



# City of North Bay Village, Florida

*Basic Financial Statements  
and  
Report of Independent Certified Public Accountants*

*September 30, 2007*

# CITY OF NORTH BAY VILLAGE, FLORIDA

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## FINANCIAL SECTION

**REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**



## **Report of Independent Certified Public Accountants**

To the Honorable Mayor and Members  
of the City Commission of the  
City of North Bay Village, Florida

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of North Bay Village, Florida as of September 30, 2007, 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 of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance and other matters with certain provisions of laws, regulations, contracts and grants agreements. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and other matters and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 8 and the budgetary comparison information on pages 36 through 39 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of North Bay Village, Florida's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Rodriguez, Trueba & Company*

Rodríguez, Trueba & Co., P.A.  
Doral, Florida  
April 24, 2008

MANAGEMENT DISCUSSION AND ANALYSIS  
MD&A

**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Management Discussion And Analysis*  
*For the Year Ended September 30, 2007*

As management of the City of North Bay Village, Florida (the “City”) we offer readers of the accompanying financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2007.

**Financial Highlights**

The assets of the City of North Bay Village exceeded its liabilities at the close of the most recent fiscal year by \$6,020,371 (net assets). Governmental net assets amount to \$4,780,847 and business-type net assets amount to \$1,239,524. The City's net assets decreased by \$842,279 during the current fiscal year.

For the fiscal year ended September 30, 2007, the City's governmental activities revenues and expenses were \$7,132,860 and \$7,476,630, respectively. As a result, governmental net assets decreased by \$343,770.

For the fiscal year ended September 30, 2007, the City's business-type activities revenues and expenses were \$3,144,244 and \$3,642,753, respectively. As a result, business-type net assets decreased by \$498,509.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City of North Bay Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, 3) and notes to the basic financial statements. This report also contains supplementary information in addition to the basic financial statements.

**Government-wide financial statements** - The *government-wide financial statements*, which consist of the following two statements described below, were designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City 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 items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City of North Bay Village 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 include general government, public safety, building, planning and zoning, public works, and parks and recreation. The business-type activities of the City include water and sewer operations. The government-wide financial statements can be found on pages 9-10 of this report.



**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Management Discussion And Analysis*  
*For the Year Ended September 30, 2007*

**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 North Bay Village, 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 can be divided into two categories: governmental funds and proprietary funds.

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

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

The City of North Bay Village maintains two governmental fund types. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is the only fund considered to be a major fund. All of the special revenue funds have been combined and are presented as non-major funds.

The governmental fund financial statements can be found on pages 11-13 of this report.

**Proprietary funds** - The City of North Bay Village maintains one type of proprietary fund referred to as enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements and are used to account for water and sewer operations and stormwater operations. These include the Utility Fund and the Stormwater Utility Fund.

The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations and the stormwater operations, which are considered to be major funds of the City of North Bay Village. The proprietary fund financial statements can be found on pages 14-16 of this report.

**Notes to the basic financial statements** - The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 17-35 of this report.

**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Management Discussion And Analysis*  
For the Year Ended September 30, 2007

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of North Bay Village, total net assets exceeded liabilities by \$6,020,371 at the close of September 30, 2007. Governmental activities net assets totaled \$4,780,847, and business-type activities net assets totaled \$1,239,524. The following table presents a condensed statement of net assets as compared to the prior year.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 3,563,967	\$ 3,753,220	\$(1,231,233)	\$ 604,889	\$ 2,332,734	\$ 4,358,109
Restricted assets	692,366	1,067,322	435,329	240,068	1,127,695	1,307,390
Capital assets	2,368,389	2,164,313	4,154,883	4,170,798	6,523,272	6,335,111
Total assets	<u>\$ 6,624,722</u>	<u>\$ 6,984,855</u>	<u>\$ 3,358,979</u>	<u>\$ 5,015,755</u>	<u>\$ 9,983,701</u>	<u>\$12,000,610</u>
Current liabilities	\$ 352,968	\$ 395,153	\$ 342,295	\$ 1,360,164	\$ 695,263	\$ 1,755,317
Long-term and other liabilities	1,490,907	1,465,085	1,777,160	1,917,558	3,268,067	3,382,643
Total liabilities	<u>\$ 1,843,875</u>	<u>\$ 1,860,238</u>	<u>\$ 2,119,455</u>	<u>\$ 3,277,722</u>	<u>\$ 3,963,330</u>	<u>\$ 5,137,960</u>
Net assets	<u>\$ 4,780,847</u>	<u>\$ 5,124,617</u>	<u>\$ 1,239,524</u>	<u>\$ 1,738,033</u>	<u>\$ 6,020,371</u>	<u>\$ 6,862,650</u>
Invested in capital assets, net of related debt	\$ 1,867,282	\$ 1,630,276	\$ 2,836,346	\$ 2,629,406	\$ 4,703,628	\$ 4,259,682
Restricted	893,260	1,067,322	87,580	-	980,840	1,067,322
Unrestricted	2,020,305	2,427,019	(1,684,402)	(891,373)	335,903	1,535,646
Total net assets	<u>\$ 4,780,847</u>	<u>\$ 5,124,617</u>	<u>\$ 1,239,524</u>	<u>\$ 1,738,033</u>	<u>\$ 6,020,371</u>	<u>\$ 6,862,650</u>

Unrestricted net assets, the portion of net assets that can be used to finance daily operations without constraints established by debt covenants, enabling legislation, or other legal requirements, totaled \$335,903 on September 30, 2007.

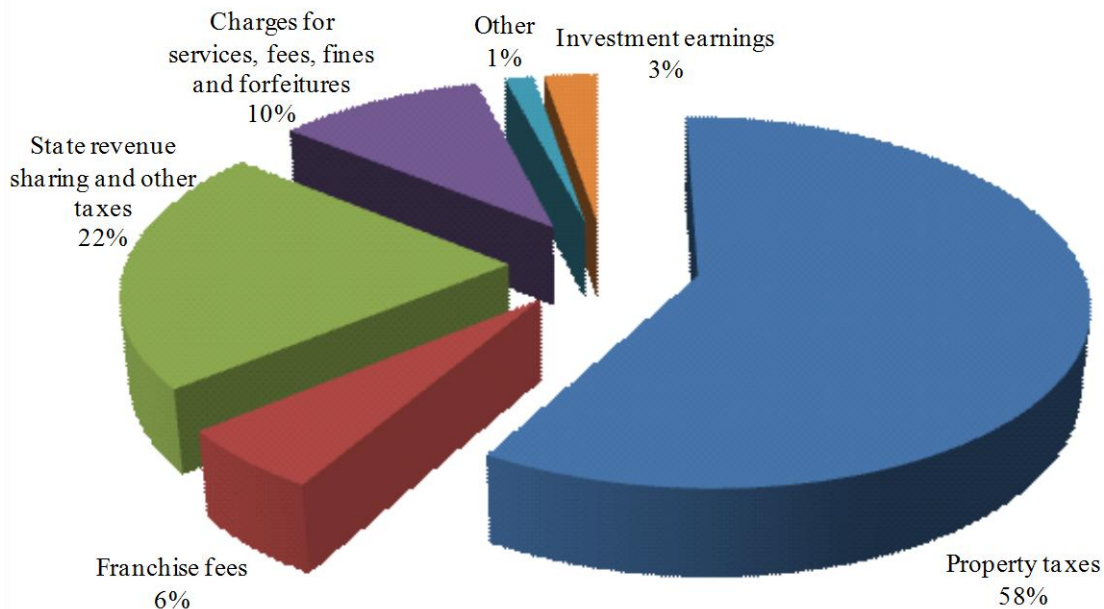
The largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, etc.). The City of North Bay Village uses these capital assets to provide services to citizens; consequently, they are not available for future spending. An additional portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of September 30, 2007, the City of North Bay Village is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities, except the unrestricted balance of the business-type activities had a deficit of \$(1,684,402). The City's total net assets decreased by \$842,279 during the current fiscal year.

**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Management Discussion And Analysis*  
 For the Year Ended September 30, 2007

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 726,846	\$ 1,260,485	\$ 2,884,483	\$ 3,223,085	\$ 3,611,329	\$ 4,483,570
Operating grants and contributions	4,470	551,733	-	-	4,470	551,733
Capital grants and contributions	-	-	237,729	698,250	237,729	698,250
<b>General revenues:</b>						
Property taxes	4,169,008	3,348,938	-	-	4,169,008	3,348,938
Other taxes and fees	1,955,660	2,062,639	-	-	1,955,660	2,062,639
Other general revenues	276,876	365,148	22,032	22,677	298,908	387,825
<b>Total revenues</b>	<b>7,132,860</b>	<b>7,588,943</b>	<b>3,144,244</b>	<b>3,944,012</b>	<b>10,277,104</b>	<b>11,532,955</b>
<b>Expenses:</b>						
General government	1,958,387	1,638,268	-	-	1,958,387	1,638,268
Public safety	4,082,306	3,647,300	-	-	4,082,306	3,647,300
Building, planning and zoning	705,868	544,664	-	-	705,868	544,664
Public works	586,212	947,622	-	-	586,212	947,622
Parks and recreation	143,857	128,539	-	-	143,857	128,539
Utility	-	-	3,591,559	4,096,343	3,591,559	4,096,343
Stormwater utility	-	-	51,194	74,595	51,194	74,595
<b>Total expenses</b>	<b>7,476,630</b>	<b>6,906,393</b>	<b>3,642,753</b>	<b>4,170,938</b>	<b>11,119,383</b>	<b>11,077,331</b>
<b>Increase (decrease) in net assets</b>	<b>\$ (343,770)</b>	<b>\$ 682,550</b>	<b>\$ (498,509)</b>	<b>\$ (226,926)</b>	<b>\$ (842,279)</b>	<b>\$ 455,624</b>

**Revenue by Source - Governmental Activities**



**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Management Discussion And Analysis*  
*For the Year Ended September 30, 2007*

**Financial Analysis of the City's Funds**

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

As of the end of the current fiscal year, the City's *governmental funds* reported combined ending fund balances of \$3,903,365, a decrease of \$487,038 from the prior year. Approximately 77.1% of this total amount, \$3,010,105, constitutes *unreserved, undesignated fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate it is not available for new spending because it has already been committed for a variety of restricted purposes, such as new capital projects or debt service requirements; or because it is to be used solely for specific fund related expenditures.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund in the fund financial statements was \$3,027,950. As a 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 42.4% of total general fund expenditures.

The fund balance of the City's general fund in the fund financial statements decreased by \$343,766 during the current fiscal year.

**Proprietary funds** - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets of the proprietary funds at the end of the year amounted to \$1,239,524. Combining financial statements of the proprietary funds can be found in pages 14-16 of the financial statements.

**Capital Assets and Debt Administration**

**Capital Assets** - The City's capital assets, less accumulated depreciation, for its governmental and business-type activities as of September 30, 2007 amounted to \$2,368,389 and \$4,154,883, respectively, and consist of land, buildings and improvements, improvements other than buildings, vehicles, and machinery and equipment. A more detailed schedule can be found on page 28 of the notes to the financial statements.

**Debt** - Excluding compensated absences, the City's debt totaled approximately \$1.82 million at September 30, 2007. Total debt outstanding, excluding compensated absences, at the end of the prior fiscal year was approximately \$2.07 million. The overall decrease is attributable to the retirement of principal. During 2007, the City entered into a capital lease agreement to purchase five vehicles; which increased debt. Although a more detailed schedule can be found on page 30 of the notes to the financial statements, outstanding debt as of September 30, 2007 consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
General obligation bonds	\$ 350,000	\$ -	\$ 350,000
Capital leases	151,107	56,496	207,603
Revolving state loans	<u>-</u>	<u>1,262,041</u>	<u>1,262,041</u>
Total	<u>\$ 501,107</u>	<u>\$ 1,318,537</u>	<u>\$ 1,819,644</u>

**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Management Discussion And Analysis*  
*For the Year Ended September 30, 2007*

**General Fund Budgetary Highlights**

- The original general fund budget was amended at the September 11, 2007 Commission meeting in order to cover expenses not previously appropriated in the budget. The amendment transferred \$294,311 from the general government department and reserves of the general fund to various departments.
- General fund revenues were \$350,113 less than amounts budgeted. Revenues were lower than budgeted primarily as a result of licenses and permits revenues falling short of expectations.
- General fund expenditures were \$86,995 more than amounts budgeted, however, this was covered by appropriations from reserves. Expenditures were greater than originally budgeted primarily as a result of the City's over-expenditures of public safety funds, public works funds, and parks and recreation funds.

**Economic Factors and Next Year's Budgets and Rates**

The City of North Bay Village's main source of revenues are obtained from a combination of tax receipts from ad-valorem property taxes, state revenue sharing and other taxes, franchise fees, and receipts from building permit fees. The budget for fiscal year 2008 is based on the City's best expectations of revenues from these sources and other smaller sources, and expenses are based on historical data and known increases for the 2008 fiscal year.

**Requests for Information**

This financial report is designed to provide a general overview of the City of North Bay Village's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager, City of North Bay Village, 1666 Kennedy Causeway, North Bay Village, FL, 33141.

# BASIC FINANCIAL STATEMENTS

**City of North Bay Village, Florida**  
Statement of Net Assets  
September 30, 2007

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>ASSETS</u></b>			
Cash, cash equivalents and investments	\$ 1,566,021	\$ 135,367	\$ 1,701,388
Receivables, net	353,293	271,536	624,829
Internal balances	1,644,653	(1,644,653)	-
Deferred charges	-	6,517	6,517
Restricted assets:			
Cash and investments	692,366	435,329	1,127,695
Capital assets not being depreciated:			
Land	629,515	-	629,515
Capital assets, net of accumulated depreciation	1,738,874	4,154,883	5,893,757
<b>Total assets</b>	<b>\$ 6,624,722</b>	<b>\$ 3,358,979</b>	<b>\$ 9,983,701</b>
 <b><u>LIABILITIES</u></b>			
Accounts payable and accrued liabilities	\$ 304,963	\$ 342,295	\$ 647,258
Unearned revenues	48,005	-	48,005
Payable from restricted assets:			
Customer deposits	-	347,749	347,749
Non-current liabilities:			
Due within one year	597,981	277,842	875,823
Due in more than one year	892,926	1,151,569	2,044,495
<b>Total liabilities</b>	<b>\$ 1,843,875</b>	<b>\$ 2,119,455</b>	<b>\$ 3,963,330</b>
 <b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	\$ 1,867,282	\$ 2,836,346	\$ 4,703,628
Restricted for:			
Transportation	398,486	-	398,486
Park improvements	354,068	-	354,068
Law enforcement	140,706	-	140,706
Debt service	-	87,580	87,580
Unrestricted (deficit)	2,020,305	(1,684,402)	335,903
<b>Total net assets</b>	<b>\$ 4,780,847</b>	<b>\$ 1,239,524</b>	<b>\$ 6,020,371</b>

The notes to the financial statements are an integral part of this statement.

**City of North Bay Village, Florida**  
Statement of Activities  
For the Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services, Fees, Fines and Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General government	\$ (1,958,387)	\$ 21,026	\$ -	\$ -	\$ (1,937,361)	\$ -	\$ (1,937,361)
Public safety	(4,082,306)	218,924	-	-	(3,863,382)	-	(3,863,382)
Building, planning and zoning	(705,868)	486,896	-	-	(218,972)	-	(218,972)
Public works	(586,212)	-	4,470	-	(581,742)	-	(581,742)
Parks and recreation	(143,857)	-	-	-	(143,857)	-	(143,857)
<b>Total governmental activities</b>	<b>(7,476,630)</b>	<b>726,846</b>	<b>4,470</b>	<b>-</b>	<b>(6,745,314)</b>	<b>-</b>	<b>(6,745,314)</b>
<b>Business-type activities:</b>							
Utility fund	(3,591,559)	2,778,061	-	237,729	-	(575,769)	(575,769)
Stormwater utility fund	(51,194)	106,422	-	-	-	55,228	55,228
<b>Total business-type activities</b>	<b>(3,642,753)</b>	<b>2,884,483</b>	<b>-</b>	<b>237,729</b>	<b>-</b>	<b>(520,541)</b>	<b>(520,541)</b>
<b>Total government</b>	<b>\$ (11,119,383)</b>	<b>\$ 3,611,329</b>	<b>\$ 4,470</b>	<b>\$ 237,729</b>	<b>\$ (6,745,314)</b>	<b>\$ (520,541)</b>	<b>\$ (7,265,855)</b>
<b>General revenues:</b>							
Taxes:							
Ad valorem taxes					\$ 4,169,008	\$ -	\$ 4,169,008
Franchise fees					395,585	-	395,585
Utility service taxes					345,008	-	345,008
Local option gas tax					110,116	-	110,116
Transportation surtax					215,921	-	215,921
Communication service tax					259,989	-	259,989
State revenue sharing					188,934	-	188,934
Local 1/2 cent sales tax					427,413	-	427,413
Other intergovernmental					12,694	-	12,694
Interest income					187,963	22,032	209,995
Miscellaneous					88,913	-	88,913
Transfers					-	-	-
<b>Total general revenues</b>					<b>6,401,544</b>	<b>22,032</b>	<b>6,423,576</b>
<b>Change in net assets</b>					<b>(343,770)</b>	<b>(498,509)</b>	<b>(842,279)</b>
<b>Net assets - beginning</b>					<b>5,124,617</b>	<b>1,738,033</b>	<b>6,862,650</b>
<b>Net assets - ending</b>					<b>\$ 4,780,847</b>	<b>\$ 1,239,524</b>	<b>\$ 6,020,371</b>

The notes to the financial statements are an integral part of this statement.



**City of North Bay Village, Florida**

Balance Sheet

Governmental Funds

September 30, 2007

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash, cash equivalents and investments	\$ 1,566,021	\$ -	\$ 1,566,021
Restricted cash and investments	-	692,366	692,366
Receivables	304,262	49,031	353,293
Due from other funds	1,507,634	225,559	1,733,193
Total assets	<u>\$ 3,377,917</u>	<u>\$ 966,956</u>	<u>\$ 4,344,873</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 301,962	\$ 3,001	\$ 304,963
Due to other funds	-	88,540	88,540
Unearned revenue	48,005	-	48,005
Total liabilities	<u>349,967</u>	<u>91,541</u>	<u>441,508</u>
<b>Fund Balances</b>			
<b>Reserved for:</b>			
Transportation	-	398,486	398,486
Park improvements	-	354,068	354,068
Law enforcement	-	140,706	140,706
<b>Unreserved, undesignated, reported in:</b>			
General fund	3,027,950	-	3,027,950
Debt service fund	-	(17,845)	(17,845)
Total fund balances	<u>3,027,950</u>	<u>875,415</u>	<u>3,903,365</u>
Total liabilities and fund balances	<u>\$ 3,377,917</u>	<u>\$ 966,956</u>	

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.	2,368,389
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(1,490,907)</u>
Net assets of governmental activities	<u>\$ 4,780,847</u>

The notes to the financial statements are an integral part of this statement.

**City of North Bay Village, Florida**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended September 30, 2007

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Taxes	\$ 4,381,871	\$ 348,066	\$ 4,729,937
Licenses and permits	486,896	-	486,896
Franchise fees	395,585	-	395,585
Intergovernmental revenue	1,038,602	-	1,038,602
Charges for services	23,766	-	23,766
Fines and forfeitures	47,245	170,888	218,133
Interest income	187,963	-	187,963
Other	86,964	-	86,964
Total revenues	<u>6,648,892</u>	<u>518,954</u>	<u>7,167,846</u>
<b>Expenditures</b>			
<b>Current</b>			
General government	1,877,886	-	1,877,886
Public safety	3,725,579	111,972	3,837,551
Public works	404,219	55,277	459,496
Building, planning and zoning	681,591	-	681,591
Parks and recreation	80,930	23,086	104,016
<b>Capital outlay</b>	291,298	336,171	627,469
<b>Debt service</b>			
Principal retirement	71,272	105,000	176,272
Interest and other fiscal charges	3,225	30,720	33,945
Total expenditures	<u>7,136,000</u>	<u>662,226</u>	<u>7,798,226</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(487,108)</u>	<u>(143,272)</u>	<u>(630,380)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from equipment installment obligations	<u>143,342</u>	<u>-</u>	<u>143,342</u>
Total other financing sources (uses)	<u>143,342</u>	<u>-</u>	<u>143,342</u>
Net change in fund balance	(343,766)	(143,272)	(487,038)
<b>Fund balances at beginning of year</b>	3,371,716	1,018,687	4,390,403
<b>Fund balances at end of year</b>	<u>\$ 3,027,950</u>	<u>\$ 875,415</u>	<u>\$ 3,903,365</u>

The notes to the financial statements are an integral part of this statement.

**City of North Bay Village, Florida**  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of  
 Governmental Funds to the Statement of Activities  
 For the Year Ended September 30, 2007

**Net change in fund balances - total governmental funds (page 12) \$ (487,038)**

Amounts reported for governmental activities in the statement of activities (page 10)  
 are different because:

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

The details of the differences are as follows:

Capital outlay	616,474	
Depreciation expense	<u>(412,398)</u>	
		204,076

Revenues in the prior year statement of activities that did not provide current  
 financial resources were reported as revenues in governmental funds in  
 current year. (34,986)

Loan proceeds provide current financial resources to governmental funds,  
 but issuing debt increases long-term liabilities in the statement of net assets.  
 Repayment of principal is an expenditure in the governmental funds, but the  
 repayment reduces long-term liabilities in the statement of net assets. This  
 is the amount by which repayments exceeded debt proceeds.

The details of the differences are as follows:

Proceeds from loans and other long-term debt	(143,342)	
Principal payments	<u>176,272</u>	
		32,930

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

The details of the differences are as follows:

Change in long-term compensated absences		<u>(58,752)</u>
------------------------------------------	--	-----------------

**Change in net assets of governmental activities (page 10) \$ (343,770)**

The notes to the financial statements are an integral part of this statement.

**City of North Bay Village, Florida**  
Statement of Net Assets  
Enterprise Funds  
September 30, 2007  
(With Comparative Totals for September 30, 2006)

	<b>Business-Type Activities</b>		<b>Total</b>	
	<b>Enterprise Funds</b>			
	<b>Utility Fund</b>	<b>Stormwater Utility Fund</b>	<b>2007</b>	<b>2006</b>
<b>Assets</b>				
<b>Current Assets</b>				
Cash, cash equivalents and investments	\$ 99,967	\$ 35,400	\$ 135,367	\$ 260,231
Restricted cash and investments	435,329	-	435,329	240,068
Customer accounts receivable	175,021	8,786	183,807	556,968
Other receivables	87,729	-	87,729	698,250
Total Current Assets	<u>798,046</u>	<u>44,186</u>	<u>842,232</u>	<u>1,755,517</u>
<b>Deferred Charges</b>	6,517	-	6,517	8,440
<b>Capital Assets, Net</b>	<u>3,706,635</u>	<u>448,248</u>	<u>4,154,883</u>	<u>4,170,798</u>
Total Assets	<u>\$ 4,511,198</u>	<u>\$ 492,434</u>	<u>\$ 5,003,632</u>	<u>\$ 5,934,755</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Current portion of long-term liabilities	\$ 277,842	\$ -	\$ 277,842	\$ 270,088
Accounts payable and accrued liabilities	342,295	-	342,295	1,360,164
Due to other funds	1,644,641	12	1,644,653	919,000
Total Current Liabilities	<u>2,264,778</u>	<u>12</u>	<u>2,264,790</u>	<u>2,549,252</u>
<b>Current Liabilities Payable from Restricted Assets</b>				
Customer Deposits	347,749	-	347,749	240,068
<b>Long-Term Liabilities</b>				
Loans payable and installment loans payable	1,110,695	-	1,110,695	1,298,524
Accrued compensated absences	40,874	-	40,874	108,878
Total Long-Term Liabilities	<u>1,151,569</u>	<u>-</u>	<u>1,151,569</u>	<u>1,407,402</u>
Total Liabilities	<u>3,764,096</u>	<u>12</u>	<u>3,764,108</u>	<u>4,196,722</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	2,388,098	448,248	2,836,346	2,629,406
Restricted for debt service	87,580	-	87,580	-
Unrestricted net assets (deficit)	(1,728,576)	44,174	(1,684,402)	(891,373)
Total Net Assets	<u>747,102</u>	<u>492,422</u>	<u>1,239,524</u>	<u>1,738,033</u>
Total Liabilities and Net Assets	<u>\$ 4,511,198</u>	<u>\$ 492,434</u>	<u>\$ 5,003,632</u>	<u>\$ 5,934,755</u>

The notes to the financial statements are an integral part of this statement.

**City of North Bay Village, Florida**  
Statement of Revenues, Expenses and Changes in Net Assets  
Enterprise Funds  
For the Year Ended September 30, 2007  
(With Comparative Totals for September 30, 2006)

	<b>Business-Type Activities</b>		<b>Total</b>	
	<b>Enterprise Funds</b>			
	<b>Utility Fund</b>	<b>Stormwater Utility Fund</b>	<b>2007</b>	<b>2006</b>
<b>Operating Revenues</b>				
Sanitation charges	\$ 1,171,443	\$ -	\$ 1,171,443	\$ 1,061,380
Sewer charges	809,039	-	809,039	769,983
Metered water charges	758,658	-	758,658	736,913
Service fees and late penalties	38,921	2,772	41,693	554,307
Stormwater user fees	-	103,650	103,650	100,502
Total Operating Revenues	<u>2,778,061</u>	<u>106,422</u>	<u>2,884,483</u>	<u>3,223,085</u>
<b>Operating Expenses</b>				
Payroll and related expenses	999,289	5,754	1,005,043	987,375
Sewerage disposal fees	977,491	-	977,491	975,261
Materials, supplies, repairs and other	437,168	16,837	454,005	788,923
Water purchases	353,852	-	353,852	395,645
Solid waste disposal and recycling services	322,178	-	322,178	335,930
Provision for uncollected accounts receivable	213,723	4,811	218,534	381,377
Provision for depreciation and amortization	244,247	23,704	267,951	257,896
Total Operating Expenses	<u>3,547,948</u>	<u>51,106</u>	<u>3,599,054</u>	<u>4,122,407</u>
Operating Income (Loss)	(769,887)	55,316	(714,571)	(899,322)
<b>Non-Operating Revenues (Expenses)</b>				
Intergovernmental revenues	87,729	-	87,729	698,250
Contributions from developer	150,000	-	150,000	-
Interest income	22,032	-	22,032	22,677
Interest expense	(43,611)	(88)	(43,699)	(48,531)
Total Non-Operating Revenues (Expenses)	<u>216,150</u>	<u>(88)</u>	<u>216,062</u>	<u>672,396</u>
<b>Change in Net Assets</b>	(553,737)	55,228	(498,509)	(226,926)
<b>Net Assets at Beginning of Year</b>	1,300,839	437,194	1,738,033	1,964,959
<b>Net Assets at End of Year</b>	<u>\$ 747,102</u>	<u>\$ 492,422</u>	<u>\$ 1,239,524</u>	<u>\$ 1,738,033</u>

The notes to the financial statements are an integral part of this statement.

**City of North Bay Village, Florida**  
Statement of Cash Flows  
Enterprise Funds  
For the Year Ended September 30, 2007  
(With Comparative Totals for September 30, 2006)

	<u>Business-Type Activities</u>		<u>Total</u>	
	<u>Enterprise Funds</u>			
	<u>Utility Fund</u>	<u>Stormwater Utility Fund</u>	<u>2007</u>	<u>2006</u>
<b>Cash Flows from Operating Activities</b>				
Operating Income (Loss)	\$ (769,887)	\$ 55,316	\$ (714,571)	\$ (899,322)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Provision for depreciation and amortization	244,247	23,704	267,951	257,896
Provision for bad debt	213,723	4,811	218,534	381,377
Change in Assets and Liabilities				
Decrease (increase) in customer accounts receivable	159,266	(4,639)	154,627	(345,760)
Decrease (increase) in other receivables	610,521	-	610,521	(698,250)
Decrease (increase) in due to/from other funds	749,641	(23,988)	725,653	195,307
Increase (decrease) in accounts payable and accrued liabilities	(1,036,608)	(6,485)	(1,043,093)	929,595
Increase in customer deposits	107,681	-	107,681	38,264
Net Cash Provided by (Used in) Operating Activities	<u>278,584</u>	<u>48,719</u>	<u>327,303</u>	<u>(140,893)</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Purchase of capital assets	(250,113)	-	(250,113)	(944,604)
Cash received from loan proceeds	-	-	-	57,003
Grant revenues/contributions	237,729	-	237,729	698,250
Interest paid	(43,611)	(88)	(43,699)	(48,531)
Principal payments of long-term debt	(208,792)	(14,063)	(222,855)	(266,484)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(264,787)</u>	<u>(14,151)</u>	<u>(278,938)</u>	<u>(504,366)</u>
<b>Cash Flows From Investing Activities</b>				
Interest received	<u>22,032</u>	<u>-</u>	<u>22,032</u>	<u>22,677</u>
Net Increase (Decrease) in Cash and Cash Equivalents	35,829	34,568	70,397	(622,582)
Cash and Cash Equivalents at Beginning of Year	499,467	832	500,299	1,122,881
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 535,296</u>	<u>\$ 35,400</u>	<u>\$ 570,696</u>	<u>\$ 500,299</u>

The notes to the financial statements are an integral part of this statement.

# CITY OF NORTH BAY VILLAGE, FLORIDA

## Notes to Financial Statements

September 30, 2007

### **I. Summary of Significant Accounting Policies**

The financial statements of the City of North Bay Village, Florida (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

The City is located in Miami-Dade County, Florida and was incorporated in 1945 as a municipality under the laws of the State of Florida. The City operates under the Commission-Manager form of government, with the legislative function vested in a five member City Commission. The City provides the following services as authorized by its charter: general government, public safety, water and sewer, sanitation, public works, planning and zoning, building inspection, code enforcement, health and social services, culture and recreation.

#### **A. Reporting Entity**

In accordance with GASB pronouncements, the City's financial statements include all funds, departments, agencies, boards, and other organizations over which City officials are considered to be financially accountable.

Financial accountability includes such aspects as appointment of a component unit's governing body members, budget review, approval of property tax levies, outstanding debt secured by the full faith credit of the City or its revenue stream, and responsibility for funding deficits.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board. Based upon the application of these criteria, the City has no funds, agencies, boards, commissions and authorities considered potential component units.

#### **B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City. 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 identifiable activity. 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 identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

# CITY OF NORTH BAY VILLAGE, FLORIDA

## Notes to Financial Statements

September 30, 2007

### I. Summary of Significant Accounting Policies - (continued)

#### C. Basis of Presentation and Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues 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 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 all revenues available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred as required by accrual accounting, except for debt service expenditures and compensated absences, which are recorded when payment is due.

Property taxes, sales 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major *governmental* funds:

The ***general fund*** is the City'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 City also reports the following major *proprietary* funds:

The ***utility fund*** is used to account for the City's water and sewer utility system, which is financed and operated in a manner similar to private business enterprises. The intent of the City is that the costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

The ***stormwater utility fund*** is used to account for drainage services provided to the residents of the City, which are financed and operated in a manner similar to private business enterprises. The intent of the City is that the costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

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 also 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.



# CITY OF NORTH BAY VILLAGE, FLORIDA

## Notes to Financial Statements

September 30, 2007

### I. Summary of Significant Accounting Policies - (continued)

#### C. Basis of Presentation and Measurement Focus - (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

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

#### D. Assets, Liabilities, and Net Assets or Equity

##### 1. Deposits and Investments

Cash and cash equivalents are considered to be cash and short-term investments with original maturities of three months or less when purchased. The City's cash and cash equivalents include cash on hand, demand deposits, investments in money market funds and investments with the Local Government Surplus Funds Trust Fund administered by the State Board of Administration.

All investments of the City are recorded at fair value. For the purpose of the statement of cash flows for the proprietary funds, cash equivalents mean short-term, highly liquid investments with an original maturity of three months or less when purchased.

##### 2. Receivables and Payables

During the course of its operations, the City has numerous transactions to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions have not been paid or received as of September 30, balances of amounts receivable or payable have been reflected. Deferred revenues arise from the advance receipt of payment for services to be rendered in future years. Deferred revenues are amortized to income over the period the services are rendered.

#### *Interfund transactions*

As the City does not have any lending/borrowing arrangements between funds, all outstanding balances between funds are reported as "due to/from other funds". All amounts receivable from or payable to other funds are to be settled with expendable, available financial resources. Transactions which are recurring annual transfers between two or more funds are recorded as transfers in and out. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

# CITY OF NORTH BAY VILLAGE, FLORIDA

## Notes to Financial Statements

September 30, 2007

### I. Summary of Significant Accounting Policies - (continued)

#### D. Assets, Liabilities, and Net Assets or Equity - (continued)

##### 2. Receivables and Payables - (continued)

###### *Property Taxes*

Under Florida Law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of 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 10.0 mills. The tax rate to finance general governmental services for the fiscal year ended September 30, 2007 was \$6.098 per \$1,000 of assessed taxable property value. The rate of \$6.098 is allocated to the general fund and debt service fund, with the general fund receiving \$5.900, the debt service fund \$0.198.

The tax levy of the City is established by the City Commission prior to October 1 each year, and the County Property Appraiser incorporates the millage into the total tax levy, which includes Miami-Dade County, Miami-Dade County School Board and various special taxing districts. All property is reassessed according to its fair market value as of January 1 each year, at which time taxes become an enforceable lien on property. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the roll meets all of the appropriate requirements of State statutes. State of Florida Amendment #10 to the Florida Constitution known as "Save our Homes" limits assessment increases on homestead property to the lesser of 3% or the Consumer Price Index.

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. State law provides for enforcement of collection of personal property taxes by seizure of the property, by the sale of the property, or by the sale of interest bearing tax certificates to satisfy unpaid property taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

Following are the significant components of the accounts receivable due to the City at September 30, 2007. The City considers all amounts receivable in the governmental funds to be fully collectible; consequently, no allowance for doubtful accounts was estimated. An allowance of \$40,000 was deemed necessary for the proprietary funds.

1. Water, Sewer and Waste Fees - This amount represents the unpaid, billed charges for various fines and municipal services related to the City's utility billing;
2. Fines and Assessments - This amount represents the unpaid, billed charges for various fines and assessments levied for violations of various City code provisions;
3. Delinquent Taxes Receivable - This amount represents the amount of levied but uncollected delinquent property taxes outstanding at September 30, 2007;
4. Franchise and Other Taxes - This amount represents tax revenues earned but not collected until subsequent to year end; and
5. Government Grants/Contributions - This amount represents amounts due from grantor agencies and/or governmental agencies at year end.

CITY OF NORTH BAY VILLAGE, FLORIDA

Notes to Financial Statements

September 30, 2007

**I. Summary of Significant Accounting Policies - (continued)**

**D. Assets, Liabilities, and Net Assets or Equity - (continued)**

**3. Prepaid Items**

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

**4. Restricted Assets**

Certain resources set aside for the repayment of certain debt are classified as restricted assets on the statements of net assets or the balance sheet because their use is limited by applicable loan covenants. Additionally, some monies received are restricted for specific uses and the City reports amounts paid by customers for water and sewer deposits as restricted assets.

**5. Capital Assets**

Capital assets, which include land, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, and infrastructure assets (e.g., sidewalks and other similar items grouped within buildings and improvements and improvements other than buildings), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$750 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.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose not to include such items until after the implementation of GASB 34 in fiscal year 2004. As the government constructs or acquires additional capital assets each period, including infrastructure assets after 2004, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

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

	<u>Years</u>
<b>Governmental Activities:</b>	
Buildings and Improvements	30
Vehicles	5
Machinery and Equipment	3-5
<b>Business-Type Activities:</b>	
Improvements other than Buildings	30
Equipment and Vehicles	3-5

CITY OF NORTH BAY VILLAGE, FLORIDA  
*Notes to Financial Statements*  
September 30, 2007

**I. Summary of Significant Accounting Policies - (continued)**

**D. Assets, Liabilities, and Net Assets or Equity - (continued)**

**6. Compensated Absences**

City employees are granted vacation, sick and compensatory leave in varying amounts based on length of service. Upon separation in good standing, employees receive full reimbursement for accumulated vacation and compensatory hours, as well as reimbursement for sick hours at a rate of one hour of pay for every two hours accumulated. All vacation pay is accrued when incurred in the government-wide and proprietary funds and reported as a fund liability. The current portion of this obligation is estimated based on historical trends. Compensated absences that are expected to be liquidated with expendable available financial resources are reported as expenditures and a fund liability of the applicable governmental fund.

**7. Unearned Revenue**

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. Unearned revenues at the government-wide level arise only when the City receives resources before it has a legal claim to them.

**8. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types 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 propriety fund type statement of net assets. Bond discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond discounts. Bond issuance costs, if any, are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Payments of principal and interest are reported as debt service expenditures.

**9. Fund Equity**

In the government-wide financial statements, equity is classified as net assets and is displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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 third-parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF NORTH BAY VILLAGE, FLORIDA

Notes to Financial Statements

September 30, 2007

**I. Summary of Significant Accounting Policies - (continued)**

**D. Assets, Liabilities, and Net Assets or Equity** - (continued)

**10. Total Columns**

Total columns on the financial statements are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with U.S. generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data. Also, certain amounts have been reclassified in order to be consistent with the current year's presentation.

**11. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, actual results may ultimately differ from those estimates.

**E. New Pronouncements**

During 2006 and 2007 GASB issued the following new pronouncements, none of which came into effect for fiscal year ended September 30, 2007. The City did not elect to early implement any of the newly issued pronouncements:

<u>GASB Statement No. 51</u>	Accounting and Financial Reporting for Intangible Assets
<u>GASB Statement No. 50</u>	Pension Disclosures—an amendment of <u>GASB Statements No. 25</u> and <u>No. 27</u>
<u>GASB Statement No. 49</u>	Accounting and Financial Reporting for Pollution Remediation Liabilities
<u>GASB Statement No. 48</u>	Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues

In June 2007 GASB issued GASB Concepts Statement No. 4, Elements of Financial Statements, establishing definitions for the seven elements of historically based financial statements of state and local governments. Elements are the fundamental components of financial statements. The elements of a statement of financial position are defined as follows:

- Assets are resources with present service capacity that the government presently controls.
- Liabilities are present obligations to sacrifice resources that the government has little or no discretion to avoid.
- A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period.
- A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period.
- Net position is the residual of all other elements presented in a statement of financial position.

CITY OF NORTH BAY VILLAGE, FLORIDA  
*Notes to Financial Statements*  
 September 30, 2007

**I. Summary of Significant Accounting Policies - (continued)**

**E. New Pronouncements - (continued)**

The elements of the resource flows statements are defined as follows:

- An outflow of resources is a consumption of net assets by the government that is applicable to the reporting period.
- An inflow of resources is an acquisition of net assets by the government that is applicable to the reporting period.

**II. Reconciliation of Government-Wide and Fund Financial Statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.” The details of this \$2,368,389 difference are as follows:

Land	\$	629,515
Buildings and Improvements		1,785,031
Vehicles		989,555
Machinery and Equipment		1,588,742
		4,992,843
Less: Accumulated Depreciation		2,624,454
		\$ 2,368,389

Another element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$1,490,907 difference are as follows:

General obligation bonds	\$	350,000
Capital leases		151,107
Compensated absences		989,800
		\$ 1,490,907

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures.” However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and is reported as depreciation expense. Another element that requires reconciliation is the principal payment of long-term liabilities, including notes payable, which are in part a reduction of notes payable in the government-wide financial statements, and not a use of financing resources in the current period. The details of these \$143,268 differences are in page 13 of the financial statements.

# CITY OF NORTH BAY VILLAGE, FLORIDA

## Notes to Financial Statements

September 30, 2007

### III. Stewardship, Compliance, and Accountability

#### A. Budgetary Information

The City legally adopts annual budgets for the general fund, all of the special revenue funds, and the utility funds. The budgets are prepared on a basis consistent with accounting principles generally accepted in the United States. At least 45 days prior to the close of the fiscal year, the City Commission is presented with a proposed budget including proposed expenditures and the means of financing them. After Commission review and public hearings, the budget is adopted prior to October 1. Budgets are approved on a fund-by-fund basis and management may transfer amounts between line items or departments as long as the transfer does not amount to more than 5% of the total budget of each department. All other budgetary transfers must be approved by resolution of the City Commission. Expenditures may not legally exceed appropriations at the departmental level.

Budgets are considered a management control and planning tool and as such are incorporated into the accounting system of the City. The City Commission, by motion, may make supplemental appropriations for the year up to the amount of revenues in excess of those estimated. Appropriations not encumbered lapse at year-end. The Commission amended the budget through a budget amendment dated September 11, 2007.

Encumbrance accounting, under which purchase order commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances, since they do not constitute expenditures or liabilities of the applicable fund.

#### B. Excess of Expenditures over Appropriations

For the year ended September 30, 2007, general fund expenditures had a negative variance with the final budget in the following departments, which was covered by appropriations from reserves:

Public Safety	\$	91,994
General Government:		
City Commission	\$	746
City Clerk	\$	4,888
Nondepartmental	\$	110,443

#### Budgetary Basis/GAAP Basis

The schedules of revenues and expenditures - budget and actual are prepared on a budgetary basis to account for encumbered items at year end. The statement of revenues, expenditures and changes in fund balance are prepared on a GAAP basis and therefore does not include encumbered items. The City did not have any material encumbrances outstanding as of September 30, 2007 in the general fund; as a result a reconciliation of budgetary basis to GAAP basis is not necessary.

#### C. Deficit Fund Equity

As of September 30, 2007, the City has an unreserved, undesignated deficit fund balance in the debt service fund. The City plans to eliminate this deficit in the ensuing fiscal year.

The City's utility fund is reporting negative unrestricted net assets which was caused by lack of revenues and increasing costs. The City's management is constantly monitoring the utility system's financial condition, and efforts to reduce costs and increase revenues are always explored.

# CITY OF NORTH BAY VILLAGE, FLORIDA

## Notes to Financial Statements

September 30, 2007

### IV. Detailed Notes on all Funds

#### A. Deposits and Investments

In March 2003, the GASB issued Statement No. 40, Deposits and Investment Risks Disclosures (“GASB 40”), which amends GASB No. 3, Deposits with Financial Institutions, Investment (including Repurchase Agreements), and Reverse Purchase Agreements, and addresses additional risks to which governments are exposed. GASB 40 is designed to inform financial statement users about deposit and investment risk that could affect a government’s ability to provide services and meet its obligations as they become due.

GASB 40 addresses common deposit and investment risk related to credit risk, custodial credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk and requires that deposit and investment policies related to the risk be disclosed as follows:

#### Deposits

The City maintains a cash management pool for its cash and cash equivalents in which each fund and/or account of a fund participates on a dollar equivalent and daily transaction basis. Interest income is distributed monthly based on a monthly average balance.

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 every qualified public depository to deposit with the Treasurer or another banking institution eligible collateral equal to or in excess of the required collateral of the depository. The Treasurer, by rule, shall establish minimum required collateral pledging levels and shall notify each qualified public depository of its required pledging level. Each qualified public depository shall calculate the amount of its required collateral based upon any one or any combination of the formulas allowable under this Chapter. 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. The City’s deposits include cash with a reported amount of \$390,142 and a bank balance of \$523,620. The difference between the City's reported amount and the bank balance is due to outstanding checks and deposits in transit in these demand accounts.

#### Restricted Cash and Investments

Restricted cash and investments consist of police forfeitures, accounted for in the Federal Forfeiture and State Forfeiture Special Revenue Funds, and monies received for transportation and park improvements. These funds are restricted for specific uses. The City maintains investments reserves as required by long-term debt covenants in the Utility Fund. Customer deposits held in the Utility Fund are also restricted.

Restricted cash and investments at September 30, 2007 were as follows:

Revolving state loans - State of Florida	\$ 87,580
Transportation	352,193
Park improvements	128,509
Federal and local forfeiture funds	211,664
Water and sewer customer deposits	<u>347,749</u>
	<u>\$ 1,127,695</u>



**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Notes to Financial Statements*  
*September 30, 2007*

**IV. Detailed Notes on all Funds - (continued)**

**A. Deposits and Investments - (continued)**

Investments

As required by Florida Statutes, the City has adopted an investment policy designating the investments which are allowable of its cash management activities. The authorized investments include US bonds and obligations, fully insured or collateralized certificates of deposit, Securities and Exchange Commission ("SEC") registered money market funds, bankers acceptances, reverse repurchase agreements, local government investment pools and certain mutual funds registered with the SEC and the Local Government Surplus Funds Trust Fund (administered by the State of Florida Board of Administration). The investments follow the investment rules defined in Florida Statutes Chapter 215. The investment policy defined in the statutes attempts to promote, through state assistance, the maximization of net interest earnings on invested surplus funds of local units of governments while limiting the risk to which the funds are exposed.

The City has investments in a collective pool managed by the State of Florida Board of Administration ("SBA"). These investments are stated at amortized cost which approximates fair value of the pool shares. At September 30, 2007 the carrying amount and fair value of these investments amounted to \$1,225,387 (See Note IV-K - Subsequent Events). The SBA is part of the Local Government Surplus Funds Trust Fund and is governed by Ch. 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the State of Florida Office of the Auditor General performs the operational audit of the activities and investments of the SBA. The fair value of the position in the external investment pool is the same as the value of the pool shares. The Local Government Surplus Funds Trust Fund is not a registrant with the SEC, however, the board has adopted operating procedures consistent with the requirements for a 2a-7 fund.

At September 30, 2007, the City has investments in the Financial Investors Trust American Freedom United States Government Money Market Fund amounting to \$701,876, as well as \$510,947 in non-negotiable certificates of deposit.

Credit risk

Investments in the SBA Investment Pool are not rated and the United States Government Money Market Fund has a rating of AAA<sub>m</sub>.

Interest Rate Risk

Interest rate risk is the risk that as market rates change, the fair value of an investment will vary. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rate. Florida statutes state that the investment portfolio be structured in such a manner as to provide sufficient liquidity to pay obligations as they come due. The SBA Investment Pool has a weighted average maturity of 26 days and the United States Government Money Market Fund has a weighted average maturity of 29 days.

Concentration of credit risk

GASB 40 requires disclosure when investments are more than 5% in any one issuer. All investments held by the City are exempt from this requirement.

Custodial credit risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments are exposed to custodial credit risk.

**CITY OF NORTH BAY VILLAGE, FLORIDA**

*Notes to Financial Statements*

*September 30, 2007*

**IV. Detailed Notes on all Funds - (continued)**

**B. Receivables**

Accounts receivable at September 30, 2007 are summarized as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Enterprise Funds</u>	<u>Total</u>
Franchise and other taxes	\$ 275,741	\$ 49,031	\$ -	\$ 324,772
Government grants/contributions	-	-	87,729	87,729
Customers and other	28,521	-	183,807	212,328
	<u>\$ 304,262</u>	<u>\$ 49,031</u>	<u>\$ 271,536</u>	<u>\$ 624,829</u>

**C. Capital Assets**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 629,515	\$ -	\$ -	\$ 629,515
Total capital assets not being depreciated	<u>629,515</u>	<u>-</u>	<u>-</u>	<u>629,515</u>
Capital assets, being depreciated				
Buildings and improvements	1,647,524	137,507	-	1,785,031
Vehicles	1,220,696	212,276	443,417	989,555
Machinery and equipment	1,322,051	266,691	-	1,588,742
Total capital assets being depreciated	<u>4,190,271</u>	<u>616,474</u>	<u>443,417</u>	<u>4,363,328</u>
Less accumulated depreciation for:				
Buildings and improvements	925,070	106,348	-	1,031,418
Vehicles	829,612	140,986	443,417	527,181
Machinery and equipment	900,791	165,064	-	1,065,855
Total accumulated depreciation	<u>2,655,473</u>	<u>412,398</u>	<u>443,417</u>	<u>2,624,454</u>
Total capital assets, being depreciated, net	<u>1,534,798</u>	<u>204,076</u>	<u>-</u>	<u>1,738,874</u>
Governmental activities capital assets, net	<u>\$ 2,164,313</u>	<u>\$ 204,076</u>	<u>\$ -</u>	<u>\$ 2,368,389</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated				
Improvements other than buildings	\$ 6,319,094	\$ 250,113	\$ -	\$ 6,569,207
Equipment and vehicles	1,209,360	-	-	1,209,360
Total capital assets being depreciated	<u>7,528,454</u>	<u>250,113</u>	<u>-</u>	<u>7,778,567</u>
Less accumulated depreciation for:				
Improvements other than buildings	2,257,066	210,703	-	2,467,769
Equipment and vehicles	1,100,590	55,325	-	1,155,915
Total accumulated depreciation	<u>3,357,656</u>	<u>266,028</u>	<u>-</u>	<u>3,623,684</u>
Business-type activities capital assets, net	<u>\$ 4,170,798</u>	<u>\$ (15,915)</u>	<u>\$ -</u>	<u>\$ 4,154,883</u>

**CITY OF NORTH BAY VILLAGE, FLORIDA**

*Notes to Financial Statements*

*September 30, 2007*

**IV. Detailed Notes on all Funds - (continued)**

**C. Capital Assets - (continued)**

Depreciation expense for the fiscal year ended September 30, 2007 was charged to functions/programs as follows:

**Governmental Activities:**

General Government	\$	45,364
Public Safety		185,578
Public Works		123,720
Parks and Recreation		37,116
Building, Planning and Zoning		20,620
Total depreciation expense - governmental activities	\$	<u>412,398</u>

**Business-Type Activities:**

Water and Sewer Systems	\$	242,324
Stormwater Utility		23,704
Total depreciation expense - business-type activities	\$	<u>266,028</u>

**D. Interfund Receivables, Payables and Transfers**

Due from and to other funds at September 30, 2007 are summarized as follows:

	<u>Due From Other</u>	<u>Due To Other</u>
General Fund	\$ 1,507,634	\$ -
Special Revenue Funds:		
State Forfeiture	-	70,695
Parks Improvement	225,559	-
Debt Service Fund	-	17,845
Enterprise Funds:		
Utility	-	1,644,641
Stormwater Utility	-	12
	<u>\$ 1,733,193</u>	<u>\$ 1,733,193</u>

These balances result from the time lag between the dates (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments are actually made between funds.

**CITY OF NORTH BAY VILLAGE, FLORIDA**

*Notes to Financial Statements*

*September 30, 2007*

**IV. Detailed Notes on all Funds - (continued)**

**E. Long-Term Debt**

The following is a summary of changes in debt for the year ended September 30, 2007:

**Governmental Activities:**

	<u>October 1, 2006</u>	<u>Additions</u>	<u>Payments</u>	<u>September 30, 2007</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 455,000	\$ -	\$ 105,000	\$ 350,000	\$ 110,000
Capital leases	79,037	143,342	71,272	151,107	37,981
Compensated absences	931,048	509,334	450,582	989,800	450,000
Total governmental activities debt	<u>\$ 1,465,085</u>	<u>\$ 652,676</u>	<u>\$ 626,854</u>	<u>\$ 1,490,907</u>	<u>\$ 597,981</u>

**Business-type Activities:**

	<u>October 1, 2006</u>	<u>Additions</u>	<u>Payments</u>	<u>September 30, 2007</u>	<u>Due Within One Year</u>
Revolving state loans	\$ 1,432,118	\$ -	\$ 170,077	\$ 1,262,041	\$ 174,909
Loan payable	14,063	-	14,063	-	-
Capital leases	95,211	-	38,715	56,496	32,933
Compensated absences	136,098	41,684	66,908	110,874	70,000
Total business-type activities debt	<u>\$ 1,677,490</u>	<u>\$ 41,684</u>	<u>\$ 289,763</u>	<u>\$ 1,429,411</u>	<u>\$ 277,842</u>

Combined aggregate maturities for all long-term debt, excluding compensated absences, for each of the next five years and to maturity are as follows:

Year Ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 355,823	\$ 61,916	\$ 417,739
2009	345,283	48,465	393,748
2010	363,040	34,912	397,952
2011	218,015	20,480	238,495
2012	192,249	15,387	207,636
Thereafter	345,234	31,999	377,233
	<u>\$ 1,819,644</u>	<u>\$ 213,159</u>	<u>\$ 2,032,803</u>

Governmental Activities

The City's \$1,445,000 General Obligation Bonds Series 1991 provide for annual maturities due on May 1, with semi-annual interest payments due on May 1 and November 1. Interest paid on the bonds ranges from 4.5% to 6.5% depending upon maturity dates. These bonds mature in May 2010.

During fiscal year 2006, the City entered into a capital lease agreement to purchase nine vehicles in the amount of \$124,260. The lease is allocated between the governmental funds and the enterprise funds at an amount of \$67,257 and \$57,003, respectively. The lease requires annual payments of \$27,483, including interest at 5.25% until December 2009. The balance outstanding at September 30, 2007, which is attributable to the governmental funds, is \$39,925.

CITY OF NORTH BAY VILLAGE, FLORIDA

Notes to Financial Statements

September 30, 2007

IV. Detailed Notes on all Funds - (continued)

E. Long-Term Debt - (continued)

Governmental Activities - (continued)

During fiscal year 2007, the City entered into a capital lease agreement to purchase five vehicles in the amount of \$143,342. The lease requires annual payments of \$32,160, including interest at 6.10% until April 2011. The balance outstanding at September 30, 2007 is \$111,182.

Business-Type Activities

**Revolving state loans**

The City has three separate state revolving loan agreements with the Department of Environmental Protection. The loans provided for funding for various sewer improvement projects on a cost reimbursement basis. Pursuant to the terms of the individual agreements, the City began making semi-annual principal and interest payments on the loans one year subsequent to the completion of the projects. The City is required to pledge revenues equal to 1.15 times the sum of the semi-annual payments due in any fiscal year, and must maintain an amount equal to or greater than five-sixths of the semi-annual payment in a depository account. The significant terms of the loans are as follows:

Revolving state loan of \$282,370 dated March 17, 1995; interest rate of 3.79%. As an amendment to the original loan, in June 1997 the City was awarded an additional \$1,597,000 at an interest rate of 2.7%. The City makes semi-annual principal and interest payments of \$63,378 on March 15 and September 15. The loan matures on September 15, 2018 and is collateralized by water and sewer revenues. \$ 664,070

Revolving state loan of \$755,000; interest rate of 2.9%. The City makes semi-annual principal and interest payments of \$23,507 on March 15 and September 15. The loan matures on September 15, 2016 and is collateralized by water and sewer revenues. 368,582

Revolving state loan of \$380,000 dated September 30, 1993; interest rate of 2.7%. As an amendment to the original loan, in October 1994 the City was awarded an additional \$188,000 at an interest rate of 3.24%. The City makes semi-annual principal and interest payments of \$18,211 on January 1 and July 1. The loan matures on July 1, 2014 and is collateralized by water and sewer revenues. 229,389

**Capital leases**

In April 2003, the City entered into a lease agreement for a Mack truck in the amount of \$137,469, with an annual interest rate of 3.1%. Lease payments of \$7,446, including interest, are made quarterly. The lease matures in April 2008. 21,998

During fiscal year 2006, the City entered into a capital lease agreement to purchase nine vehicles in the amount of \$124,260. The lease is allocated between the governmental funds and the enterprise funds at an amount of \$67,257 and \$57,003, respectively. The lease requires annual payments of \$27,483, including interest at 5.25% until December 2009.

34,498  
\$ 1,318,537

**CITY OF NORTH BAY VILLAGE, FLORIDA**

*Notes to Financial Statements*

*September 30, 2007*

**IV. Detailed Notes on all Funds - (continued)**

**F. Segment Information for Enterprise Funds**

The City maintains two enterprise funds. Segment information for the year ended September 30, 2007 is as follows:

	Utility Fund	Stormwater Utility Fund	Total
Operating revenues	\$ 2,778,061	\$ 106,422	\$ 2,884,483
Depreciation and amortization	244,247	23,704	267,951
Operating income (loss)	(769,887)	55,316	(714,571)
Operating transfers			
In	-	-	-
(Out)	-	-	-
Net income (loss)	(553,737)	55,228	(498,509)
Property and equipment			
Additions	250,113	-	250,113
Deletions	-	-	-
Net working capital	(1,814,482)	44,174	(1,770,308)
Total assets	4,511,198	492,434	5,003,632
Long-term debt payable from operating revenue	1,429,411	-	1,429,411
Total fund equity	\$ 747,102	\$ 492,422	\$ 1,239,524

**G. Employee Retirement Plans**

**Florida Retirement System**

The City participates in the Florida Retirement System (the "System"), a multiple-employer cost sharing Public Employee Retirement System ("PERS"). The Division of Retirement, Department of Administration of the State of Florida administers the System. All rates, benefits and amendments are established by the State of Florida through its legislative body. Employees of the City who are employed in a full-time or part-time regularly established position participate in the System. The City's payroll for employees covered by the System for the year ended September 30, 2007 was approximately \$2.75 million.

The System has various classes of memberships. City employees fall under "Regular Class," which consists of members of the System who do not qualify for membership in the Special Risk, Special Risk Administrative Support, Elected Officers', or Senior Management Service Classes.

Normal retirement for the Regular, Elected Officers', and Senior Management Service Class is at 6 years of credited service and age 62 or at 30 years of credited service, regardless of age. Normal retirement for the Special Risk Class (police) is at 6 years of credited service and age 55 or at 25 years of credited service, regardless of age. Service retirement benefits are computed on the basis of age and/or years of service, average final compensation (the average of the five highest fiscal years' earnings), and service credit.

Benefits vest after six years of credited service. Early retirement may be taken any time after vesting; however, there is a five percent benefit reduction for each year prior to normal retirement age or date. The System also provides disability and survivor benefits. Benefits are established by State statute.

**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Notes to Financial Statements*  
*September 30, 2007*

**IV. Detailed Notes on all Funds - (continued)**

**G. Employee Retirement Plans - (continued)**

**Florida Retirement System - (continued)**

Funding Policy

Employees cannot contribute to the System. The City is required by statute to contribute 9.85%, 13.12% and 20.92% of salaries for regular, senior management and special risk members, respectively. Total contributions for the year ended September 30, 2007 were approximately \$480,730. Employees within 5 years of retirement may elect to participate in the Deferred Retirement Option Program ("DROP"). The DROP allows an employee to retire while continuing employment, for a maximum of 60 months, and defer their monthly retirement benefit to an interest-bearing account. The City contributes 9.80% of salaries for participants of the DROP. During 2007 the City had no employees participating in this program.

Actuarial Accrued Liability

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to indicate the System's funding status on a going concern basis, assets progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers. The System does not make separate measurements of assets and pension benefit obligations of participating employers.

The actuarial liability, which is the actuarial present value of credited projected benefits, is a standardized disclosure measurement of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The actuarial accrued liability at June 30, 2007 for the System as a whole, determined through an actuarial valuation update performed as of that date, was approximately \$119 billion. The System's valuation assets were \$125.6 billion, leaving an over-funded actuarial accrued liability of approximately \$6.6 billion. The City's fiscal year 2007 contributions represented approximately .02 percent of total contributions required of all participating entities. Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2007 annual report.

**Section 401 Defined Contribution Plan**

Department Heads

The City previously adopted a defined contribution plan in accordance with Internal Revenue Code Section 401(a). The Plan provides a retirement program for each of the department heads. Covered employees are eligible upon employment with the City. The 401(a) Plan provides for required employer and employee contributions of 15% and 5.5% of employee earnings for the Plan year, respectively.

Employer contributions vest ratably over five years based on the participant's hire date. In addition, the Plan allows for loans of up to 50% of the participant's vested balance. Plan amendments must be approved by the City Commission. The City contributed \$76,863 for the year ended September 30, 2007. The Plan is held in trust for the exclusive benefit of the participants and their beneficiaries. Consequently, the City has no fiduciary responsibility; therefore, the net assets of the Plan are not included in the City's financial statements.

# CITY OF NORTH BAY VILLAGE, FLORIDA

## Notes to Financial Statements

September 30, 2007

### IV. Detailed Notes on all Funds - (continued)

#### G. Employee Retirement Plans - (continued)

##### Section 401 Defined Contribution Plan - (continued)

###### General Employees

The City previously adopted a defined contribution plan in accordance with Internal Revenue Code Section 401(a). In a prior year, the City terminated its defined benefit plan (Note IV-J-2) and the balances for all active employees were rolled over into the defined contribution plan. The Plan provides a retirement program for all general employees. Covered employees are eligible upon employment with the City. The 401(a) Plan provides for required employer and employee contributions of 13.5% and 5.5% of employee earnings for the Plan year, respectively.

Employer contributions vest ratably after three years of service through year seven based on the participant's hire date. In addition, the Plan allows for loans of up to 50% of the participant's vested balance. Plan amendments must be approved by the City Commission. The City contributed \$62,361 for the year ended September 30, 2007. The Plan is held in trust for the exclusive benefit of the participants and their beneficiaries. Consequently, the City has no fiduciary responsibility; therefore, the net assets of the Plan are not included in the City's financial statements.

#### H. Fund Equity

##### Reservations of Fund Balance include the following:

1. Reserve for Transportation - This amount represents the amount of fund equity in the transportation fund which is to be used only for specific transportation related expenditures;
2. Reserve for Park Improvements - This amount represents the amount of fund equity in the parks improvement fund which is to be used only for specific park improvement related expenditures;
3. Reserve for Law Enforcement - This amount represents the amount of fund equity in the state forfeiture fund and federal forfeiture fund which is to be used only for specific law enforcement related expenditures;

##### Restrictions of Net Assets include the following:

1. Restricted for Debt Service - This is the amount of net assets in the utility fund that is to be used solely for the repayment of outstanding debt as established by the related loan documents.

#### I. 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, and natural disasters for which the City carries commercial insurance. There were no significant reductions in insurance coverage from coverage in the prior year and there were no settlements that exceeded insurance coverage for each of the past three years. The City provides employee medical benefits through commercial insurance coverage.

#### J. Commitments and Contingencies

1. The City is involved in various proceedings involving certain claims which the City believes to be covered by its general liability insurance policies. In the opinion of management and its legal counsel, the outcome of these claims should not have a significant impact on the City's financial condition.



**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Notes to Financial Statements*  
*September 30, 2007*

**IV. Detailed Notes on all Funds - (continued)**

**J. Commitments and Contingencies - (continued)**

2. On September 15, 1998, the City adopted Resolution No. 98-17 providing for a final and total distribution of the defined benefit retirement system assets and termination of the Plan. The City terminated the Plan and rolled over all active employee balances into a new 401(a) defined contribution plan for general employees (Note IV-G). All except seven of the Plan's participants chose to receive lump sum distributions for their retirement benefits. The seven participants opted to continue to receive their monthly benefit payments. During 1999, the City purchased annuity contracts from an insurance company for those participants. The City remains contingently liable to the seven participants in the case of default by the insurance company.
3. The City receives grants from governmental agencies that require compliance with certain provisions stated in the grant agreements. Failure to comply with the provisions could result in the return of funds to the grantors. Although that is a possibility, management of the City deems the contingency remote since, in its opinion, the City has complied in all material respects with the provisions of the grants.
4. The City does not provide post-retirement benefits to retired employees.
5. The City is obligated on an operating lease for the rental of an office facility which is payable monthly through February 2009. Monthly payments through the end of the lease term amount to \$12,171. Total expense in connection with this lease amounted to approximately \$126,000 for the year ended September 30, 2007. Future minimum lease payments for the remainder of the lease approximate \$146,000 per year.

**K. Subsequent Events**

As discussed in Note IV-A, at September 30, 2007, the City had \$1,225,387 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool ("Pool"). On November 29, 2007, the State Board of Administration ("SBA") implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the Fund coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub-prime mortgage risk. On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A consisted of all money market appropriate assets, which was approximately \$12 billion or 86% of Pool assets. Pool B consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately \$2 billion or 14% of Pool assets. At the time of the restructuring, the City had its existing balances proportionately allocated into Pool A and Pool B.

Currently, Pool A participants may withdraw 15% of their balance or \$2 million, whichever is greater, without penalty. Withdrawals from Pool A in excess of the above limit are subject to 2% redemption fee. New investments in Pool A are not subject to the redemption fee or withdrawal restrictions. Future withdrawal provisions from Pool A will be subject to further evaluation based on the maturities of existing investments and the liquidity requirements of the Pool. On December 12, 2007, Standard and Poor's Ratings Services assigned its AAA<sub>m</sub> principal stability fund rating to Pool A.

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

As of March 31, 2008, the City has \$70,668 and \$108,487 invested in Pool A and B, respectively. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

**REQUIRED SUPPLEMENTARY INFORMATION (OTHER THAN MD&A)**

**City of North Bay Village, Florida**  
Statement of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual - Budgetary Basis  
General Fund  
For the Year Ended September 30, 2007

	<b>General Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
			<b>(Budgetary Basis)</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues</b>				
Taxes	\$ 4,453,375	\$ 4,453,375	\$ 4,381,871	\$ (71,504)
Licenses and permits	928,330	928,330	486,896	(441,434)
Franchise fees	369,500	369,500	395,585	26,085
Intergovernmental revenue	926,300	926,300	1,038,602	112,302
Charges for services	14,500	14,500	23,766	9,266
Fines and forfeitures	27,000	27,000	47,245	20,245
Interest income	80,000	80,000	187,963	107,963
Other	200,000	200,000	86,964	(113,036)
Total revenues	<u>6,999,005</u>	<u>6,999,005</u>	<u>6,648,892</u>	<u>(350,113)</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	2,043,955	1,923,644	1,995,886	(72,242)
Public safety	3,859,935	3,859,935	3,951,929	(91,994)
Public works	369,185	429,496	413,253	16,243
Building, planning and zoning	731,330	731,330	694,002	37,328
Parks and recreation	44,600	104,600	80,930	23,670
Total expenditures	<u>7,049,005</u>	<u>7,049,005</u>	<u>7,136,000</u>	<u>(86,995) **</u>
Excess (deficiency) of revenues over (under) expenditures	(50,000)	(50,000)	(487,108)	(437,108)
<b>Other Financing Sources (Uses)</b>				
Proceeds from equipment installment obligations	-	-	143,342	143,342
Operating transfers in	263,885	263,885	-	(263,885)
Operating transfers (out)	(213,885)	(213,885)	-	213,885
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u>143,342</u>	<u>93,342</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (343,766)</u>	<u>\$ (343,766)</u>

\*\* The City appropriated \$100,000 of unreserved fund balance to fund the overexpenditures (see page 37).

The notes to the financial statements are an integral part of this statement.

**City of North Bay Village, Florida**  
Schedule of Revenues - Budget and Actual  
General Fund  
For the Year Ended September 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Taxes</b>			
Property taxes, including penalties and interest	\$ 4,069,375	\$ 4,036,863	\$ (32,512)
Utility service taxes	384,000	345,008	(38,992)
	<u>4,453,375</u>	<u>4,381,871</u>	<u>(71,504)</u>
<b>Licenses and Permits</b>			
City occupational licenses	102,000	68,884	(33,116)
Building permits	826,330	418,012	(408,318)
	<u>928,330</u>	<u>486,896</u>	<u>(441,434)</u>
<b>Franchise Fees</b>			
Electric	320,000	349,850	29,850
Gas	25,000	24,897	(103)
U.S. postal service	18,500	18,499	(1)
Solid waste	6,000	-	(6,000)
Sanitation	-	2,339	2,339
	<u>369,500</u>	<u>395,585</u>	<u>26,085</u>
<b>Intergovernmental</b>			
Local 1/2 cent sales tax	390,000	427,413	37,413
Communication service tax	240,000	259,989	19,989
State revenue sharing	180,000	188,934	8,934
Alcohol beverage licenses	6,000	7,401	1,401
Causeway maintenance	10,300	5,293	(5,007)
Local option gas tax	100,000	110,116	10,116
Federal grants	-	39,456	39,456
	<u>926,300</u>	<u>1,038,602</u>	<u>112,302</u>
<b>Charges for Services</b>			
Record research and review	10,000	14,592	4,592
Passport fees	3,000	4,274	1,274
State law enforcement program	-	2,740	2,740
Advertising/bus stop	1,500	2,160	660
	<u>14,500</u>	<u>23,766</u>	<u>9,266</u>
<b>Fines and Forfeitures</b>			
	27,000	47,245	20,245
<b>Interest Income</b>			
	80,000	187,963	107,963
<b>Other</b>			
Reimbursement - management	100,000	-	(100,000)
Miscellaneous	-	86,964	86,964
Appropriation of fund balance	100,000	-	(100,000) **
	<u>200,000</u>	<u>86,964</u>	<u>(113,036)</u>
Total Revenues	<u>\$ 6,999,005</u>	<u>\$ 6,648,892</u>	<u>\$ (350,113)</u>

\*\* The City appropriated \$100,000 of unreserved fund balance to fund the overexpenditures (see page 36).

**City of North Bay Village, Florida**  
Schedule of Expenditures - Budget and Actual  
General Fund  
For the Year Ended September 30, 2007

	<u>Budget</u>	<u>Actual</u>	<b>Variance Favorable (Unfavorable)</b>
<b>General Government</b>			
<b>City Commission</b>			
Personal services	\$ 31,570	\$ 31,652	\$ (82)
Operating expenditures	32,700	35,864	(3,164)
Capital outlay	2,500	-	2,500
	<u>66,770</u>	<u>67,516</u>	<u>(746)</u>
<b>City Manager</b>			
Personal services	329,245	328,860	385
Operating expenditures	36,250	33,152	3,098
	<u>365,495</u>	<u>362,012</u>	<u>3,483</u>
<b>City Clerk</b>			
Personal services	163,290	163,826	(536)
Operating expenditures	47,465	52,817	(5,352)
Capital outlay	1,000	-	1,000
	<u>211,755</u>	<u>216,643</u>	<u>(4,888)</u>
<b>Finance</b>			
Personal services	131,400	127,320	4,080
Operating expenditures	19,370	18,485	885
	<u>150,770</u>	<u>145,805</u>	<u>4,965</u>
<b>City Attorney</b>			
Operating expenditures	<u>192,000</u>	<u>156,613</u>	<u>35,387</u>
<b>Nondepartmental</b>			
Personal services	33,805	28,889	4,916
Operating expenditures	835,049	900,408	(65,359)
Capital outlay	68,000	118,000	(50,000)
	<u>936,854</u>	<u>1,047,297</u>	<u>(110,443)</u>
Total General Government	<u>\$ 1,923,644</u>	<u>\$ 1,995,886</u>	<u>\$ (72,242)</u>

**City of North Bay Village, Florida**  
Schedule of Expenditures - Budget and Actual  
General Fund  
For the Year Ended September 30, 2007

	<u>Budget</u>	<u>Actual</u>	<b>Variance Favorable (Unfavorable)</b>
<b>Public Safety</b>			
Personal services	\$ 3,383,040	\$ 3,403,636	\$ (20,596)
Operating expenditures	335,770	321,943	13,827
Capital outlay	113,900	166,910	(53,010)
Debt service	27,225	59,440	(32,215)
Total Public Safety	<u>3,859,935</u>	<u>3,951,929</u>	<u>(91,994)</u>
<b>Public Works</b>			
Personal services	148,940	155,814	(6,874)
Operating expenditures	271,776	248,405	23,371
Debt service	8,780	9,034	(254)
Total Public Works	<u>429,496</u>	<u>413,253</u>	<u>16,243</u>
<b>Building, Planning and Zoning</b>			
Personal services	309,775	553,700	(243,925)
Operating expenditures	412,700	127,891	284,809
Capital outlay	3,000	6,388	(3,388)
Debt service	5,855	6,023	(168)
Total Building, Planning and Zoning	<u>731,330</u>	<u>694,002</u>	<u>37,328</u>
<b>Parks and Recreation</b>			
Personal services	30,000	15,359	14,641
Operating expenditures	74,600	65,571	9,029
Total Parks and Recreation	<u>\$ 104,600</u>	<u>\$ 80,930</u>	<u>\$ 23,670</u>

## COMBINING FINANCIAL STATEMENTS

**City of North Bay Village, Florida**  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2007

	<u>Special Revenue</u>				<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>State Forfeiture Fund</u>	<u>Federal Forfeiture Fund</u>	<u>Transportation Fund</u>	<u>Parks Improvement Fund</u>	<u>Debt Service Fund</u>	
<b>Assets</b>						
Restricted cash and investments	\$ 87,573	\$ 124,091	\$ 352,193	\$ 128,509	\$ -	\$ 692,366
Receivables	-	-	49,031	-	-	49,031
Due from other funds	-	-	-	225,559	-	225,559
Total Assets	<u>\$ 87,573</u>	<u>\$ 124,091</u>	<u>\$ 401,224</u>	<u>\$ 354,068</u>	<u>\$ -</u>	<u>\$ 966,956</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable and accrued expenses	\$ -	\$ 263	\$ 2,738	\$ -	\$ -	\$ 3,001
Due to other funds	70,695	-	-	-	17,845	88,540
Deferred revenue	-	-	-	-	-	-
Total Liabilities	<u>70,695</u>	<u>263</u>	<u>2,738</u>	<u>-</u>	<u>17,845</u>	<u>91,541</u>
<b>Fund Balances</b>						
Reserved for transportation	-	-	398,486	-	-	398,486
Reserved for park improvements	-	-	-	354,068	-	354,068
Reserved for law enforcement	16,878	123,828	-	-	-	140,706
Unreserved - undesignated	-	-	-	-	(17,845)	(17,845)
Total Fund Balances	<u>16,878</u>	<u>123,828</u>	<u>398,486</u>	<u>354,068</u>	<u>(17,845)</u>	<u>875,415</u>
Total Liabilities and Fund Balances	<u>\$ 87,573</u>	<u>\$ 124,091</u>	<u>\$ 401,224</u>	<u>\$ 354,068</u>	<u>\$ -</u>	<u>\$ 966,956</u>



**City of North Bay Village, Florida**  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended September 30, 2007

	<u>Special Revenue</u>				<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>State Forfeiture Fund</u>	<u>Federal Forfeiture Fund</u>	<u>Transportation Fund</u>	<u>Parks Improvement Fund</u>	<u>Debt Service Fund</u>	
<b>Revenues</b>						
Fines and forfeitures	\$ -	\$ 170,888	\$ -	\$ -	\$ -	\$ 170,888
Taxes	-	-	215,921	-	132,145	348,066
Interest	-	-	-	-	-	-
Total Revenues	<u>\$ -</u>	<u>\$ 170,888</u>	<u>\$ 215,921</u>	<u>\$ -</u>	<u>\$ 132,145</u>	<u>\$ 518,954</u>
<b>Expenditures</b>						
Public safety	\$ 125	\$ 111,847	\$ -	\$ -	\$ -	\$ 111,972
Public works	-	-	55,277	-	-	55,277
Parks and recreation	-	-	-	23,086	-	23,086
Capital outlay	-	226,079	107,367	2,725	-	336,171
Debit service						
Principal retirement	-	-	-	-	105,000	105,000
Interest	-	-	-	-	30,720	30,720
Total Expenditures	<u>125</u>	<u>337,926</u>	<u>162,644</u>	<u>25,811</u>	<u>135,720</u>	<u>662,226</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	125	(167,038)	53,277	(25,811)	(3,575)	(143,272)
<b>Fund Balances at Beginning of Year</b>	<u>17,003</u>	<u>290,866</u>	<u>345,209</u>	<u>379,879</u>	<u>(14,270)</u>	<u>1,018,687</u>
<b>Fund Balances at End of Year</b>	<u>\$ 16,878</u>	<u>\$ 123,828</u>	<u>\$ 398,486</u>	<u>\$ 354,068</u>	<u>\$ (17,845)</u>	<u>\$ 875,415</u>

## 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 Financial Statements Performed in Accordance with Government Auditing Standards**

Honorable Mayor, City Commission and City Manager  
City of North Bay Village, Florida

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of North Bay Village, Florida, as of and for the year ended September 30, 2007, which collectively comprise the City of North Bay Village, Florida's basic financial statements and have issued our report thereon dated April 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the internal control over financial reporting of the City of North Bay Village, Florida as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (Findings 2007-1 and 2007-2) to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

**Compliance and Other Matters**

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

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the Mayor, Members of the City Commission, management, awarding agencies, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than those specified parties.

*Rodriguez, Trueba & Company*

Rodríguez, Trueba & Co., P.A.  
Doral, Florida  
April 24, 2008

**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 North Bay Village, Florida

We have audited the financial statements of the City of North Bay Village, Florida (the “City”) as of and for the year ended September 30, 2007, and have issued our report thereon dated April 24, 2008.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters, and the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated April 24, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

1. Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Any exceptions are noted in the accompanying Schedule of Findings and Questioned Costs (Part V. Prior Year Findings, Comments and Recommendations).
2. Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415, Florida Statutes.
3. Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, findings and recommendations are included in the accompanying Schedule of Findings and Questioned Costs.
4. Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

5. Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g.; the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings except as noted in the Schedule of Findings and Questioned Costs.
6. Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of North Bay Village, Florida was incorporated in 1945 as a municipality under the laws of Florida Statute 23427.
7. Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
8. Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2007, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007. In connection with our audit, we determined that these two reports were in agreement.
9. Section 10.554(1)(i)7.c., Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. The assessment was completed as of the fiscal year end. Based on this assessment, deteriorating financial conditions were noted. A description of the conditions is included in the accompanying Schedule of Findings and Questioned Costs.

This management letter is intended solely for the information and use of the Mayor, City Commission, management, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

*Rodriguez, Trueba & Company*

Rodriguez, Trueba & Co., P.A.  
Doral, Florida  
April 24, 2008

**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Schedule of Findings and Questioned Costs*  
*For the Year Ended September 30, 2007*

**PART I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:	<b><u>Unqualified Opinion</u></b>	
Internal control over financial reporting:		
Material weakness(es) identified?	___ yes	<u>X</u> no
Control deficiencies identified not considered to be material weaknesses?	<u>X</u> yes	___ no
Non-compliance material to financial statements noted?	___ yes	<u>X</u> no

**Federal Awards and State Financial Assistance**

***Federal Program expenditures for the year ended September 30, 2007 were less than \$500,000; as a result a Federal Single Audit was not required.***

***State Project expenditures for the year ended September 30, 2007 were less than \$500,000; as a result a Florida Single Audit was not required.***

**PART II. FINANCIAL STATEMENT FINDINGS**

We applied financial condition assessment procedures pursuant to Rule 10.556(8) and deteriorating financial conditions were noted. Substantially, the conditions exist because the City's expenses are higher than revenues billed for services in the business-type and business-like activities. This created a deficit in these activities which was subsidized by reserves in the general fund.

The City believes that these conditions will not occur in 2008 as service fees were increased to adequately defray expenses budgeted. The City is dealing proactively with issues brought about by recent tax reform initiatives in the State and is doing its part to inform residents that tax and fee increases might be imminent.

**Finding 2007-1**

**Reportable Condition - Significant Deficiency: Audit Journal Entries**

The City's audit required several audit adjustments to prepare GAAP financial statements. The financial statements are required to be the product of a financial reporting system that offers reasonable assurance that management is able to produce financial statements in accordance with GAAP. This creates an absence of an internal process to report deficiencies in internal control to management on a timely basis. The independent auditors assist the City with the preparation of the financial statements as a convenience because the City has the skills to do so. Having the City staff prepare the financial statements would not be a cost-efficient alternative to the current situation.

**Background**

The circumstances described above have always existed in the City. However, in May 2006, the Auditing Standards Board issued Statement on Auditing Standards No 112, Communicating Internal Control Related Matters Identified in an Audit. SAS 112 introduced terms, definitions and guidance for identifying and evaluating control deficiencies and communicating significant deficiencies and material weaknesses. Under SAS 112, a deficiency exists if the governmental unit does not have effective controls to prevent, detect and correct misstatements in the financial statements and auditors are now required to communicate in writing any significant deficiencies and material weaknesses in internal control over financial reporting identified during an audit. Under these guidelines, the City's condition meets the criteria of a significant deficiency.

**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Schedule of Findings and Questioned Costs*  
*For the Year Ended September 30, 2007*

**PART II. FINANCIAL STATEMENT FINDINGS - (continued)**

Recommendation

Management should assess the risk associated with these conditions and identify any processes that can be incorporated into their existing controls to improve the deficiencies; such as, minimizing the likelihood of material audit adjustments through reviews of transactions and balances on a monthly basis for general propriety and accuracy. Follow-up can then be made on significant and unusual items and verify supporting documents to resolve exceptions.

Management's Response

Management accepts the finding and recommendation. The City's Finance Director will meet with the independent auditors prior to closing the books of the City and try to identify possible adjustments and circumstances that would prevent this finding. The independent auditors assist the City with the preparation of the financial statements as a convenience, because the City has the skills to do so. However, having the City staff prepare the financial statements would not be a cost-efficient alternative to the current situation.

Management does not presently deem the risk of this deficiency as significant.

**Finding 2007-2**

**Reportable Condition - Significant Deficiency: Bank Reconciliations**

The City was not timely in preparing bank reconciliations during the year ended September 30, 2007. Best practices require that accounts be reconciled often and in a timely manner, at a minimum not more than 10 days after the close of the month.

Background

During 2007 the City went through significant personnel changes in the Finance department. This resulted in a lack of accounting personnel for a significant period of time. As a result, bank reconciliations were not completed in a timely manner as required. This led to variances when compared to the general ledger, and an audit adjustment was needed.

Recommendation

It is recommended that the City timely prepare bank reconciliations, at a minimum not more than 10 days after the close of the month. We recommend that bank reconciliations be performed weekly if possible.

Management's response

Management has implemented a bank reconciliation module to assist in the monthly bank reconciliation process, although the module was not implemented in time to perform all monthly bank reconciliations on a timely basis. In addition, accounting personnel will perform an internal review to ensure that all items outstanding are cleared as their disposition is determined.

**PART III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

*Federal Single Audit not required for the year ended September 30, 2007.*



**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Schedule of Findings and Questioned Costs*  
*For the Year Ended September 30, 2007*

**PART IV. STATE FINANCIAL ASSISTANCE PROJECTS FINDINGS AND QUESTIONED COSTS**

*Florida Single Audit not required for the year ended September 30, 2007.*

**PART V. PRIOR YEAR FINDINGS, COMMENTS AND RECOMMENDATIONS**

**Comment 2006-1 - Capital Assets Subsidiary Ledgers**

Condition

The City maintains a manually prepared schedule for tracking its capital assets using a spreadsheet program. During audit procedures, auditors noted that the schedule was not timely updated during the year and needed to be adjusted in order to correspond to the City's books and supporting records. In addition, the program formulas were not correctly calculating depreciation on certain individual assets which needed correction and adjustments.

Recommendation

The City should maintain its subsidiary ledger of capital asset detail on a periodic basis in order to properly track and record fixed assets. The City should also look into a new software program to assist in this process. The existing subsidiary ledger maintained on the spreadsheet requires constant maintenance and formula manipulation which lends itself to the possibility of additional errors being made and miscalculations.

Management's response

Management is assessing the feasibility of procuring a new software program. Until this assessment is complete, the City will continue to use the current spreadsheet to track fixed assets and compute depreciation. To address the spreadsheet issues noted, staff has reviewed the current spreadsheet and made all corrections necessary. As noted in Comment 1999-4 below, the City is developing a policies and procedures manual, which will ensure timely updating of its fixed asset inventory listing.

Current Status

The City has not been able to obtain a software program that is both cost-effective and fulfills all of the City's needs in terms of tracking fixed assets as required. The spreadsheet that is being used was updated through September 30, 2007 and no deficiencies were noted. Although constant maintenance and formula manipulation is required with this spreadsheet, as long as it continues to be properly updated and reviewed, this method of tracking capital assets is acceptable until a cost-efficient software program can be obtained.

**Comment 2006-2 - Accounts Payable Subsidiary Ledgers**

Condition

The City's accounting software installed two years ago contains a module which provides for the processing of vendor invoices/checks, tracks cash requirements necessary to pay vendors, and provides other information related to accounts payable. During audit procedures, we requested that the City provide a listing of the outstanding vendor payments as of September 30, 2006. The list provided required manually reconciling the batch totals (summaries) to the general ledger, which included activity of prior batch invoice postings and batch payments, making it difficult to identify proper balances. Although this method did produce a balance that could be tested for our purposes, it does not provide for effective identification of the accounts payable balance or efficient method for reconciling a subsidiary ledger to the general ledger.

**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Schedule of Findings and Questioned Costs*  
*For the Year Ended September 30, 2007*

**PART V. PRIOR YEAR FINDINGS, COMMENTS AND RECOMMENDATIONS - (continued)**

Recommendation

The City should reevaluate this method of reporting and reconciling the accounts payable balances in order to more clearly report the balance detail contained in accounts payable.

Management's response

Management is reevaluating the use of the module discussed and will identify a more accurate and efficient method to report and reconcile the accounts payable balances.

Current Status

Management has contacted the software provider to implement an accounts payable module that would allow the City to maintain a detailed accounts payable aging. Although the module has not yet been implemented due to previous commitments by the software provider, it will be completed by the end of the year. In addition, accounting personnel will perform an internal review on a monthly basis to ensure that the accounts payable balances are accurate.

**Comment 2006-3 - General Ledger Maintenance**

Condition

The audit was scheduled to be performed in mid December 2006 when audit procedures began for the year ended September 30, 2006. It was found that a number of general ledger balances had not changed from the prior year audit indicating that no periodic maintenance or reconciliation of certain accounts was performed during the year. The maintenance of the general ledger accounts is important in order to provide accurate financial information to management and other readers for the purposes of planning future initiatives and budgeting.

Recommendation

The City should maintain and reconcile all general ledger accounts to supporting documentation and/or subsidiary ledgers on a monthly basis.

Management's response

Management agrees that general ledger accounts should be reconciled on a monthly basis and will determine the resources required and timing to implement this procedure.

Current Status

During 2007 the City was able to perform periodic maintenance of most of its general ledger accounts. Accounts receivable ledger balances did remain the same however, and audit adjustments were required.

**Comment 2000-1 - Bank Reconciliations**

Condition

The City has checks on the outstanding checklist that are more than one year old. To aid in the preparations of bank reconciliations and to reflect an accurate cash balance in the financial statements, all checks outstanding more than one year should be investigated and their disposition determined.

**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Schedule of Findings and Questioned Costs*  
*For the Year Ended September 30, 2007*

**PART V. PRIOR YEAR FINDINGS, COMMENTS AND RECOMMENDATIONS - (continued)**

Recommendation

It was recommended that the lists of outstanding checks be reviewed regularly and that all checks not returned by the banks within a reasonable period of time be investigated.

Management's response

Management has contacted the software provider to implement a bank reconciliation module to assist in the monthly bank reconciliation process. Although the module has not yet been implemented due to previous commitments by the software provider, it will be completed by the end of the year. In addition, staff will perform an internal review to ensure that all checks outstanding for over one year are investigated and their disposition determined.

Current Status

During 2007 and through the date of this report, outstanding checks were regularly reviewed and all checks outstanding for more than one year were investigated and written off as necessary.

**Comment 2000-3 - General Fixed Assets**

Condition

During the testing of fixed assets, it was noted that the City does not perform an annual physical inventory of fixed assets. Such physical counts will help detect the loss or unauthorized use of valuable property. This process will also identify assets that need to be deleted from the City records. Additionally, in accordance with Florida statutes, the City must maintain an inventory of its capital assets over \$750 and also perform an annual physical inventory observation.

Recommendation

It has been recommended that the City perform a complete physical inventory of all of the City's fixed assets and that all items be properly tagged and recorded once the count is performed.

Management's response

The City will perform a complete physical inventory at year-end and ensure that all assets are properly recorded. Management will review the cost related to tagging such assets and will determine the proper course of action.

Current Status

During 2007 the City examined its physical inventory of assets and wrote off all assets that no longer existed or were impaired. A detailed inventory list was maintained in a spreadsheet program which agreed to the general ledger.

**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Schedule of Findings and Questioned Costs*  
*For the Year Ended September 30, 2007*

**PART V. PRIOR YEAR FINDINGS, COMMENTS AND RECOMMENDATIONS - (continued)**

**Comment 1999-1 - Utility Fund Reserve**

Condition

During the testing of the Utility Fund, it has been noted that the City did not transfer sufficient funds to the reserve account for the current year. In 1997, the City estimated that costs for future improvements of the City's water laterals would be approximately \$150,000 and established a reserve to fund the repairs over the next three to five years. This process had not been accomplished in the past and, therefore, funds planned to be reserved have not been reserved in accordance with the City's prior plans. The City now needs to reevaluate the reserves necessary for future repairs and replacements and then appropriately provide for those reserves.

Recommendations

It was recommended that the City perform an evaluation of the need for reserving for future repairs and replacements and then proceed to budget and plan for the projected costs based on the evaluation.

Management's response

Management is in the process of evaluating the Utility Fund's operating costs and reserves and will develop a long-term plan to ensure that reserves are adequate to provide for future repairs and replacements. In conjunction with this process, management has retained the services of a utility consultant to provide additional assistance.

Current Status

During 2007, the City developed a long-term plan to address the utility's revenues, operating costs and reserves. Step one of this plan was implemented for 2008 by passing an Ordinance that increased utility rates to cover all utility operating costs. This Ordinance also requires "automatic" additional utility rate increases equal to the percentage increase in wholesale rates paid by the City. Reserves will begin to be addressed in the 2009 utility rates.

**Comment 1999-4 - Policies and Procedures Accounting Manual**

Condition

The City does not have a formal written accounting policies and procedures manual. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted efforts, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. It also serves as the only possible source for a new individual to learn the processes of the City other than being trained by the existing staff. In addition, the City recently installed a new accounting system and also has added additional personnel who should be included in the creation and documentation of the accounting system.

Recommendation

It was recommended that the City develop a written policies and procedures manual to document the City's accounting system.

Management's response

Management and staff are in the process of developing a written accounting policies and procedures manual, which will be completed prior to year end.

**CITY OF NORTH BAY VILLAGE, FLORIDA**  
*Schedule of Findings and Questioned Costs*  
*For the Year Ended September 30, 2007*

**PART V. PRIOR YEAR FINDINGS, COMMENTS AND RECOMMENDATIONS - (continued)**

Current Status

During 2007 the City completed an accounting policies and procedures manual which is accessible to all employees in the finance department.

**PART VI. OTHER ISSUES**

See managements' responses above to all financial statement findings and comments.

No corrective action plan is required because there were no findings required to be reported under the Federal or Florida Single Audit Acts. A Federal or Florida Single audit was not required for the year ended September 30, 2007.