

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

September 30, 2011

CITY OF NORTH BAY VILLAGE, FLORIDA
 BASIC FINANCIAL STATEMENTS
 AND OTHER SCHEDULES
 For the Year Ended September 30, 2011

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CITY OF NORTH BAY VILLAGE, FLORIDA
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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of North Bay Village, Florida. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of North Bay Village, Florida as of September 30, 2011, 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 June 26, 2012 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.

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.

City of North Bay Village, Florida

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
June 26, 2012

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

CITY OF NORTH BAY VILLAGE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2011

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, 2011.

FINANCIAL HIGHLIGHTS

The assets of the City of North Bay Village exceeded its liabilities at the close of the most recent fiscal year by \$ 12,494,095 (net assets). Governmental net assets amount to \$ 3,946,245 and business-type net assets amount to \$ 8,507,850. The City's net assets increased by \$ 3,650,262 during the current fiscal year.

For the fiscal year ended September 30, 2011, the City's governmental activities revenues, expenses and transfers in were \$ 7,220,855, \$ 7,138,548 and \$ 217,264 respectively. As a result, governmental net assets increased by \$ 299,571.

For the fiscal year ended September 30, 2011, the City's business-type activities revenues, expenses and transfers out were \$ 7,346,736, \$ 3,778,781 and \$ 217,264 respectively. As a result, business-type net assets increased by \$ 3,350,691 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 8 and 9 of this report.

CITY OF NORTH BAY VILLAGE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2011

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 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 and 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 34 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets over time may serve 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 \$ 12,454,095 at the close of September 30, 2011. Governmental activities net assets totaled \$ 3,946,245, and business-type activities net assets totaled \$ 8,507,850. 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, 2011

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 6,175,626	\$ 6,474,217	\$ 679,923	\$ 827,973	\$ 6,855,549	\$ 7,302,190
Restricted assets	-	-	460,635	401,320	460,635	401,320
Capital assets, net	8,405,835	8,096,811	10,729,333	6,873,756	19,135,168	14,970,567
Total assets	14,581,461	14,571,028	11,869,891	8,103,049	26,451,352	22,674,077
Current and other liabilities	1,000,216	1,181,075	1,471,199	1,749,929	2,471,415	2,931,004
Long term liabilities	9,635,000	9,743,279	1,890,842	1,195,961	11,525,842	10,939,240
Total liabilities	10,635,216	10,924,354	3,362,041	2,945,890	13,997,257	13,870,244
Net assets:						
Invested in capital assets, net of related debt	1,914,249	1,364,245	8,991,838	5,854,619	10,906,087	7,218,864
Restricted	1,569,472	571,581	-	-	1,569,472	571,581
Unrestricted (deficit)	462,524	1,710,848	(483,988)	(697,460)	(21,464)	1,013,388
Total net assets	\$ 3,946,245	\$ 3,646,674	\$ 8,507,850	\$ 5,157,159	\$ 12,454,095	\$ 8,803,833

Unrestricted net assets totaled \$ (21,464) on September 30, 2011.

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, 2011, the City of North Bay Village is able to report positive balances in all two categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities, except the unrestricted balance of the business-type activities had a deficit of \$ 483,988. The City's total net assets increased by \$ 3,650,262 during the current fiscal year.

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 1,470,474	\$ 448,049	\$ 4,638,378	\$ 4,577,419	\$ 6,108,852	\$ 5,025,468
Operating grants and contributions	302,416	109,220	-	-	302,416	109,220
Capital grants and contributions	31,880	166,254	2,707,001	2,601,923	2,738,881	2,768,177
General revenues:						
Property taxes	3,420,449	4,635,298	-	-	3,420,449	4,635,298
Other taxes and fees	1,815,477	1,810,379	-	-	1,815,477	1,810,379
Other general revenues	180,159	319,631	1,357	461	181,516	320,092
Total revenues	7,220,855	7,488,831	7,346,736	7,179,803	14,567,591	14,668,634

CITY OF NORTH BAY VILLAGE, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2011

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Expenses:						
General government	1,628,104	1,933,488	-	-	1,628,104	1,933,488
Public safety	4,300,816	4,279,969	-	-	4,300,816	4,279,969
Building, planning, and zoning	198,746	263,396	-	-	198,746	263,396
Public works	633,390	550,599	-	-	633,390	550,599
Parks and recreation	79,365	73,405	-	-	79,365	73,405
Interest on long term debt	298,126	354,340	-	-	298,126	354,340
Utility	-	-	3,726,551	4,573,136	3,726,551	4,573,136
Stormwater utility	-	-	52,230	84,772	52,230	84,772
Total expenses	7,138,548	7,455,197	3,778,781	4,657,908	10,917,329	12,113,105
Increase in net assets before transfers	82,307	33,634	3,567,955	2,521,895	3,650,262	2,555,529
Transfers	217,264	-	(217,264)	-	-	-
Increase in net assets	299,571	33,634	3,350,691	2,521,895	3,650,262	2,555,529
Net assets, October 1	3,646,674	3,613,040	5,157,159	2,635,264	8,803,833	6,248,304
Net assets, September 30	<u>\$ 3,946,245</u>	<u>\$ 3,646,674</u>	<u>\$ 8,507,850</u>	<u>\$ 5,157,159</u>	<u>\$ 12,454,095</u>	<u>\$ 8,803,833</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 \$ 5,133,625, a decrease of \$ 273,234 from the prior year. Approximately 36% of this total amount, \$ 1,820,214, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is deemed nonspendable, restricted, committed or assigned to indicate it is not available for new spending because it has already been categorized for a variety of purposes, such as future spending 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, unassigned fund balance of the general fund in the fund financial statements was \$ 2,003,995. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 32% of total general fund expenditures excluding debt service expenditures.

The fund balance of the City's general fund in the fund financial statements decreased by \$ 629,454 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 \$ 8,507,850. 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, 2011

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, 2011 amounted to \$ 8,405,835 and \$ 10,729,333, 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 27 and 28 of the notes to the financial statements.

Debt - Excluding compensated absences, the City's debt totaled \$ 10,042,495 at September 30, 2011. Total debt outstanding, excluding compensated absences, at the end of the prior fiscal year was \$ 9,459,425. 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 29 through 31 of the notes to the financial statements. Outstanding debt as of September 30, 2011 and 2010 consisted of the following:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Long-term debt:						
General obligation						
Note, Series 2010	\$ 6,145,000	\$ -	\$ -	\$ -	\$ 6,145,000	\$ -
Note, Series 2008	-	6,250,000	-	-	-	6,250,000
General obligation						
Note, Series 2010	2,160,000	2,160,000	-	-	2,160,000	2,160,000
Revolving State Loans	-	-	1,737,495	1,019,137	1,737,495	1,019,137
Capital leases	-	30,288	-	-	-	30,288
Compensated absences	1,330,000	1,302,991	153,347	176,824	1,483,347	1,479,815
Total	\$ 9,635,000	\$ 9,743,279	\$ 1,890,842	\$ 1,195,961	\$ 11,525,842	\$ 10,939,240

GENERAL FUND BUDGETARY HIGHLIGHTS

- General fund revenues were \$ 392,032 less than the original budget. The primary reason was that fines and forfeitures revenues did not meet anticipated budget amounts.
- General Fund expenditures were higher than the original budget by \$ 239,274. The two main areas were unanticipated legal expenses and some personnel costs in the police department.

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 2012 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 2012 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.

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BASIC FINANCIAL STATEMENTS

CITY OF NORTH BAY VILLAGE, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2011

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
ASSETS:			
Cash, cash equivalents and investments	\$ 4,412,513	\$ 595,955	\$ 5,008,468
Receivables, net	665,667	1,054,192	1,719,859
Internal balances	972,724	(972,724)	-
Restricted cash	-	460,635	460,635
Deferred charges	124,722	2,500	127,222
Capital assets:			
Non-depreciable	7,107,466	6,724,666	13,832,132
Depreciable, net	<u>1,298,369</u>	<u>4,004,667</u>	<u>5,303,036</u>
Total assets	<u>14,581,461</u>	<u>11,869,891</u>	<u>26,451,352</u>
LIABILITIES:			
Accounts payable	721,819	1,005,001	1,726,820
Accrued liabilities	195,461	127,159	322,620
Customer deposits	-	339,039	339,039
Accrued interest payable	82,936	-	82,936
Due within one year:			
Compensated absences payable	35,117	25,558	60,675
Bonds payable	372,857	171,921	544,778
Due in more than one year:			
Compensated absences payable	1,294,883	127,789	1,422,672
Bonds payable	<u>7,932,143</u>	<u>1,565,574</u>	<u>9,497,717</u>
Total liabilities	<u>10,635,216</u>	<u>3,362,041</u>	<u>13,997,257</u>
NET ASSETS:			
Invested in capital assets, net of related debt	1,914,249	8,991,838	10,906,087
Restricted for:			
Transportation	260,184	-	260,184
Park improvements	357,468	-	357,468
Law enforcement	951,820	-	951,820
Unrestricted net assets (deficit)	<u>462,524</u>	<u>(483,988)</u>	<u>(21,464)</u>
Total net assets	<u>\$ 3,946,245</u>	<u>\$ 8,507,850</u>	<u>\$ 12,454,095</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, 2011

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	\$ 1,628,104.40	\$ 63,842.00	\$ -	\$ -	\$ (1,564,262.40)	\$ -	\$ (1,564,262)
Public safety	4,300,816.42	1,187,213.00	69,694.00	-	(3,043,909.42)	-	(3,043,909)
Building, planning and zoning	198,746.48	219,419.00	-	-	20,672.52	-	20,673
Public works	633,389.92	-	214,742.00	31,880.00	(386,767.92)	-	(386,768)
Parks and recreation	79,364.60	-	17,980.00	-	(61,384.60)	-	(61,385)
Interest on long-term debt	298,126.00	-	-	-	(298,126.00)	-	(298,126)
Total governmental activities	7,138,547.82	1,470,474.00	302,416.00	31,880.00	(5,333,777.82)	-	(5,333,778)
Business-type activities:							
Utility Fund	3,726,551.00	4,514,865.00	-	2,707,001.00	-	3,495,315	3,495,315
Stormwater Utility Fund	52,230.00	123,513.00	-	-	-	71,283	71,283
Total business-type activities	3,778,781.00	4,638,378.00	-	2,707,001.00	-	3,566,598	3,566,598
Total	\$ 10,917,328.82	\$ 6,108,852.00	\$ 302,416.00	\$ 2,738,881.00	(5,333,777.82)	3,566,598	(1,767,180)
General revenues:							
Taxes:							
Ad valorem taxes					3,420,449	-	3,420,449
Franchise fees					384,644	-	384,644
Utility service taxes					434,136	-	434,136
Local option gas tax					105,942	-	105,942
Communication service tax					291,579	-	291,579
State revenue sharing					164,892	-	164,892
Local 1/2 cent sales tax					421,916	-	421,916
Other intergovernmental					12,368	-	12,368
Interest income					27,422	1,357	28,779
Miscellaneous					152,737	-	152,737
Transfers					217,264	(217,264)	-
Total general revenues					5,633,349	(215,907)	5,417,442
Change in net assets					299,571	3,350,691	3,650,262
Net assets, beginning					3,646,674	5,157,159	8,803,833
Net assets, ending					\$ 3,946,245	\$ 8,507,850	\$ 12,454,095

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, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Federal Forfeiture Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:						
Cash, cash equivalents and investments	\$ 1,352,269	\$ 1,560,288	\$ 962,753	\$ 188,876	\$ 348,327	\$ 4,412,513
Receivables	604,575	-	-	-	61,093	665,668
Due from other funds	<u>802,147</u>	<u>353,327</u>	<u>-</u>	<u>-</u>	<u>261,479</u>	<u>1,416,953</u>
Total assets	<u>\$ 2,758,991</u>	<u>\$ 1,913,615</u>	<u>\$ 962,753</u>	<u>\$ 188,876</u>	<u>\$ 670,899</u>	<u>\$ 6,495,134</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable	\$ 504,239	\$ 207,613	\$ 8,493	\$ -	\$ 1,474	\$ 721,819
Accrued liabilities	194,246	-	750	-	465	195,461
Due to other funds	<u>1,264</u>	<u>17,310</u>	<u>35,920</u>	<u>353,327</u>	<u>36,408</u>	<u>444,229</u>
Total liabilities	<u>699,749</u>	<u>224,923</u>	<u>45,163</u>	<u>353,327</u>	<u>38,347</u>	<u>1,361,509</u>
Fund Balances:						
Restricted for:						
Law enforcement	-	-	917,590	-	34,230	951,820
Public works	-	1,688,692	-	-	260,184	1,948,876
Culture and recreation	-	-	-	-	357,468	357,468
Assigned to subsequent year budget	55,247	-	-	-	-	55,247
Unassigned (Deficit)	<u>2,003,995</u>	<u>-</u>	<u>-</u>	<u>(164,451)</u>	<u>(19,330)</u>	<u>1,820,214</u>
Total fund balances (Deficit)	<u>2,059,242</u>	<u>1,688,692</u>	<u>917,590</u>	<u>(164,451)</u>	<u>632,552</u>	<u>5,133,625</u>
Total liabilities and fund balances (Deficit)	<u>\$ 2,758,991</u>	<u>\$ 1,913,615</u>	<u>\$ 962,753</u>	<u>\$ 188,876</u>	<u>\$ 670,899</u>	<u>\$ 6,495,134</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, 2011

TOTAL FUND BALANCES OF GOVERNMENTAL FUNDS
IN THE BALANCE SHEET, PAGE 10 \$ 5,133,625

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	\$ 12,452,897	
Less accumulated depreciation	<u>(4,047,062)</u>	8,405,835

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. 124,722

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

Bonds payable	\$ (8,305,000)	
Compensated absences	(1,330,000)	
Accrued interest payable	<u>(82,937)</u>	<u>(9,717,937)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES, PAGE 8 \$ 3,946,245

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, 2011

	General Fund	Capital Projects Fund	Federal Forfeiture Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes	\$ 3,460,696	\$ -	\$ -	\$ 393,885	\$ 214,742	\$ 4,069,323
Licenses and permits	219,419	-	-	-	-	219,419
Franchise fees	384,646	-	-	-	-	384,646
Intergovernmental revenue	1,066,391	31,880	-	-	9,080	1,107,351
Charges for services	63,842	-	-	-	-	63,842
Fines and forfeitures	117,341	-	1,070,602	-	-	1,187,943
Interest income	17,292	9,062	1,066	-	-	27,420
Other	93,925	-	58,083	-	8,900	160,908
Total revenues	5,423,552	40,942	1,129,751	393,885	232,722	7,220,852
EXPENDITURES:						
Current:						
General government	1,509,407	-	-	-	-	1,509,407
Public safety	3,920,559	-	265,345	-	8,772	4,194,676
Public works	534,270	-	-	-	68,599	602,869
Building, planning and zoning	175,007	-	-	-	-	175,007
Parks and recreation	32,266	-	-	-	33,910	66,176
Capital outlay	12,811	498,957	55,246	-	7,288	574,302
Debt service:						
Principal	6,280,285	-	-	180,000	-	6,460,285
Interest and fiscal charges	75,417	-	-	378,211	-	453,628
Total expenditures	12,540,022	498,957	320,591	558,211	118,569	14,036,350
Excess (deficiency) of revenues over expenditures	(7,116,470)	(458,015)	809,160	(164,326)	114,153	(6,815,498)
OTHER FINANCING SOURCES (USES):						
Transfers in	217,264	-	-	-	55,248	272,512
Transfers out	(55,248)	-	-	-	-	(55,248)
Debt Proceeds	6,325,000	-	-	-	-	6,325,000
Total other financing sources (uses)	6,487,016	-	-	-	55,248	6,542,264
Net change in fund balance	(629,454)	(458,015)	809,160	(164,326)	169,401	(273,234)
FUND BALANCES, beginning of year	2,688,696	2,146,707	108,430	(125)	463,151	5,406,859
FUND BALANCES (Deficit), end of year	\$ 2,059,242	\$ 1,688,692	\$ 917,590	\$ (164,451)	\$ 632,552	\$ 5,133,625

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, 2011

NET CHANGES IN FUND BALANCES - TOTAL
GOVERNMENTAL FUNDS, PAGE 12 \$ (273,234)

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	572,796
Less current year provision for depreciation	(263,772)

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

Bond proceeds	(6,325,000)
---------------	-------------

Repayment of debt principal is an expenditure in the
governmental funds, but the repayment reduces long term
liabilities in the statement of net assets. 6,460,285

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. 70,000

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	\$	94,788	
Change in long-term compensated absences		(27,009)	
Amortization of bond issuance costs		(9,283)	58,496

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES,
PAGE 9 \$ 299,571

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, 2011

	Business-Type Activities		Total
	Enterprise Funds		
	Major Fund	Nonmajor Fund	
	Utility Fund	Stormwater Utility Fund	
ASSETS:			
Current assets:			
Cash, cash equivalents and investments	\$ 289,269	\$ 306,686	\$ 595,955
Restricted cash	460,635	-	460,635
Customer accounts receivable	372,847	30,389	403,236
Other receivables	650,956	-	650,956
Due from other funds	1,264	-	1,264
Total current assets	1,774,971	337,075	2,112,046
Noncurrent assets:			
Deferred charges	2,500	-	2,500
Capital assets:			
Non-depreciable	6,724,666	-	6,724,666
Depreciable, net	3,563,382	441,285	4,004,667
Total assets	\$ 12,065,519	\$ 778,360	\$ 12,843,879
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 1,003,501	\$ 1,500	\$ 1,005,001
Accrued liabilities	127,159	-	127,159
Due to other funds	973,988	-	973,988
Payable from restricted assets:			
Customer deposits	339,039	-	339,039
Current portion of compensated absences payable	25,558	-	25,558
Current portion of debt	171,921	-	171,921
Total current liabilities	2,641,166	1,500	2,642,666
Long term liabilities:			
Compensated absences payable	127,789	-	127,789
Debt	1,565,574	-	1,565,574
Total long-term liabilities	1,693,363	-	1,693,363
Total liabilities	4,334,529	1,500	4,336,029
NET ASSETS:			
Invested in capital assets, net of related debt	8,550,553	441,285	8,991,838
Unrestricted net assets (deficit)	(819,563)	335,575	(483,988)
Total net assets	7,730,990	776,860	8,507,850
Total liabilities and net assets	\$ 12,065,519	\$ 778,360	\$ 12,843,879

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, 2011

	Business-Type Activities Enterprise Funds		Total
	Major Fund	Nonmajor Fund	
	Utility Fund	Stormwater Utility Fund	
OPERATING REVENUES:			
Sanitation charges	\$ 1,487,069	\$ -	\$ 1,487,069
Sewer charges	1,449,172	-	1,449,172
Metered water charges	1,433,041	-	1,433,041
Service fees and late penalties	145,583	9,449	155,032
Stormwater user fees	-	114,064	114,064
	<u>4,514,865</u>	<u>123,513</u>	<u>4,638,378</u>
Total operating revenues			
OPERATING EXPENSES:			
Payroll and related expenses	1,223,465	-	1,223,465
Sewage disposal fees	764,701	-	764,701
Materials, supplies, repairs and other	523,563	15,854	539,417
Water purchases	660,887	-	660,887
Solid waste disposal and recycling services	366,244	-	366,244
Provision for uncollected accounts receivable	(21,888)	2,910	(18,978)
Provision for depreciation and amortization	175,152	33,466	208,618
	<u>3,692,124</u>	<u>52,230</u>	<u>3,744,354</u>
Total operating expenses			
Operating income	<u>822,741</u>	<u>71,283</u>	<u>894,024</u>
NONOPERATING REVENUES (EXPENSES):			
Grant revenues	2,660,844	46,157	2,707,001
Interest income	1,357	-	1,357
Interest expense	(34,427)	-	(34,427)
	<u>2,627,774</u>	<u>46,157</u>	<u>2,673,931</u>
Total nonoperating revenues (expenses)			
TRANSFERS:			
Transfers out	(217,264)	-	(217,264)
	<u>(217,264)</u>	<u>-</u>	<u>(217,264)</u>
Total transfers			
Change in net assets	3,233,251	117,440	3,350,691
NET ASSETS, beginning of year	<u>4,497,739</u>	<u>659,420</u>	<u>5,157,159</u>
NET ASSETS, end of year	<u>\$ 7,730,990</u>	<u>\$ 776,860</u>	<u>\$ 8,507,850</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, 2011

	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	\$ 4,495,900	\$ 113,472	\$ 4,609,372
Payments to employees	(1,246,942)	-	(1,246,942)
Payments to suppliers	(2,569,390)	(26,705)	(2,596,095)
Net cash provided by operating activities	<u>679,568</u>	<u>86,767</u>	<u>766,335</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(3,966,580)	(97,615)	(4,064,195)
Proceeds from capital grants	3,085,342	46,157	3,131,499
Transfers from other funds	(376,977)	-	(376,977)
Proceeds from SRF loans	839,405	-	839,405
Repayments of SRF loans	(121,047)	-	(121,047)
Interest paid	(29,981)	-	(29,981)
Net cash used in capital and related financing activities	<u>(569,838)</u>	<u>(51,458)</u>	<u>(621,296)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	<u>1,357</u>	<u>-</u>	<u>1,357</u>
Net cash provided by investing activities	<u>1,357</u>	<u>-</u>	<u>1,357</u>
Net increase in cash and cash equivalents	111,087	35,309	146,396
CASH AND CASH EQUIVALENTS, beginning	<u>638,817</u>	<u>271,377</u>	<u>910,194</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 749,904</u>	<u>\$ 306,686</u>	<u>\$ 1,056,590</u>
CASH AND CASH EQUIVALENTS REPORTED ON THE STATEMENT OF NET ASSETS:			
Cash, cash equivalents and investments	\$ 289,269	\$ 306,686	\$ 595,955
Restricted cash	<u>460,635</u>	<u>-</u>	<u>460,635</u>
	<u>\$ 749,904</u>	<u>\$ 306,686</u>	<u>\$ 1,056,590</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, 2011

	Business-type Activities Enterprise Funds		Total
	Major Fund	Nonmajor Fund	
	Utility Fund	Stormwater Utility Fund	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ <u>822,741</u>	\$ <u>71,283</u>	\$ <u>894,024</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Provision for depreciation	175,152	33,466	208,618
(Increase) decrease in:			
Receivables	(19,613)	(10,041)	(29,654)
Increase (decrease) in:			
Accounts payable	(275,883)	(7,941)	(283,824)
Customer deposits	648	-	648
Compensated absences	<u>(23,477)</u>	<u>-</u>	<u>(23,477)</u>
Total adjustments	<u>(143,173)</u>	<u>15,484</u>	<u>(127,689)</u>
Net cash provided by operating activities	\$ <u><u>679,568</u></u>	\$ <u><u>86,767</u></u>	\$ <u><u>766,335</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, 2011

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 is 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, 2011

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:

- General Fund – this 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.
- Capital Projects Fund – this fund accounts for the acquisition or construction of various major capital projects.
- Federal Forfeitures Fund – this fund accounts for certain expenditures of legally restricted fund received from government agencies.
- Debt Service Fund – this fund accounts for the collection and payment of debt.

The City reports the following major proprietary fund:

- Utility Fund - 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, 2011

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 \$ 164,846 was deemed necessary for the proprietary funds. This is the amount of the past due and penalties due accounts as of September 30, 2011.

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, 2011

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, 2011

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 balance:

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."

Fund balance:

During the year, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement requires that governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent.

The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. "Not in spendable form" includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as long-term amount of loans and notes receivable, as well as property acquired for resale. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission. These amounts cannot be used for any other purpose unless the Commission removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commission or through the Commission delegating this responsibility to City management.

Unassigned: This classification includes the residual fund balance for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes. In addition, amounts deemed by the City ordinances as minimum fund balance requirements are included in this category. Section 35.22 of the City Code of Ordinances requires a reserve of 20% cannot be achieved then the next two years the City will increase the fund balance to meet this requirement. Based on these criteria, the City has met the reserve required in the general fund.

During the year certain funds disclosed deficit fund balances. Those funds reporting deficit fund balances are as follows:

Childrens Services Fund	\$ (19,330)
Debt Service Fund	\$ (164,451)

The City expects to absorb the deficits in the above funds through transfers from the general fund in order to cure these reported deficits.

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, 2011

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, 2011 was \$ 5.2780 per \$ 1,000 of assessed taxable property value. The rate of \$ 5.2780 is allocated to the general fund and debt service fund, with the general fund receiving \$ 4.7772, the debt service fund \$ 0.5008.

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 July 31 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, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

Restricted cash:

Restricted cash consists \$ 339,039 of customer deposits held in the Utility Fund. These funds are owed back to customers when the discontinue service. Additionally, \$ 121,596 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, 2011, the City had the following investments:

	Fair Value	Investment Maturities (in years)
Florida Prime	\$ 31,519	Less than 1
Fund B	21,289	6-10
	\$ 52,808	

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

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, 2011, 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>Non-major Special Revenue Funds</u>	<u>Utility Fund</u>	<u>Stormwater Utility Fund</u>	<u>Total</u>
Customers billed	\$ 167,487	\$ -	\$ 372,847	\$ 30,389	\$ 570,723
Intergovernmental	417,009	61,093	650,956	-	1,129,058
Miscellaneous	20,079	-	-	-	20,079
	<u>\$ 604,575</u>	<u>\$ 61,093</u>	<u>\$ 1,023,803</u>	<u>\$ 30,389</u>	<u>\$ 1,719,860</u>

As of September 30, 2011 accounts payable and accrued liabilities for the City’s individual major and non-major funds are as follows:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Federal Forfeiture Fund</u>	<u>Non-major Special Revenue Funds</u>	<u>Utility Fund</u>	<u>Stormwater Utility Fund</u>	<u>Total</u>
Vendors	\$ 504,239	\$ 45,521	\$ 8,493	\$ 1,474	\$ 316,201	\$ 1,500	\$ 877,428
Contractor	-	162,092	-	-	687,300	-	849,392
	<u>\$ 504,239</u>	<u>\$ 207,613</u>	<u>\$ 8,493</u>	<u>\$ 1,474</u>	<u>\$ 1,003,501</u>	<u>\$ 1,500</u>	<u>\$ 1,726,820</u>

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 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>1,466,407</u>	<u>503,051</u>	<u>-</u>	<u>1,969,458</u>
Total capital assets, not being depreciated	<u>6,604,415</u>	<u>503,051</u>	<u>-</u>	<u>7,107,466</u>
Capital assets, being depreciated:				
Buildings and improvements	2,608,761	-	-	2,608,761
Vehicles	979,646	-	-	979,646
Machinery and equipment	<u>1,687,279</u>	<u>69,745</u>	<u>-</u>	<u>1,757,024</u>
Total capital assets, being depreciated	<u>5,275,686</u>	<u>69,745</u>	<u>-</u>	<u>5,345,431</u>
Less accumulated depreciation for:				
Buildings and improvements	1,391,405	128,225	-	1,519,630
Vehicles	827,879	66,031	-	893,910
Machinery and equipment	<u>1,564,006</u>	<u>69,516</u>	<u>-</u>	<u>1,633,522</u>
Total accumulated depreciation	<u>3,783,290</u>	<u>263,772</u>	<u>-</u>	<u>4,047,062</u>
Total capital assets, being depreciated, net	<u>1,492,396</u>	<u>(194,027)</u>	<u>-</u>	<u>1,298,369</u>
Governmental activities capital assets, net	<u>\$ 8,096,811</u>	<u>\$ 309,024</u>	<u>\$ -</u>	<u>\$ 8,405,835</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ <u>2,807,748</u>	\$ <u>3,916,918</u>	\$ <u>-</u>	\$ <u>6,724,666</u>
Capital assets, being depreciated:				
Improvements other than equipment	7,196,540	147,277	-	7,343,817
Equipment and vehicles	<u>1,229,361</u>	<u>-</u>	<u>-</u>	<u>1,229,361</u>
Total capital assets being depreciated	<u>8,425,901</u>	<u>147,277</u>	<u>-</u>	<u>8,573,178</u>
Less accumulated depreciation for:				
Improvements other than equipment	3,148,867	202,228	-	3,351,095
Equipment and vehicles	<u>1,211,026</u>	<u>6,390</u>	<u>-</u>	<u>1,217,416</u>
Total accumulated depreciation	<u>4,359,893</u>	<u>208,618</u>	<u>-</u>	<u>4,568,511</u>
Total capital assets, being depreciated, net	<u>4,066,008</u>	<u>(61,341)</u>	<u>-</u>	<u>4,004,667</u>
Business-type activities capital assets, net	<u>\$ 6,873,756</u>	<u>\$ 3,855,577</u>	<u>\$ -</u>	<u>\$ 10,729,333</u>

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 5 – CAPITAL ASSETS (continued)

Depreciation expense for the fiscal year ended September 30, 2011 was charged to functions/programs as follows:

Governmental Activities:	
General government	\$ 118,697
Public safety	79,132
Public works	29,015
Parks and recreation	23,739
Building, planning and zoning	<u>13,189</u>
Total depreciation expense - governmental activities	<u><u>\$ 263,772</u></u>
Business-Type Activities:	
Water and sewer systems	\$ 175,152
Stormwater Utility	<u>33,466</u>
Total depreciation expense - business-type activities	<u><u>\$ 208,618</u></u>

NOTE 6 – INTERFUND BALANCES AND TRANSFERS

Due from and to other funds at September 30, 2011 are summarized as follows:

	Due From						Total
	General Fund	Capital Projects Fund	Federal Forfeiture Fund	Debt Service Fund	Non major Revenue Special Funds	Utility Fund	
Due To:							
General Fund	\$ -	\$ 17,310	\$ -	\$ -	\$ 36,408	\$ 748,429	\$ 802,147
Capital Projects Fund	-	-	-	353,327	-	-	353,327
Non major Special Revenue Funds	-	-	35,920	-	-	225,559	261,479
Utilities	<u>1,264</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,264</u>
 Total	<u><u>\$ 1,264</u></u>	<u><u>\$ 17,310</u></u>	<u><u>\$ 35,920</u></u>	<u><u>\$ 353,327</u></u>	<u><u>\$ 36,408</u></u>	<u><u>\$ 973,988</u></u>	<u><u>\$ 1,418,217</u></u>

These balances result from the time lag between the dates (1) Inter-fund 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.

Inter-fund transfers for the year ended September 30, 2011 are summarized as follows:

	Transfer Out		
	General Fund	Utilities Fund	Total
Transfer To:			
General Fund	\$ -	\$ 217,264	\$ 217,264
Transportation Fund	<u>55,248</u>	<u>-</u>	<u>55,248</u>
 Total	<u><u>\$ 55,248</u></u>	<u><u>\$ 217,264</u></u>	<u><u>\$ 272,512</u></u>

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 7 – LONG-TERM DEBT

The following is a summary of changes in debt for the year ended September 30, 2011:

	October 1, 2010	Additions	Payments	September 30, 2011	Due Within One Year
Governmental Activities:					
General obligation note, Series 2008	\$ 6,250,000	\$ -	\$ 6,250,000	\$ -	\$ -
General obligation note, Series 2010	2,160,000	-	-	2,160,000	102,857
General obligation note, Series 2010 Amended	-	6,325,000	180,000	6,145,000	270,000
Capital leases	30,285	-	30,285	-	-
Compensated absences	<u>1,302,991</u>	<u>27,009</u>	<u>-</u>	<u>1,330,000</u>	<u>35,117</u>
Total governmental activities debt	<u>\$ 9,743,276</u>	<u>\$ 6,352,009</u>	<u>\$ 6,460,285</u>	<u>\$ 9,635,000</u>	<u>\$ 407,974</u>
Business-Type Activities:					
Revolving state loans	\$ 1,019,137	\$ 845,056	\$ 126,698	\$ 1,737,495	\$ 171,921
Compensated absences	<u>176,824</u>	<u>-</u>	<u>23,477</u>	<u>153,347</u>	<u>25,558</u>
Total business-type activities debt	<u>\$ 1,195,961</u>	<u>\$ 845,056</u>	<u>\$ 150,175</u>	<u>\$ 1,890,842</u>	<u>\$ 197,479</u>

Governmental activities:

During the year the City refinanced \$ 6,250,000 General Obligation Note with the proceeds of a \$ 6,325,000 General Obligation note. The proceeds were 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.

The defeasement resulted in an economic gain of \$ 767,577 (difference between the present value of the old and new debt service payments).

Refunded debt:	
2008 GO Note	
Principal payments	\$ 6,250,000
Interest payments	<u>3,317,613</u>
Debt stream on refunded debt	<u>9,567,613</u>
Refunding debt:	
2010 GO Note	
Principal payments	6,325,000
Interest payments	<u>2,263,472</u>
Debt stream on refunded debt	<u>8,588,472</u>
Aggregate savings in debt services	<u>\$ 979,141</u>

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 7 – LONG-TERM DEBT (continued)

In fiscal year ended September 30, 2010, 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 December 1, 2011, interest of 3.80% is payable semi-annually and principal is payable annually of \$ 102,857 on December 1 of each year through the maturity date of December 31, 2031.

Business-type activities – revolving state loans:

The City has four 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, 2011, 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 \$ 33,797 on March 15 and September 15. The loan matures on September 15, 2018 and is collateralized by water and sewer revenues.	\$ 426,396
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.	216,845
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.	103,957
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. Payments will be due semiannually November 15 and May 15 at a present amount of \$ 32,929 with any final amounts to be determined when project is complete.	<u>990,297</u>
	\$ <u><u>1,737,495</u></u>

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 7 – LONG-TERM DEBT (continued)

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

Year Ending September 30.	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 372,857	\$ 295,815	\$ 668,672	\$ 171,921	\$ 39,551	\$ 211,472
2013	387,857	282,430	670,287	176,528	34,944	211,472
2014	392,857	268,518	661,375	181,262	30,209	211,471
2015	402,857	254,430	657,287	149,444	25,606	175,050
2016	412,857	239,991	652,848	153,379	21,671	175,050
2017-2021	2,234,285	970,392	3,204,677	368,134	69,262	437,396
2022-2026	2,559,285	548,880	3,108,165	261,565	40,645	302,210
2027-2031	1,439,285	117,365	1,556,650	275,262	14,279	289,541
2032	102,860	1,954	104,814	-	-	-
	<u>\$ 8,305,000</u>	<u>\$ 2,979,775</u>	<u>\$ 11,284,775</u>	<u>\$ 1,737,495</u>	<u>\$ 276,167</u>	<u>\$ 2,013,662</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.

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 through June 2011 and starting July 2011 4.91%, 14.10% and 6.27% for regular, senior management and special risk members, respectively. In addition employees are required to contribute 3% starting July 2011. 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 4.42% of salaries for participants of the DROP. During 2011 the City had no employees participating in this program.

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 8 – FLORIDA RETIREMENT SYSTEM (continued)

The contribution requirements of covered payroll and actual contributions made for the fiscal year ending September 30, 2011 and the two preceding years were as follows:

	2011	2010	2009
Contributions requirements	\$ 528,832	\$ 603,271	\$ 558,502
Contributions made (100%)	\$ 528,832	\$ 603,271	\$ 558,502
Total covered payroll	\$ 3,198,341	\$ 3,477,674	\$ 3,329,822
Percent of contributions to total covered payroll	16.53%	17.35%	16.77%

NOTE 9 – DEFINED CONTRIBUTION PLAN

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.

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 \$ 45,039 for the year ended September 30, 2011. 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, 2011

NOTE 9 – DEFINED CONTRIBUTION PLAN (continued)

Employer contributions vest after three years of service through year seven based on the participant's hire date. In addition, the Plan allows for loans of up to 50% of the participant's vested balance. Plan amendments must be approved by the City Commission. The City contributed \$ 62,898 for the year ended September 30, 2011. 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.

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.

Post-employment benefits:

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

The City had an independent company perform the required Other Post-Employment Benefit (OPEB) report. The firm evaluated the City's post-employment benefit obligation and determined that as of September 30, 2011 none existed.

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Operating lease agreement:

The City entered into an operating lease for the rental of an office facility for a period of five years beginning January 2011. The lease calls for monthly payments of approximately \$ 14,200. Total expense in connection with this lease amounted to approximately \$ 171,000 for the year ended September 30, 2011. Future minimum lease payments for the remainder of the lease are approximately as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2012	\$ 175,900
2013	\$ 188,800
2014	\$ 203,600
2015	\$ 218,500
2016	\$ 55,500
Thereafter	\$ NONE

NOTE 11 – SUBSEQUENT EVENTS

Since the end of September 2011, the City has had several major changes in the legislative and management of the City. The City Commission in November 2011 appointed two new Commissioners to fill existing vacancies. The City in December 2011, hired a new City manager and in April 2012, the Finance Director was replaced.

Operationally, the City completed the majority of the Causeway Improvement project as well as completing a major park in the City. The sanitary sewer force main was completed during the fiscal year ended September 30, 2012. The City also moved forward with the new City Hall construction project with the demolition of the vacant City Hall.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORTH BAY VILLAGE, FLORIDA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the year ended September 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:				
Taxes:				
Property taxes, including penalties and interest	\$ 3,139,629	\$ 3,139,629	\$ 3,026,564	\$ (113,065)
Utility service taxes	<u>420,000</u>	<u>420,000</u>	<u>434,136</u>	<u>14,136</u>
Total taxes	<u>3,559,629</u>	<u>3,559,629</u>	<u>3,460,700</u>	<u>(98,929)</u>
Licenses and permits:				
City occupational licenses	68,000	68,000	80,477	12,477
Building and other permits	<u>153,300</u>	<u>153,300</u>	<u>138,942</u>	<u>(14,358)</u>
Total licenses and permits	<u>221,300</u>	<u>221,300</u>	<u>219,419</u>	<u>(1,881)</u>
Franchise fees:				
Electric	400,000	400,000	347,238	(52,762)
Gas	25,000	25,000	17,667	(7,333)
United States Postal Service	18,500	18,500	18,499	(1)
Sanitation	<u>1,000</u>	<u>1,000</u>	<u>1,242</u>	<u>242</u>
Total franchise fees	<u>444,500</u>	<u>444,500</u>	<u>384,646</u>	<u>(59,854)</u>
Intergovernmental:				
Local 1/2 cent sales tax	406,027	406,027	421,916	15,889
Communication service tax	316,602	316,602	291,579	(25,023)
State revenue sharing	167,020	167,020	164,892	(2,128)
Alcohol beverage licenses	7,000	7,000	5,751	(1,249)
Causeway maintenance	5,300	5,300	6,617	1,317
Local option gas tax	106,086	106,086	105,942	(144)
Federal grants	<u>72,000</u>	<u>72,000</u>	<u>69,694</u>	<u>(2,306)</u>
Total intergovernmental	<u>1,080,035</u>	<u>1,080,035</u>	<u>1,066,391</u>	<u>(13,644)</u>
Charges for services:				
Record research and review	30,000	30,000	49,992	19,992
Passport fees	5,000	5,000	10,850	5,850
Advertising/bus stop	<u>2,160</u>	<u>2,160</u>	<u>3,000</u>	<u>840</u>
Total charges for services	<u>37,160</u>	<u>37,160</u>	<u>63,842</u>	<u>26,682</u>
Fines and forfeitures	<u>430,009</u>	<u>430,009</u>	<u>117,341</u>	<u>(312,668)</u>
Interest income	<u>3,000</u>	<u>3,000</u>	<u>17,292</u>	<u>14,292</u>
Other:				
Miscellaneous	21,000	21,000	93,925	72,925
Appropriation of fund balance	<u>18,955</u>	<u>18,955</u>	<u>-</u>	<u>(18,955)</u>
Total other	<u>39,955</u>	<u>39,955</u>	<u>93,925</u>	<u>53,970</u>
Total revenues	<u>5,815,588</u>	<u>5,815,588</u>	<u>5,423,556</u>	<u>(392,032)</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, 2011

	<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	36,636	(63)
Operating expenditures	<u>32,700</u>	<u>32,700</u>	<u>26,877</u>	<u>5,823</u>
Total city commission	<u>69,273</u>	<u>69,273</u>	<u>63,513</u>	<u>5,760</u>
City Manager:				
Personal services	106,563	106,563	48,270	58,293
Operating expenditures	<u>8,300</u>	<u>8,300</u>	<u>4,235</u>	<u>4,065</u>
Total city manager	<u>114,863</u>	<u>114,863</u>	<u>52,505</u>	<u>62,358</u>
City Clerk:				
Personal services	150,636	150,636	154,962	(4,326)
Operating expenditures	<u>34,392</u>	<u>34,392</u>	<u>23,711</u>	<u>10,681</u>
Total city clerk	<u>185,028</u>	<u>185,028</u>	<u>178,673</u>	<u>6,355</u>
Finance:				
Personal services	123,525	123,525	125,620	(2,095)
Operating expenditures	<u>4,390</u>	<u>4,390</u>	<u>3,395</u>	<u>995</u>
Total finance	<u>127,915</u>	<u>127,915</u>	<u>129,015</u>	<u>(1,100)</u>
City Attorney:				
Operating expenditures	<u>200,000</u>	<u>200,000</u>	<u>435,529</u>	<u>(235,529)</u>
Total city attorney	<u>200,000</u>	<u>200,000</u>	<u>435,529</u>	<u>(235,529)</u>
Nondepartmental:				
Personal services	99,484	99,484	96,205	3,279
Operating expenditures	697,462	697,462	553,967	143,495
Capital outlay	<u>45,500</u>	<u>45,500</u>	<u>5,198</u>	<u>40,302</u>
Total nondepartmental	<u>842,446</u>	<u>842,446</u>	<u>655,370</u>	<u>187,076</u>
Total general government	<u>1,539,525</u>	<u>1,539,525</u>	<u>1,514,605</u>	<u>24,920</u>
Public safety:				
Personal services	3,523,214	3,523,214	3,689,316	(166,102)
Operating expenditures	195,643	195,643	231,243	(35,600)
Capital outlay	<u>36,480</u>	<u>36,480</u>	<u>7,613</u>	<u>28,867</u>
Total public safety	<u>3,755,337</u>	<u>3,755,337</u>	<u>3,928,172</u>	<u>(172,835)</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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Public works:				
Personal services	164,993	164,993	134,835	30,158
Operating expenditures	<u>337,000</u>	<u>337,000</u>	<u>399,435</u>	<u>(62,435)</u>
Total public works	<u>501,993</u>	<u>501,993</u>	<u>534,270</u>	<u>(32,277)</u>
Building, planning and zoning:				
Personal services	68,002	68,002	67,980	22
Operating expenditures	<u>74,698</u>	<u>74,698</u>	<u>107,027</u>	<u>(32,329)</u>
Total building, planning and zoning	<u>142,700</u>	<u>142,700</u>	<u>175,007</u>	<u>(32,307)</u>
Parks and recreation:				
Personal services	21,315	21,315	18,588	2,727
Operating expenditures	<u>14,878</u>	<u>14,878</u>	<u>13,678</u>	<u>1,200</u>
Total parks and recreation	<u>36,193</u>	<u>36,193</u>	<u>32,266</u>	<u>3,927</u>
Debt service:				
Principal	6,325,000	6,325,000	6,280,285	44,715
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>75,417</u>	<u>(75,417)</u>
Total debt service	<u>6,325,000</u>	<u>6,325,000</u>	<u>6,355,702</u>	<u>(30,702)</u>
Total expenditures	<u>12,300,748</u>	<u>12,300,748</u>	<u>12,540,022</u>	<u>(239,274)</u>
Excess (deficiencies) of revenues over expenditures	<u>(6,485,160)</u>	<u>(6,485,160)</u>	<u>(7,116,466)</u>	<u>(631,306)</u>
OTHE FINANCING SOURCES (USES)				
Debt Proceeds	6,325,000	6,325,000	6,325,000	-
Transfers in	215,408	215,408	217,264	(1,856)
Transfers out	<u>(55,248)</u>	<u>(55,248)</u>	<u>(55,248)</u>	<u>-</u>
Total other financing sources (uses)	<u>6,485,160</u>	<u>6,485,160</u>	<u>6,487,016</u>	<u>(1,856)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (629,450)</u>	<u>\$ (633,162)</u>

See notes to budgetary comparison schedule.

CITY OF NORTH BAY VILLAGE, FLORIDA
NOTES TO BUDGETARY COMPARISON SCHEDULES
September 30, 2011

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 in 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 did not amend the budget during the current fiscal year.

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2011, general fund expenditures had a negative variance with the final budget in the following departments, which was covered by appropriations from reserves:

Public safety	\$ 172,835
General government:	
Finance	1,100
City Attorney	235,529
Parks and recreation	
Public works	32,277
Building, planning and zoning	32,307

These unfavorable variances were caused by unbudgeted costs related to unforeseen circumstances and occurrences during the year.

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.

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..

Children's' Services Fund – This fund is used to account for certain grants and programs that provide for summer programs as well as other adolescent activities.

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, 2011

	Special Revenue Funds				Total
	State Forfeiture Fund	Transportation Fund	Childrens Services Fund	Parks Improvement Fund	Nonmajor Governmental Funds
ASSETS:					
Cash, cash equivalents and investments	\$ 6,823	\$ 209,595	\$ -	\$ 131,909	\$ 348,327
Receivables	-	52,013	9,080	-	61,093
Due from other funds	35,920	-	-	225,559	261,479
Total assets	\$ 42,743	\$ 261,608	\$ 9,080	\$ 357,468	\$ 670,899
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable	\$ 80	\$ 959	\$ 435	\$ -	\$ 1,474
Accrued liabilities	-	465	-	-	465
Due to other funds	8,433	-	27,975	-	36,408
Total liabilities	8,513	1,424	28,410	-	38,347
Fund balances:					
Restricted for:					
Law enforcement	34,230	-	-	-	34,230
Public works	-	260,184	-	-	260,184
Culture and recreation	-	-	-	357,468	357,468
Unassigned (deficit)	-	-	(19,330)	-	(19,330)
Total fund balances	34,230	260,184	(19,330)	357,468	632,552
Total liabilities and fund balances	\$ 42,743	\$ 261,608	\$ 9,080	\$ 357,468	\$ 670,899

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, 2011

	Special Revenue Funds				Total Nonmajor Governmental Funds
	State Forfeiture Fund	Transportation Fund	Childrens Services Fund	Parks Improvement Fund	
REVENUES:					
Taxes	\$ -	\$ 214,742	\$ -	\$ -	\$ 214,742
Fines and forfeitures	-	-	-	-	-
Grants	-	-	9,080	-	9,080
Interest income	-	-	-	-	-
Miscellaneous	-	-	5,500	3,400	8,900
Total revenues	<u>-</u>	<u>214,742</u>	<u>14,580</u>	<u>3,400</u>	<u>232,722</u>
EXPENDITURES:					
Current:					
Public safety	8,772	-	-	-	8,772
Public works	-	68,599	-	-	68,599
Culture and recreation	-	-	33,910	-	33,910
Capital outlay	-	7,288	-	-	7,288
Total expenditures	<u>8,772</u>	<u>75,887</u>	<u>33,910</u>	<u>-</u>	<u>118,569</u>
Excess (deficiency) of revenues over expenditures	(8,772)	138,855	(19,330)	3,400	114,153
OTHER FINANCING SOURCES:					
Transfers in	-	55,248	-	-	55,248
Net change in fund balance	<u>(8,772)</u>	<u>194,103</u>	<u>(19,330)</u>	<u>3,400</u>	<u>169,401</u>
FUND BALANCES, beginning of year	<u>43,002</u>	<u>66,081</u>	<u>-</u>	<u>354,068</u>	<u>463,151</u>
FUND BALANCES (Deficit), end of year	<u>\$ 34,230</u>	<u>\$ 260,184</u>	<u>\$ (19,330)</u>	<u>\$ 357,468</u>	<u>\$ 632,552</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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 26, 2012. 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, 2010-2, 2010-5, 2010-6, 2011-1 and 2011-2 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 responses 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
June 26, 2012



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, 2011. 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, 2011.

Internal Control over Compliance

Management of the City 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 City's 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 Mayor, City Commission, management and 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
June 26, 2012



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, 2011, and have issued our report thereon dated June 26, 2012.

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 June 26, 2012, 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, 2011. 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
June 26, 2012

CITY OF NORTH BAY VILLAGE FLORIDA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended September 30, 2011

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	-	\$ 320,590	\$ -
Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0215	54,218	-
Indirect Programs:				
Environmental Protection Agency - Passed through the Florida Department of Environmental Protection:				
Capitalization Grants for Clean Water State Revolving Funds - ARRA	* 66.458	WW803060	<u>3,024,065</u>	<u>-</u>
Total Expenditures of Federal Awards			\$ <u><u>3,398,873</u></u>	\$ <u><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, 2011

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

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, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2011

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

2011-1 Minute Preparation and Subsequent Approval (Significant deficiency):

We noted during our review of the governing bodies minutes that the prior months minutes were not being approved timely after the meeting took place. The approval of minutes signifies that all information contained within them representing the actions of the Commission is approved. We recommend that minutes be approved at a minimum of two months subsequent to the meeting taking place so attending individuals can clearly remember and validate the events of that meeting.

Management's Response:

The City experienced some delay in producing the recording of the Commission Meetings for preparation of detailed Minutes. The City Clerk's Office takes the responsibility of recording and producing accurate and timely minutes very seriously. Since the close of last year we have hired a part time employee to assist in preparing accurate and prompt minutes. Our current schedule is that all minutes are produced within three weeks of the close of the meeting.

2011-2 Budget amendments (Significant deficiency):

During the current year the City did not amend its budget to address various over-expenditures at the departmental level that occurred. This resulted in various items to be expended in excess of their originally budgeted amounts without formal authorization. Budgets are vital in the control of a governmental entity as they reflect the governing body original expenditure plans and the sources of money to support them. Upon unexpected expenditures being incurred, the governing body should determine if alternative funding is necessary and available or if not, allow the development of means to address the new financial forecast based on the most recent data. We believe this was partially caused by a lack of financial reporting detail necessary for the authoritative body to identify the over-expenditure. We believe the City should incorporate financial reports that reflect, at a minimum, the level of control based on City criteria. The level of control for the City is at the departmental level.

Management's Response:

The City management, including the Finance Director, will monitor the monthly expenditures by department and fund, and will take the required budget amendments to the City Commission for approval prior to the expenditure of unappropriated funds.

CITY OF NORTH BAY VILLAGE, FLORIDA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2011

PRIOR YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS

	<u>STILL APPLICABLE</u>	<u>IMPLEMENTED OR NO LONGER RELEVANT</u>
2000-3 General Fixed Assets inventory		X
2006-1 Capital Asset Subsidy Ledger Software, Reconciliation and Maintenance	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	
2010-1 Accounts payable subsidiary ledger		X
2010-2 Implement form monthly closing procedures	X	
2010-3 Document Significant Operational and Accounting Processes	X	
2010-4 Assess the Accounting Department Staffing Needs	X	
2010-5 Review Customer Accounts Receivable and the Allowance for Doubtful Accounts in the Enterprise Fund	X	
2010-6 Restrict Access of Multiple Main-Street users to Data Files	X	
2010-7 Consider Implementing an Enterprise Risk Management (ERM) Program	X	

CITY OF NORTH BAY VILLAGE, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2011

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

PRIOR YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

2006-1 Capital Assets Subsidiary Detail Ledger Software, Reconciliation and Maintenance:

The City maintains a manually prepared schedule in Microsoft Office Excel for tracking its capital assets using a spreadsheet program. The City should also look into a new software program designed to maintain fixed schedules to assist in this process. Benefits included in such programs include the ability to calculate gains and losses upon asset disposition, generation of reports by location for inventory observation and automatic calculation of depreciation expense depending on preprogrammed generally accepted methods of depreciation (double declining balance, straight line, etc.) The existing subsidiary ledger maintained on the spreadsheet requires constant maintenance and formula manipulation which lends itself to the possibility of errors being made, miscalculations along with additional time and effort to maintain.

We also noted that the fixed asset schedule was not timely updated during the year and needed to be adjusted in order to correspond to the City's books and supporting records including the inventory that had been during the year. We recommend that the City maintain its subsidiary ledger of capital asset detail on a periodic basis including reconciling it to the inventory observation completed in order to properly track, record and maintain custody of fixed assets.

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 General Ledger Maintenance (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, 2011, the accounting personnel were working towards properly reconciling all accounts. The City attempted to hire an outside consultant to assist but it did not prove beneficial. The consultant was terminated because they 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.

CITY OF NORTH BAY VILLAGE, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2011

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

PRIOR YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

2009-1 Bank Reconciliations (Material Weakness):

During our audit, we noted that reconciliations of the City's operating cash accounts had been performed but not reconciled to the general ledger for a significant portion of the fiscal year. As of the date of our field work a significant unreconciled difference existed. This condition can result in errors, going undetected for long periods of time and could result in material differences between the City's true cash position and that which is reflected on the City's general ledger as it did at the time of our field work. 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 to verify the reconciliation process is complete.

Management's Response:

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. This will be priority of the new accounting policies and procedures.

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

As discussed in items 2006-3, we recommended numerous adjusting journal entries during our audit. In addition, we experienced delays in obtaining certain information necessary to complete the financial statements. Due to these conditions, 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

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.

CITY OF NORTH BAY VILLAGE, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2011

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

PRIOR YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

Management's Response:

This is one of the basic functions of the finance department. One of the goals and objectives for the current fiscal year is to develop a comprehensive accounting policies and procedures manual that will incorporate this and other improvements.

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.

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, 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.

CITY OF NORTH BAY VILLAGE, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2011

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

PRIOR YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

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. The FY 2013 budget is being prepared with a request for one additional staff position to assist in these improvements.

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.

Management's Response:

The staff has developed a procedure to review all past due accounts monthly and start collection procedures before they get out of control. The past due has been reduced to less than 5% of billing. The major amount of the Utility Fund accounts receivable is penalties and most of those have been reduced over the past two years.

CITY OF NORTH BAY VILLAGE, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2011

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

PRIOR YEAR INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

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:

The Finance Director has reevaluated the Main Street system access and reduced access to the Finance Department staff only.

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. 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.

Management's Response:

The City has contacted our insurance carrier and requested their assistance in considering putting on ERM program in place for the City of North Bay Village.

CITY OF NORTH BAY VILLAGE, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2011

E. INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS (continued)

PRIOR 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 are working to achieve these goals.

