

**CITY OF NORTH BAY VILLAGE, FLORIDA
BASIC FINANCIAL STATEMENTS
AND OTHER SCHEDULES**

September 30, 2010

CITY OF NORTH BAY VILLAGE, FLORIDA
 BASIC FINANCIAL STATEMENTS
 AND OTHER SCHEDULES
 For the Year Ended September 30, 2010

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BASIC FINANCIAL STATEMENTS
AND OTHER SCHEDULES
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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Commission
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, 2010, 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.

As discussed in Note 11 to the financial statements, the City has not recorded its obligation under GASB Statement No. 45; Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions ("OPEB"). Accounting principles generally accepted in the United States of America require that the City obtain a valuation study to determine its obligation for OPEB. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the effects of not reflecting its net OPEB obligation as discussed in the above paragraph, 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, 2010, 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 September 30, 2011 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 control 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. 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.

City of North Bay Village, Florida

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The budgetary comparison information and 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements. The budgetary comparison information, combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
September 30, 2011

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)**

CITY OF NORTH BAY VILLAGE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2010

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, 2010.

FINANCIAL HIGHLIGHTS

The assets of the City of North Bay Village exceeded its liabilities at the close of the most recent fiscal year by \$ 8,803,833 (net assets). Governmental net assets amount to \$ 3,646,674 and business-type net assets amount to \$ 5,157,159. The City's net assets increased by \$ 2,555,529 during the current fiscal year.

For the fiscal year ended September 30, 2010, the City's governmental activities revenues and expenses were \$ 7,488,831, and \$ 7,455,197, respectively. As a result, governmental net assets increased by \$ 33,634.

For the fiscal year ended September 30, 2010, the City's business-type activities revenues and expenses were \$ 7,179,803 and \$ 4,657,908, respectively. As a result, business-type net assets increased by \$ 2,521,895 due primarily to capital grants received during the year.

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, parks and recreation, and interest on long-term debt. The business-type activities of the City include water and sewer operations. The government-wide financial statements can be found on pages 9 and 10 of this report.

CITY OF NORTH BAY VILLAGE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2010

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 four 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, the capital projects fund, and the federal forfeiture fund, which are the only three funds considered to be a major fund. All other special revenue funds and debt service fund have been combined and are presented as non-major funds.

The governmental fund financial statements can be found on pages 10 through 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 through 17 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 18 through 33 of this report.

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 assets exceeded liabilities by \$ 8,803,833 at the close of September 30, 2010. Governmental activities net assets totaled \$ 3,646,674, and business-type activities net assets totaled \$ 5,157,159. The following table presents a condensed statement of net assets as compared to the prior year.

CITY OF NORTH BAY VILLAGE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2010

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 6,474,217	\$ 5,286,404	\$ 827,973	\$ (63,339)	\$ 7,302,190	\$ 5,223,065
Restricted assets	-	-	401,320	417,651	401,320	417,651
Capital assets, net	8,096,811	6,689,962	6,873,756	4,290,086	14,970,567	10,980,048
Total assets	14,571,028	11,976,366	8,103,049	4,644,398	22,674,077	16,620,764
Current and other liabilities	1,181,075	677,144	1,749,929	512,936	2,931,004	1,190,080
Long term liabilities	9,743,279	7,686,182	1,195,961	1,496,198	10,939,240	9,182,380
Total liabilities	10,924,354	8,363,326	2,945,890	2,009,134	13,870,244	10,372,460
Net assets:						
Invested in capital assets, net of related debt	1,364,245	1,230,708	5,854,619	3,281,007	7,218,864	4,511,715
Restricted	571,581	1,707,096	-	62,929	571,581	1,770,025
Unrestricted (deficit)	1,710,848	675,236	(697,460)	(708,672)	1,013,388	(33,436)
Total net assets	\$ 3,646,674	\$ 3,613,040	\$ 5,157,159	\$ 2,635,264	\$ 8,803,833	\$ 6,248,304

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 \$ 1,078,064 on September 30, 2010.

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, 2010, 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 and the total unrestricted balances had a deficit of \$ 697,460. The City's total net assets increased by \$ 2,620,205 during the current fiscal year.

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 448,049	\$ 1,023,499	\$ 4,577,419	\$ 3,931,095	\$ 5,025,468	\$ 4,954,594
Operating grants and contributions	109,220	50,825	-	-	109,220	50,825
Capital grants and contributions	166,254	135,654	2,601,923	191,967	2,768,177	327,621
General revenues:						
Property taxes	4,635,298	4,758,572	-	-	4,635,298	4,758,572
Other taxes and fees	1,810,379	1,800,808	-	-	1,810,379	1,800,808
Other general revenues	319,631	106,258	461	1,150	320,092	107,408
Total revenues	7,488,831	7,875,616	7,179,803	4,124,212	14,668,634	11,999,828

CITY OF NORTH BAY VILLAGE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2010

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Expenses:						
General government	1,933,488	1,786,414	-	-	1,933,488	1,786,414
Public safety	4,279,969	4,253,538	-	-	4,279,969	4,253,538
Building, planning, and zoning	263,396	527,880	-	-	263,396	527,880
Public works	550,599	661,384	-	-	550,599	661,384
Parks and recreation	73,405	103,884	-	-	73,405	103,884
Interest on long term debt	354,340	346,414	-	-	354,340	346,414
Utility	-	-	4,573,136	3,306,266	4,573,136	3,306,266
Stormwater utility	-	-	84,772	54,119	84,772	54,119
Total expenses	7,455,197	7,679,514	4,657,908	3,360,385	12,113,105	11,039,899
Increase in net assets before transfers	33,634	196,102	2,521,895	763,827	2,555,529	959,929
Transfers	-	(110,000)	-	110,000	-	-
Increase in net assets	33,634	86,102	2,521,895	873,827	2,555,529	959,929
Net assets, October 1	3,613,040	3,526,938	2,635,264	1,761,437	6,248,304	5,288,375
Net assets, September 30	<u>\$ 3,646,674</u>	<u>\$ 3,613,040</u>	<u>\$ 5,157,159</u>	<u>\$ 2,635,264</u>	<u>\$ 8,803,833</u>	<u>\$ 6,248,304</u>

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 \$ 5,406,859, an increase of \$ 670,224 from the prior year. Approximately 49% of this total amount, \$ 2,669,741, 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 \$ 2,669,741. 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 approximately 44% of total general fund expenditures.

The fund balance of the City's general fund in the fund financial statements increased by \$ 639,883 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 \$ 5,157,159. Combining financial statements of the proprietary funds can be found in pages 14 through 17 of the financial statements.

CITY OF NORTH BAY VILLAGE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2010

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, 2010 amounted to \$ 8,096,811 and \$ 6,873,756, respectively, and consist of land, construction in progress, buildings and improvements, improvements other than buildings, vehicles, and machinery and equipment. A more detailed schedule can be found on page 26 and 27 of the notes to the financial statements.

Debt - Excluding compensated absences, the City's debt totaled \$ 9,459,425 at September 30, 2010. Total debt outstanding, excluding compensated absences, at the end of the prior fiscal year was \$ 7,456,934 million. The overall increase is attributable to the issuance of a new bond in the current year. More information regarding the City's debt can be found on page 28 through 30 of the notes to the financial statements. Outstanding debt as of September 30, 2010 and 2009 consisted of the following:

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Long-term debt:						
General obligation						
Bonds	\$ -	\$ 125,000	\$ -	\$ -	\$ -	\$ 125,000
General obligation Note, Series 2008	6,250,000	6,250,000	-	-	6,250,000	6,250,000
General obligation Note, Series 2010	2,160,000	-	-	-	2,160,000	-
Revolving State Loans	-	-	1,019,137	997,006	1,019,137	997,006
Capital leases	30,288	72,855	-	12,073	30,288	84,928
Compensated absences	1,302,991	1,238,327	176,824	132,397	1,479,815	1,370,724
Total	<u>\$ 9,743,279</u>	<u>\$ 7,686,182</u>	<u>\$ 1,195,961</u>	<u>\$ 1,141,476</u>	<u>\$ 10,939,240</u>	<u>\$ 8,827,658</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

- The original general fund budget was amended at the February 22, 2011 Commission meeting in order to cover expenses not previously appropriated in the budget. The amendment transferred \$ 235,888 from the general government department and reserves of the general fund to various departments.
- General fund revenues were \$ 585,663 more than amounts budgeted (this amount excludes an appropriation of fund balance of \$ 261,709).
- General fund expenditures were \$ 355,298 less than amounts budgeted. Expenditures were greater than budgeted primarily as a result of year-end adjustments to accrue expenditures incurred but paid subsequent to year end.

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 2011 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 2011 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, 1777 Kennedy Causeway, Suite 132, North Bay Village, FL, 33141.

BASIC FINANCIAL STATEMENTS

CITY OF NORTH BAY VILLAGE, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2010

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
ASSETS:			
Cash, cash equivalents and investments	\$ 4,317,456	\$ 508,874	\$ 4,826,330
Receivables, net	960,316	1,449,036	2,409,352
Internal balances	1,132,437	(1,132,437)	-
Restricted cash	-	401,320	401,320
Deferred charges	64,008	2,500	66,508
Capital assets:			
Non-depreciable	6,604,415	2,807,749	9,412,164
Depreciable, net	<u>1,492,396</u>	<u>4,066,007</u>	<u>5,558,403</u>
Total assets	<u>14,571,028</u>	<u>8,103,049</u>	<u>22,674,077</u>
LIABILITIES:			
Accounts payable	788,249	1,288,825	2,077,074
Accrued liabilities	215,101	122,713	337,814
Customer deposits	-	338,391	338,391
Accrued interest payable	177,725	-	177,725
Due within one year:			
Compensated absences payable	217,165	29,470	246,635
Bonds payable	291,065	126,698	417,763
Due in more than one year:			
Compensated absences payable	1,085,826	147,354	1,233,180
Bonds payable	<u>8,149,223</u>	<u>892,439</u>	<u>9,041,662</u>
Total liabilities	<u>10,924,354</u>	<u>2,945,890</u>	<u>13,870,244</u>
NET ASSETS:			
Invested in capital assets, net of related debt	1,364,245	5,854,619	7,218,864
Restricted for:			
Transportation	66,081	-	66,081
Park improvements	354,068	-	354,068
Law enforcement	151,432	-	151,432
Unrestricted net assets (deficit)	<u>1,710,848</u>	<u>(697,460)</u>	<u>1,013,388</u>
Total net assets	<u>\$ 3,646,674</u>	<u>\$ 5,157,159</u>	<u>\$ 8,803,833</u>

The accompanying notes to basic financial statements are an integral part of these statements.

CITY OF NORTH BAY VILLAGE, FLORIDA
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	
Governmental activities:							
General government	\$ 1,933,488	\$ 43,894	\$ -	\$ -	\$ (1,814,505)	\$ -	\$ (1,814,505)
Public safety	4,279,969	160,245	75,089	-	(4,119,724)	-	(4,119,724)
Building, planning and zoning	263,396	243,910	-	-	(19,486)	-	(19,486)
Public works	550,599	-	34,131	166,254	(350,214)	-	(350,214)
Parks and recreation	73,405	-	-	-	(73,405)	-	(73,405)
Interest on long-term debt	354,340	-	-	-	(354,340)	-	(354,340)
Total governmental activities	7,455,197	448,049	109,220	166,254	(6,731,674)	-	(6,731,674)
Business-type activities:							
Utility Fund	4,573,136	4,460,305	-	2,601,923	-	2,489,092	2,489,092
Stormwater Utility Fund	84,772	117,114	-	-	-	32,342	32,342
Total business-type activities	4,657,908	4,577,419	-	2,601,923	-	2,521,434	2,521,434
Total	\$ 12,113,105	\$ 5,025,468	\$ 109,220	\$ 2,768,177	(6,731,674)	2,521,434	(4,210,240)
General revenues:							
Taxes:							
					4,635,298	-	4,635,298
					409,810	-	409,810
					434,715	-	434,715
					106,334	-	106,334
					316,754	-	316,754
					157,673	-	157,673
					373,587	-	373,587
					11,506	-	11,506
					9,057	461	9,518
					310,574	-	310,574
					6,765,308	461	6,765,769
					33,634	2,521,895	2,555,529
					3,613,040	2,635,264	6,248,304
					\$ 3,646,674	\$ 5,157,159	\$ 8,803,833

The accompanying notes to basic financial statements are an integral part of these statements.

CITY OF NORTH BAY VILLAGE, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2010

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:					
Cash, cash equivalents and investments	\$ 1,495,296	\$ 2,174,641	\$ 320,764	\$ 326,755	\$ 4,317,456
Receivables	911,485	-	-	48,831	960,316
Due from other funds	<u>958,677</u>	<u>305,010</u>	<u>-</u>	<u>253,046</u>	<u>1,516,733</u>
 Total assets	 <u>\$ 3,365,458</u>	 <u>\$ 2,479,651</u>	 <u>\$ 320,764</u>	 <u>\$ 628,632</u>	 <u>\$ 6,794,505</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable	\$ 547,779	\$ 220,554	\$ -	\$ 19,916	\$ 788,249
Accrued liabilities	101,496	112,390	-	1,215	215,101
Due to other funds	<u>27,487</u>	<u>-</u>	<u>320,889</u>	<u>35,920</u>	<u>384,296</u>
 Total liabilities	 <u>676,762</u>	 <u>332,944</u>	 <u>320,889</u>	 <u>57,051</u>	 <u>1,387,646</u>
Fund Balances:					
Unreserved, designated for subsequent years expenditures: reported in:					
General Fund	18,955	-	-	-	18,955
Special Revenue Funds	-	-	-	59,719	59,719
Unreserved, undesignated, reported in:					
General Fund	2,669,741	-	-	-	2,669,741
Capital Projects Fund	-	2,146,707	-	-	2,146,707
Debt Service Fund (deficit)	-	-	(125)	-	(125)
Special Revenue Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>511,862</u>	<u>511,862</u>
 Total fund balances	 <u>2,688,696</u>	 <u>2,146,707</u>	 <u>(125)</u>	 <u>571,581</u>	 <u>5,406,859</u>
 Total liabilities and fund balances	 <u>\$ 3,365,458</u>	 <u>\$ 2,479,651</u>	 <u>\$ 320,764</u>	 <u>\$ 628,632</u>	 <u>\$ 6,794,505</u>

The accompanying notes to basic financial statements are an integral part of these statements.

CITY OF NORTH BAY VILLAGE, FLORIDA
 RECONCILIATION THE OF BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 September 30, 2010

TOTAL FUND BALANCES OF GOVERNMENTAL FUNDS
 IN THE BALANCE SHEET, PAGE 10 \$ 5,406,859

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 funds:

Governmental capital assets	11,880,101
Less accumulated depreciation	(3,783,290)

Financing costs related to the issuance of long-term debt are
 expended by governmental funds in the fund financial
 statements; under full accrual accounting these amounts are
 treated as an asset and amortized over the life of the debt. 64,008

Long-term liabilities are not due and payable in the current
 period and, therefore, are not reported in the governmental
 funds:

Bonds payable	(8,410,000)
Capital lease payable	(30,288)
Compensated absences	(1,302,991)
Accrued interest payable	<u>(177,725)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES, PAGE 8 \$ 3,646,674

The accompanying notes to basic financial statements are an integral part of these statements.

CITY OF NORTH BAY VILLAGE, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2010

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Taxes	\$ 4,609,633	\$ -	\$ 460,380	\$ 200,385	\$ 5,270,398
Licenses and permits	243,910	-	-	-	243,910
Franchise fees	409,810	-	-	-	409,810
Intergovernmental revenue	1,040,943	-	-	-	1,040,943
Charges for services	43,894	-	-	-	43,894
Fines and forfeitures	283,678	-	-	123,755	407,433
Interest income	934	6,072	665	1,386	9,057
Other	63,386	-	-	-	63,386
	<u>6,696,188</u>	<u>6,072</u>	<u>461,045</u>	<u>325,526</u>	<u>7,488,831</u>
Total revenues					
EXPENDITURES:					
Current:					
General government	1,708,244	-	-	-	1,708,244
Public safety	3,524,656	-	-	580,652	4,105,308
Public works	434,461	-	-	75,806	510,267
Building, planning and zoning	230,397	-	-	-	230,397
Parks and recreation	55,072	-	-	-	55,072
Capital outlay	17,155	1,440,879	-	375,720	1,833,754
Debt service:					
Principal	42,567	-	125,000	-	167,567
Interest and fiscal charges	4,384	32,850	330,764	-	367,998
	<u>6,016,936</u>	<u>1,473,729</u>	<u>455,764</u>	<u>1,032,178</u>	<u>8,978,607</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	<u>679,252</u>	<u>(1,467,657)</u>	<u>5,281</u>	<u>(706,652)</u>	<u>(1,489,776)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	15,879	489,517	-	55,248	560,644
Transfers out	(55,248)	(15,879)	(489,517)	-	(560,644)
Debt Proceeds	-	2,160,000	-	-	2,160,000
	<u>(39,369)</u>	<u>2,633,638</u>	<u>(489,517)</u>	<u>55,248</u>	<u>2,160,000</u>
Total other financing sources (uses)					
Net change in fund balance	639,883	1,165,981	(484,236)	(651,404)	670,224
FUND BALANCES, beginning of year (as restated Note 12)					
	<u>2,048,813</u>	<u>980,726</u>	<u>484,111</u>	<u>1,222,985</u>	<u>4,736,635</u>
FUND BALANCES (DEFICIT), end of year					
	<u>\$ 2,688,696</u>	<u>\$ 2,146,707</u>	<u>\$ (125)</u>	<u>\$ 571,581</u>	<u>\$ 5,406,859</u>

The accompanying notes to basic financial statements are an integral part of these statements.

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, 2010

NET CHANGES IN FUND BALANCES - TOTAL
GOVERNMENTAL FUNDS, PAGE 11 \$ 670,224

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

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

Expenditures for capital assets	1,773,505
Less current year provision for depreciation	(366,656)

The issuance of long term debt provides current
financial resources to governmental funds; however
has no effect on net assets:

Bond proceeds	(2,160,000)
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Governmental funds report the effect of costs of issuance
when debt is first issued; whereas, these amounts are deferred
and amortized in the statement of activities.

32,850

Repayment of debt principal is an expenditure in the
governmental funds, but the repayment reduces long term
liabilities in the statement of net assets.

167,567

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

Change in accrued interest payable	(17,100)
Change in long-term compensated absences	(64,664)
Amortization of bond issuance costs	<u>(2,092)</u>

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES,
PAGE 9 \$ 33,634

The accompanying notes to basic financial statements are an integral part of these statements.

CITY OF NORTH BAY VILLAGE, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2010

	Business-Type Activities Enterprise Funds		Total
	Major Fund	Nonmajor Fund	
	Utility Fund	Stormwater Utility Fund	
ASSETS:			
Current assets:			
Cash, cash equivalents and investments	\$ 237,497	\$ 271,377	\$ 508,874
Restricted cash	401,320	-	401,320
Customer accounts receivable	353,234	20,348	373,582
Other receivables	1,075,454	-	1,075,454
Total current assets	<u>2,067,505</u>	<u>291,725</u>	<u>2,359,230</u>
Noncurrent assets:			
Deferred charges	2,500	-	2,500
Capital assets:			
Non-depreciable	2,807,749	-	2,807,749
Depreciable, net	3,688,871	377,136	4,066,007
Total assets	<u>\$ 8,566,625</u>	<u>\$ 668,861</u>	<u>\$ 9,235,486</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 1,279,384	\$ 9,441	\$ 1,288,825
Accrued liabilities	122,713	-	122,713
Due to other funds	1,132,437	-	1,132,437
Payable from restricted assets:			
Customer deposits	338,391	-	338,391
Current portion of compensated absences payable	29,470	-	29,470
Current portion of debt	126,698	-	126,698
Total current liabilities	<u>3,029,093</u>	<u>9,441</u>	<u>3,038,534</u>
Long term liabilities:			
Compensated absences payable	147,354	-	147,354
Debt	892,439	-	892,439
Total long-term liabilities	<u>1,039,793</u>	<u>-</u>	<u>1,039,793</u>
Total liabilities	<u>4,068,886</u>	<u>9,441</u>	<u>4,078,327</u>
NET ASSETS:			
Invested in capital assets, net of related debt	5,477,483	377,136	5,854,619
Unrestricted net assets (deficit)	(979,744)	282,284	(697,460)
Total net assets	<u>4,497,739</u>	<u>659,420</u>	<u>5,157,159</u>
Total liabilities and net assets	<u>\$ 8,566,625</u>	<u>\$ 668,861</u>	<u>\$ 9,235,486</u>

The accompanying notes to basic financial statements are an integral part of these statements.

CITY OF NORTH BAY VILLAGE, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2010

	Business-Type Activities		Total
	Enterprise Funds		
	Major Fund	Nonmajor Fund	
	Utility Fund	Stormwater Utility Fund	
OPERATING REVENUES:			
Sanitation charges	\$ 1,438,999	\$ -	\$ 1,438,999
Sewer charges	1,439,290	-	1,439,290
Metered water charges	1,445,182	-	1,445,182
Service fees and late penalties	136,834	7,600	144,434
Stormwater user fees	-	109,514	109,514
	<u>4,460,305</u>	<u>117,114</u>	<u>4,577,419</u>
Total operating revenues			
OPERATING EXPENSES:			
Payroll and related expenses	1,564,589	-	1,564,589
Sewage disposal fees	1,068,766	-	1,068,766
Materials, supplies, repairs and other	390,787	59,646	450,433
Water purchases	755,168	-	755,168
Solid waste disposal and recycling services	352,666	-	352,666
Provision for uncollected accounts receivable	191,131	1,422	192,553
Provision for depreciation and amortization	220,375	23,704	244,079
	<u>4,543,482</u>	<u>84,772</u>	<u>4,628,254</u>
Total operating expenses			
Operating income (loss)	<u>(83,177)</u>	<u>32,342</u>	<u>(50,835)</u>
NONOPERATING REVENUES			
(EXPENSES):			
Intergovernmental revenues	1,110,674	-	1,110,674
Grant revenues	1,491,249	-	1,491,249
Interest income	461	-	461
Interest expense	(29,654)	-	(29,654)
	<u>2,572,730</u>	<u>-</u>	<u>2,572,730</u>
Total nonoperating revenues (expenses)			
Change in net assets	2,489,553	32,342	2,521,895
NET ASSETS, beginning of year	<u>2,008,186</u>	<u>627,078</u>	<u>2,635,264</u>
NET ASSETS, end of year	<u>\$ 4,497,739</u>	<u>\$ 659,420</u>	<u>\$ 5,157,159</u>

The accompanying notes to basic financial statements are an integral part of these statements.

CITY OF NORTH BAY VILLAGE, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2010

	Business-type Activities Enterprise Funds		Total
	Major Fund	Nonmajor Fund	
	Utility Fund	Stormwater Utility Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 4,461,295	\$ 116,354	\$ 4,577,649
Payments to employees	(1,540,128)	-	(1,540,128)
Payments to suppliers	(2,525,389)	(51,627)	(2,577,016)
Net cash provided by operating activities	<u>395,778</u>	<u>64,727</u>	<u>460,505</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(2,151,751)	-	(2,151,751)
Proceeds from capital grants	1,607,111	-	1,607,111
Transfers from other funds	384,085	-	384,085
Proceeds from SRF loans	145,241	-	145,241
Repayments of SRF loans	(135,183)	-	(135,183)
Interest paid	(29,654)	-	(29,654)
Net cash used in capital and related financing activities	<u>(180,151)</u>	<u>-</u>	<u>(180,151)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	<u>461</u>	<u>-</u>	<u>461</u>
Net cash provided by investing activities	<u>461</u>	<u>-</u>	<u>461</u>
Net increase in cash and cash equivalents	216,088	64,727	280,815
CASH AND CASH EQUIVALENTS, beginning	<u>422,729</u>	<u>206,650</u>	<u>629,379</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 638,817</u>	<u>\$ 271,377</u>	<u>\$ 910,194</u>
CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENT OF NET ASSETS:			
Cash, cash equivalents and investments	\$ 237,497	\$ 271,377	\$ 571,803
Restricted cash	<u>401,320</u>	<u>-</u>	<u>338,391</u>
	<u>\$ 638,817</u>	<u>\$ 271,377</u>	<u>\$ 910,194</u>

The accompanying notes to basic financial statements are an integral part of these statements.

CITY OF NORTH BAY VILLAGE, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(continued)
For the Year Ended September 30, 2010

	Business-type Activities Enterprise Funds		Total
	Major Fund	Nonmajor Fund	
	Utility Fund	Stormwater Utility Fund	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ <u>(83,177)</u>	\$ <u>32,342</u>	\$ <u>(50,835)</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Provision for depreciation	220,375	23,704	244,079
(Increase) decrease in:			
Receivables	17,321	(760)	16,561
Increase (decrease) in:			
Accounts payable	233,129	9,441	242,570
Accrued liabilities	(19,966)	-	(19,966)
Customer deposits	(16,331)	-	(16,331)
Compensated absences	<u>44,427</u>	<u>-</u>	<u>44,427</u>
Total adjustments	<u>478,955</u>	<u>32,385</u>	<u>511,340</u>
Net cash provided by operating activities	\$ <u><u>395,778</u></u>	\$ <u><u>64,727</u></u>	\$ <u><u>460,505</u></u>

The accompanying notes to basic financial statements are an integral part of these statements.

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 - 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.

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.

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, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, basis of accounting and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the 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 Capital Projects Fund accounts for the acquisition or construction of various major capital projects.

The City reports the following major proprietary fund:

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.

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, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

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, and investments in money market funds. The City's investments include certificates of deposit 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.

Allowance for doubtful accounts:

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 approximately \$ 238,000 was deemed necessary for the proprietary funds.

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, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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:

Improvements other than building	30-40 years
Buildings and improvements	10-30 years
Vehicles	5 years
Machinery and equipment	3-5 years
Equipment and vehicles	3-5 years

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 if the required length of service is met. All vacation pay is accrued when incurred in the government-wide and proprietary funds and reported as a 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.

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Net assets/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.

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.

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 2 – 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, 2010 was \$ 4.7987 per \$ 1,000 of assessed taxable property value. The rate of \$ 4.7987 is allocated to the general fund and debt service fund, with the general fund receiving \$ 4.6697, the debt service fund \$ 0.1290.

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.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits:

In addition to insurance provided by the Federal Depository Insurance Corporation, deposits which consist of cash on hand and interest bearing checking accounts are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, Florida Security for Public Deposits Act, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Therefore, all amounts presented as deposits are insured or collateralized.

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

Restricted cash:

Restricted cash consists \$ 338,391 of customer deposits held in the Utility Fund. These funds are owed back to customers when the discontinue service. Additionally, \$ 62,929 is required to be held in a depository account in accordance with the City’s State Revolving Fund loans (Note 7).

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 is authorized to invest in obligations of the United States Treasury, its agencies, instrumentalities and the Local Government Surplus Funds Trust Fund administered by the State 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 investment earnings on invested surplus funds of local units of governments while limiting the risk to which the funds are exposed.

The City invests surplus funds in an external investment pool, the Local Government Surplus Funds Trust Fund (the “State Pool”). The State Pool is administered by the Florida State Board of Administration (“SBA”), who provides regulatory oversight. The SBA previously reported that the State Pool was exposed to potential risks due to indirect exposure in the subprime mortgage financial market. Consequently, the SBA placed some restrictions on how participants could access portions of their surplus funds and ultimately restructured the State Pool into two separate pools (“Florida PRIME” and “Fund B”).

The Florida PRIME has adopted operating procedures consistent with the requirement for a 2a7-like fund. The City's investment in the Florida PRIME is reported at amortized cost. The fair value of the position in the pool is equal to the value of the pool shares.

The Fund B is reported at fair value, determined by the fair value per share of the pool's underlying portfolio.

As of September 30, 2010, the City had the following investments:

	Fair Value	Investment Maturities (in years)
Florida Prime	\$ 24,158	Less than 1
Fund B	25,042	6-10
	\$ 49,200	

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

Interest rate risk:

The City has an investment policy of structuring the investment portfolio so that the securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in short-term securities, money market mutual funds, or similar investment pools. The weighted average maturity of the securities held in Florida Prime is 52 days. The weighted average life of the securities held by Fund B is 7.49 years. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the weighted average life.

Credit risk:

The City’s investment policy limits investments to the highest ratings issued by a nationally recognized statistical rating organization (NRSRO). The Florida PRIME is rated AAA by Standard and Poor’s; the Fund B is not rated by an NRSRO.

NOTE 4 – RECEIVABLES AND PAYABLES

As of September 30, 2010, receivables for the City’s individual major funds and nonmajor fund, including applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Transportation Fund</u>	<u>Utility Fund</u>	<u>Stormwater Utility Fund</u>	<u>Total</u>
Customers billed	\$ 146,497	\$ -	\$ 353,234	\$ 20,348	\$ 520,079
Intergovernmental	746,934	48,831	1,075,454	-	1,871,219
Miscellaneous	18,054	-	-	-	18,054
	<u>\$ 911,485</u>	<u>\$ 48,831</u>	<u>\$ 1,428,688</u>	<u>\$ 20,348</u>	<u>\$ 2,409,352</u>

As of September 30, 2010 accounts payable and accrued liabilities for the City’s individual major and nonmajor funds are as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Federal Forfeiture Fund</u>	<u>Transportation Fund</u>	<u>Utility Fund</u>	<u>Stormwater Utility Fund</u>	<u>Total</u>
Vendors	\$ 509,579	\$ 220,554	\$ 16,517	\$ 3,399	\$ 1,279,384	\$ 9,441	\$ 2,038,874
Payroll liabilities	101,496	-	750	465	14,824	-	117,535
Retainage	-	112,390	-	-	105,714	-	218,104
Interest	-	-	-	-	2,175	-	2,175
Other	38,200	-	-	-	-	-	38,200
	<u>\$ 649,275</u>	<u>\$ 332,944</u>	<u>\$ 17,267</u>	<u>\$ 3,864</u>	<u>\$ 1,402,097</u>	<u>\$ 9,441</u>	<u>\$ 2,376,688</u>

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 5,138,008	\$ -	\$ -	\$ 5,138,008
Construction in progress	<u>62,153</u>	<u>1,404,254</u>	<u>-</u>	<u>1,466,407</u>
Total capital assets, not being depreciated	<u>5,200,161</u>	<u>1,404,254</u>	<u>-</u>	<u>6,604,415</u>
Capital assets, being depreciated:				
Buildings and improvements	2,239,510	369,251	-	2,608,761
Vehicles	979,646	-	-	979,646
Machinery and equipment	<u>1,687,279</u>	<u>-</u>	<u>-</u>	<u>1,687,279</u>
Total capital assets, being depreciated	<u>4,906,435</u>	<u>369,251</u>	<u>-</u>	<u>5,275,686</u>
Less accumulated depreciation for:				
Buildings and improvements	1,271,259	120,146	-	1,391,405
Vehicles	689,626	138,253	-	827,879
Machinery and equipment	<u>1,455,749</u>	<u>108,257</u>	<u>-</u>	<u>1,564,006</u>
Total accumulated depreciation	<u>3,416,634</u>	<u>366,656</u>	<u>-</u>	<u>3,783,290</u>
Total capital assets, being depreciated, net	<u>1,489,801</u>	<u>2,595</u>	<u>-</u>	<u>1,492,396</u>
Governmental activities capital assets, net	<u>\$ 6,689,962</u>	<u>\$ 1,406,849</u>	<u>\$ -</u>	<u>\$ 8,096,811</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Construction in progress	<u>\$ -</u>	<u>\$ 2,807,748</u>	<u>\$ -</u>	<u>\$ 2,807,748</u>
Capital assets, being depreciated:				
Improvements other than buildings	7,196,540	-	-	7,196,540
Equipment and vehicles	<u>1,209,360</u>	<u>20,001</u>	<u>-</u>	<u>1,229,361</u>
Total capital assets being depreciated	<u>8,405,900</u>	<u>20,001</u>	<u>-</u>	<u>8,425,901</u>
Less accumulated depreciation for:				
Improvements other than buildings	2,919,272	229,595	-	3,148,867
Equipment and vehicles	<u>1,196,542</u>	<u>14,484</u>	<u>-</u>	<u>1,211,026</u>
Total accumulated depreciation	<u>4,115,814</u>	<u>244,079</u>	<u>-</u>	<u>4,359,893</u>
Total capital assets, being depreciated, net	<u>4,290,086</u>	<u>(224,078)</u>	<u>-</u>	<u>4,066,008</u>
Business-type activities capital assets, net	<u>\$ 4,290,086</u>	<u>\$ 2,583,670</u>	<u>\$ -</u>	<u>\$ 6,873,756</u>

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 5 – CAPITAL ASSETS (continued)

Depreciation expense for the fiscal year ended September 30, 2010 was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 164,995
Public safety	109,997
Public works	40,332
Parks and recreation	32,999
Building, planning and zoning	<u>18,333</u>
Total depreciation expense - governmental activities	<u><u>\$ 366,656</u></u>
 Business-Type Activities:	
Water and sewer systems	\$ 220,375
Stormwater Utility	<u>23,704</u>
Total depreciation expense - business-type activities	<u><u>\$ 244,079</u></u>

NOTE 6 – INTERFUND BALANCES AND TRANSFERS

Due from and to other funds at September 30, 2010 are summarized as follows:

	Due From				Total
	General Fund	Federal Forfeiture Fund	Debt Service Fund	Utility Fund	
Due To:					
General Fund	\$ -	\$ 35,920	\$ 15,879	\$ 906,878	\$ 958,677
Capital Projects Fund	-	-	305,010	-	305,010
State Forfeiture Fund	27,487	-	-	-	27,487
Park Improvement Fund	-	-	-	225,559	225,559
	<u>27,487</u>	<u>35,920</u>	<u>320,889</u>	<u>1,132,437</u>	<u>1,516,733</u>
Total	<u><u>\$ 27,487</u></u>	<u><u>\$ 35,920</u></u>	<u><u>\$ 320,889</u></u>	<u><u>\$ 1,132,437</u></u>	<u><u>\$ 1,516,733</u></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.

Interfund transfers for the year ended September 30, 2010 are summarized as follows:

	Transfer From			Total
	General Fund	Capital Projects Fund	Debt Service Fund	
Transfer To:				
General Fund	\$ -	\$ 15,879	\$ -	\$ 15,879
Capital Projects Fund	-	-	489,517	489,517
Transportation Fund	<u>55,248</u>	<u>-</u>	<u>-</u>	<u>55,248</u>
Total	<u><u>\$ 55,248</u></u>	<u><u>\$ 15,879</u></u>	<u><u>\$ 489,517</u></u>	<u><u>\$ 560,644</u></u>

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 7 – LONG-TERM DEBT

The following is a summary of changes in debt for the year ended September 30, 2010:

	October 1, 2009	Additions	Payments	September 30, 2010	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 125,000	\$ -	\$ 125,000	\$ -	\$ -
General obligation note, Series 2008	6,250,000	-	-	6,250,000	180,000
General obligation note, Series 2010	-	2,160,000	-	2,160,000	80,777
Capital leases	72,855	-	42,567	30,288	30,288
Compensated absences	1,238,327	409,866	345,202	1,302,991	217,165
 Total governmental activities debt	 <u>\$ 7,686,182</u>	 <u>\$ 2,569,866</u>	 <u>\$ 512,769</u>	 <u>\$ 9,743,279</u>	 <u>\$ 508,230</u>
Business-Type Activities:					
Revolving state loans	\$ 997,006	\$ 145,241	\$ 123,110	\$ 1,019,137	\$ 126,698
Capital leases	12,073	-	12,073	-	-
Compensated absences	132,397	107,156	62,729	176,824	29,470
 Total business-type activities debt	 <u>\$ 1,141,476</u>	 <u>\$ 252,397</u>	 <u>\$ 197,912</u>	 <u>\$ 1,195,961</u>	 <u>\$ 156,168</u>

Governmental activities:

The City previously 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, 2010 is \$ 30,288.

The City previously borrowed \$ 6,250,000 relating to General Obligation Note, Series 2008 for the purpose of financing all or a part of the costs of (i) the acquisition of land to be used as a public park, (ii) the preliminary phases of the construction of a public safety and city hall complex and the construction and installation of landscaping and aesthetic improvements to the John F. Kennedy causeway, and (iii) related capital costs. The note is secured by the proceeds of ad valorem taxes levied on all taxable property in the City. Subsequent to year end (Note 13), this note was refinanced in the amount of \$ 6,325,000, with proceeds being used to legally defease the original note and to pay costs of the refinancing. Commencing on December 1, 2010, interest of 3.51% is payable semiannually on December 1 and June 1 through the maturity date of June 1, 2028. Principal shall be payable on an annual basis commencing June 1, 2011.

During the year, the City borrowed \$ 2,160,000 relating to a General Obligation Note, Series 2010 for purpose of financing all or a part of the costs of (i) the creation and improvement of parks and recreational opportunities, (ii) the construction of a Public Safety and City Hall complex, (iii) landscaping and aesthetic improvements to the John F. Kennedy Causeway, and (iv) related capital costs. The note is secured by the proceeds of ad valorem taxes levied on all taxable property in the City. Commencing on December 1, 2011, interest of 3.80% per annum is payable annually on December 1 of each year, through the maturity date of December 31, 2031. Principal shall be payable on an annual basis commencing on December 1, 2011.

CITY OF NORTH BAY VILLAGE, FLORIDA
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2010

NOTE 7 – LONG-TERM DEBT (continued)

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 sums 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. At September 30, 2010, the City was in compliance with these covenants. 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.	\$ 480,739
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.	256,484
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.	136,673
Revolving state loan of \$ 1,079,032 dated December 24, 2009; interest rate of 1.9%. The amounts of the semiannual payments for each loan will be calculated based on the actual amount of the principal drawn under the agreement, as well as associated capitalized interest and loan service fees. These amounts will not be determined until project completion; therefore, amortization schedules are not available for these loan agreements at this time.	<u>145,241</u>
	\$ <u><u>1,019,137</u></u>

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 7 – LONG-TERM DEBT (continued)

Combined aggregate maturities for all long-term debt, including the effect of the refunding of General Obligation Note, Series 2008 (Note 13), but excluding the 2009 Revolving State Loan for each of the next five years and to maturity are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 417,763	\$ 408,198	\$ 825,961
2012	484,239	309,586	793,825
2013	506,227	287,599	793,826
2014	518,447	275,378	793,825
2015	499,225	258,179	757,404
2016-2020	2,429,154	1,033,679	3,462,833
2021-2025	2,602,747	611,234	3,213,981
2026-2030	1,931,380	129,626	2,061,006
	<u>\$ 9,389,182</u>	<u>\$ 3,313,479</u>	<u>\$ 12,702,661</u>

NOTE 8 – 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 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 Officer, or Senior Management Service Classes.

Normal retirement for the Regular, Elected Officer, 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, 2010

NOTE 8 – FLORIDA RETIREMENT SYSTEM (continued)

Funding policy:

Employees cannot contribute to the System. The City is required by statute to contribute 10.77%, 14.57% and 23.25% of salaries for regular, senior management and special risk members, respectively. 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 12.25% of salaries for participants of the DROP. During 2010 the City had no employees participating in this program.

The contribution requirements of covered payroll and actual contributions made for the fiscal year ending September 30, 2010 and the two preceding years were as follows:

	2010	2009	2008
Contributions requirements	\$ 603,271	\$ 558,502	\$ 580,589
Contributions made (100%)	\$ 603,271	\$ 558,502	\$ 580,589
Total covered payroll	\$ 3,477,674	\$ 3,329,822	\$ 3,424,593
Percent of contributions to total covered payroll	17.35%	16.77%	16.95%

NOTE 9 – 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 \$ 17,233 for the year ended September 30, 2010. 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.

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.

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 9 – DEFINED CONTRIBUTION PLAN

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 \$ 54,782 for the year ended September 30, 2010. 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.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation:

The City is involved in various proceedings involving certain claims which the City believes to be covered by its general liability insurance policies. Additionally, the City is vigorously defending claims for the termination of employees in the normal course of business. 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.

The City is involved in a proceeding with an ex-employee that contested his discharge. The case has been referred to Arbitration. The potential expense is the cost of back pay and back benefits. At this point, it is not possible to predict the likelihood of a given outcome. The City intends to continue to vigorously defend this matter.

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 the 401(a) defined contribution plan for general employees. 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.

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.

Grants contingency:

The City receives grants from governmental agencies that require compliance with certain provisions stated in the grant agreements and are subject to audit by their grantor agencies. Failure to comply with the provisions or the results of any grantor audit could result in the return of funds and are subject to audit by their grantor agencies. Management of the City deems the likelihood of this contingency remote since, in its opinion, the City has complied in all material respects with the provisions of the grants.

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Post-employment benefits:

The City does not provide post-retirement benefits to retired employees.

Operating lease agreement:

The City was obligated on an operating lease for the rental of an office facility which was payable monthly through February 2009. The City exercised its renewal option for the period of one additional year at a time for a three year period, expiring February 2010, February 2011, and February 2012. Monthly payments through the end of the lease term amount to \$ 12,500. Total expense in connection with this lease amounted to approximately \$ 150,000 for the year ended September 30, 2010. Future minimum lease payments for the remainder of the one year lease approximate \$ 150,000 per year.

NOTE 11 – QUALIFICATION OF REPORT

GASB Statement No. 45; Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions (“OPEB”), established new accounting standards for post-retirement benefits. The new standard does not require funding of OPEB expense, but any difference between the annual required contribution (“ARC”) and the amount funded during the year is required to be recorded in the employer’s Statement of Net Assets as an increase (or decrease) in the OPEB obligation. The effective date to implement GASB 45 for the City is the current fiscal year. The City did not obtain an actuarial valuation in accordance with the standards of the statement and accordingly no net Obligation is reflected in the City’s Statement of Net Assets. The Independent Auditors’ Report has been qualified to reflect this omission due to the possible material uncertainty that is not quantitatively disclosed in these financial statements.

NOTE 12 – PRIOR PERIOD ADJUSTMENTS

The beginning fund balance of the City’s General Fund has been increased by \$ 127,968. This adjustment was necessary to reflect certain revenues that should have been included in the General Fund as of September 30, 2009. This increase is also reflected in the City’s statement of net assets for governmental activities.

In addition to the above, the City’s beginning net assets of governmental activities has been decreased by \$ 160,625 in order to reflect interest that was payable as of September 30, 2009 that was not included in the City’s statement of net assets for governmental activities.

NOTE 13 – SUBSEQUENT EVENTS

Subsequent to year end, the City issued General Obligation Refunding Note, Series 2010 in the amount of \$ 6,325,000 with the proceeds being used to defease General Obligation Note, Series 2008. Commencing on December 1, 2010, interest of 3.51% is payable semiannually on December 1 and June 1 through the maturity date of June 1, 2028. Principal shall be payable on an annual basis commencing June 1, 2011. The effect of this refunding is reflected in the debt maturity schedule (Note 7).

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORTH BAY VILLAGE, FLORIDA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended September 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:				
Taxes:				
Property taxes, including penalties and interest	\$ 3,817,615	\$ 3,817,615	\$ 4,174,918	\$ 357,303
Utility service taxes	<u>430,100</u>	<u>430,100</u>	<u>434,715</u>	<u>4,615</u>
Total taxes	<u>4,247,715</u>	<u>4,247,715</u>	<u>4,609,633</u>	<u>361,918</u>
Licenses and permits:				
City occupational licenses	71,000	71,000	102,584	31,584
Building and other permits	<u>159,000</u>	<u>159,000</u>	<u>141,326</u>	<u>(17,674)</u>
Total licenses and permits	<u>230,000</u>	<u>230,000</u>	<u>243,910</u>	<u>13,910</u>
Franchise fees:				
Electric	400,000	400,000	366,318	(33,682)
Gas	30,000	30,000	22,247	(7,753)
United States Postal Service	18,500	18,500	20,041	1,541
Solid waste	100	100	-	(100)
Sanitation	<u>1,000</u>	<u>1,000</u>	<u>1,204</u>	<u>204</u>
Total franchise fees	<u>449,600</u>	<u>449,600</u>	<u>409,810</u>	<u>(39,790)</u>
Intergovernmental:				
Local 1/2 cent sales tax	376,657	376,657	373,587	(3,070)
Communication service tax	319,725	319,725	316,754	(2,971)
State revenue sharing	156,928	156,928	157,673	745
Alcohol beverage licenses	6,814	6,814	6,213	(601)
Causeway maintenance	5,300	5,300	5,293	(7)
Local option gas tax	88,426	88,426	106,334	17,908
Federal grants	<u>73,000</u>	<u>73,000</u>	<u>75,089</u>	<u>2,089</u>
Total intergovernmental	<u>1,026,850</u>	<u>1,026,850</u>	<u>1,040,943</u>	<u>14,093</u>
Charges for services:				
Record research and review	20,000	20,000	35,159	15,159
Passport fees	4,000	4,000	6,575	2,575
Advertising/bus stop	<u>2,160</u>	<u>2,160</u>	<u>2,160</u>	<u>-</u>
Total charges for services	<u>26,160</u>	<u>26,160</u>	<u>43,894</u>	<u>17,734</u>
Fines and forfeitures	<u>34,500</u>	<u>34,500</u>	<u>283,678</u>	<u>249,178</u>
Interest income	<u>36,000</u>	<u>36,000</u>	<u>934</u>	<u>(35,066)</u>
Other:				
Miscellaneous	59,700	59,700	63,386	3,686
Appropriation of fund balance	<u>25,821</u>	<u>261,709</u>	<u>-</u>	<u>(261,709)</u>
Total other	<u>85,521</u>	<u>321,409</u>	<u>63,386</u>	<u>(258,023)</u>
Total revenues	<u>\$ 6,136,346</u>	<u>\$ 6,372,234</u>	<u>\$ 6,696,188</u>	<u>\$ 323,954</u>

See notes to budgetary comparison schedule.

CITY OF NORTH BAY VILLAGE, FLORIDA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
(continued)
For the Year Ended September 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:				
General government:				
City Commission:				
Personal services	\$ 36,573	\$ 36,573	\$ 36,781	\$ (208)
Operating expenditures	<u>36,950</u>	<u>36,950</u>	<u>28,532</u>	<u>8,418</u>
Total City Commission	<u>73,523</u>	<u>73,523</u>	<u>65,313</u>	<u>8,210</u>
City Manager:				
Personal services	144,802	187,191	221,781	(34,590)
Operating expenditures	<u>11,540</u>	<u>11,540</u>	<u>7,349</u>	<u>4,191</u>
Total City Manager	<u>156,342</u>	<u>198,731</u>	<u>229,130</u>	<u>(30,399)</u>
City Clerk:				
Personal services	141,889	141,889	150,744	(8,855)
Operating expenditures	<u>34,890</u>	<u>34,890</u>	<u>30,084</u>	<u>4,806</u>
Total City Clerk	<u>176,779</u>	<u>176,779</u>	<u>180,828</u>	<u>(4,049)</u>
Finance:				
Personal services	114,164	114,164	118,240	(4,076)
Operating expenditures	<u>6,614</u>	<u>6,614</u>	<u>4,211</u>	<u>2,403</u>
Total finance	<u>120,778</u>	<u>120,778</u>	<u>122,451</u>	<u>(1,673)</u>
City Attorney:				
Operating expenditures	<u>200,000</u>	<u>393,499</u>	<u>393,499</u>	<u>-</u>
Total City Attorney	<u>200,000</u>	<u>393,499</u>	<u>393,499</u>	<u>-</u>
Nondepartmental:				
Personal services	75,248	75,248	20,807	54,441
Operating expenditures	895,933	895,933	696,216	199,717
Capital outlay	<u>44,000</u>	<u>44,000</u>	<u>553</u>	<u>43,447</u>
Total nondepartmental	<u>1,015,181</u>	<u>1,015,181</u>	<u>717,576</u>	<u>297,605</u>
Total general government	<u>1,742,603</u>	<u>1,978,491</u>	<u>1,708,797</u>	<u>269,694</u>
Public safety:				
Personal services	3,233,679	3,233,679	3,320,710	(87,031)
Operating expenditures	203,307	203,307	203,946	(639)
Capital outlay	<u>5,000</u>	<u>5,000</u>	<u>16,602</u>	<u>(11,602)</u>
Total public safety	<u>3,441,986</u>	<u>3,441,986</u>	<u>3,541,258</u>	<u>(99,272)</u>

See notes to budgetary comparison schedule.

CITY OF NORTH BAY VILLAGE, FLORIDA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
(continued)
For the Year Ended September 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Public works:				
Personal services	155,098	155,098	177,377	(22,279)
Operating expenditures	<u>406,456</u>	<u>406,456</u>	<u>257,084</u>	<u>149,372</u>
Total public works	<u>561,554</u>	<u>561,554</u>	<u>434,461</u>	<u>127,093</u>
Building, planning and zoning:				
Personal services	60,805	60,805	132,810	(72,005)
Operating expenditures	<u>205,600</u>	<u>205,600</u>	<u>97,587</u>	<u>108,013</u>
Total building, planning and zoning	<u>266,405</u>	<u>266,405</u>	<u>230,397</u>	<u>36,008</u>
Parks and recreation:				
Personal services	21,315	21,315	20,027	1,288
Operating expenditures	<u>55,528</u>	<u>55,528</u>	<u>35,045</u>	<u>20,483</u>
Total parks and recreation	<u>76,843</u>	<u>76,843</u>	<u>55,072</u>	<u>21,771</u>
Debt service:				
Principal	42,571	42,571	42,567	4
Interest	<u>4,384</u>	<u>4,384</u>	<u>4,384</u>	<u>-</u>
Total debt service	<u>46,955</u>	<u>46,955</u>	<u>46,951</u>	<u>4</u>
Total expenditures	<u>6,136,346</u>	<u>6,372,234</u>	<u>6,016,936</u>	<u>355,298</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>679,252</u>	<u>(31,344)</u>
OTHE FINANCING SOURCES (USES)				
Transfers in	-	-	15,879	(15,879)
Transfers out	<u>-</u>	<u>-</u>	<u>(55,248)</u>	<u>55,248</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(39,369)</u>	<u>39,369</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 639,883</u>	<u>\$ 8,025</u>

See notes to budgetary comparison schedule.

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO BUDGETARY COMPARISON SCHEDULES
September 30, 2010

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

The City legally adopts annual budgets for the general fund, most 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 February 22, 2011.

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2010, general fund expenditures had a negative variance with the final budget in the following departments, which was covered by appropriations from reserves:

Public safety	\$	99,272
General government:		
City Manager		30,399
City Clerk		4,049
Finance		1,673

These unfavorable variances were caused by unbudgeted costs related to unforeseen circumstances and occurrences during the year. These unbudgeted expenditures were all approved by the City Commission.

NOTE 3 - BUDGET OF GAAP RECONCILIATION

There are no differences to be reconciled between the budgetary comparison schedules and the statement of revenues, expenditures, and changes in fund balances - governmental funds.

COMBINING FINANCIAL STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Federal Forfeiture Fund – This fund is used to account for Federal forfeitures restricted for law enforcement purposes.

State Forfeiture Fund – This fund is used to account for state forfeitures restricted for law enforcement purposes.

Transportation Fund – This fund is used to account for restricted revenues and expenditures associated with a county levied surtax and designated for public transportation purposes..

Parks Improvement Fund – This fund is used to account for restricted revenues and expenditures associated with a county levied surtax and designated for park improvement purposes

CITY OF NORTH BAY VILLAGE, FLORIDA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2010

	Special Revenue				
	Federal Forfeiture Fund	State Forfeiture Fund	Transportation Fund	Parks Improvement Fund	Total Nonmajor Governmental Funds
ASSETS:					
Cash, cash equivalents and investments	\$ 161,617	\$ 15,515	\$ 21,114	\$ 128,509	\$ 326,755
Receivables	-	-	48,831	-	48,831
Due from other funds	-	27,487	-	225,559	253,046
Total assets	\$ 161,617	\$ 43,002	\$ 69,945	\$ 354,068	\$ 628,632
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable	\$ 16,517	\$ -	\$ 3,399	\$ -	\$ 19,916
Accrued expenses	750	-	465	-	1,215
Due to other funds	35,920	-	-	-	35,920
Total liabilities	53,187	-	3,864	-	57,051
Fund balances:					
Unreserved, designated for subsequent year expenditures	-	-	59,719	-	59,719
Unreserved, undesignated	108,430	43,002	6,362	354,068	511,862
Total fund balances	108,430	43,002	66,081	354,068	571,581
Total liabilities and fund balances	\$ 161,617	\$ 43,002	\$ 69,945	\$ 354,068	\$ 628,632

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, 2010

	Special Revenue				Total Nonmajor Governmental Funds
	Federal Forfeiture Fund	State Forfeiture Fund	Transportation Fund	Parks Improvement Fund	
REVENUES:					
Taxes	\$ -	\$ -	\$ 200,385	\$ -	\$ 200,385
Fines and forfeitures	122,918	837	-	-	123,755
Interest income	1,386	-	-	-	1,386
Total revenues	<u>124,304</u>	<u>837</u>	<u>200,385</u>	<u>-</u>	<u>325,526</u>
EXPENDITURES:					
Public safety	578,652	2,000	-	-	580,652
Public works	-	-	75,806	-	75,806
Capital outlay	6,468	-	369,252	-	375,720
Total expenditures	<u>585,120</u>	<u>2,000</u>	<u>445,058</u>	<u>-</u>	<u>1,032,178</u>
Excess (deficiency) of revenues over expenditures	(460,816)	(1,163)	(244,673)	-	(706,652)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	55,248	-	55,248
Net change in fund balance	(460,816)	(1,163)	(189,425)	-	(651,404)
FUND BALANCES, beginning of year	<u>569,246</u>	<u>44,165</u>	<u>255,506</u>	<u>354,068</u>	<u>1,222,985</u>
FUND BALANCES, end of year	<u>\$ 108,430</u>	<u>\$ 43,002</u>	<u>\$ 66,081</u>	<u>\$ 354,068</u>	<u>\$ 571,581</u>

COMPLIANCE SECTION



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

Honorable Mayor, City Commission and City Manager
City of North Bay Village, Florida
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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 30, 2011. 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 City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2009-1 described in the accompanying schedule of findings and questioned costs to be a material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies 2006-3, 2007-1, 2010-1, 2010-2, 2010-5 and 2010-6 described in the accompany schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 are 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.

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
September 30, 2011



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited City of North Bay Village, Florida's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

Internal Control over Compliance

Management of the Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Florida internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness the internal control over compliance.

City of North Bay Village, Florida

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Commission, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
September 30, 2011



INDEPENDENT AUDITORS' REPORT TO CITY MANAGEMENT

Honorable Mayor, City Commission and City Manager
City of North Bay Village, Florida
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, 2010, and have issued our report thereon dated September 30, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditors' Report on Compliance With Requirements Applicable to each Major Program and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated September 30, 2011, 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. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The status of findings and recommendations made in the previous audit report are noted in the accompanying Schedule of Findings and Questioned Costs Part E.

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.

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. In connection with our audit, our recommendations to improve financial management are included in the Schedule of Findings and Questioned Costs Part E.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, 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.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies in internal control that are not significant deficiencies. In connection with our audit, control deficiencies that are not significant deficiencies are included in the accompanying Schedule of Findings and Questioned Costs Part E.

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.

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.

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, 2010, 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, 2010. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Section 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City'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.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States require us to indicate that this letter is intended solely for the information and use of the Mayor, City Commission, management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
September 30, 2011

CITY OF NORTH BAY VILLAGE FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended September 30, 2010

Federal Agency, Pass-through Entity Federal Program	CFDA Number	Contract/Grant Number	Expenditures	Transfers to Subrecipients
FEDERAL AGENCY NAME:				
Direct Programs:				
Department of Justice:				
Federal Forfeitures	* 16.XXX	-	\$ 585,120	\$ -
Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0215	75,089	-
Edward Bryne Memorial Justice Grant	16.803	2010-ARRD-DADE-4-W8-064	7,551	-
JAG Grant	16.738	2010-JACG-DADE-8-4Y-122	1,824	-
Indirect Programs:				
Environmental Protection Agency - Passed through the Florida Department of Environmental Protection:				
Capitalization Grants for Clean Water State Revolving Funds	* 66.458	WW803060	1,555,815	-
Department of Transportation - Passed through the Florida Department of Transportation:				
Highway Planning and Construction	20.205	426462-1	<u>31,880</u>	-
Total Expenditures of Federal Awards			<u>\$ 2,257,279</u>	<u>\$ -</u>

NOTE: This schedule was prepared on the accrual basis of accounting.

* Denotes a major program

CITY OF NORTH BAY VILLAGE, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses a qualified opinion on the financial statements of City of North Bay Village, Florida.
2. Material weaknesses relating to the audit of the basic financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of City of North Bay Village, Florida were disclosed during the audit.
4. No material weaknesses relating to the audit of the major Federal programs are reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major Federal programs for City of North Bay Village, Florida expresses an unqualified opinion.
6. There are no findings relative to the major Federal programs for City of North Bay Village, Florida reported in Part C of this schedule.
7. The programs tested as major programs are as follows:

Federal Program	Federal CFDA Number
Environmental Protection Agency - Capitalization Grants for Clean Water State Revolving Funds	66.458
United States Department of Justice Federal Forfeitures	16.XXX

8. The threshold for distinguishing Type A and Type B projects was \$ 300,000 for major Federal programs.
9. City of North Bay Village, Florida was determined not to be a low risk auditee pursuant to OMB Circular A-133.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS

NONE

D. OTHER ISSUES

1. No summary schedule of prior audit findings is required because there were no prior audit findings related to Federal Programs.
2. No corrective action plan is required because there were no findings required to be reported under the Federal Single Audit Act.

CITY OF NORTH BAY VILLAGE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2010

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

PRIOR YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

	<u>STILL APPLICABLE</u>	<u>IMPLEMENTED OR NO LONGER RELEVANT</u>
1999-1: Utility Fund Reserve		X
2000-3: General Fixed Assets	X	
2006-1: Capital Asset Subsidy Ledgers	X	
2006-3: General Ledger Maintenance	X	
2007-1: Audit Journal Entries	X	
2008-1: Grants Management and Administration		X
2009-1: Bank Reconciliations	X	

2000-3: General Fixed Assets:

During our audit and previous audits, 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. We recommend 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:

Although we started addressing this issue during the prior year, we were unable to finish due to the fact that our offices were moved, and the process was interrupted. However, we have already started performing the physical inventory of fixed assets subsequent to year end, and should be able to have a full count ready towards the end of fiscal year 2012.

2006-1: Capital Assets Detail Ledger:

The City maintains a manually prepared schedule for tracking its capital assets using a spreadsheet program. During our audit, we noted that the schedule was not 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. We recommend that the City 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.

CITY OF NORTH BAY VILLAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

PRIOR YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

Management's Response:

The City is currently looking into obtaining integrated software which would include a fixed asset module that would allow us to properly track fixed assets.

2006-3 and 2007-1: General Ledger Maintenance and Audit Journal Entries (Significant Deficiency):

The City's financial audit required numerous material adjusting journal entries in order to prepare financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") and related standards. The financial statements are required to be a product of an internal financial reporting system that offers reasonable assurance that management is able to produce financial statements in accordance with GAAP. We recommend that the City reviews interim financial data to ensure that the time necessary to research the composition of year-end general ledger balances is minimal.

Management's Response

Management agrees that general ledger accounts should be reconciled on a monthly basis. During the year ended September 30, 2010, the accounting personnel were working towards properly reconciling all accounts. The City hired an outside consultant to help with the cash reconciliation, which is technical due to the current software's programmed method of posting transactions. The original plan was for the outside consultant to be able to reconcile cash, while the City's accounting personnel focused on the rest of the accounts. However, the outside consultant never finished the task for which they were engaged for, and this forced the accounting department to have to change the original plan in order to be able to have cash reconciled in time for the audit. The City and the Finance Director acknowledge that the main problem areas relate to cash, payroll liabilities, as well as accruals related to capital projects, and will implement procedures to be able to properly address these issues before the next audit takes place.

2009-1: Bank Reconciliations (Material Weakness):

During our audit, we noted that reconciliations of the City's operating cash accounts had not been performed for a significant portion of the fiscal year. This condition can result in errors, going undetected for long periods of time and result in material differences between the City's true cash position and that which is reflected on the City's general ledger. We recommend that the City, along with other closing procedures (2010-2), reconcile its cash accounts within two weeks of the end of a monthly period. In addition to the preparation of bank reconciliations by a designated individual, there should be another individual charged with the review and approval of the reconciliation once it is prepared.

Management's Response:

As mentioned in the management response for management letter comments 2006-3 and 2007-1, the City had engaged a private firm as consultants to help us reconcile cash, but they were not able to deliver the product for which they were engaged, therefore it prevented us from executing our plan as we intended to. Now that cash has been reconciled through the collaboration of our accounting department and our current auditors, we believe that we should be able to keep cash up to date and reconciled on a consistent basis. Because of this, we believe that this should be a significant deficiency and not a material weakness. We did follow our prior auditor's recommendation, but the fact that the firm that was hired did not finish the job was out of our control.

CITY OF NORTH BAY VILLAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

PRIOR YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

2010-1: Accounts Payable Subsidiary Ledger (Significant Deficiency):

During our audit, the City was unable to provide us with a listing of its outstanding accounts payable as of September 30, 2010. One of the main causes of this was the fact that the City does not have monthly closing procedures in place, which would include the reconciliation of an accounts payable subsidiary ledger to its corresponding general ledger detail account prior to the close of a period in the City's accounting system. Once a period is closed, it is not possible to go back and retrieve a subsidiary ledger from a prior date which reconciles to the City's general ledger balance. In conjunction with other closing procedures, we recommend that the City reconcile its accounts payable subsidiary ledger to the general ledger each month.

Management's Response:

As mentioned in 2006-1, the City is currently looking into obtaining integrated accounting software. This software would include a module for accounts payable that would allow us to provide the auditors with a detailed report of accounts payable along with an aging report of outstanding balances. Also, the accounting department was able to provide auditors with a reconciliation of the balances within our accounts payable account towards the end of the audit along with supporting documentation of cash disbursements. The software under which we are currently operating is limited in the options offered and is the main reason why we are not able to provide auditors with a simplified report that ties back to the detail. Information is compiled individually and manually reconciled to the general ledger, which is time consuming. Given that we were able, through collaboration with our current auditors, to provide a reconciliation of A/P with supporting documentation, and the fact that we are limited by the options offered by our current software, we believe this to be a control deficiency but not a significant one.

2010-2: Implement Formal Monthly Closing Procedures (Significant Deficiency):

As discussed in items 2006-3 and 2007-1, we recommended numerous adjusting journal entries during our audit. In addition, we experienced delays in obtaining complete and accurate trial balances. We are cognizant of the multiple administrative changes implemented by the City near the conclusion of its 2010 and throughout the following fiscal year and the related challenges; however, we believe that the City would benefit from developing a formal monthly closing process. We believe that the year-end closing could proceed more quickly by developing a 1) closing schedule that indicates who will perform each procedure, 2) when completion is due and 3) designate an individual responsible for monitoring and overseeing the procedures and general ledger maintenance. The procedures should include but are not limited to ensuring that:

- Bank reconciliations are performed and reviewed within ten days of a monthly close,
- Subsidiary ledgers (accounts payable and receivables) are reconciled and agreed to the trial balance,
- Proper identification of capital outlay and related in-progress projects,
- Ensure proper revenue recognition and cutoff, and
- Settlement of monthly due to/from balances

CITY OF NORTH BAY VILLAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

CURRENT YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

This process will also assist in the timely preparation of financial statements as discussed in item 2007-1.

In addition, in order to ensure that all closing procedures are performed on a timely basis, we also recommend that a comprehensive checklist be prepared to be used by both the accounting and servicing departments. The checklist should cover all procedures that the City determines need to be performed on a periodic basis including, but not limited to, month end procedures such as bank reconciliations, and general ledger account analysis, as indicated above.

Management's Response:

Noted, please refer to management responses provided in management letter comments 2007-1, and 2009-1.

2010-03: Document Significant Operational and Accounting Processes:

We recommend that the City institute a program to methodically identify and document its significant operational and accounting processes. Processes include activities and procedures involved in repeatable operational or accounting transactions or events, such as hiring new employees, paying invoices, processing payroll, taking physical inventory of Fixed Assets, preparing and approving journal entries, etc.

Accounting processes, in particular, are procedures to initiate, authorize, record, process, and report transactions and involve activities such as the following:

1. Capturing, sorting, and merging data,
2. Making calculations,
3. Updating transactions and master files,
4. Generating transactions,
5. Summarizing and displaying or reporting data,
6. Correcting and reprocessing previously rejected transactions, and
7. Correcting erroneous transactions through adjusting journal entries.

Documenting a process involves identifying and gaining an understanding of the events or transactions that trigger performance of the process, the automated or manual procedures used in performing the process, the person or position responsible for performing the procedures, the source documents used or generated, the procedures for approval and review and correction of any errors detected, and the financial or operational entries or reports summarizing the result of the process. Procedures that may be used to gain an understanding of the workflow or flow of transactions include inquiry of City personnel; observation of them performing their duties; inspection of documents, forms, and records used in or produced in the process; tracing transactions through the system; and performing a walk-through of the procedures performed in the process. It may include policy manuals, process models, flowcharts, job descriptions, documents, and forms, and can be in paper form, electronic files, or other media.

CITY OF NORTH BAY VILLAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

CURRENT YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

Management's Response:

We are currently updating our internal control policies. We started the process during the year ended September 30, 2010, but due to current administrative changes, along with issues encountered during the year, which included having to deal with issues encountered with the consultant hired to help us with cash and internal controls, we were unable to finish. However, we started the process again subsequent to year end. We will take this suggestion into consideration and incorporate it to our updated policies going forward.

2010-04: Assess the Accounting Department Staffing Needs:

It was apparent that the recent reduction of accounting staff is putting a strain on the current staff to complete their responsibilities in a timely manner. For example, we noted that there was a significant increase in the time spent to accomplish their day to day responsibilities, as well as on the time needed to close the financial reports of the City. The situation will likely only get worse as the City grows and transactions and reporting requirements increase. We recommend that the City Manager, along with the Finance Director, assess the staffing needs of the accounting department and plan for increasing capacity through hiring or reorganizing the current responsibilities.

Management's Response:

We realize this issue and agree that the lack of personnel is causing a strain, especially in the accounting department. Many of the accounting department staff are cross-trained and typically are reassigned to various other non-accounting tasks to fill positions temporarily, and the detailed work that the accounting department is responsible for is then delayed. We have also experienced a decrease in the amount of people in the department. These issues interrupt work flow, create delays, and increase the risk of error.

2010-05: Review Customer Accounts Receivable and the Allowance for Doubtful Accounts in the Enterprise Fund (Significant Deficiency):

The accounts receivable aging report and related allowance for doubtful accounts are not being analyzed periodically, resulting in the requirement of adjustments as a result of our audit. We recommend that the Accounting Department review the accounts receivable aging report and prepare an analysis of uncollectible accounts at least quarterly. This analysis should consider prior charge-off experience and experience with the customer, as well as other information management may have about the account, such as indications of financial difficulty. Accounting personnel should adjust the allowance for doubtful accounts after reviewing the analysis of uncollectible accounts and making appropriate collection efforts, in order to collect as much as possible and to ensure that the estimated loss from uncollectible accounts receivable is reflected on the balance sheet. Furthermore, we noted during the audit that there were delinquent accounts related to Utility billings, for which the City had not placed liens on the properties; hence not allowing them to have leverage when trying to collect the outstanding amount. We also noted that this process is not being followed as City Management has not properly defined which employee should be responsible for this process. We recommend that the City implements a process which states who, how often and what actions need to be taken regarding customer accounts receivable.

CITY OF NORTH BAY VILLAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

CURRENT YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

Management's Response:

Through the suggestion of our auditors, we will be re-evaluating the procedures followed in relation to the estimate for uncollectible accounts for the utility fund. Also, we will ensure that all the properties for which we have outstanding balances have a lien assigned to them.

2010-06: Restrict Access of Multiple Main-Street users to Data Files (Significant Deficiency):

The City uses Main-street accounting software, which allows more than one user to access accounting activity. We believe that because multiple users have access to the City's data files, steps should be taken to protect the data from unauthorized use. The designated Administrator should specify the areas to which each person will have access and whether that access is to be full or selective. If only selective access is granted, the designated Administrator should also specify whether the user can (a) create transactions only, (b) create and print transactions, or (c) create both transactions and reports. Even if users were granted full access in a particular area, they would not be able to change or delete transactions in that area unless they were given permission to do so.

Management's Response:

Access levels in our current software are not being properly addressed, but this is a function of the software having limited options. We have tried to address this issue in the past with customer service and they have not been able to provide us with a solution. The City is currently considering obtaining new integrated accounting software that will allow us to properly address this deficiency.

2010-07: Consider Implementing an Enterprise Risk Management (ERM) Program:

Today more than ever, a City will face risks from both expected and unexpected channels. To weather the current financial crisis, the City has to be more proactive than ever when identifying, assessing, prioritizing, and managing those risks. (i.e. Liquidity Problems, Security Risks, Credit Risks, Fraud Risks, Compliance Risks, and Strategic Risks). Enterprise risk management (ERM) is an efficient and functional approach to managing these risks. Using ERM, the City can align their tolerance for risk with its current strategy by identifying events that could have an adverse effect on the City's operations and related results, and developing an action plan to deal with those events. In addition, ERM can help the City:

1. Achieve organizational goals by identifying strategic risk opportunities.
2. Enable the City Manager and those charged with governance to make the best decisions by providing them with the latest risk information.
3. Align risk identification and risk management with annual performance goals.
4. Encourage employees to communicate any risks and challenges that they might be facing.

CITY OF NORTH BAY VILLAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2010

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

CURRENT YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

To design and implement an effective ERM within the City, we recommend that they do the following:

1. Define the City's risk tolerance clearly and communicate it throughout the different Departments.
2. Formally document the risk management structure.
3. Clearly define the roles and responsibilities of individuals involved in the process.
4. Use technology as much as possible when creating reports and monitoring tools.

Management's Response:

We will consider this as an option.