does not include retroactive reporting of infrastructure. The City plans to perform a capital assets evaluation within the upcoming fiscal year which may result in a restatement of the beginning capital assets balance for the fiscal year ended September 30, 2005.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as they are completed.

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

Utility and improvements other than buildings	30 – 50 years
Machinery and equipment	5 – 10 years

i. Compensated Absences

The City's policy is to permit employees to accumulate earned but unused sick as well as vacation pay benefits, limited to certain maximums, based on length of service. For certain employees, the City also grants compensation time. All vacation, sick and compensated pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Long-Term Obligations

In the government-wide financial statements, and the proprietary fund type 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 proprietary fund type statement of net assets. Bond premium and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bonds premium and/or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and/or discounts on debt issuances are reported as other financing uses. Issuance costs, whether not withheld from the actual debt proceeds received, are reported as debt service expenditures.

k. 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 future purpose. The description of each reserve indicates the purpose for which each was intended.

Designations of fund balance represent tentative management plans that are subject to change. Unreserved undesignated fund balance is the portion of fund equity available for any lawful use.

l. 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 collectibility of accounts receivable, the use and recoverability of inventory, pension and postretirement obligations and useful lives and impairment of tangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statement in the period they are determined to be necessary. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 2. DEPOSITS AND INVESTMENTS

Deposits

In addition to insurance provided by the Federal Depository Insurance Corporation, all 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 a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

Accordingly, all amounts reported as deposits are deemed as insured or collateralized and are, therefore, not subject to classification by credit risk category under the provisions of GASB Statement No. 3.

Investments

The City is authorized to invest in those instruments authorized by the Florida statutes. Investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or securities held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered securities held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name. At year end, the City's investment was as follows:

	<u>Category 1</u>
Repurchase agreements	<u>\$6,806,288</u>

A reconciliation of cash and cash equivalents as shown on the statement of net assets follows:

Cash and cash equivalents:	
Restricted	\$16,881,947
Unrestricted	<u>14,171,338</u>
	<u>\$31,053,285</u>
Carrying amount of deposits	\$24,246,997
Carrying amount of investments	<u>6,806,288</u>
	<u>\$31,053,285</u>

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 3. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents consist of police forfeitures, which are accounted for in the police confiscated property special revenue fund and developer funded street improvements, which are accounted for in the capital projects fund. These funds are restricted for specific uses. Unspent bond proceeds held in the capital projects fund are also restricted.

Police forfeiture funds	\$ 1,271,502
Developer funded capital improvements	7,798,938
City Hall acquisition	<u>7,811,507</u>
	<u>\$16,881,947</u>

NOTE 4. RECEIVABLES

Receivables at September 30, 2004, were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Other</u>	<u>Total</u>
General	\$ -	\$ 317,033	\$ 169,010	\$ 486,043
Stormwater	<u>50,765</u>	<u>-</u>	<u>-</u>	<u>50,765</u>
	<u>\$ 50,765</u>	<u>\$ 317,033</u>	<u>\$ 169,010</u>	<u>\$ 536,808</u>

NOTE 5. CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 15,428,747	\$ 1,052,642	\$ (1,102,918)	\$ 15,378,471
Construction in progress	<u>3,792,131</u>	<u>11,099,228</u>	<u>-</u>	<u>14,891,359</u>
Total capital assets not being depreciated	<u>19,220,878</u>	<u>12,151,870</u>	<u>(1,102,918)</u>	<u>30,269,830</u>
Capital assets being depreciated:				
Equipment	<u>3,238,167</u>	<u>913,648</u>	<u>(72,000)</u>	<u>4,079,815</u>
Total capital assets being depreciated	<u>3,238,167</u>	<u>913,648</u>	<u>(72,000)</u>	<u>4,079,815</u>
Less accumulated depreciation for:				
Equipment	<u>(2,131,078)</u>	<u>(830,363)</u>	<u>72,000</u>	<u>(2,889,441)</u>
Total accumulated depreciation	<u>(2,131,078)</u>	<u>(830,363)</u>	<u>72,000</u>	<u>(2,889,441)</u>
Total capital assets being depreciated, net	<u>1,107,089</u>	<u>83,285</u>	<u>-</u>	<u>1,190,374</u>
Governmental activities capital assets, net	<u>\$ 20,327,967</u>	<u>\$ 12,235,155</u>	<u>\$ (1,102,918)</u>	<u>\$ 31,460,204</u>

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 5. CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-type activities</u>				
Capital assets being depreciated:				
Infrastructure	\$4,011,700	\$ -	\$ -	\$4,011,700
Machinery and equipment	<u>21,200</u>	<u>-</u>	<u>-</u>	<u>21,200</u>
Total capital assets being depreciated	<u>4,032,900</u>	<u>-</u>	<u>-</u>	<u>4,032,900</u>
Less accumulated depreciation for:				
Infrastructure	(226,942)	(133,723)	-	(360,665)
Equipment	<u>(12,720)</u>	<u>(4,240)</u>	<u>-</u>	<u>(16,960)</u>
Total accumulated depreciation	<u>(239,662)</u>	<u>(137,963)</u>	<u>-</u>	<u>(377,625)</u>
Total capital assets being depreciated, net	<u>3,793,238</u>	<u>(137,963)</u>	<u>-</u>	<u>3,655,275</u>
Business-type activities capital assets, net	<u>\$3,793,238</u>	<u>\$ (137,963)</u>	<u>\$ -</u>	<u>\$3,655,275</u>

Depreciation expense was charged to functions/programs of the City as follows:

General government	\$ 369,783
Public safety	198,129
Physical environment	15,450
Community services	<u>247,001</u>
Total depreciation expense - governmental activities	<u>\$ 830,363</u>
Business-type activities:	
Stormwater	<u>\$ (137,963)</u>
Total depreciation expense - business-type activities	<u>\$ (137,963)</u>

Construction Commitments

The City has various pending, ongoing and future capital improvement projects. These projects consist primarily of the Streetscape plan project and park development projects with continuing improvements of an estimated cost of \$15 million.

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 6. INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2004 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects	\$ 571,339
General	Stormwater	<u>229,766</u>
		<u>\$ 801,105</u>

The interfund balances consist of the General Fund being the receivable fund from the Capital and Stormwater fund. This was incurred when the General Fund paid for capital projects on behalf of the Capital and Stormwater Funds.

Interfund Transfers for the year ended September 30, 2004, consisted of the following:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General	Capital Projects	<u>\$2,150,000</u>

The Interfund Transfer is the capital debt payment which is collected from the Ad Valorem taxes and transferred from the General Fund to the Capital Projects Fund. This will be an ongoing transfer until the debt is paid.

NOTE 7. LONG-TERM DEBT

Revenue Bonds

The source of payment for these bonds is the income derived from the acquired, constructed assets or specific revenue sources. The outstanding revenue bonds are the following:

Governmental

2001A Series Florida Municipal Loan Council Revenue Bond

On November 30, 2001, the City issued the 2001A Series Florida Municipal Loan Council Revenue Bond of \$10,320,000 for the refunding of certain outstanding obligations totaling \$10,482,991. Principal and interest payments are due annually and semiannually, respectively through November 1, 2026. The Bond accrues interest at rates ranging from 3.25% to 5%. The principal and interest is secured by a pledge of Non-Ad Valorem Revenues. Amount due as of September 30, 2004 was \$9,840,000.

The City may prepay the 2001A Bond in whole or in part, at any time or from time to time, without penalty or premium.

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 7. LONG-TERM DEBT (Continued)

Revenue Bonds (Continued)

Governmental (Continued)

2002C Series Florida Municipal Loan Council Revenue Bond

On November 22, 2002, the City issued the 2002C Series Florida Municipal Loan Council Revenue Bonds. The par value of the bonds equals to 17,945,000 plus \$990,321 reoffering premium. The bonds were issued for various Capital Projects, including but not limited to, a City Hall, Landscaping improvements, park improvements, police station, municipal pool, public works facility, road resurfacing and stormwater improvements.. Principal and interest payments are due annually and semiannually, respectively through November 1, 2022. The bonds accrue interest at a rate ranging from 3% to 5.25%. As of September 30, 2004, \$16,915,000 of the bonds were issued and outstanding. The principal and interest is secured by a pledge of Non-Ad Valorem Revenues.

The City may prepay the 2002C Bond in whole or in part, at any time or from time to time, without penalty or premium.

Enterprise Fund

2002 Series Stormwater Revenue Bond

On May 22, 2002, the City issued the 2002 Series Stormwater Revenue Bonds for the purpose of financing all or a portion of the costs of certain improvements to the Golden Shores Stormwater Utilities System and paying for certain costs related thereto. Principal and interest installments are paid quarterly and accrue interest at a rate of 4.230% through July 1, 2022. The principal and interest is secured solely by and payable from pledged revenues of the Stormwater utility taxes imposed by the City. The City may prepay the bonds in whole or in part, at any time or from time to time, without penalty or premium. Amount due as of September 30, 2004 was \$2,700,000.

Annual debt service requirements to maturity for revenue bonds are as follows:

Year ending September 30:	<u>Governmental Activities</u>		<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 835,000	\$ 1,280,349	\$ 150,000	\$ 110,244
2006	865,000	1,251,005	150,000	103,899
2007	900,000	1,219,105	150,000	97,554
2008	930,000	1,183,538	150,000	91,209
2009	965,000	3,486,950	150,000	84,864
2010-2014	5,540,000	3,423,180	750,000	329,145
2015-2019	7,050,000	1,380,925	750,000	170,520
2020-2024	7,685,000	1,380,925	450,000	26,172
2025-2026	1,985,000	201,750	-	-
Total	<u>\$26,755,000</u>	<u>\$14,807,727</u>	<u>\$2,700,000</u>	<u>\$1,013,607</u>

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 7. LONG-TERM DEBT (Continued)

Revolving Loan

Enterprise Fund

Revolving loan

On August 3rd, 2001, the City entered into a revolving loan agreement with the State of Florida Department of Environmental Protection (the Department) for the purpose of providing financial assistance for planning and designing stormwater system improvements at a projected cost of \$650,000 and an expected completion date of July 15, 2003. At the completion of the preconstruction activities the Department will establish the final cost to be financed by the Loan. The loan shall be repaid in 20 semiannual loan payments beginning August 15, 2004. The semiannual loan payment is based on the total amount owed, which consists of the loan principal plus the loan service fee with its capitalization interest. The amount due as of September 30, 2004 was \$108,092 which includes capitalized interest and other costs with the repayment amount estimated at \$41,697. The City plans to repay this loan during the upcoming fiscal year.

Changes in Long-Term Liabilities

The following is a summary of changes in the long-term debt for the year ended September 30, 2004

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities					
Bonds and notes payable:					
Revenue bonds	\$27,570,000	\$ -	\$ (815,000)	\$26,755,000	\$ 835,000
Add deferred amounts for reoffering premium	<u>1,138,798</u>	<u>-</u>	<u>(88,424)</u>	<u>1,050,374</u>	<u>-</u>
Total bonds and notes payable	<u>28,708,798</u>	<u>-</u>	<u>(903,424)</u>	<u>27,805,374</u>	<u>835,000</u>
Other liabilities:					
Compensated absences	<u>825,521</u>	<u>133,909</u>	<u>-</u>	<u>959,430</u>	<u>340,000</u>
Total other liabilities	<u>825,521</u>	<u>133,909</u>	<u>-</u>	<u>959,430</u>	<u>340,000</u>
Governmental activities Long-term liabilities	<u>\$29,534,319</u>	<u>\$133,909</u>	<u>\$ (903,424)</u>	<u>\$28,764,804</u>	<u>\$1,175,000</u>
Business-type Activities					
Bonds and notes payable:					
Stormwater revenue bonds	\$ 2,850,000	\$ -	\$ (150,000)	\$ 2,700,000	\$ 150,000
Revolving loan	<u>133,517</u>	<u>-</u>	<u>(25,425)</u>	<u>108,092</u>	<u>83,394</u>
Total bonds and notes payable	<u>2,983,517</u>	<u>-</u>	<u>(175,425)</u>	<u>2,808,092</u>	<u>233,394</u>
Business-type activities Long-term liabilities	<u>\$ 2,983,517</u>	<u>\$ -</u>	<u>\$ (175,425)</u>	<u>\$ 2,808,092</u>	<u>\$ 233,394</u>

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 8. EMPLOYMENT RETIREMENT SYSTEMS

Defined Contribution – Single Employer

The City of Sunny Isles Beach is a single employer that contributes to two defined contribution plans based on employee classification created in accordance with Internal Revenue Code Section 401(a). The plans currently cover all full-time employees of the City. Under these plans, the City contributes 11% and employees contribute between 0% and 4% depending on the employee classification. The Plans can only be amended by approval of the City Commission. Employer and employee contributions for year ended September 30, 2004 were approximately \$215,000 and \$96,000, respectively.

Florida Retirement System

1. Plan Description

The Florida Retirement System (FRS) is a cost-sharing multiple-employer retirement plan. Benefit provisions are established under Chapter 121, Florida Statutes, which may be amended by the Florida Legislature. A description of FRS benefits under the defined benefit plan (FRS Pension Plan) is contained in the Plan document. Beginning in 2002, a defined contribution plan alternative to the existing defined benefit plan known as the Public Employee Optional Retirement Program or the FRS Investment became available to FRS members.

2. Funding Policy

The FRS funding policy provides for monthly employer contributions at actually determined rates that, expressed as percentages of annual covered payroll are adequate to accumulate sufficient assets to pay benefits when due (see Plan document for current rates). Level percentage of payroll employer contribution rates, established by state law, is determined using the entry-age actuarial cost method. If an unfunded actuarial liability emerges as a result of future plan benefit changes, assumption changes, or methodology changes, it is assumed any unfunded actuarial liability would be amortized over 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount.

	<u>Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contribution</u>
Fiscal year ending September 30:			
2004	<u>\$ 300,000</u>	<u>\$ 300,000</u>	<u>100%</u>

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 9. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The City entered into an operating lease for the City Hall on May 1, 1998, which was amended on October 1, 1998 to include the Police Station at a base annual rental of \$126,000 for approximately 21,000 square feet. The term of the lease is 60 months with an option to renew for two successive one-year option periods. A termination clause was added to the lease agreement in fiscal year 1999, without any penalties to the City, at the time of relocation to new facilities. On January 2005, the lease agreement was terminated when City relocated to its new facilities after completion of construction. For the fiscal year ended September 30, 2004, lease expense was \$236,546.

Litigation

The City is involved in several lawsuits incidental to its operations, the outcome of which, in the opinion of management and legal counsel, should not have a material adverse effect on the financial position of the City.

Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance to cover the various risks. Retention of risk is limited to those that are uninsurable with deductibles ranging from \$250 to \$500 per occurrence. There were no reductions in insurance coverages from coverages in the prior year. There were no settled claims that have exceeded insurance coverage for each of the past three years.

NOTE 10. PRIOR PERIOD ADJUSTMENTS

The City recorded a prior period adjustment of \$352,610 to correctly record prior interest earned in fiscal year 2003 on investments held with the Florida Municipal Loan Council. This amount is presented as an adjustment to beginning fund balance of the capital projects fund and to the beginning net assets of the governmental activities in the entity-wide financial statements.

In addition, the City recorded a prior period adjustment of \$411,738 to correctly record capitalized interest or funds used in the construction of capital assets in 2003. This amount is presented as an adjustment to beginning net assets of the governmental activities in the entity-wide financial statements.

NOTE 11. SUBSEQUENT EVENT

Subsequent to year end the City won a judgment in an eminent domain case against RK Associates. As a result, the City deposited \$2,250,000 in the Registry of Court to obtain legal title to the property. The lower court's decision is subject to reversal by the appellate court.

REQUIRED SUPPLEMENTARY INFORMATION
(OTHER THAN MD&A)

CITY OF SUNNY ISLES BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2004

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive <u>(Negative)</u>
Revenues:			
Taxes:			
Real and personal property	\$ 8,024,278	\$ 7,998,059	\$ (26,219)
Utility taxes:			
Electric	1,160,000	1,220,437	60,437
Telecommunication	670,000	755,157	85,157
Water	280,000	338,222	58,222
Gas	40,000	41,800	1,800
Total utility taxes	<u>2,150,000</u>	<u>2,355,616</u>	<u>205,616</u>
Total taxes	<u>10,174,278</u>	<u>10,353,675</u>	<u>179,397</u>
Franchise fees	<u>998,900</u>	<u>947,612</u>	<u>(51,288)</u>
Intergovernmental:			
State revenue sharing	217,000	250,723	33,723
Federal grants	-	14,206	14,206
State grants	27,054	98,816	71,762
Other state taxes	10,000	16,563	6,563
Transit system tax	350,000	513,974	163,974
Local option gas tax	174,000	185,617	11,617
Half cent sales tax	910,000	935,782	25,782
Total intergovernmental	<u>1,688,054</u>	<u>2,015,681</u>	<u>327,627</u>
Licenses and permits	<u>1,636,129</u>	<u>1,380,152</u>	<u>(255,977)</u>
Charges for services	<u>140,000</u>	<u>337,372</u>	<u>197,372</u>
Fines and forfeitures	<u>215,500</u>	<u>225,038</u>	<u>9,538</u>
Interest	<u>100,000</u>	<u>58,868</u>	<u>(41,132)</u>
Miscellaneous	<u>285,600</u>	<u>471,214</u>	<u>185,614</u>
Total revenues	<u>15,238,461</u>	<u>15,789,612</u>	<u>551,151</u>

See note to budgetary comparison schedule.

CITY OF SUNNY ISLES BEACH, FLORIDA

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

(Continued)

YEAR ENDED SEPTEMBER 30, 2004

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Positive <u>(Negative)</u>
Expenditures:			
Current:			
General government:			
City commission	\$ 13,750	\$ 19,055	\$ (5,305)
City manager	350,892	340,212	10,680
Finance	271,069	276,486	(5,417)
Legal	506,007	555,025	(49,018)
City clerk	226,957	158,814	68,143
Administrative	1,604,390	1,330,972	273,418
Human resources	213,757	219,134	(5,377)
Information technology	-	2,356	(2,356)
Total general government	<u>3,186,822</u>	<u>2,902,054</u>	<u>284,768</u>
Public safety:			
Police	5,391,790	4,924,080	467,710
Planning and zoning	1,515,994	1,420,506	95,488
Code enforcement and licensing	385,235	323,608	61,627
Total public safety	<u>7,293,019</u>	<u>6,668,194</u>	<u>624,825</u>
Community services:			
Public works	1,364,272	1,334,652	29,620
Recreation	670,348	644,682	25,666
Total community services	<u>2,034,620</u>	<u>1,979,334</u>	<u>55,286</u>
Capital outlay	<u>574,000</u>	<u>602,922</u>	<u>(28,922)</u>
Total expenditures	<u>13,088,461</u>	<u>12,152,504</u>	<u>935,957</u>
Excess of revenues over expenditures	<u>2,150,000</u>	<u>3,637,108</u>	<u>1,487,108</u>
Other financing uses:			
Transfers out	<u>(2,150,000)</u>	<u>(2,150,000)</u>	<u>-</u>
Total other financing uses	<u>(2,150,000)</u>	<u>(2,150,000)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 1,487,108</u>	<u>\$ 1,487,108</u>

See note to budgetary comparison schedule.

CITY OF SUNNY ISLES BEACH, FLORIDA

NOTE TO BUDGETARY COMPARISON SCHEDULE

FISCAL YEAR ENDED SEPTEMBER 30, 2004

NOTE 1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures to establish the budgetary data reflected in the financial statements:

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States.

An annual appropriated budget is adopted for the general fund on a basis consistent with accounting principles generally accepted in the United States. The City follows these procedures in establishing the budgetary data reflected in the general purpose financial statements.

- (a) The City Manager submits to the City Commission a proposed operating and capital budget for the ensuing fiscal year. The budget includes proposed expenditures and the means of financing them.
- (b) Public hearings are conducted to obtain taxpayer comments.
- (c) Prior to October 1, the budget is legally enacted through passage of an ordinance.
- (d) The City Commission, by ordinance, may make supplemental appropriations for the year. There were no supplemental appropriations during the period.
- (e) Formal budgetary integration is employed as a management control device during the period for the general and the capital projects funds.
- (f) The City Manager is authorized to transfer part or all of an unencumbered appropriation balance within departments within a fund; however, any revisions that alter the total appropriations of any department or fund must be approved by the City Commission. The classification detail at which expenditures may not legally exceed appropriations is at the department level.
- (g) Unencumbered appropriations lapse at fiscal year end. Unencumbered amounts are reappropriated in the following year's budget.
- (h) Budgeted amounts are as originally adopted or as amended. Budget amendments were not material in relation to the original appropriations.

COMPLIANCE SECTION

Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of General Purpose Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable Mayor, City Commission and City Manager
City of Sunny Isles Beach, Florida

We have audited the financial statements of the governmental activities, the business-type activities and each major fund, of the City of Sunny Isles Beach, Florida (the City), as of and for the year ended September 30, 2004 which collectively comprise the City's basic financial statements and have issued our report thereon dated February 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 City of Sunny Isles Beach, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Sunny Isles Beach, Florida's basic 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 that are required to be reported under *Government Auditing Standards*.

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Honorable Mayor, City Commission and City Manager
City of Sunny Isles Beach, Florida
Page Two

This report is intended solely for the information and use of the Mayor, City Commission, management, and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin Cohen & Holtz LLP

Miami, Florida
February 22, 2005

Management Letter in Accordance with the Rules of the Auditor General of the State of Florida

Honorable Mayor, City Commission and City Manager
City of Sunny Isles Beach, Florida

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the City of Sunny Isles Beach, Florida (the City), as of and for the year ended September 30, 2004 which collectively comprise the City's basic financial statements and have issued our report thereon dated February 22, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements. Disclosures in that report, which is dated February 22, 2005 should be considered in conjunction with this management letter.

In connection with our audit of the basic financial statements of the City for the year ended September 30, 2004, we report the following in accordance with Chapter 10.550, Rules of the Auditor General, *Local Governmental Entity Audits* which requires that this report specifically address, but not be limited to, the matters outlined in Rule 10.554(1)(h):

1. Recommendations made in the preceding financial audit report to improve the City's present financial management, accounting procedures and internal controls have been implemented except as reported in the schedule of findings.
2. The City was in compliance with Section 218.415, Florida Statutes, regarding the investment of public funds.
3. There were no recommendations to improve the City's present financial management, accounting procedures and internal controls during the current fiscal year.
4. During the course of our audit, other than matters that are clearly inconsequential, considering both quantitative and qualitative factors, nothing came to our attention that caused us to believe that the City:
 - a. Was in violation of any laws, rules or regulations and contractual provisions or abuse that have occurred, or were likely to have occurred, or were discovered within the scope of the audit.

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City of Sunny Isles Beach, Florida
Page Two

- b. Made any illegal or improper expenditures that were discovered within the scope of the audit that may materially affect the financial statements.
 - c. Had deficiencies in internal control that are reportable conditions including but not limited to:
 - (1) Improper or inadequate accounting procedures
 - (2) Failures to properly record financial transactions
 - (3) Other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that came to the attention of the auditor.
5. The City of Sunny Isles Beach was incorporated by Chapter 165, Florida Statutes.
6. a. The City, during fiscal year 2004, was not in a state of financial emergency as defined by Florida Statute, Section 218.503(1).
- b. The annual financial report for the year ended September 30, 2004 has been filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes and is in agreement with the audited financial statements for the year ended September 30, 2004.
- c. During the course of our audit, we applied financial condition assessment procedures pursuant to Rule 10.566(8). It is management's responsibility to monitor the City's financial condition, and our financial condition assessment, which was performed as of the City's fiscal year end, was based on representations made by management and the review of financial information provided by the City. There were no fundings that identified deteriorating financial conditions.

This report is intended solely for the information and use of the Mayor, City Commission, management, 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.

Rachlin Cohen & Holtz LLP

Miami, Florida
February 22, 2005

CITY OF SUNNY ISLES BEACH, FLORIDA

SCHEDULE OF FINDINGS

FISCAL YEAR ENDED SEPTEMBER 30, 2004

SECTION I – CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

SECTION II – STATUS OF PRIOR YEAR COMMENTS

01-1. Proprietary Fixed Asset Depreciation Policy

During the audit of the City's financial statements, we noted that the City does not have a formal written policy over accounting for and depreciating fixed assets.

Recommendation

We recommend that the City establish an accounting policy and procedures manual to also include a formal written policy over better accounting for and depreciating fixed assets. The City should set up procedures to follow for properly recording fixed assets and its related accumulation of depreciation.

Management Response

The City's new software does have the fixed assets and depreciation module which will be in full operation after we have the whole City inventoried and have a firm base that is as accurate as possible. The company, American Appraisal, who has brought the compliance process related to GASB-34 to many cities, will be working with us this summer as it relates to the inventory of the City's capital assets and infrastructure. Only after there is a good understanding of the procedures they will be installing; can there be an informative policy and procedure manual that encompasses the full procedure.

01-2. Fixed Assets Inventory Listing

During our fixed asset testing, we noted that the City does not have an inventory of its fixed assets or tagging of such assets. This is mainly due to the fact that the City does not have a formalized capitalization policy in place. This makes the assets more susceptible to misappropriation or misuse.

Recommendation

We recommend that the City adopt a formalized capitalization policy in which the City tags all fixed assets and inventory the assets by department as these assets are received.

Management Response

Tagging all fixed assets will be part of American Appraisals scope of work and recommending and installing an inventory system City wide.