

CITY OF SOUTH MIAMI, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2007

City of South Miami, Florida

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I. INTRODUCTORY SECTION



City of South Miami

May 23, 2008

Honorable Mayor and Members of the City Commission
City of South Miami, Florida

Ladies and Gentlemen:

The Comprehensive Annual Financial Report of the City of South Miami (the "City") for the fiscal year ended September 30, 2007 is hereby submitted for your review. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations for all funds under the direct operating control of the City.

All necessary disclosures have been included to enable the reader to gain maximum understanding of the City's financial activities for the year. Accordingly this report consists of three sections, namely Introductory, Financial, and Statistical.

The Introductory Section contains summary of the contents, this transmittal letter, the organizational structure of the City and the certificate of achievement for excellence in financial reporting.

The Financial Section contains the Report of the Independent Certified Public Accountants, Management's Discussion and Analysis ("MD&A"), the Basic Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information, and the Combining and Individual Fund Financial Statements. Other financial information includes budgeting and other statements and schedules provided to supplement required financial data. The presentation of this financial report is being made in accordance with U.S. generally accepted accounting principles for state and local governments as promulgated by the Governmental Accounting Standards Board.

The Statistical Section contains data that is intended to reflect social, economic and financial trends, as well as the fiscal capacity of the City. It is hoped that this information will give users of this report a better historical perspective and assist in assessing current financial status.

The contents of the report are influenced by compliance with GASB pronouncements, including Statement 34 et al., that has required the preparation of government-wide financial statements on a full accrual basis of accounting for all funds as well as Management's Discussion and Analysis. The MD&A can be found immediately following the report of independent certified public accountants.



THE REPORTING ENTITY AND ITS SERVICES

The City of South Miami was incorporated in 1927 and is a political subdivision of the State of Florida. The City is a full service city providing its citizens with a full complement of municipal services, specifically, public safety, general government, parks, culture and recreation, sanitation and public works.

The accompanying financial statements present the government and its component units, entities for which the government is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The South Miami Community Redevelopment Agency is included as a blended component unit. There are no discretely presented component units.

ECONOMIC OUTLOOK

The City of South Miami is primarily a residential community composed of approximately 11,000 residents. The majority of persons employed within the City are in Professional/Specialty, Administrative Support and Executive/Administrative/Management positions. City residents are primarily employed in jobs throughout Miami-Dade County.

The City's downtown business district is composed of three blocks located on Sunset Drive featuring specialty shops with restaurants on the side streets and three blocks on the west side of Red Road both north and south of Sunset Drive.

Also located within the City are two medical facilities, South Miami Hospital and Larkin Hospital, considered two of the finest medical facilities in the metropolitan area.

In addition to the Miami- Dade County bus system servicing the City, the Metro-Rail system also passes through the City with a station located off of Sunset Drive and U.S. 1. The Miami International Airport is within 15 minutes from downtown South Miami.

The City is located right in the center of metropolitan Miami Dade County abutting several other municipalities in the area. Numerous major attractions are situated in close proximity to the City. As with many businesses in the County, local businesses benefit from sizeable tourist trade. The City's downtown business district continues to experience significant private development investment as well as improvements to the City infrastructure within the area. A new multi-use public parking garage facility was approved by the City Commission and completed by the end of the year. In the past years the Shops of Sunset has leased space to several new national chain retail stores, restaurants and nightclubs.

A major downtown mixed use development entitled Plaza 57 was completed and is now in operation. Construction of the Oxford Medical Office Complex across the street from the South Miami Hospital medical office and City Hall is also completed and open. All of these buildings are adding significantly to the City's tax roll. The City's assessed property tax base has increased significantly in the past two years allowing the City to reduce its tax rate (millage) in each year. Tax reform legislated and under constitutional amendments passed during the year will have their impact in the budget years ending in 2008 and 2009. In addition, a major mixed use development entitled Red Road Commons, adjacent to the South Miami Metro Rail Station is under construction and will provide over 400 new residential units and affordable housing units. Also, two new commercial mixed use buildings are under construction on S. Dixie Highway and will provide over 100,000 sq ft of first class office space.

MAJOR INITIATIVES

The Community Redevelopment Agency (CRA) (a blended component unit of the City) was created in 1998 to bring economic revitalization to the depressed area of the City through tax increment financing. The agency obtains its funds through annual contributions from Miami Dade County and the City from the tax revenue generated from increase in property assessment of the designated area. The agency ended its fifth fiscal year of operations in September 2005. On May 3, 2005, the Miami-Dade County Commission approved Resolution R-466-05, extending the life of the CRA for fifteen (15) years beyond the June 1, 2005 sunset provision of the CRA's Interlocal Agreement with the County. However the renewal included a sunset review within two (2) years of this extension. As part of the fifteen year extension, the Miami-Dade County Commission mandated that the CRA must obtain long-term financing supported by tax increment revenues to fund the second phase of the Plan within the two (2) year period ended June 1, 2007. In November 2006, the City through its Community Redevelopment Agency ("CRA") issued \$2,730,000 of Taxable Redevelopment Revenue Bonds, Series 2006 for the purpose of acquiring various properties located within the boundaries of the South Miami redevelopment area.

The City continues to review its land use codes for any changes that may be instituted to improve the area. The Agency has acquired several properties within its area of operations for development purposes, and has provided zero to low interest rate loans to residents of the area to improve their properties.

MAJOR INDUSTRIES AND/OR SERVICE CENTERS

The City economy is influenced greatly by the economic condition of the entire county of Miami-Dade. The major businesses in the City are service-oriented with health care, professionals and retail shopping operators being the main employers. Below is the breakdown of businesses within the City by category.

| INDUSTRY | Number of establishments |
|--|-----------------------------|
| Construction | 70 |
| Manufacturing | 15 |
| Wholesale, Trade | 58 |
| Retail Trade | 197 |
| Transportation and Warehousing | 9 |
| Information | 21 |
| Finance and Insurance | 70 |
| Real Estate and Rental | 125 |
| Professional, Scientific and Technical | 262 |
| Management of companies and | 4 |
| Administrative, Support, Waste | 57 |
| Educational Services | 22 |
| Health Care and Social Assistance | 295 |
| Arts, Entertainment and Recreation | 24 |
| Accommodation and Food Services | 78 |
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Source: U.S. Census Bureau 2005 Industry Code Summary

ACCOUNTING SYSTEM, INTERNAL AND BUDGETARY CONTROL

In the design and direction of the City's accounting system, we have followed U.S. generally accepted accounting principles (GAAP) for state and local governments as set forth in the aforementioned statements on governmental accounting and financial reporting. Our accounting records follow the modified accrual basis of reporting revenues and expenditures for all governmental funds, i.e., General Fund, and Special Revenue Funds. The Pension Trust Funds are accounted for on the accrual basis. Further explanation of the City's accounting policies is contained in the notes to the financial statements.

The City's Finance Department is responsible for maintaining a comprehensive internal framework of accounting controls. The objectives of this system are to protect the City's assets from loss, theft and/or misuse, and to compile sufficient reliable information for the preparation of the City's financial statements in accordance with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The firm of Rodriguez, Trueba & Company, licensed certified public accountants has audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the City of South Miami for the fiscal year ended September 30, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amount and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report. As part of their audit, Rodriguez, Trueba & Company gained an understanding and performed tests of controls on the City's comprehensive framework of controls as required by U.S. generally accepted auditing standards. Comments and recommendations resulting from the assessment of the controls are currently being evaluated by management. These recommendations will be implemented to the extent that the additional control objectives are cost beneficial to the City.

Budgetary control is maintained, in a manner to ensure compliance with the requirements and restraints of the City Charter, through a system of monthly financial reports reflecting expenditures and encumbrances against appropriations. The annual budget provides details of the approved appropriation by specific purpose within each object of expense. Encumbrances remaining open at the close of the fiscal year are reported as reservations of fund balance.

CASH MANAGEMENT

The City aggressively pursues a program of cash management to achieve maximum return on all available funds. Non-Pension idle cash balances are held overnight in interest bearing accounts and funds available for longer term investment are placed in money markets, treasury notes and bills, and certificates of deposit at competitive interest rates. Pension fund investments are maintained by an investment manager under the guidance of the pension board. All investment decisions are within the constraints imposed by Florida Statutes and Resolutions of the City Commission.

DEBT ADMINISTRATION

The City has several loans outstanding with the Florida Municipal Loan Council (FMLC). The council, as a subsidiary of Florida League of Cities administers the Florida Municipal Loan Program. Small and medium-sized cities in the state obtain loans from the FMLC, through bonds and backed by MBIA Insurance Corporation.

One of the loans is for \$2.2 million obtained in 2001, with \$1.5 million used as matching fund for the safe neighborhood grant used to construct the new South Miami Community Center, \$400,000 was loaned to the CRA for acquisition of the Mobley Warehouse building located within the CRA district. The remaining \$300,000 was utilized for various traffic calming projects around the City. The loan bears interest at variable rates ranging from 3.25% to 5.25%. The City pledged part of the annual contributions from the South Miami Hospital to repay the loan.

Another loan was obtained in 2002 for \$6.5 million used for joint venture construction of a mixed-use parking garage-retail facility. The loan interest ranges from 3.25% to 5.50%. At the time the loan was obtained, the City pledged to use the revenues from the parking garage operation and funds from the partner in the joint venture to repay the loan.

On December 2006 the City borrowed \$5.6 million to finance the construction and improvements of a city-owned parking garage to be used for public parking. The loan interest varies from 4.2%-4.5%. Investment income from the note receivable and loan proceeds not expended, future garage revenues, and non-ad valorem revenues will be used to repay the loan.

On April 25, 2005, the City purchased eight police vehicles financed through the issuance of a note payable to a local bank totaling \$155,082. The note calls for monthly payments of principal and interest of \$41,981 at an annual interest rate of 4%. The note matures on November 1, 2008.

On April 20, 2005, the City purchased property located at 7800 SW 59 Ave for \$573,367 financed through the issuance of a note payable to a local bank. The note calls for quarterly payments of principal of \$20,477 and quarterly interest payments of varying amounts at an annual interest rate of 3.95%. The note matures on April 30, 2012.

On November 21, 2005, the City purchased land totaling \$2,750,000 from the YMCA of Greater Miami, Inc. financed through loans totaling \$2,775,000. The loans consist of three separate note payables.

On April 19, 2006, the City purchased eight police vehicles financed through the issuance of a note payable to a local bank totaling \$188,450. The note calls for monthly payments of principal and interest of \$40,827 at an annual interest rate of 4.1%. The note matures on April 20, 2010.

In November 2006, the City through its Community Redevelopment Agency ("CRA") issued \$2,730,000 of Taxable Redevelopment Revenue Bonds, Series 2006 for the purpose of acquiring various properties located within the boundaries of the South Miami redevelopment area. The revenue bonds are secured by CRA Tax Increment Financing revenues from the County and the City. The bonds carry an interest rate of 5.99%. Principal and interest payments are due quarterly up to May 1, 2020, the maturity date of the bonds.

RETIREMENT BENEFITS

The City of South Miami sponsors two defined benefit pension plans, the General Employees' Pension Fund and the Police Retirement System. These two pension plans are administered through one independent Pension Board. The Pension Board hires an outside pension plan administrator to administer the plans. Each year, an independent actuary, engaged by the Board calculates the amount of annual contribution that the

City of South Miami must make to each pension plan to ensure that the plans are actuarially sound. As a matter of policy, the City of South Miami fully funds each year's annual required contribution to the pension plan as determined by the actuary. Effective October 1, 1996, the plan became mandatory for all new employees. The financial activities of the Plans are reported annually as part of the overall City Comprehensive Annual Financial Report.

The City also provides, a defined contribution Section 457 deferred compensation plan for all its employees and a 401A deferred compensation plan for senior level employees and the City Manager.

AWARDS

The Governmental Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2006. In order to be awarded a Certificate of Achievement; a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department.

We express our appreciation to all members of the Finance Department who assisted and contributed to the preparation of this report, and to the various Departments who contributed the necessary statistical data. Our thanks and appreciation is also extended to the accounting firm of Rodriguez, Trueba & Company for the professional approach and high standards in the conduct of their independent audit of the City's financial records and transactions.

Finally, our thanks to the Mayor and City Commission for their guidance and cooperation in planning and conducting the financial affairs of the City in a responsible and progressive manner.

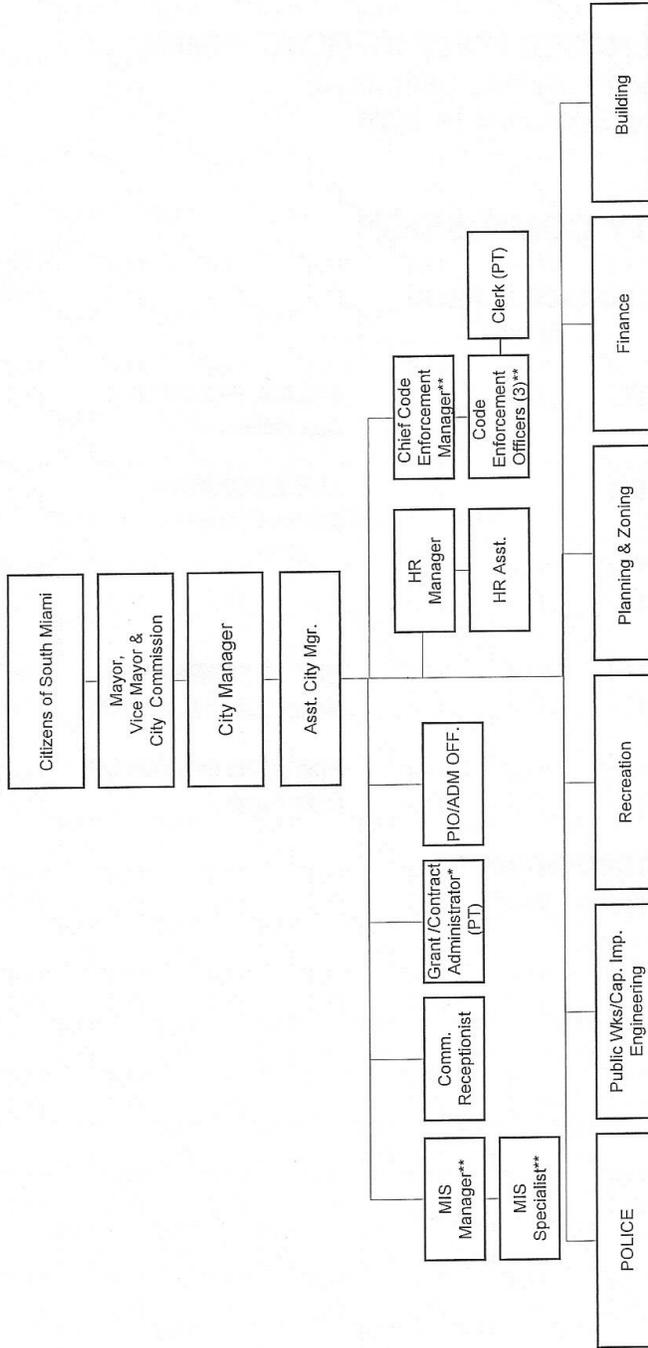
Respectfully submitted,

W. Ajibola Balogun
City Manager

Matilde G. Menendez, CPA
Acting Finance Director

City of South Miami, Florida

Organizational Chart



CITY OF SOUTH MIAMI, FLORIDA

COMMISSION - MANAGER FORM OF GOVERNMENT

LIST OF PRINCIPAL OFFICIALS

As of September 30, 2007

CITY COMMISSION

HORACE G. FELIU

Mayor

RANDY G. WISCOMBE

Vice Mayor

VELMA PALMER

Commissioner

MARIE BIRTS-COOPER

Commissioner

JAY BECKMAN

Commissioner

CITY MANAGER

Yvonne Soler-McKinley

CITY ATTORNEY

Nagin Gallop Figueredo

CITY CLERK

Maria M. Menendez

FINANCE DIRECTOR

Eliza Rassi

CERTIFIED PUBLIC ACCOUNTANTS



CITY OF SOUTH MIAMI, FLORIDA

COMMISSION - MANAGER FORM OF GOVERNMENT

LIST OF PRINCIPAL OFFICIALS

As of May 23, 2008

CITY COMMISSION

HORACE G. FELIU

Mayor

BRIAN D. BEASLEY

Vice Mayor

VELMA PALMER

Commissioner

RANDY G. WISCOMBE

Commissioner

JAY BECKMAN

Commissioner

CITY MANAGER

W. Ajibola Balogun

CITY ATTORNEY

Nagin Gallop Figueredo

CITY CLERK

Maria M. Menendez

ACTING FINANCE

DIRECTOR

Matilde G. Menendez,

CPA

CERTIFIED PUBLIC ACCOUNTANTS



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of South Miami
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Egan

Executive Director

II. FINANCIAL SECTION



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor, City Council and City Manager
City of South Miami, Florida

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

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of South Miami, Florida, as of September 30, 2007, and the respective changes in financial position 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 a report dated May 23, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on our compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor, City Council and City Manager
City of South Miami, Florida

The management's discussion and analysis on pages 3 through 12, the schedules of funding progress and employee contributions– Retirement System, on pages 49-50 and the budgetary comparison information for the general fund, and the South Miami Community Redevelopment Agency Fund on pages 45 through 48 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The introductory and statistical sections, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rodriguez Trueba & Company

Doral, Florida
May 23, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)

City of South Miami Florida
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2007

The management of the City of South Miami has included this section in the Comprehensive Annual Financial Report (CAFR) in accordance with the Governmental Accounting Standards Board (GASB) Statement Number 34, et al. It is intended to provide readers of this report the narrative overview and analysis of the financial activities of the City for fiscal year ended September 30, 2007. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, the City's financial statements and the other required supplemental information.

This discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns. The information contained within this section should be considered only a part of a greater whole.

FINANCIAL HIGHLIGHTS

The following are the highlights of financial activity for the fiscal year ending September 30, 2007:

- The assets of the City of South Miami exceeded its liabilities at the close of the most recent fiscal year by \$31 million (net assets). Of this amount, \$10 million is unrestricted.
- The City's \$22.64 million in revenues for governmental activities exceeded the \$17.88 million in expenses, providing a \$4.76 million increase in net assets.
- Total cost of all City's programs decreased by \$.22 million, or approximately 1 percent this year.
- At the end of the current year fund balance for the General Fund was \$10.99 million, or 60.5% of total general fund operating revenues. Of this amount \$5.36 million is reserved for prepaid costs, encumbrances, public safety, non-current note receivable, debt service and contingencies and \$.36 million is designated. The current year's unreserved fund balance for the General Fund is \$5.27 million, or 26% of total general fund operating revenues.
- The General Fund's fund balance increased by \$1.06 million for the year ended September 30, 2007; \$847 thousand as change in net assets for the year and \$214 thousand from a prior period adjustment.
- The City's total debt increased by \$9.3 million or 86.1 percent with approximately \$8.67 million in new notes payables and capital leases.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts-*management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information* and an additional section that presents *combining statements* for non-major governmental funds and fiduciary funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements show how general government services such as public safety were financed in the short term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of those parties outside of the government.

City of South Miami Florida
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2007

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information which further explains and supports this information. In addition to these required elements, we have include a section with combining statements that provide details about our non-major governmental funds, each of which is added together and presented in single columns in the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of South Miami'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 of South Miami is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities), and 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 government activities of the City of South Miami include police services, public works, culture and recreation, code compliance, planning and zoning, economic development and general administration services. There are no business-type activities.

In addition, the City has two separate single-employer defined benefit pension plans, 401A plans for the City Manager and senior level staff, and voluntary Section 457 defined contribution plan for all interested employees. The pension plans are reported as Fiduciary Funds in the fund financial statements of this report, but are not included in the government-wide statements.

The government-wide financial statements can be found on pages 13 and 14 of this report.

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

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

City of South Miami Florida
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2007

The City of South Miami maintains several individual governmental funds. 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. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. Budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget. The basic governmental funds financial statements can be found on pages 15 to 18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the City of South Miami's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 19 to 20 of this report. Individual fund data for the Fiduciary Funds is provided in the form of combining statements elsewhere in this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 to 38 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of South Miami's progress in funding its obligation to provide pension benefits to its employees, and budgetary comparison schedules for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds is presented immediately following the required supplementary information. Combining and individual fund statements can be found beginning on page 51 of this report.

Our analysis of the financial statements of the City begins below. The statement of Net Assets and the Statement of Activities report information about the City's activities that will help answer questions about the position of the City.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. There are six basic transactions that will affect the comparability of the Statement of Net Assets summary presentation as reflected below:

- 1) ***Net results of activities*** will impact (increase/decrease) current assets and unrestricted net assets.
- 2) ***Borrowing for capital*** will increase current assets and long-term debt.
- 3) ***Spending borrowed proceeds on new capital*** will reduce current assets and increase capital assets. There is a second impact, an increase in invested in capital assets and an increase in related net debt which will not change the invested in capital assets, net of debt.
- 4) ***Spending of non-borrowed current assets on new capital*** will reduce current assets and increase capital assets and increase invested in capital assets, net of debt.
- 5) ***Principal payment on debt*** will reduce current assets and reduce long-term debt and reduce unrestricted net assets and increase invested in capital assets, net of debt.
- 6) ***Reduction of capital assets through depreciation*** will reduce capital assets and invested in capital asset, net of debt.

City of South Miami Florida
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2007

The City's net assets were \$31 million in 2007 fiscal year—(see Table 1). This amount came solely from Governmental activities because the City has no Business-Type activities. Restricted net assets and net assets invested in capital assets amounted to 67% of total net assets. The largest portion of the net assets (54 percent) is invested in capital assets (land, buildings, streets, sidewalks, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Another portion of net assets (14 percent) is restricted for debt service, public safety or capital projects. The remaining balance of *unrestricted* net assets (\$10 million) may be used to meet government's ongoing obligations to citizens and creditors.

Table 1
City of South Miami's Net Assets
(in millions of dollars)

| | Governmental | | Total Percentage Change 2006-2007 |
|---|---------------------|-------------|--|
| | 2006 | 2007 | |
| Current and other assets | 16.0 | 17.4 | 8.6% |
| Capital assets | 26.6 | 35.5 | 33.5% |
| Total assets | 42.6 | 52.9 | 24.1% |
| Long-term debt outstanding | 11.6 | 16.7 | 44.0% |
| Other Liabilities | 4.9 | 5.2 | 6.1% |
| Total Liabilities | 16.5 | 21.9 | 32.7% |
| Net assets | | | |
| Invested in capital assets net of related debt | 14.3 | 16.7 | 16.8% |
| Restricted | 4.2 | 4.3 | 2.4% |
| Un-restricted | 7.6 | 10.0 | 31.6% |
| Total net assets | 26.1 | 31 | 18.8% |

At the end of the current fiscal year, the City of South Miami is able to report positive balances in all three categories of net assets. The restricted net assets increased in 2007 by \$100 thousand, while the unrestricted governmental activities net assets increased by \$2.4 million. Capital assets increased during the current year due to additions purchased through grants or debt financing. The increase in other liabilities is mainly due to new notes payables.

Summary of Changes in Net Assets:

The following information presented is to assist the reader in understanding the different types of normal impacts that can affect revenues:

- 1) Economic Condition can reflect a declining, stable or growing environment and has a substantial impact on property, non-ad valorem assessments, sales, gas, or other tax revenues as well as consumer spending habits for building permits, user fees and consumption.
- 2) The City Commission has significant authority to set increases or decreases in City's rates (stormwater, permitting, user fees, etc.)
- 3) Changing patterns in intergovernmental and grant revenues (both recurring and non-recurring) can significantly change and impact the annual comparisons.
- 4) Market impacts on investment income may cause investment revenues to fluctuate from the prior year.

City of South Miami Florida
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2007

Some other basic impacts on expenses are reflected below:

- 1) Introduction of new programs can have a substantial impact on property, non-ad valorem assessments, sales, gas, or other tax revenues as well as consumer spending habits for building permits, user fees and consumption.
- 2) Changes in service demand levels can cause the City to increase or decrease authorized staffing.
- 3) Salary increases such as cost of living, performance increases and market adjustments can impact personal service costs.
- 4) While inflation appears to be reasonably modest, the City is a major consumer of certain commodities such as chemicals, supplies, fuels and parts. Some functional expenses may experience unusual commodity specific increases.

Statement of Activities:

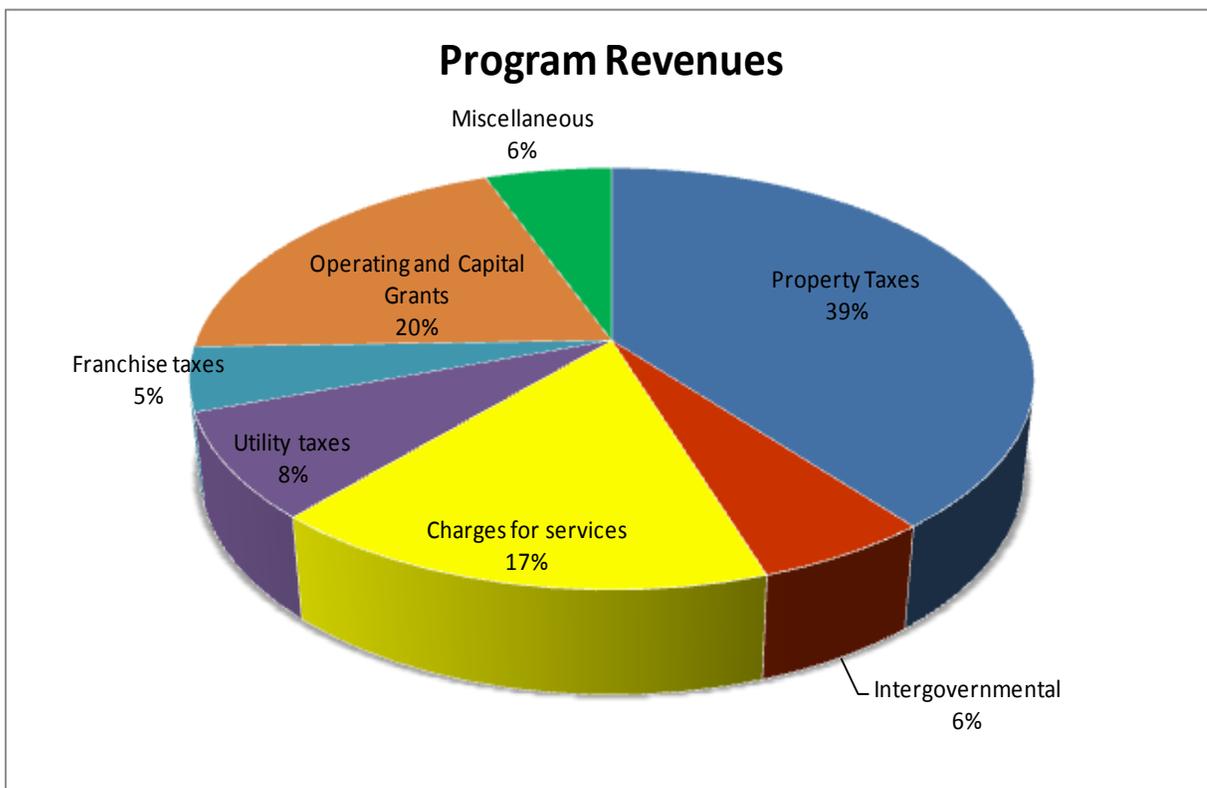
As noted earlier, the *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. The following table reflects the City's revenues and expenses for fiscal year 2007 compared to 2006 with the resulting change in net assets:

Table 2
Changes in City of South Miami's Net Assets
(in millions of dollars)

| | Governmental Activities | | Total Percentage Change |
|--------------------------------|------------------------------------|--------------|--|
| | 2006 | 2007 | 2006-2007 |
| Revenues: | | | |
| Program revenues | | | |
| Charges for services | 4.3 | 3.74 | -13.0% |
| Operating grants/contributions | 2.3 | 0.5 | -78.3% |
| Capital grants/contributions | 2.2 | 3.96 | 80.0% |
| General Revenues | | | |
| Property taxes | 8.2 | 8.9 | 8.5% |
| Franchise taxes | 1 | 1.11 | 11.0% |
| Utility taxes | 1.8 | 1.83 | 1.7% |
| Investment Income | 0.6 | 0.81 | 35.0% |
| Intergovernmental | 1.3 | 1.29 | -0.8% |
| Miscellaneous | 0.1 | 0.5 | 400.0% |
| Total revenues | 21.8 | 22.64 | 3.9% |
| Expenses: | | | |
| General government | 5.9 | 6.97 | 18.1% |
| Public Safety | 4.3 | 4.55 | 5.8% |
| Public Works | 5.9 | 5 | -15.3% |
| Culture and Recreation | 1.4 | 0.86 | -38.6% |
| Interest on long-term debt | 0.6 | 0.5 | -16.7% |
| Total expenses | 18.1 | 17.88 | -1% |
| Increase in net assets | 3.7 | 4.76 | 29% |

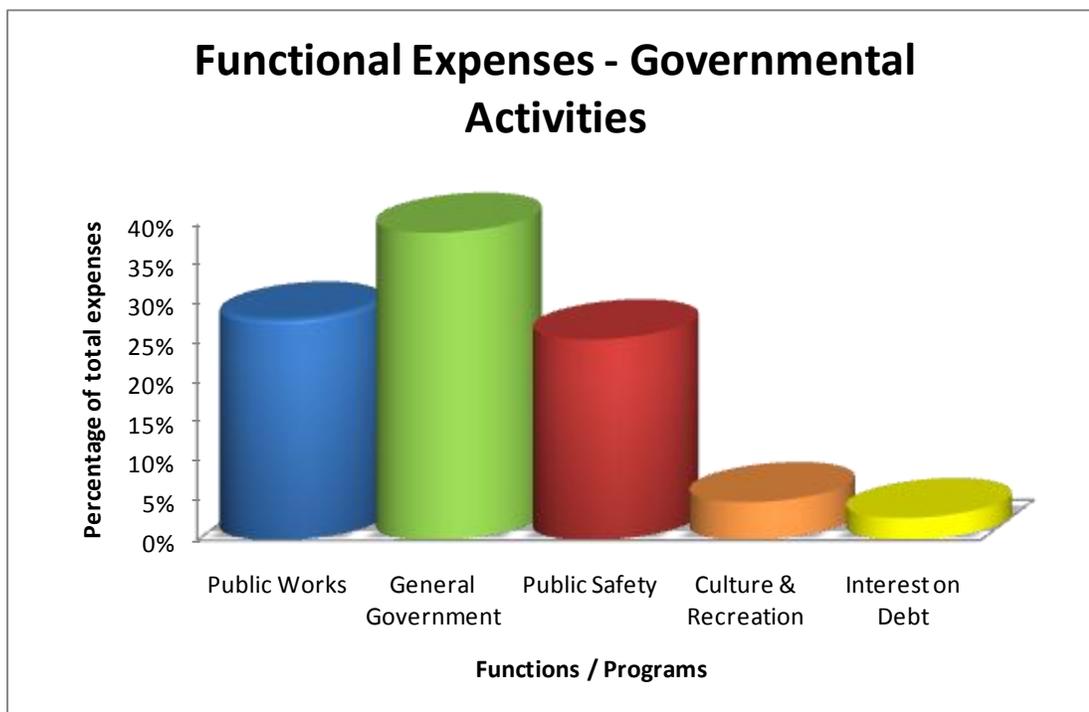
City of South Miami Florida
 Management's Discussion and Analysis
 Fiscal Year Ended September 30, 2007

The City's total revenues increased by 3.9 percent to \$22.64 million (see Table 2), due mainly to increases in property tax and miscellaneous revenues. Nearly 39 percent of the City's revenues come from property taxes, another 25 percent comes from intergovernmental and grants and 17 percent from charges for services. (See chart that follows) The City's management took major actions in 2007 and 2006 to improve City revenues and to control expenses. The actual numbers for most of the City's revenue sources were above the final budget estimates. For example, the actual revenue number for the intergovernmental category was higher than anticipated because of the Miami Dade County General Obligation Bond Funds and investment earnings were also a lot higher than expected.



The total cost of all programs and services decreased by \$.22 million or 1 percent (see Table 2). The City's expenses cover a range of services, with about 25 percent related to public safety. As shown in Chart 2, governmental expenses are largely weighted in three functions, namely the public safety, general government, and public works. At \$4.55 million, public safety expenditures represent 25% of the statement of activities' total expenses for the City in 2007. General Government category expenditures total for 2007 was \$6.97 million, or 39 percent of total expenses. The General Government category includes all other City departments except public safety, culture and recreation, public works, and non-departmental. Lastly, public works expended \$5 million, or 28% of expenses. No business-type activities for the current year.

The table below presents the cost of each of the City's governmental services. Net cost is the total cost of each service less the program revenue generated, fees by each activity and intergovernmental aid. The net cost shows the financial cost that is placed on the City's taxpayers by each of these services:



The cost of all *governmental* activities this year, including approximately \$500 thousand in interest expense on long-term debt, was \$17.88 million. Some of that cost was financed by:

- Those who directly benefited from the programs through charges for services (\$3.74 million), or
- Other governments and organizations that subsidized certain programs from grants and contributions (\$4.46 million).

The City financed the remaining \$9.68 million "public benefit" portion of governmental activities from property taxes, utility taxes and with other revenues, such as interest and unrestricted intergovernmental revenue.

GOVERNMENTAL FUNDS' FINANCIAL ANALYSIS

As the City completed the year, its governmental funds reported combined fund balances of \$15.6 million, with the general fund representing \$10.99 million. Of the \$15.6 million; \$7.3 million is reserved and \$359 thousand is designated, leaving \$7.9 million in unreserved undesignated fund balance.

The General Fund's fund balance increased by \$847 thousand after transfers of \$308 thousand and debt proceeds of \$5.6 million. There were approximately \$5.9 million in capital outlay expenditures for the general fund, which were financed mostly through debt proceeds and restricted funds. General fund revenues were fairly consistent for the years ended 2007 and 2006. Please refer to the General Fund Budget Highlights section below for further information.

City of South Miami Florida
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2007

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the General Fund budget once. The budget was amended during the fiscal year, in accordance with the City Charter, to account for rollovers related to capital improvement projects and prior year encumbrances and to account for additional funding for unforeseen expenditures and personnel changes.

Comparing the original budget to the final budget, the fiscal year 2007 amended final expenditure budget of \$16.4 million increased by \$24 thousand over the original expenditure budget. The base revenue budget of \$15.1 million was not amended.

The difference between the estimated revenues and the actual revenues in the General Fund was \$3 million for fiscal year 2007. Actual revenues, at \$18.1 million came in higher than the final budget of \$15.09 million. The primary reasons for this positive variance were investment earnings and Miami Dade County General Obligation Bond Funds.

Actual expenditures were \$24.3 million and were above the final amended budget by \$7.9 million mainly because of capital expenditures which were financed through the issuance of debt and debt service payments approximating \$2 million. The largest capital expenditures were for the public parking garage construction which amounted to \$5.3 million and capital leases of police and public works vehicles amounting to approximately \$300 thousand. All other expenditures were in line with the projected expectations. Please refer to page 45-48 for further details.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets:

The City of South Miami's investment in capital assets for its governmental activities as of September 30, 2007 is detailed below:

Table 4

| | Governmental Activities | | Total Percent Change |
|--------------------------|------------------------------------|-------------|-------------------------------------|
| | 2006 | 2007 | 2006-2007 |
| Land | 10 | 10.5 | 5.0% |
| Construction in progress | 2.5 | 7.8 | 212.0% |
| Buildings | 5.1 | 7.2 | 41.2% |
| Furniture & Fixtures | 5.4 | 5.9 | 9.3% |
| Infrastructure | 16.1 | 17.6 | 9.3% |
| Total | 39.1 | 49 | 25.3% |

For fiscal year 2007 the City spent \$9.9 million on capital programs primarily in the construction of a public parking garage, the acquisition of seven real estate properties and the purchase of vehicles, equipment, furniture and infrastructure for traffic calming projects, street improvements and storm-water improvements. Additional information on the City's capital assets can be found in Note III-C on pages 32 of this report.

City of South Miami Florida
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2007

Debt Administration:

At year-end the City had \$20.1 million in outstanding debt, as noted below:

| City of South Miami | | | |
|-----------------------------|---------------------|-------------|----------------------|
| Outstanding Debt | | | |
| (in millions of \$1) | | | |
| | Governmental | | Total Percent |
| | Activities | | Change |
| | 2006 | 2007 | 2006-2007 |
| Loans | 8.1 | 16.1 | 98.8% |
| Notes Payable | 3.5 | 1.85 | -47.1% |
| Due to Miami Dade County | 0.1 | 0.15 | 50.0% |
| Compensated Absences | 1 | 1.3 | 30.0% |
| Capital Lease Payable | 0.6 | 0.7 | 16.7% |
| Total | 13.3 | 20.1 | 51.1% |

During 2007 fiscal year the City obtained a loan and the City's CRA issued a bond. The loan proceeds were used for debt service payments and construction costs related to the public parking garage. The bond issued by the City's CRA was used to acquire seven real estate properties within the City's redevelopment area. The City Compensated Absences balance accounts for the amount expected to be paid by the City as payoff to its employees, based on current City policy, in the event of termination of employment by our employees. The City also purchased several police and public works vehicles through capital leases. More detailed information about the City's long-term liabilities is presented in Note III-F, beginning on page 34 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATIOS

The State of Florida, by constitution, does not have a state personal income tax and therefore, the State operates primarily using sales, gasoline and corporate income taxes. Local governments (cities, counties and school boards) primarily rely on property and a limited array of permitted other taxes (sales, telecommunication, gasoline, utilities services, etc.) and fees (franchise, building permits, occupational license, etc.) for their governmental activities. There are a limited number of state-shared revenues and recurring and non-recurring (one-time) grants from both the state and federal governments. For certain governmental activities (building inspections, recreational programs, etc.) the user pays a related fee or charge associated with the service.

Revenues in fiscal year 2008 adopted General Fund budget are \$15.58 million, an increase of \$.48 million from fiscal year 2007 total revenues \$15.1 million. The City will use these revenues to fund current services and the expected impact of inflation on salaries and benefits.

Fiscal year 2008 budgeted expenditures and transfers are expected to be \$19.2 million, or 17 percent, over fiscal year 2007 total budgeted expenditures of \$16.4. The largest increments are for capital projects, debt service and a performance audit in the non-departmental category. If estimates are realized, the City's budgetary General Fund balance is expected to increase modestly by the close of 2008. More importantly, however, if insurance premium costs for health, property and worker's compensation and the City's pension contributions continue to rise, the General Fund balance could be significantly impacted.

City of South Miami Florida
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2007

REQUESTS FOR INFORMATION

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact Matilde G. Menendez, CPA, Acting Finance Director, City of South Miami, 6130 Sunset Drive Miami, Florida 33143.

City of South Miami, Florida

Statement of Net Assets

September 30, 2007

| | Governmental Activities |
|---|----------------------------|
| ASSETS | |
| Cash and investments | \$ 12,589,366 |
| Accounts receivable - net | 1,586,949 |
| Prepays | 214,405 |
| Temporarily restricted assets: | |
| Cash and cash equivalents | 43,833 |
| Investments | 650,609 |
| Note receivable | 2,278,719 |
| Net pension asset | 31,900 |
| Capital assets: | |
| Capital assets, not being depreciated | 18,353,125 |
| Capital assets, being depreciated | 30,688,574 |
| Total capital assets | <u>49,041,699</u> |
| Less accumulated depreciation | (13,564,739) |
| Total capital assets, net | <u>35,476,960</u> |
| Total Assets | <u>\$ 52,872,741</u> |
| LIABILITIES | |
| Accounts payable | \$ 799,431 |
| Accrued liabilities | 230,031 |
| Net pension obligation | 56,651 |
| Due to other governments | 148,799 |
| Other liabilities | 257,919 |
| Unearned revenues | 292,262 |
| Compensated absences | 1,304,034 |
| Noncurrent liabilities: | |
| Due within one year | 2,048,950 |
| Due in more than one year | 16,734,084 |
| Total Liabilities | <u>21,872,161</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 16,693,926 |
| Restricted for: | |
| Debt service | 2,278,719 |
| Public Safety | 151,251 |
| Capital projects/ transportation | 1,873,527 |
| Unrestricted | 10,003,157 |
| Total Net Assets | <u>\$ 31,000,580</u> |

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

City of South Miami, Florida
Statement of Activities
For the Fiscal Year Ended September 30, 2007

| <u>Functions/programs</u> | <u>Program Revenues</u> | | | <u>Revenue and Changes in</u> | |
|----------------------------|-------------------------|--------------------------|----------------------|--------------------------------|----------------------|
| | <u>Expenses</u> | <u>Charges for</u> | <u>Operating</u> | <u>Net Assets</u> | |
| | | <u>Services</u> | <u>Grants and</u> | <u>Grants and</u> | |
| | | | <u>Contributions</u> | <u>Contributions</u> | |
| | | | | <u>Governmental Activities</u> | |
| Primary Government | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 6,970,306 | \$ 2,753,421 | \$ - | \$ 394,000 | \$ (3,822,885) |
| Public safety | 4,553,837 | 457,111 | 7,838 | - | (4,088,888) |
| Public works | 5,013,626 | 343,169 | 296,630 | 2,256,405 | (2,117,422) |
| Culture and recreation | 860,491 | 181,449 | 197,548 | 1,305,620 | 824,126 |
| Interest on long-term debt | 487,467 | - | - | - | (487,467) |
| Total primary government | <u>\$ 17,885,727</u> | <u>\$ 3,735,150</u> | <u>\$ 502,016</u> | <u>\$ 3,956,025</u> | <u>(9,692,536)</u> |
| | | GENERAL REVENUES: | | | |
| | | | | | \$ 8,876,221 |
| | | | | | 1,116,190 |
| | | | | | 1,829,056 |
| | | | | | 808,864 |
| | | | | | 1,296,475 |
| | | | | | 523,631 |
| | | | | | <u>14,450,437</u> |
| | | | | | 4,757,901 |
| | | | | | 26,127,884 |
| | | | | | 114,795 |
| | | | | | <u>\$ 31,000,580</u> |

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

City of South Miami, Florida

Balance Sheet
Governmental Funds
September 30, 2007

| | Major Funds | | | | Total Governmental Funds |
|--|----------------------|---------------------|--|--|---|
| | General | Grants Fund | Community Redevelopment Agency Fund | Other Nonmajor Governmental Funds | |
| ASSETS | | | | | |
| Cash and investments | \$ 7,386,376 | \$ 19,896 | \$ 2,290,234 | \$ 1,185,552 | \$ 10,882,058 |
| Accounts receivable | 565,238 | 813,526 | 5,350 | 202,835 | 1,586,949 |
| Due from other funds | 1,296,216 | 490,624 | 410,899 | 701,719 | 2,899,458 |
| Prepaid | 207,899 | - | 6,506 | - | 214,405 |
| Temporarily restricted assets: | | | | | |
| Cash and cash equivalents | 43,833 | - | - | - | 43,833 |
| Investments | 2,357,917 | - | - | - | 2,357,917 |
| Note receivable | 2,278,719 | - | - | - | 2,278,719 |
| Total Assets | \$ 14,136,198 | \$ 1,324,046 | \$ 2,712,989 | \$ 2,090,106 | \$ 20,263,339 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 619,832 | \$ 114,222 | \$ 9,246 | \$ 56,131 | \$ 799,431 |
| Due to other funds | 1,573,139 | 1,075,133 | 37,848 | 213,338 | 2,899,458 |
| Due to other governments | 148,799 | - | - | - | 148,799 |
| Accrued liabilities | 230,031 | - | - | - | 230,031 |
| Compensated absences | 49,393 | - | 882 | - | 50,275 |
| Other liabilities | 252,840 | - | 5,079 | - | 257,919 |
| Unearned revenues | 274,494 | - | - | 17,768 | 292,262 |
| Total liabilities | \$ 3,148,528 | \$ 1,189,355 | \$ 53,055 | \$ 287,237 | \$ 4,678,175 |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Prepays | 207,899 | - | - | - | 207,899 |
| Encumbrances | 818,637 | 134,691 | 25,302 | 91,718 | 1,070,348 |
| Public safety | 6,709 | - | - | 138,639 | 145,348 |
| Capital Projects/Transportation | - | - | - | 1,595,286 | 1,595,286 |
| Note receivable | 2,278,719 | - | - | - | 2,278,719 |
| Contingencies | 2,048,708 | - | - | - | 2,048,708 |
| Unreserved, designated | 359,466 | - | - | - | 359,466 |
| Unreserved, undesignated | 5,267,532 | - | 2,634,632 | (22,774) | 7,879,390 |
| Total fund balances | 10,987,670 | 134,691 | 2,659,934 | 1,802,869 | 15,585,164 |
| Total Liabilities and Fund Balances | \$ 14,136,198 | \$ 1,324,046 | \$ 2,712,989 | \$ 2,090,106 | \$ 20,263,339 |

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

City of South Miami, Florida

Reconciliation of the Balance Sheet to the Statement of Net Assets

Governmental Funds

September 30, 2007

Fund balances - total governmental funds (page 15) \$ 15,585,164

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

| | |
|-------------------------------|--------------|
| Governmental capital assets | 49,041,699 |
| Less accumulated depreciation | (13,564,739) |

| | |
|-------------------|--------|
| Net pension asset | 31,900 |
|-------------------|--------|

Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

| | |
|------------------------|--------|
| Net pension obligation | 56,651 |
|------------------------|--------|

| | |
|----------------|--------------|
| Loans payable | (15,415,765) |
| Bond Payable | (2,622,614) |
| Note payable | (99,466) |
| Capital leases | (645,189) |
| | <hr/> |
| | (18,783,034) |

| | |
|----------------------|--------------------------|
| Compensated absences | <hr/> <u>(1,253,759)</u> |
|----------------------|--------------------------|

| | |
|---|-----------------------------------|
| Net assets of governmental activities (page 13) | <hr/> <u><u>\$ 31,000,580</u></u> |
|---|-----------------------------------|

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

City of South Miami, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended September 30, 2007

| | Major Funds | | | | Total Governmental Funds |
|---|----------------------|--------------------|--|--|---|
| | General | Grants Fund | Community Redevelopment Agency Fund | Other Nonmajor Governmental Funds | |
| REVENUES: | | | | | |
| Taxes: | | | | | |
| Ad Valorem | \$ 7,304,423 | \$ - | \$ 1,571,798 | \$ - | \$ 8,876,221 |
| Utility taxes | 1,829,056 | - | - | - | 1,829,056 |
| Franchise fees | 1,116,190 | - | - | - | 1,116,190 |
| Licenses and permits | 1,102,083 | - | - | - | 1,102,083 |
| Intergovernmental | 2,812,246 | 1,445,505 | 394,000 | 940,765 | 5,592,516 |
| Charges for services | 2,196,791 | - | - | - | 2,196,791 |
| Fines and forfeitures | 329,529 | - | - | 19,474 | 349,003 |
| Investment earnings | 767,069 | 221 | 11,211 | 30,363 | 808,864 |
| Other | 688,703 | - | 36,646 | 48,654 | 774,003 |
| Total Revenues | 18,146,090 | 1,445,726 | 2,013,655 | 1,039,256 | 22,644,727 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| General government | 6,205,172 | - | 443,181 | 11,225 | 6,659,578 |
| Public safety | 4,231,704 | 5,565 | - | 15,819 | 4,253,088 |
| Public works | 3,868,733 | 691,405 | - | 549,049 | 5,109,187 |
| Culture and recreation | 785,963 | 49,091 | - | 2,232 | 837,286 |
| Debt service | | | | | |
| Principal | 1,916,971 | - | 221,792 | 42,462 | 2,182,763 |
| Interest | 612,024 | - | 1,538 | 1,538 | 613,562 |
| Capital outlay | 5,910,561 | 495,955 | 2,349,868 | 70,800 | 8,827,184 |
| Total Expenditures | 23,531,128 | 1,242,016 | 3,016,379 | 693,125 | 28,482,648 |
| Excess (deficiency) of revenues over expenditures before other financing sources (uses) | (5,385,038) | 203,710 | (1,002,724) | 346,131 | (5,837,921) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfers | 308,350 | - | (58,350) | (250,000) | - |
| Issuance of debt | 5,625,000 | - | 2,730,000 | - | 8,355,000 |
| Proceeds from issuance of capital leases | 298,870 | - | - | 24,827 | 323,697 |
| Total Other Financing Sources (Uses) | 6,232,220 | - | 2,671,650 | (225,173) | 8,678,697 |
| Net change in fund balances | 847,182 | 203,710 | 1,668,926 | 120,958 | 2,840,776 |
| Fund balances, beginning | 9,926,227 | 69,019 | 991,008 | 1,681,911 | 12,530,127 |
| Prior period adjustment | 214,261 | - | - | - | 214,261 |
| Fund balances, ending | \$ 10,987,670 | \$ 134,691 | \$ 2,659,934 | \$ 1,802,869 | \$ 15,585,164 |

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

City of South Miami, Florida

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Net Assets
For the Fiscal Year Ended September 30, 2007

Net change in fund balances - total governmental funds (Page 17) \$ 2,840,776

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 outlays | 9,550,428 | |
| Less current year depreciation | <u>(983,893)</u> | |
| | | 8,566,535 |

The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. However, neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items.

| | | |
|--------------------|------------------|-------------|
| Debt issued | (8,673,990) | |
| Principal payments | <u>2,200,332</u> | |
| | | (6,473,658) |

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that do not require the use of expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.

| | | |
|-----------------------------|--|-----------------|
| Changes in: | | |
| Compensated absences | | (312,007) |
| Interest payable | | 173,143 |
| Change in net pension asset | | <u>(36,888)</u> |

Change in net assets of governmental activities (page 14) \$ 4,757,901

City of South Miami, Florida

Statement of Fiduciary Net Assets

Fiduciary Fund

September 30, 2007

**Employee
Retirement
Fund**

ASSETS

| | |
|--|--------------------------|
| Cash and cash equivalents | \$ 1,014,624 |
| Receivables: | |
| Employer | 124,254 |
| Employees | 27,745 |
| Dividends and interest | 57,381 |
| South Miami Police Officers' Retirement Plan | 203,249 |
| Total receivables | <u>412,629</u> |
| Investments, at fair value | |
| U.S. Government securities | |
| Mutual funds | 17,983,136 |
| Total investments | <u>17,983,136</u> |
| Total Assets | <u><u>19,410,389</u></u> |

NET ASSETS

| | |
|------------------------------------|-----------------------------|
| Held in trust for pension benefits | <u><u>\$ 19,410,389</u></u> |
|------------------------------------|-----------------------------|

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

City of South Miami, Florida
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended September 30, 2007

| | <u>Employee Retirement Fund</u> |
|---|--|
| ADDITIONS: | |
| Contributions: | |
| Employer | \$ 756,288 |
| Employees | 755,018 |
| Total contributions | <u>1,511,306</u> |
| Investment income: | |
| Net increase in fair value of investments | 1,675,158 |
| Interest and dividend income | 615,904 |
| Total investment income | <u>2,291,062</u> |
| Less investment expenses | <u>(2,365)</u> |
| Net investment income | <u>2,288,697</u> |
| Total Additions | <u>3,800,003</u> |
| DEDUCTIONS: | |
| Benefits Paid | 501,197 |
| Refunds of contributions | 180,463 |
| Administrative expenses | 81,956 |
| Total Deductions | <u>763,616</u> |
| Changes in net assets | <u>3,036,387</u> |
| Net assets - beginning of year | <u>16,374,002</u> |
| Net assets - end of year | <u><u>\$ 19,410,389</u></u> |

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

NOTES TO BASIC FINANCIAL STATEMENTS

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of South Miami (the "City") is a political subdivision of the State of Florida, located in Miami-Dade County. The City was incorporated in 1927 and has operated since 1978 under the same charter. The City is approximately 2.5 square miles in area. The City is a full service city providing its citizens with a full complement of municipal services, specifically public safety, general government, parks, culture and recreation, sanitation and public works. It also maintains various trust funds in a fiduciary capacity, but does not provide any educational facilities, water, wastewater or fire services. Those services are provided by the Miami-Dade County School Board and Miami-Dade County.

The accompanying financial statements present the government and its component units, entities for which the government is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. There are no discretely presented component units.

Blended Component Unit

The South Miami Community Redevelopment Agency (the "Agency"), was established on April 15, 1997 through the adoption of City Ordinance No. 12- 97-1633. The Miami-Dade County Board of County Commissioners approved and adopted the South Miami Community Redevelopment Agency Plan on May 19, 1998 with the adoption of Ordinances 98-79 and 98-80. The Agency began providing services to the City on October 1, 1998. The Agency's main objective is to prevent the spread of and eliminate the existence of slum and blighted conditions within the redevelopment area.

The Agency was deemed to be a separate, distinct and independent legal entity controlled by a board of seven commissioners, which include five members of the City's elected council. The Agency falls under the requirements of Chapter 163 part III of the Florida Statutes.

Individual financial statements for the CRA are available through the Finance Department of the City at 6130 Sunset Drive, South Miami, Florida 33143.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *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 City has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, utility taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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

The **grants fund** is one of the government's special revenue funds. It accounts for grant funds received that are restricted for certain types of projects.

The **South Miami Community Redevelopment Agency fund** accounts for the revenues and expenditures of the City of South Miami Community Redevelopment Agency (the "CRA") (a blended component unit of the City). The CRA's primary source of revenue is tax-increment funds from the County and the City.

Additionally, the government reports the following fund types:

The *pension trust funds* accounts for the activities of the General Employees Pension Fund and the Police Pension Fund, which accumulates resources for pension benefit payments to qualified general and public safety employees.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has no business-type activities and enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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

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

D. Assets, Liabilities, and net assets or equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the City, as well as for its component unit, are reported at fair value. The City's investment in the State Board of Administration Investment Pool (2A-7 pool) operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Revenues and the associated receivable balances are accrued for taxes, franchise fees, and other utility services based on collections within 60 days of year-end.

3. Property Taxes

Property values are assessed as of January 1 of each year, at which time taxes become an enforceable lien on property. Tax bills are mailed for the City by Miami-Dade County on or about October 1 of each year and are payable with discounts of up to 4% offered for early payment. Taxes become delinquent on April 1 of the year following the year of assessment and State law provides for enforcement of collection of property taxes by seizure of the personal property or by the sale of interest-bearing tax certificates to satisfy unpaid property taxes.

Assessed values are established by the Miami-Dade County Property Appraiser. In November 1992, a Florida constitutional amendment was approved by the voters which provides for limiting the increases in homestead property valuations for ad valorem tax purposes to a maximum of 3% annually and also provides for reassessment of market values upon changes in ownership. The County bills and collects all property taxes and remits them to the City. Procedures for the collection of delinquent taxes by Miami-Dade County are provided for in the Laws of Florida. There were no material delinquent property taxes at September 30, 2007.

State statutes permit municipalities to levy property taxes at a rate of up to 10 mills (\$10 per \$1,000 of assessed taxable valuation). The tax levy of the City is established by the City Commission and the Miami-Dade County Property Appraiser incorporates the City's millage into the total tax levy, which includes the County and the County School Board tax requirements. The millage rate assessed by the City for the year ended September 30, 2007 was 5.881 mills (\$5.881 per \$1,000 of taxable assessed valuation).

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and net assets or equity (continued)

4. Prepaid Costs

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid costs.

5. Restricted Assets

Certain proceeds from the Florida Municipal Loan Council loans, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by the applicable loan covenants.

6. Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, machinery and equipment, and infrastructure assets (e.g., roads, sidewalks, culverts, pump stations, stormwater lines, catch basins, and similar items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the City, 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. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as they are completed.

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

| <u>Assets</u> | <u>Years</u> |
|---|--------------|
| Buildings and improvements | 20-50 |
| Furniture and Equipment | 5-20 |
| System and Public Domain Infrastructure | 20-65 |

7. Compensated Absence

City employees are granted vacation and sick leave in varying amounts based on length of service and the department, which the employee serves.

Effective October 1, 1996, the City's vacation and sick leave policy is that earned vacation and sick leave must be taken within one year of the employee's anniversary date, as there is no carryover from one period to another. Unused vacation pay, if any, is paid with the employee's termination or retirement. However, the City continued to accrue vacation leave after the change in policy and discontinued to accrue vacation leave effective October 1, 2004.

The liability for these compensated absences is recorded as a long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. Governmental funds report only the compensated absence liability payable for those who have resigned or retired.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and net assets or equity (continued)

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types recognize debt proceeds and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific future purpose. The description of each reserve indicates the purpose for which each was intended. Designations of fund balance represent tentative management plans that are subject to change. Unreserved undesignated fund balance is the portion of fund equity available for any lawful use.

10. Unearned Revenues

Unearned revenue is a specific type of deferred revenue that does not involve the application of the availability criterion, and therefore applies equally to both accrual and modified accrual financial statements. The unearned items consist primarily of license and permit revenues and grant advances.

11. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts of assets, liabilities, disclosure of contingent liabilities, revenues, and expenditures/expenses reported in the financial statements and accompanying notes. Some of these estimates include assessing the collectibility of receivables, the realization of pension obligations and the useful lives of capital assets. Although those estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

12. New Pronouncements

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

| | |
|--|--|
|  <u>GASB Statement No. 51</u> (June 2007) | Accounting and Financial Reporting for Intangible Assets |
|  <u>GASB Statement No. 50</u> (May 2007) | Pension Disclosures—an amendment of  <u>GASB Statements No. 25</u> and  <u>No. 27</u> |
|  <u>GASB Statement No. 49</u> (November 2006) | Accounting and Financial Reporting for Pollution Remediation Liabilities |
|  <u>GASB Statement No. 48</u> (September 2006) | Sales and Pledges of Receivables and Future Revenues and Intra- Entity Transfers of Assets and Future Revenues |

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and net assets or equity (continued)

12. New Pronouncements (continued)

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

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

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

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. Budgets are legally adopted for the General Fund, Stormwater Drain Trust Fund, Local Option Gas Tax Fund, Peoples Transportation Tax Fund, the Federal Forfeiture Fund and the Community Redevelopment Agency Fund. The City has no material violations of finance-related legal and contractual obligations; except as disclosed in the schedule of findings and questioned costs found in the separately issued compliance report package.

Fund Accounting Requirements

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, like any other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related requirements, bond covenants, and segregation for management purposes.

Revenue Restrictions

The City has various restrictions placed over certain revenue sources from federal, state, or local requirements. The primary revenue sources include:

| <u>Revenue Source</u> | <u>Legal Restrictions of Use</u> |
|---------------------------------|----------------------------------|
| Gas Tax | Roads, sidewalks, streets |
| Transportation Tax | Transportation and roads |
| Federal, State and Local Grants | Grant Program Expenditures |
| Federal Forfeitures | Law Enforcement |

For the year ended September 30, 2007, the City complied, in all material respects, with these revenue restrictions except as disclosed in the schedule of findings and questioned costs found in the separately issued compliance report package.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

Deficit Fund Balance

The Community Development Block Grant fund had a deficit fund balance of \$39,001, as of September 30, 2007. The deficits resulted from the funds incurring expenditures that were not fully reimbursed by grants but will be funded by the general fund in future periods.

Excess of expenditures over appropriations

For the year ended September 30, 2007, expenditures exceeded appropriations in the City Manager, Legal, Finance, Police, Public Works, Culture and Recreation and Non-departmental departments (the legal level of budgetary control) of the general fund by \$4,574, \$30,241, \$90,986, \$106,045, \$136,875, \$11,890 and \$7,554,418, respectively. These overexpenditures were funded by greater than anticipated revenues, grants received during the year, issuance of debt and available fund balance. Overexpenditures in all departments, except for non-departmental, were covered by the appropriated fund balance. The non-departmental overexpenditures were mostly caused by capital outlays for the public parking garage. All of the expenditures were approved by the City Commission.

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The City, for accounting and investment purposes, maintains a cash and investment pool for use by all City funds. This gives the City the ability to invest large amounts of idle cash for short periods of time and to maximize earning potential. Each fund's portion of this pool is displayed on the balance sheets as cash and equity in pooled cash and investments. Income earned on pooled cash and investments is allocated to the respective funds based on relative month-end balances.

Custodial credit risk (deposits) - In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. All of the City's deposits are entirely insured by federal depository insurance or collateralized by the multiple financial institution collateral pool pursuant to Florida Statutes, Chapter 280, "Florida Security for Public Deposits Act." Under the Act, all qualified public depositories are required to pledge eligible collateral having a fair value equal to or greater than the average daily or monthly balance of all public deposits, multiplied by the depository's collateral pledging level. The book value of the City's deposits on the balance sheet date was \$3,664,803. The bank balance of the City's deposits as of September 30, 2007 was \$3,929,120.

The City does not have a written investment policy and follows the State of Florida investment policy as set forth in State Statute 218.415. Allowable investments include United States government obligations, guaranteed United States agency short-term issues, the State Board of Administration (SBA) Local Government Surplus Funds Investment Pool, Florida bank certificates of deposit, and investments authorized by City Council.

City administration is authorized to invest in those instruments authorized by the Florida Statutes. At September 30, 2007 all of the City's investments were in certificates of deposit totaling \$1,195,852, repurchase agreements totaling \$6,065,236 and the Florida Municipal Investment Trust Fund totaling \$2,357,917.

The General Employees and Police Officers Pension Plan (the Plan) investments are held separately from those of other City funds. As prescribed by Plan documents, the Plan is authorized to invest in equities, corporate debt securities rated BAA or better from Standard & Poor's and/or Moody's and obligations of the U.S. Government and its fully guaranteed agencies. Investment in foreign bonds is prohibited and investment in foreign securities is limited to 10% of the cost of the Plan's investment.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

A. DEPOSITS AND INVESTMENTS (continued)

As of September 30, 2007, the City had the following investments:

| Investment Type | Fair Value | Maturity Less than 1 Year |
|---|---------------------|---------------------------------|
| Certificates of deposit | \$ 1,195,852 | \$ 1,195,852 |
| Florida Municipal Investment Trust Fund | 650,609 | 650,609 |
| Repurchase Agreement | 6,065,236 | 6,065,236 |
| Total Fair Value | \$ 7,911,697 | |

A reconciliation of deposits and investments as shown by category and the statement of net assets is as follows:

By Category

| | |
|-------------|----------------------|
| Deposits | \$ 5,372,111 |
| Investments | 7,911,697 |
| | \$ 13,283,808 |

Statement of Net Assets:

| | |
|--------------------------------------|----------------------|
| Cash and investments | \$ 12,589,366 |
| Restricted cash and cash equivalents | 43,833 |
| Restricted investment | 650,609 |
| | \$ 13,283,808 |

As of September 30, 2007, the General Employees and Police Officers Pension Plan had the following investments:

| Investment Type | Investment Maturities (in Years) | | | | | Cost |
|------------------------------|----------------------------------|---------------------|-----------|------------|-----------------------|----------------------|
| | Fair Value | Less than 1 Year | 1-5 Years | 6-10 Years | More than 10 Years | |
| Money market | \$ 1,014,624 | \$ 1,014,624 | \$ - | \$ - | \$ - | \$ 1,014,624 |
| U.S. Government and agencies | 5,162,989 | - | 1,269,200 | 986,078 | 2,907,711 | 5,040,092 |
| Corporate Obligations | 1,728,749 | - | - | 881,857 | 846,892 | 1,709,925 |
| Sub-total | <u>7,906,362</u> | | | | | <u>7,764,640</u> |
| Equity | 11,091,397 | | | | | 10,527,462 |
| Total Fair Value | \$ 18,997,760 | | | | Total Cost | \$ 18,292,103 |

Interest Rate Risk – Interest rate risk exists when there is possibility that changes in interest rates could adversely affect an investment's fair value. The City and the Plan do not have a written policy on interest rate risk, however, the City manages its exposure to declines in fair values by limiting the weighted average monthly maturity of its investment portfolio to less than six months (180 days). The Plan limits the duration of the fixed income portfolio to not be greater than +/-15% of Lehman High Grade Intermediate Aggregate Index. At September 30, 2007 the portfolio weighted average maturity was 90 days for the City and 17 years for the Plan.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

A. DEPOSITS AND INVESTMENTS (continued)

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The City's investments in the Florida Municipal Investment Trust Fund (FMIvT)) (which has the characteristics of a Money Market Fund) are not required to be categorized as these investments are not evidenced by securities that exist in physical or book entry form. Additionally, these investments are entirely collateralized and insured by the State. The FMIvT is governed by Chapter 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the FMIvT. The Local Government Surplus Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2A-7 fund. All FMIvT funds reported by the City are reported at fair value consistent with the valuation similar to a 2A-7 pool. No credit rating is available for this investment.

The Plan's investment policy limits investments to the highest rankings by nationally recognized statistical organizations (NRSPO) – (Standard and Poor's and Moody's Investors Services), excluding securities of the U.S. Government and its agencies. However, the Plan's investments in securities only implicitly guaranteed by the U.S. government hold credit ratings of Aaa under the Moody's Rating.

The table below provides a breakdown of the Plan's investments in money market funds and corporate obligations by credit rating as of September 30, 2007:

| Moody's | % of Fair Value |
|--------------|--------------------|
| Aaa | 56.12% |
| AA1 to Aa3 | 11.69% |
| A1 to A3 | 29.37% |
| Baa1 to Baa3 | 1.76% |
| Ba1 to Ba3 | 0.00% |
| Below Ba3 | 0.00% |
| NR | 1.07% |
| | 100.00% |

Concentration of Credit Risk – There are no limits on the amount that may be invested in Certificates of Deposits (CD's) placed with public depositories, funds placed with the FMIvT or securities of the U.S. Government and its agencies. The City's investment policy does not stipulate any limit on the percentage that can be invested in any one issuer. The Plan's investment policy statement stipulates that no more than 5% of the Fund's assets shall be invested in any one issuing company. GASB 40 requires disclosure when the percent is 5% or more in any one issuer. As of September 30, 2007, the value of each position held in the City's and Plan's portfolio comprised less than 5% of the City's and Plan's investment assets.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

A. DEPOSITS AND INVESTMENTS (continued)

Risks and Uncertainties

The City's General Employees and Police Pension Plans (the Plans) have investments in a combination of stocks, bonds, government securities and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect balances and the amounts reported in the statement of fiduciary net assets and the statement of changes in fiduciary net assets. The Plan, through its investment advisors, monitors the Plans' investments and the risks associated therewith on a regular basis, which the Plans believe minimizes these risks.

B. RECEIVABLES AND PAYABLES

Receivables at September 30, 2007 were as follows:

| | <u>Accounts</u> | <u>Taxes</u> | <u>Grants</u> | <u>Total</u> |
|--------------------------------|-------------------|-------------------|-------------------|---------------------|
| Governmental Activities | | | | |
| General Fund | \$ 149,174 | \$ 383,390 | \$ 32,674 | \$ 565,238 |
| Grants Fund | - | - | 813,526 | 813,526 |
| Community Redevelopment Agency | - | 5,350 | - | 5,350 |
| Non-major governmental funds | - | 201,917 | 918 | 202,835 |
| Total governmental activities | <u>\$ 149,174</u> | <u>\$ 590,657</u> | <u>\$ 847,118</u> | <u>\$ 1,586,949</u> |

All receivables are expected to be collected within one year.

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenues reported in the governmental funds were as follows:

| | |
|--------------------------------|-------------------|
| Occupational licenses renewals | \$ 267,968 |
| Grant advances | 17,768 |
| Other | 6,526 |
| Total government activities | <u>\$ 292,262</u> |

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

C. CAPITAL ASSETS

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

| | <u>Balance</u> <u>Oct. 1, 2006</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>Sept. 30, 2007</u> |
|---|---------------------------------------|---------------------|------------------|---|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 10,042,694 | \$ 502,734 | \$ 5,806 | \$ 10,539,622 |
| Construction in progress | 2,475,295 | 5,338,208 | | 7,813,503 |
| Total assets not being depreciated | <u>12,517,989</u> | <u>5,840,942</u> | <u>5,806</u> | <u>18,353,125</u> |
| Capital assets being depreciated: | | | | |
| Building and improvements | 5,131,163 | 2,049,618 | | 7,180,781 |
| Furniture and equipment | 5,460,922 | 500,713 | | 5,961,635 |
| System and public domain infrastructure | 16,082,178 | 1,463,980 | | 17,546,158 |
| Total capital assets being depreciated | <u>26,674,263</u> | <u>4,014,311</u> | <u>-</u> | <u>30,688,574</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,646,563 | 174,068 | | 1,820,631 |
| Furniture and equipment | 3,252,733 | 351,612 | | 3,604,345 |
| System and public domain infrastructure | 7,681,550 | 458,213 | | 8,139,763 |
| Total accumulated depreciation | <u>12,580,846</u> | <u>983,893</u> | <u>-</u> | <u>13,564,739</u> |
| Total capital assets being depreciated, net | <u>14,093,417</u> | <u>3,030,418</u> | <u>-</u> | <u>17,123,835</u> |
| Governmental activities capital assets, net | <u>\$ 26,611,406</u> | <u>\$ 8,871,360</u> | <u>\$ 5,806</u> | <u>\$ 35,476,960</u> |

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

| | |
|--|-------------------|
| Governmental Activities: | |
| General government | \$ 235,920 |
| Public safety | 124,781 |
| Public works | 586,520 |
| Culture and recreation | 36,672 |
| Total depreciation expense - governmental activities | <u>\$ 983,893</u> |

Construction Commitments

The City has approximately \$5.5 million in outstanding construction commitments for infrastructure repairs and construction as of September 30, 2007.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

C. INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2007 and the amount of interfund transfers for the fiscal year ended September 30, 2007 are as follows:

| | Interfund <u>Receivable*</u> | Interfund <u>Payable*</u> | Transfers <u>In**</u> | Transfers <u>Out**</u> |
|--------------------------------|---------------------------------|------------------------------|--------------------------|---------------------------|
| General | \$ 1,296,216 | \$ 1,573,139 | \$ 308,350 | \$ - |
| Grants fund | 490,624 | 1,075,133 | - | - |
| Community Redevelopment Agency | 410,899 | 37,848 | - | 58,350 |
| Non-major governmental | 701,719 | 213,338 | - | 250,000 |
| Total governmental activities | <u>\$ 2,899,458</u> | <u>\$ 2,899,458</u> | <u>\$ 308,350</u> | <u>\$ 308,350</u> |

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

** \$308,350 transferred into the General Fund represent a \$250,000 transfer from the Stormwater Drain Trust Fund to pay for partial salary and benefits for those employees working on stormwater related activities in the City and a \$58,350 transfer from the CRA to pay for salary and benefits for 1 code enforcement officer primarily working in the CRA district.

D. RESTRICTED ASSETS

Restricted assets and the related reservations of net assets for Governmental Activities consist of the following:

- \$650,609 of investments in the State Treasurer's Investment Pool at September 30, 2007. These amounts relate to the loan received from the Florida Municipal Loan Council (FMLC) and can only be expended on the approved projects.
- \$43,833 of cash deposits from funds received which are restricted by the granting agency for capital projects and/or debt service.
- \$2,278,719 note receivable from Mark Richmond Properties Inc. for the building of the parking garage (see NOTE III-H). Payments of principal and interest on this note receivable can only be used to pay down the FMLC Series 2002A loan.
- \$151,251 of net assets set aside for public safety from federal and state forfeiture funds.
- \$1,873,527 of net assets set aside for capital and transportation projects from grants, stormwater, local option gas and peoples transportation taxes.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

E. LONG TERM DEBT

Florida Municipal Loan Council – Loans

On November 15, 2001, the City borrowed \$2,200,000 from the Florida Municipal Loan Council's November 30, 2001 debt issue of \$90,210,000 Series 2001A Revenue Bonds, (the "Series 2001A Loan") to repay borrowings of \$600,000 and finance the construction of a multi-purpose activities center. The loan carries varying interest ranging from 3.25% to 5.25% and includes covenants that include reserves and investment policies, all of which have been complied with by the Trustee and the City. All proceeds and reserves held are invested by the Trustee in accordance with the investment policies. All disbursements to the City for use of loan proceeds are disbursed by the Trustee to the City in accordance with the covenants of the loan agreement. The loans are secured by non-ad valorem revenues from the City. These revenues (see also Note III-G page 37), specifically investment income earned from the loan proceeds not expended, will be used to repay the loans.

On May 1, 2002, the City borrowed \$6,500,000 from the Florida Municipal Loan Council's May 17, 2001 debt issue of \$49,775,000 Series 2002A Revenue Bonds (the "Series 2002A Loan") to finance the construction of a parking garage (See Note III-H). The loan carries varying interest ranging from 3.25% to 5.5% and includes covenants that include reserves and investment policies, all of which have been complied with by the Trustee and the City. All proceeds and reserves held are invested by the Trustee in accordance with the investment policies. All disbursements to the City for use of loan proceeds are disbursed by the Trustee to the City in accordance with the covenants of the loan agreement. The loans are secured by non-ad valorem revenues from the City. Investment income from the note receivable from Mark Richmond Properties, Inc. ("MRP") and loan proceeds not expended, future garage revenues, and non-ad valorem revenues will be used to repay the bonds as they become due.

On December 1, 2006, the City borrowed \$5,625,000 from the Florida Municipal Loan Council's September 28, 2006 debt issue of \$22,365,000 Series 2006 Revenue Bonds (the "Series 2006 Loan") to finance the construction and improvements of a city-owned parking garage to be used for public parking (See Note III-H). The loan carries varying interest ranging from 4.2% to 4.5% and includes covenants that include reserves and investment policies, all of which have been complied with by the Trustee and the City. All proceeds and reserves held are invested by the Trustee in accordance with the investment policies. All disbursements to the City for use of loan proceeds are disbursed by the Trustee to the City in accordance with the covenants of the loan agreement. The loans are secured by non-ad valorem revenues from the City. Investment income from the note receivable from ("MRP") and loan proceeds not expended, future garage revenues, and non-ad valorem revenues will be used to repay the loan as the payments become due.

Future principal and interest payments for the FMLC Loans are as follows:

| | <u>Series 2001A - Loan</u> | | <u>Series 2002A- Loan</u> | | <u>Series 2006- Loan</u> | | <u>Total</u> |
|-----------|----------------------------|---------------------|---------------------------|---------------------|--------------------------|---------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2008 | \$ 40,000 | \$ 98,862 | \$ 125,000 | \$ 300,826 | \$ - | \$ 244,382 | \$ 809,070 |
| 2009 | 45,000 | 96,614 | 130,000 | 295,826 | 100,000 | 240,382 | 907,822 |
| 2010 | 45,000 | 94,362 | 135,000 | 290,626 | 100,000 | 236,382 | 901,370 |
| 2011 | 50,000 | 91,862 | 140,000 | 285,226 | 105,000 | 232,182 | 904,270 |
| 2012 | 50,000 | 89,362 | 150,000 | 279,450 | 110,000 | 227,782 | 906,594 |
| 2013-2017 | 295,000 | 402,350 | 865,000 | 1,269,275 | 625,000 | 1,058,210 | 4,514,835 |
| 2018-2022 | 385,000 | 313,617 | 1,125,000 | 1,008,150 | 795,000 | 888,126 | 4,514,893 |
| 2023-2027 | 480,000 | 205,000 | 1,435,000 | 693,500 | 985,000 | 700,144 | 4,498,644 |
| 2028-2032 | 620,000 | 65,000 | 1,840,000 | 291,869 | 1,215,000 | 456,525 | 4,488,394 |
| 2033-2037 | - | - | - | - | 1,520,000 | 143,100 | 1,663,100 |
| | <u>\$ 2,010,000</u> | <u>\$ 1,457,029</u> | <u>\$ 5,945,000</u> | <u>\$ 4,714,748</u> | <u>\$ 5,555,000</u> | <u>\$ 4,427,215</u> | <u>\$ 24,108,992</u> |

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

F. LONG TERM DEBT (continued)

CRA Bond Series 2006

In November 2006, the City through its Community Redevelopment Agency (“CRA”) issued \$2,730,000 of Taxable Redevelopment Revenue Bonds, Series 2006 for the purpose of acquiring various properties located within the boundaries of the South Miami redevelopment area. The revenue bonds are secured by CRA Tax Increment Financing revenues from the County and the City. The bonds carry an interest rate of 5.99%. Principal and interest payments are due quarterly up to May 1, 2020, the maturity date of the bonds. During the fiscal year 2007, the City purchased seven properties with the proceeds of the revenue bonds.

Future principal and interest payments for the loan payable are as follows:

| | Principal | Interest |
|------------|--------------|--------------|
| 2008 | \$ 141,233 | \$ 156,540 |
| 2009 | 150,439 | 147,334 |
| 2010 | 159,785 | 137,988 |
| 2011 | 169,713 | 128,061 |
| 2012 | 179,934 | 117,840 |
| 2013-2017 | 1,083,542 | 405,324 |
| thereafter | 737,969 | 68,034 |
| | \$ 2,622,614 | \$ 1,161,121 |

Notes Payable

Land Acquisition Promissory Note Series 2005. On April 20, 2005, the City purchased property located at 7800 S.W. 59th Avenue for \$573,367 financed through the issuance of a note payable to a local bank. The note calls for quarterly payments of principal of \$20,477 and quarterly interest payments of varying amounts at an annual interest rate of 3.95%. The note matures on April 30, 2012. At September 30, 2007, the balance outstanding was approximately \$382,914.

Police Vehicles. On April 25, 2005, the City purchased eight police vehicles financed through the issuance of a note payable to a local bank totaling \$155,082. The note calls for monthly payments of principal and interest of \$41,981 at an annual interest rate of 4%. The note matures on November 1, 2008.

On April 19, 2006, the City purchased eight police vehicles financed through the issuance of a note payable to a local bank totaling \$188,450. The note calls for monthly payments of principal and interest of \$40,827 at an annual interest rate of 4.1%. The note matures on April 20, 2010.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

F. LONG TERM DEBT (continued)

Notes Payable (continued)

YMCA-Loans. On November 21, 2005, the City purchased land totaling \$2,750,000 from the YMCA of Greater Miami, Inc. financed through loans totaling \$2,775,000. The loans consist of three separate note payables as follows:

- a) \$1,425,000 Non-Taxable Promissory Note, Series 2005-A- This note calls for quarterly interest only payments of \$14,499 at an annual interest rate of 4.07% with the principal balance due on November 21, 2007. On November 01, 2006, the City made a lump sum principal payment of \$1,324,436. The remaining balance of \$100,564 was paid on November 21, 2007, as scheduled.
- b) \$500,000 Non-Taxable Promissory Note, Series 2005-B- This note calls for quarterly principal payments of \$25,000 and quarterly interest payments of varying amounts at an annual interest rate of 4.26% maturing on November 21, 2010.
- c) \$850,000 Taxable Promissory Note, Series 2005-C- This note calls for quarterly interest only payments of \$13,260 at an annual interest rate of 6.24% with the principal balance due paid on November 21, 2007. However, an extension was granted and the note was subsequently paid in January of 2008.

The City has pledged the lease revenues on the property that was purchased. Should the collected lease payments not be sufficient to cover the debt service on the loans, the City has pledged to budget and appropriate from non-ad valorem revenues sufficient funds to cover the required debt service.

The City also obtained a grant from Miami Dade County of approximately \$1,343,000, which was used to pay off a portion of the loans.

Future principal and interest payments for the notes payable are as follows:

| | Principal | Interest | Total |
|------|--------------|------------|--------------|
| 2008 | \$ 1,209,717 | \$ 54,743 | \$ 1,264,460 |
| 2009 | 261,940 | 24,454 | 286,394 |
| 2010 | 220,102 | 13,759 | 233,861 |
| 2011 | 106,908 | 5,534 | 112,442 |
| 2012 | 51,449 | 2,032 | 53,481 |
| | \$ 1,850,116 | \$ 100,522 | \$ 1,950,638 |

Due to Miami-Dade County

The City had entered into an Inter-Local agreement with Miami Dade County in 1995, for the purchase of 800MHz police radios. The cost for the radios was \$247,329 and was to be paid within ten years. As of September 30, 2007, the City still owes \$155,155 to the County.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

IV. DETAILED NOTES ON ALL FUNDS (continued)

F. LONG TERM DEBT (continued)

Capital Leases

The City has entered into various capital lease agreements for law enforcement and other City vehicles totaling approximately \$1,139,000. The leases expire at varying intervals through fiscal year 2011.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2007 were as follows:

| | | |
|---|----|----------|
| Year ending September 30, | | |
| 2008 | \$ | 304,540 |
| 2009 | | 187,675 |
| 2010 | | 137,581 |
| 2011 | | 69,571 |
| Total minimum lease payments | | 699,367 |
| Less: amount representing interest | | (54,179) |
| Present value of minimum lease payments | \$ | 645,188 |

Non-Commitment Debt - Health Care Facilities Revenue Bonds

In 1995, the City issued \$69,985,000 in Health Facilities Authority ("HFA) Hospital Revenue Refunding Bonds("1995 Bonds") to provide funds to the City of South Miami Health Facilities Authority (the "Authority"), a non-profit public benefit corporation, for the purpose of currently refunding the City of South Miami Health Facilities Revenue Bonds (the South Miami Hospital Project) Series 1989 and Series 1991A and to provide financing for the cost of certain additional capital improvements to the health care facility. South Miami Hospital is an independent health care facility located within the geographic boundaries of the City. The 1995 Bonds were redeemed on June 15, 2007, their first available redemption date, and are no longer outstanding.

In 1998, the City issued \$104,205,000 in City of South Miami Health Facilities Authority Hospital Revenue Bonds, series 1998("1998 Bonds"). The bonds were issued for the purpose of financing improvements in renovation, new construction and acquisition of equipment in the health facilities of the borrowers, Baptist Health Systems, Inc., and affiliates, an independent health care facility located near South Miami. On May 16, 2007, Baptist Health Systems Obligated Group ("BHSF") irrevocably deposited funds in an escrow account held by an independent trustee in an amount sufficient to meet all scheduled principal and interest payments on the 1998 Bonds and to redeem the refunded bonds on their first available redemption date, which is November 15, 2008. Hence, the 1998 Bonds have been legally defeased.

In 2003, the City issued \$150,000,000 in City of South Miami Health Facilities Authority Hospital Revenue Bonds, series 2003 ("2003 Bonds"). The bonds were issued for the purpose of financing improvements in renovation, new construction and acquisition of equipment in the health facilities of the borrowers, Baptist Health Systems, Inc., and affiliates, an independent health care facility located near South Miami. On May 16, 2007, BHSF irrevocably deposited funds in an escrow account held by an independent trustee in an amount sufficient to meet all scheduled principal and interest payments on the 2003 Bonds and to redeem the refunded bonds on their first available redemption date, which is February 1, 2013. Hence, the 2003 Bonds have been legally defeased.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

F. LONG TERM DEBT (continued)

Non-Commitment Debt - Health Care Facilities Revenue Bonds (continued)

In 2007, the City issued \$800,000,000 in City of South Miami Health Facilities Authority Hospital Revenue Bonds, series 2007 (“2007 Bonds”). The bonds were issued for the purpose of reimbursing the costs of acquiring, constructing, renovating, rehabilitating, furnishing and equipping certain healthcare facilities, refunding certain prior bonds outstanding and paying certain expenses incurred in connection with the issuance of the 2007 Bonds.

The City acts solely as a lawful conduit in the issuance of the bonds described above and is not liable in any manner. The amount of debt outstanding and not legally defeased as of September 30, 2007 was \$800,000,000 for the 2007 Bonds.

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2007 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due within One Year</u> |
|---|------------------------------|---------------------|---------------------|---------------------------|--------------------------------|
| Governmental Activities: | | | | | |
| Loans and capital leases: | | | | | |
| Florida Municipal Loan Council Loans | \$ 8,115,000 | \$ 5,625,000 | \$ 230,000 | \$ 13,510,000 | \$ 265,000 |
| CRA Bond Series 2006 | - | 2,730,000 | 107,386 | 2,622,614 | 141,233 |
| Notes payable | 3,431,704 | - | 1,581,627 | 1,850,077 | 1,209,717 |
| Capital leases | 607,517 | 318,990 | 281,319 | 645,188 | 277,885 |
| Due to Miami-Dade County | 155,155 | - | - | 155,155 | 155,115 |
| Total loans and capital leases | <u>12,309,376</u> | <u>8,673,990</u> | <u>2,200,332</u> | <u>18,783,034</u> | <u>2,048,950</u> |
| Other Liabilities: | | | | | |
| Compensated absences* | 992,027 | 486,267 | 174,259 | 1,304,035 | 50,275 |
| Governmental activity long-term Liabilities | <u>\$ 13,301,403</u> | <u>\$ 9,160,257</u> | <u>\$ 2,374,591</u> | <u>\$ 20,087,069</u> | <u>\$ 2,099,225</u> |

*Compensated absences are typically paid from the general fund.

G. COMMITMENTS AND CONTINGENCIES

Agreement With South Miami Hospital Foundation

In May 1983, the City entered into an agreement with South Miami Hospital Foundation wherein the Foundation voluntarily agreed to undertake certain activities for the beautification and overall improvement of the City through a growth impact assessment. The City receives \$150,000 each year from the South Miami Hospital Foundation to be used solely for the purposes of the beautification of the City and such other purposes as shall directly relate to the health and welfare of the residents of the City. The City has designated \$120,000 per year of this contribution for debt service payments of the Series 2001A Loan.

Lawsuits

The City is currently a defendant in several pending claims and legal proceedings incidental to the operations of the City. The City is aggressively defending each action. The ultimate liability related to these claims is not presently determinable. Except for the litigation described in Note III-H relating to the parking garage, it is the opinion of the City's management and legal counsel that the final resolution of these claims and legal proceedings would not have a material adverse effect on the financial condition of the City.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

G. COMMITMENTS AND CONTINGENCIES (continued)

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the City. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Interlocal Cooperation Agreement with Miami-Dade County

On June 1, 2000, the City of South Miami Community Redevelopment Agency (the CRA); a blended component unit of the City; entered into an Interlocal Cooperation Agreement (the Interlocal Agreement) with the City and the County in order to delineate their areas of responsibilities with respect to the redevelopment of the Redevelopment Area. The Interlocal Agreement required the CRA to submit a supplement to its original South Miami Community Redevelopment Plan (the Plan) for the second phase of redevelopment by December 1, 2004.

On May 3, 2005, the Board approved Resolution R-466-05 amending the Plan for the second phase of redevelopment and extended the life of the CRA for fifteen (15) years beyond the June 1, 2005 sunset provision of the CRA's Interlocal Agreement with the County. However the renewal included a sunset review within two (2) years of this extension. The CRA was required to obtain long-term financing supported by tax increment revenues to fund the second phase of the Plan within the two (2) year period ended June 1, 2007. In November 2006, the City through its Community Redevelopment Agency ("CRA") issued \$2,730,000 of Taxable Redevelopment Revenue Bonds, Series 2006 for the purpose of acquiring various properties located within the boundaries of the South Miami redevelopment area. (See Note 8)

Litigation

Mark Richman Properties ("MRP") initiated a civil action against the City on March 21, 2003 for breach of contract. (See Note III-H.)

On November 30, 2007, the City's Pension Plan Board of Trustees filed an arbitration claim against Merrill Lynch claiming the Plan suffered damages as a result of numerous improper activities by Merrill Lynch. The case is in its early stages.

H. PARKING GARAGE AND RETAIL BUILDING JOINT PROJECT

Lease Agreement

The City entered into a lease agreement on November 20, 2001 with Mark Richman Properties, Inc. (MRP) to jointly develop a mixed-use parking garage and retail building (the Project) in the downtown area on property owned by the two parties (City Property and Richman Property). The City is responsible for the cost of construction of the parking garage and will retain all the revenues from the parking garage. MRP will deed to the City the air rights above the Richman Property and will be responsible for the costs of construction of the retail space on the Richman Property. MRP will also be responsible for the costs of construction, less a \$100,000 credit provided by the City, for the retail space on the City Property. MRP will receive all the revenues for the retail space.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

H. PARKING GARAGE AND RETAIL BUILDING JOINT PROJECT (continued)

Lease Agreement (continued)

The term of the lease is 50 years commencing when the project is completed. At the end of the 50 years the City retains ownership of the air rights above the Richman Property and will gain control of the retail spaces on the City Property. MRP retains the ownership of the retail space on the Richman Property.

Note Receivable

Also, pursuant to the Lease Agreement the City agreed to loan up to \$3,500,000 to MRP to finance MRP's share of the design and construction costs. On June 12, 2002, the City entered into a loan agreement with Mark Richman Properties, Inc. for the \$3,500,000 which was divided in two payments of \$2,500,000 (the Initial Loan) and \$1,000,000. The term of the loan commenced on October 1, 2002 and terminates on April 1, 2032. The net interest cost average is 5.10% through the term of the loan. The note receivable is collateralized by a promissory note, a mortgage on certain land owned by MRP and by a personal guarantee from Mark Richman.

Principal and interest payments due to the City from MRP for the term of this loan are as follows:

| Year ending September 30 | |
|--------------------------|--------------------|
| 2008 | \$ 162,557 |
| 2009 | 162,518 |
| 2010 | 162,403 |
| 2011 | 162,403 |
| 2012 | 162,178 |
| 2013-2017 | 810,499 |
| 2018-2022 | 808,103 |
| 2023-2027 | 810,672 |
| 2028-2032 | <u>800,532</u> |
| | <u>\$4,041,865</u> |

Litigation Settlement and Contingency

In December 2002, the City commission elected not to proceed with the development of the Project. MRP initiated a civil action against the City on March 21, 2003, for breach of contract to jointly develop the Project. MRP sought a court order to compel the City to perform under the agreement to build the facility, or pay \$4.5 million in damages. This risk is not insured by the City's insurance policies.

During 2005, both parties were able to reach a tentative settlement agreement that generally consisted of the following terms:

- (i) The MRP lease agreement dated March 5, 2002 would be cancelled and each party would release the other from any and all obligations there under and all claims of any kind and causes of action related in any manner to the cancelled lease agreement and/or related in any manner to the lawsuit bearing Case Number 03-07058-CA-24;
- (ii) The lawsuit would be dismissed with prejudice by MRP immediately upon the execution of the new Lease Agreement and the issuance of the building permit;

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

H. PARKING GARAGE AND RETAIL BUILDING JOINT PROJECT (continued)

Litigation Settlement and Contingency (continued)

- (iii) The City would contribute \$1,000,000 towards the design and construction of the project and the City would receive credit for project costs expended; and
- (iv) The project would consist of 5 levels. Approximately 24,500 square feet of retail space and 380 parking spaces. The settlement provides MRP with no development approvals or promises of approval. The project must comply with all applicable regulations;
- (v) MRP would pay the city a minimum guaranteed rent equal to \$76,000 per year and a 12.5% of the annual gross parking revenue in excess of \$150,000;
- (vi) MRP would assume full responsibility for repaying the entire project financing less the City's share of \$1,000,000;
- (vii) The City authorized an additional \$2.5 million in project funding in addition to the \$8.5 million previously authorized to cover increased costs of construction;
- (viii) MRP guaranteed the cost of construction to complete the project. The debt service was required to be guaranteed by the Lease and Mark Richman's Property;
- (ix) MRP was required to complete construction and obtain a temporary or permanent certificate of occupancy no later than 18 months from the date of issuance of the building permit. In the event MRP fails to meet this deadline, MRP shall pay the city \$26,916 per month until the certificate(s) of occupancy are issued;
- (x) MRP agreed that it will not perform any site work that interferes with the operation of the existing city parking lot prior to dismissing the lawsuit referenced in this paragraph. The City and MRP agreed to join in a formal stay of Case Number 03-07058-CA-24 pending the execution of the Lease Agreement and the issuing of the building permit or the termination of the Agreement.

The settlement agreement was approved by MRP and adopted by the City commission on February 15, 2005. As of September 30, 2007 and through the date of the Auditor's report, the litigation is not concluded; however, the City can require MRP to dismiss its action and the litigation will be concluded.

On June 12, 2006, a new lawsuit was filed by a neighboring property owner seeking to enjoin the City from constructing the parking facility. The City filed motions to dismiss, as did MRP. The City's position was that injunctive relief was not available to the plaintiff, as there was an adequate remedy at law. This lawsuit was settled by all parties before trial.

I. EMPLOYEE RETIREMENT SYSTEMS

Plan Description

The City maintains the City of South Miami Pension Plan, a single -employer defined benefit pension plan administered by the Public Employment Retirement System (PERS) established to provide pension benefits, which cover police officers and other full-time employees by Ordinance No. 528 dated December 7, 1965, as amended by Resolution 06-05-1828 adopted March 15, 2005. A more detailed description of the Plan and its provisions appears in the Ordinances constituting the Plan and in the summary plan description.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

I. EMPLOYEE RETIREMENT SYSTEMS (continued)

Plan Membership

| | General | Police |
|--|---------|--------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | 14 | 15 |
| Active Participants | 65 | 44 |
| Total | 79 | 59 |

Eligibility

Under the Plan, all regular full-time, upon completion of six months of credited service and attainment of age 20 are eligible. Police Officers are eligible to enter the Plan as of date of employment.

Funding Policy

General employees are required to contribute 11.8% of their salaries and police officers are required to contribute 11.6% of their salaries to the Plan. The employer's annual required contributions for the current year were determined as part of the most recent actuarial valuations. However, should the City contribution for General Employees be actuarially determined to exceed 7% (7.5% for Police Officers), both the City and the General Employees will share equally in the amount in excess of 7% (7.5% for Police Officers). Contribution requirements of the Plan members and the City are established and may be amended by City Ordinance.

Eligibility for Retirement

General employees who retire at or after age 55 and completion of 10 years of credited service are entitled to a retirement benefits ranging from 2.5% to 2.75% of final average compensation times years of credited service. Police employees who retire at or after age 60 and completion of 10 years of credited service or completion of 25 years of credited service regardless of age are entitled to the same retirement benefits as the general employees with a retirement benefit percentages ranging from 2.0% to 3.0% of average compensation times years of service.

Early retirement is available to vested employees at or after age 60 for general employees after 15 years of credited service and age 50 for police after 15 years of credited service. Benefits are established by the pension board, subject to City Commission approval, and may be amended only by the City Commission.

A cost of living supplemental benefit based upon the consumer price index is provided upon retirement. The annual increase is limited to 3%.

Summary of Significant Accounting Policies

The City's defined benefit pension plan for both general and police employees, utilizes the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

I. EMPLOYEE RETIREMENT SYSTEMS (continued)

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Net appreciation or depreciation in fair value of investments, realized and unrealized gains and losses are determined on the basis of specific cost. Investments are accounted for on the trade-date basis.

Within certain limitations as specified in the Plan, investment policy is determined by the Plan's Board of Trustees and is implemented by the Plan's investment advisor.

There were no investments in any one organization that represented 5% or more of Plan net assets, nor were there any investments in, loans to, with any City official, Plan Trustee or other related parties.

Annual Pension Cost and Net Pension Obligation

The annual required contributions for the current year were determined as part of the October 1, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increases between 5-7% per year including an inflation component of 4% (c) amortization method used is, level payment closed, the amortization period is 30 years. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was determined using five year smoothed market.

The City's annual pension costs and net pension obligations/asset of the City's pension plans for the current year were as follows:

| | General Employees | Police |
|---|----------------------|-----------|
| Annual required contribution | 365,630 | 428,438 |
| Interest on net pension asset | (2,512) | (1,482) |
| Adjustment to annual required asset | 2,009 | 1,093 |
| Annual pension cost | 365,127 | 428,049 |
| Contributions made | (365,630) | (390,658) |
| Increase (decrease) in net pension obligation | (503) | 37,391 |
| Net pension (asset), beginning of year | (31,397) | 19,260 |
| Net pension (asset)/obligation, end of year | (31,900) | 56,651 |

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

J. DEFINED CONTRIBUTION PLANS

Annual Pension Cost and Net Pension Obligation (continued)

Three-Year Trend Information

General Employees

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension (Asset)</u> |
|---------------------------|----------------------------------|--------------------------------------|----------------------------|
| 9/30/2005 | 414,326 | 100% | (30,159) |
| 9/30/2006 | 306,885 | 100% | (30,860) |
| 9/30/2007 | 365,127 | 100% | (31,900) |

Police Officers

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension (Asset)/Obligation</u> |
|---------------------------|----------------------------------|--------------------------------------|---------------------------------------|
| 9/30/2005 | 501,798 | 100% | (17,847) |
| 9/30/2006 | 324,302 | 100% | 19,260 |
| 9/30/2007 | 428,049 | 100% | 56,651 |

South Miami Police Officers' Retirement Trust Fund

The City maintains the South Miami Police Officers' Retirement Trust Fund (the Fund), which accounts for the financial activity of the separate plan for police officers established under the provisions of Chapter 185 of the Florida Statutes. The City and Fund members do not contribute to the Fund. A Board of Trustees administers this account, which includes a limited number of appointments by the City Commission with three members elected by the Fund's participants. Statutory authority vests with the Board of Trustees with autonomy in the administration and control over the trust account. Inquiries concerning financial condition and related information for this Fund should be directed to the South Miami Police Officers' Retirement Trust Fund, c/o Board of Trustees, City of South Miami, Florida.

City Manager and Senior Employees 401(a) Money Purchase Plans

The City of South Miami 401(a) Money Purchase Plan is a defined contribution plan established by the City to provide benefits at retirement for certain employees of upper management. At September 30, 2007, there were three plan members, the Assistant City Manager, the Planning Director and the Building Director. The City is required to contribute on behalf of each participant up to 7% of earnings for the plan year. Participants are not permitted to make contributions. City contributions fully vest in the year they are contributed. Plan provisions and contribution requirements are established and may be amended by the City Council.

The plan assets are administered by ICMA Retirement Corp. The City does not exercise any control over the plan assets. Contributions were approximately \$44,293 for the fiscal year ended September 30, 2007.

Litigation

On November 30, 2007, the City's Pension Plan Board of Trustees filed an arbitration claim against Merrill Lynch claiming the Plan suffered damages as a result of numerous improper activities by Merrill Lynch. The case is in its early stages.

City of South Miami Florida
Notes to the Basic Financial Statements
Fiscal Year Ended September 30, 2007

III. DETAILED NOTES ON ALL FUNDS (continued)

K. 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. The City has not had a significant reduction in insurance coverage from coverage in the prior year by major categories of risk, and settled claims have not exceeded the City's retention and excess coverage in force for each of the past three years.

L. SUBSEQUENT EVENTS

Subsequent to year end, the Trust for Public Land (the "Trust"), a California charitable corporation qualified to transact business in Florida, entered a purchase agreement with a property owner to acquire property on behalf of the City in the amount of \$750,000. The City then entered a lease/purchase agreement with the Trust for a term of three years, which allows the City plenty of time to obtain grant monies in order to pay back the Trust for the purchase of the property. Under this agreement, the City agrees to pay base rent of \$500,000 on the commencement date, \$100,000 plus accrued interest on both the first and second anniversary dates from the commencement date, and \$50,000 plus accrued interest on the third anniversary from the commencement date. Interest accrues on unpaid balances at prime rate plus 1.5% as determined by the Bank of America or SunTrust Bank of Northwest Florida. These base rent payments will be credited against the purchase price at closing of the purchase.

Subsequent to year end the Commission approved a resolution authorizing the City Manager to negotiate a bridge loan for an amount not to exceed \$1,000,000 to provide for the completion of construction of the public parking garage described in Note III-H.

M. PRIOR PERIOD ADJUSTMENT

Certain errors were corrected in the current year regarding prior year deferred revenues and other liabilities amounts for which their required purpose has already been met and for which revenues should have been recognized and recorded in prior years.

REQUIRED SUPPLEMENTARY INFORMATION

City of South Miami, Florida
 Budgetary Comparison Schedule
 General Fund
 For the Fiscal Year Ended September 30, 2007

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget Positive (Negative) |
|---|-------------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Taxes: | | | | |
| Ad Valorem | \$ 7,372,989 | \$ 7,372,989 | \$ 7,304,423 | \$ (68,566) |
| Utility taxes | 1,702,000 | 1,702,000 | 1,829,056 | 127,056 |
| Franchise fees | 939,000 | 939,000 | 1,116,190 | 177,190 |
| Licenses and permits | 1,192,500 | 1,192,500 | 1,102,083 | (90,417) |
| Intergovernmental | 1,252,500 | 1,252,500 | 2,812,246 | 1,559,746 |
| Charges for services | 1,935,790 | 1,935,790 | 2,196,791 | 261,001 |
| Fines and forfeitures | 300,000 | 300,000 | 329,529 | 29,529 |
| Investment earnings | 98,000 | 98,000 | 767,069 | 669,069 |
| Other | 292,521 | 292,521 | 688,703 | 396,182 |
| Total Revenues | <u>15,085,300</u> | <u>15,085,300</u> | <u>18,146,090</u> | <u>3,060,790</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government: | | | | |
| City commission | 105,948 | 105,948 | 99,209 | 6,739 |
| City manager | 1,577,243 | 1,542,243 | 1,546,817 | (4,574) |
| City clerk | 178,493 | 178,493 | 175,938 | 2,555 |
| Legal | 389,000 | 389,000 | 419,241 | (30,241) |
| Finance | 1,451,954 | 1,451,954 | 1,542,940 | (90,986) |
| Building, zoning and community development | 876,476 | 876,476 | 864,893 | 11,583 |
| Total general government | <u>4,579,114</u> | <u>4,544,114</u> | <u>4,649,038</u> | <u>(104,924)</u> |
| Public safety: | | | | |
| Police | 4,583,481 | 4,480,781 | 4,586,826 | (106,045) |
| Public works | 4,423,142 | 4,423,142 | 4,560,017 | (136,875) |
| Culture and recreation | 894,692 | 824,692 | 836,582 | (11,890) |
| Non-departmental | 1,931,185 | 2,162,885 | 9,717,303 | (7,554,418) |
| Total Expenditures | <u>16,411,614</u> | <u>16,435,614</u> | <u>24,349,766</u> | <u>(7,914,152)</u> |
| Excess (deficiency) of revenues over expenditures before other financing sources (uses) | (1,326,314) | (1,350,314) | (6,203,676) | (4,853,362) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers | 380,000 | 380,000 | 308,350 | (71,650) |
| Issuance of debt | - | - | 5,625,000 | 5,625,000 |
| Proceeds from issuance of capital leases | - | - | 298,870 | 298,870 |
| Total Other Financing Sources (Uses) | <u>380,000</u> | <u>380,000</u> | <u>6,232,220</u> | <u>5,852,220</u> |
| Change before fund balance appropriations | (946,314) | (970,314) | 28,544 | 998,858 |
| Fund balance appropriations | 946,314 | 970,314 | - | - |
| Net change | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 28,544</u> | <u>-</u> |

City of South Miami, Florida
 Budgetary Comparison Schedule
 Community Redevelopment Agency
 For the Fiscal Year Ended September 30, 2007

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------------|------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Ad valorem | \$ 1,571,798 | \$ 1,571,798 | \$ 1,571,798 | \$ - |
| Intergovernmental | 294,000 | 294,000 | 394,000 | 100,000 |
| Investment earnings | 10,811 | 10,811 | 11,211 | 400 |
| Other | - | - | 36,646 | 36,646 |
| Total Revenues | 1,876,609 | 1,876,609 | 2,013,655 | 137,046 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 312,598 | 312,598 | 252,650 | 59,948 |
| Community redevelopment | 4,418,758 | 4,418,758 | 2,789,031 | 1,629,727 |
| Total Expenditures | 4,731,356 | 4,731,356 | 3,041,681 | 1,689,675 |
| Excess (deficiency) of revenues over expenditures before other financing uses | (2,854,747) | (2,854,747) | (1,028,026) | 1,826,721 |
| Other financing sources (uses): | | | | |
| Issuance of debt | 2,730,000 | 2,730,000 | 2,730,000 | - |
| Transfers | (128,300) | (128,300) | (58,350) | 69,950 |
| Total Other Financing (Uses) | 2,601,700 | 2,601,700 | 2,671,650 | 69,950 |
| Change before fund balance appropriations | (253,047) | (253,047) | 1,643,624 | 1,896,671 |
| Fund balance appropriations | 253,047 | 253,047 | - | |
| Net change | \$ - | \$ - | \$ 1,643,624 | |

City of South Miami Florida
Notes to Budgetary Comparison Schedules
Fiscal Year Ended September 30, 2007

Note 1: Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for the general fund, stormwater drain trust fund, local option gas tax, peoples transportation tax fund, federal forfeitures fund and community redevelopment agency special revenue fund on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements.

- a) Prior to August 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- b) Public hearings are conducted to obtain taxpayer comments.
- c) Prior to October 1, the budget is legally enacted through the passage of an ordinance.
- d) The City Manager is authorized at any time to transfer budgeted amounts within the departments. At the request of the City Manager and within the last three months of the budget year, the City Commission may transfer any unencumbered balance or portion thereof from one department to another. Pursuant to the City's Charter, expenditures may not legally exceed appropriations at the departmental level.
- e) Formal budgetary integration is employed as a management control device during the year for the general fund.
- f) In instances where budget appropriations and estimated revenues have been revised during the year, budget data presented in the financial statements and schedules represent final authorized amounts. Therefore, the department level is the legal level of budgetary control. Budgeted amounts are as originally adopted or as amended.

Note 2: Excess of expenditures over appropriations

Revisions that alter the total expenditures of any department within a fund must be approved by the City Commission. Actual expenditures and operating transfers out may not exceed budget appropriations at the departmental level. Appropriations that are neither expended, encumbered, nor specifically designated to be carried over, lapse at the end of the fiscal year.

For the year ended September 30, 2007, expenditures exceeded appropriations in the City Manager, Legal, Finance, Police, Public Works, Culture and Recreation and Non-departmental departments (the legal level of budgetary control) of the general fund by \$4,574, \$30,241, \$90,986, \$106,045, \$136,875, \$11,890 and \$7,554,418, respectively. The City had appropriated \$970,314 of fund balance to balance the budget. The overexpenditures were funded in part by the appropriated fund balance, by greater than anticipated revenues and the issuance of debt.

Overexpenditures in all the departments, except for non-departmental, were covered by the appropriated fund balance. The non-departmental overexpenditures were mostly caused by capital outlays for the public parking garage. All of the expenditures were approved by the City Commission.

City of South Miami Florida
Notes to Budgetary Comparison Schedules
Fiscal Year Ended September 30, 2007

Note 3: Budget/GAAP Reconciliation

The following schedule reconciles the amounts on the budgetary comparison schedule to the amounts on the statement of revenues, expenditures and changes in fund balances-governmental funds in the General Fund:

| | <u>General Fund</u> | <u>Community Redevelopment Agency Fund</u> |
|--|---------------------|--|
| Net change in fund balance - actual amounts - budgetary basis - as reported on the budgetary comparison schedule (Page 45) | \$ 28,544 | \$ 1,643,624 |
| Differences - budget to GAAP: | | |
| Encumbrances for equipment and supplies ordered but not received are reported in the year the orders are placed for budgetary purposes, but are reported in the year the equipment and supplies are received for GAAP financial reporting purposes | | |
| Encumbrances outstanding in 2006 (as reported) | - | - |
| Encumbrances outstanding in 2007 | 818,638 | 25,302 |
| Net change in fund balance - GAAP basis - as reported on the statement of revenues, expenditures and changes in fund balances governmental funds (Page 14) | \$ 847,182 | \$ 1,668,926 |

City of South Miami Florida
Required Supplementary Information
Schedule of Funding Progress
September 30, 2007

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL)- Frozen Initial Liability | Unfunded AAL (UAAL) (b)-(a) | Funded Ratio (a) / (b) | (c) Covered Payroll | UAAL as a Percentage of Covered Payroll (b-a) / (c) |
|--|--|--|--------------------------------------|------------------------------|---------------------------|--|
| GENERAL EMPLOYEES' PENSION PLAN | | | | | | |
| 10/1/2006 | 7,498,093 | 10,019,348 | 2,521,255 | 74.80% | 3,027,386 | 83.30% |
| 10/1/2005 | 6,862,355 | 8,623,741 | 1,761,386 | 79.60% | 2,602,280 | 67.70% |
| 10/1/2004 | 6,334,549 | 8,001,397 | 1,666,848 | 79.20% | 2,458,544 | 67.80% |
| 10/1/2003 | 5,955,253 | 7,088,668 | 1,133,415 | 84.00% | 2,268,758 | 50.00% |
| 10/1/2002 | 5,185,652 | 6,548,071 | 1,362,419 | 79.20% | 2,600,201 | 52.40% |
| 10/1/2001 | 5,080,364 | 5,595,510 | 515,146 | 90.80% | 2,387,623 | 21.60% |
| POLICE OFFICERS PENSION PLAN | | | | | | |
| 10/1/2006 | 8,884,898 | 12,446,060 | 3,561,162 | 71.40% | 3,011,503 | 118.30% |
| 10/1/2005 | 8,087,213 | 10,416,669 | 2,329,456 | 77.60% | 2,470,775 | 94.30% |
| 10/1/2004 | 7,358,738 | 10,163,721 | 2,804,983 | 72.40% | 2,849,357 | 98.40% |
| 10/1/2003 | 6,732,468 | 9,227,670 | 2,495,202 | 73.00% | 3,350,992 | 74.50% |
| 10/1/2002 | 6,032,513 | 7,750,885 | 1,718,372 | 77.80% | 3,198,240 | 53.70% |
| 10/1/2001 | 5,731,271 | 6,482,859 | 751,588 | 88.40% | 3,130,379 | 24.00% |

City of South Miami Florida
Required Supplementary Information
Schedule of Employer Contributions
September 30, 2007

| Fiscal Year | (A) Annual Required Contributions | Total Employer Contributions | (B) Percentage Contributed |
|--------------------------|---|------------------------------------|----------------------------------|
| GENERAL EMPLOYEES | | | |
| 2006 | \$ 307,422 | \$ 307,422 | 100% |
| 2005 | 415,027 | 415,027 | 100% |
| 2004 | 316,403 | 316,403 | 100% |
| 2003 | 361,085 | 361,085 | 100% |
| 2002 | 293,062 | 297,622 | 102% |
| 2001 | 194,701 | 221,000 | 114% |
| POLICE OFFICERS | | | |
| 2006 | \$ 324,302 | \$ 324,613 | 100% |
| 2005 | 501,798 | 501,798 | 100% |
| 2004 | 441,205 | 441,036 | 100% |
| 2003 | 391,453 | 391,304 | 100% |
| 2002 | 328,941 | 335,253 | 102% |
| 2001 | 127,172 | 137,500 | 108% |

(A) Actuarially determined contribution requirements.

(B) Total actual contributions as a percentage of annual required contributions.

The information presented in the required supplemental schedules above was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

| | GENERAL EMPLOYEES' PENSION PLAN | POLICE OFFICERS PENSION PLAN |
|-------------------------------|---------------------------------------|------------------------------------|
| Contribution Rate: | | |
| City | 12.1% | 13.00% |
| State | 0.0% | 1.30% |
| Member | 12.1% | 13.00% |
| Valuation date | 10/1/2006 | 10/1/2006 |
| Actuarial cost method | Entry age | Entry age |
| Amortization method | Level percent of pay, closed | Level percent of pay, closed |
| Remaining amortization period | 26 Years | 30 Years |
| Asset valuation method | Five year smoothed market | Five year smoothed market |
| Actuarial assumptions: | | |
| Investment rate of return | 8.00% | 8.00% |
| Projected salary increases* | 5.5%-6.5% | 5.0%-7.0% |
| Cost of living adjustments | 3.00% | 3.00% |
| *Includes inflation at | 4.00% | 4.00% |

COMBINING INDIVIDUAL FUND STATEMENTS AND SCHEDULES

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

- **Revolving Trust Fund** - This fund is used to account for the monies that are legally restricted to certain capital project improvements.
- **Sylva Martin Fund** - This fund is used to account for the donations received that are legally restricted to improve the Sylva Martin Building.
- **Hurricane Fund** - This fund is used to account for FEMA and insurance reimbursements and expenditures related to storm related damage and other preventative measures.
- **Storm Water Drain Trust Fund** - This fund is used to account for the revenue and expenditures associated with an interlocal agreement with Miami-Dade County Stormwater Utility for canal cleaning and maintenance.
- **Local Option Gas Tax Trust Fund** - This fund is used to account for the revenues and expenditures associated with the State of Florida's Local Option Gas Tax.
- **Community Development Block Grant Fund** - This fund is used to account for grant funds received from Miami-Dade County as a part of U.S. Department of Housing and Urban Development Community Development Block Grant Program.
- **Peoples Transportation Tax Fund** - This fund is used to account for the revenues and expenditures associated with the Miami-Dade County Peoples Transportation Tax.
- **Federal Forfeiture Fund** - To account for proceeds received from the Federal government as a result of City participating in investigations that resulted in Federal forfeitures. Proceeds are used for law enforcement purposes.
- **Police Forfeiture Fund** - To account for proceeds obtained through the sale of confiscated and unclaimed property turned over to the City through court judgments. Proceeds are to be used solely for crime fighting purposes.

City of South Miami, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2007

| | Special Revenue | | | | | | | | | |
|--|----------------------------|-----------------------------------|-------------------|---------------------------------------|---------------------------------|--|--|-------------------------------|-----------------------------|--|
| | Revolving Trust | Sylva Martin Trust | Hurricane | Stormwater Drain Trust | Local Option Gas Tax | Community Development Block Grant | Peoples Transportation Tax Fund | Federal Forfeiture | State Forfeiture | Total Nonmajor Governmental Funds |
| Assets | | | | | | | | | | |
| Cash | 2,376 | 13,934 | 304,074 | 535,087 | 129,131 | - | 86,052 | 67,021 | 47,877 | 1,185,552 |
| Accounts receivable | - | 24 | - | 105,264 | 6,043 | 11,687 | 79,817 | - | - | 202,835 |
| Due from other funds | - | - | 33,159 | 51,981 | 106,371 | - | 456,355 | 53,853 | - | 701,719 |
| Total Assets | \$ 2,376 | \$ 13,958 | \$ 337,233 | \$ 692,332 | \$ 241,545 | \$ 11,687 | \$ 622,224 | \$ 120,874 | \$ 47,877 | \$ 2,090,106 |
| Liabilities | | | | | | | | | | |
| Accounts payable and accrued liabilities | \$ - | \$ - | \$ 1,200 | \$ 53,202 | \$ - | \$ 1,729 | \$ - | \$ - | \$ - | \$ 56,131 |
| Due to other funds | - | 107 | 151,928 | - | - | 31,191 | - | - | 30,112 | 213,338 |
| Deferred revenue | - | - | - | - | - | 17,768 | - | - | - | 17,768 |
| Total Liabilities | - | 107 | 153,128 | 53,202 | - | 50,688 | - | - | 30,112 | 287,237 |
| Fund balances: | | | | | | | | | | |
| Reserved for: | | | | | | | | | | |
| Encumbrances | - | - | - | 59,395 | 22,884 | - | 9,439 | - | - | 91,718 |
| Public safety | - | - | - | - | - | - | - | 120,874 | 17,765 | 138,639 |
| Capital projects/ transportation | - | - | 184,105 | 579,735 | 218,661 | - | 612,785 | - | - | 1,595,286 |
| Unreserved, undesignated | 2,376 | 13,851 | - | - | - | (39,001) | - | - | - | (22,774) |
| Total Fund Balances | 2,376 | 13,851 | 184,105 | 639,130 | 241,545 | (39,001) | 622,224 | 120,874 | 17,765 | 1,802,869 |
| Total Liabilities and Fund Balances | \$ 2,376 | \$ 13,958 | \$ 337,233 | \$ 692,332 | \$ 241,545 | \$ 11,687 | \$ 622,224 | \$ 120,874 | \$ 47,877 | \$ 2,090,106 |

City of South Miami, Florida
Combining Statements of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended September 30, 2007

| | Special Revenue | | | | | | | | Total Nonmajor Governmental Funds | |
|---|----------------------------|-----------------------------------|-------------------|---------------------------------------|---------------------------------|--|--|-------------------------------|--|-----------------------------|
| | Revolving Trust | Sylva Martin Trust | Hurricane | Stormwater Drain Trust | Local Option Gas Tax | Community Development Block Grant | Peoples Transportation Tax Fund | Federal Forfeiture | | State Forfeiture |
| Revenues: | | | | | | | | | | |
| Taxes | | | | | | | | | | |
| Ad Valorem | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental | - | - | 19,778 | 439,230 | 68,974 | 61,289 | 351,494 | - | - | 940,765 |
| Fines and forfeitures | - | - | - | - | - | - | - | 18,969 | 505 | 19,474 |
| Investment earnings | 4 | 22 | 8,476 | 9,530 | 4,729 | - | 5,200 | 2,298 | 104 | 30,363 |
| Other | - | - | 34,362 | (215) | - | 4,732 | - | 9,763 | 12 | 48,654 |
| Total Revenues | 4 | 22 | 62,616 | 448,545 | 73,703 | 66,021 | 356,694 | 31,030 | 621 | 1,039,256 |
| Expenditures | | | | | | | | | | |
| Current: | | | | | | | | | | |
| General government | - | - | - | 10,086 | - | - | 1,139 | - | - | 11,225 |
| Culture and recreation | - | - | - | - | - | 2,232 | - | - | - | 2,232 |
| Public safety | - | - | - | - | - | - | - | 8,000 | 7,819 | 15,819 |
| Public works | - | - | 1,200 | 147,281 | 117,250 | 19,917 | 263,401 | - | - | 549,049 |
| Debt service: | | | | | | | | | | |
| Principal | - | - | - | 5,249 | - | - | 13,264 | 24,049 | - | 42,562 |
| Interest | - | - | - | 438 | - | - | 1,000 | - | - | 1,438 |
| Capital outlay | - | - | - | 41,557 | - | - | - | 29,243 | - | 70,800 |
| Total Expenditures | - | - | 1,200 | 204,611 | 117,250 | 22,149 | 278,804 | 61,292 | 7,819 | 693,125 |
| Excess (deficiency) of revenues over expenditures before other financing sources (uses) | 4 | 22 | 61,416 | 243,934 | (43,547) | 43,872 | 77,890 | (30,262) | (7,198) | 346,131 |
| Other financing sources (uses) | | | | | | | | | | |
| Capital leases | - | - | - | - | - | - | - | 24,827 | - | 24,827 |
| Transfers | - | - | - | (250,000) | - | - | - | - | - | (250,000) |
| Total other financing sources (uses) | - | - | - | (250,000) | - | - | - | 24,827 | - | (225,173) |
| Net change in fund balance | 4 | 22 | 61,416 | (6,066) | (43,547) | 43,872 | 77,890 | (5,435) | (7,198) | 120,958 |
| Fund balances, beginning of year | 2,372 | 13,829 | 122,689 | 645,196 | 285,092 | (82,873) | 544,334 | 126,309 | 24,963 | 1,681,911 |
| Fund balances, end of year | \$ 2,376 | \$ 13,851 | \$ 184,105 | \$ 639,130 | \$ 241,545 | \$ (39,001) | \$ 622,224 | \$ 120,874 | \$ 17,765 | \$ 1,802,869 |

City of South Miami, Florida
Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Nonmajor Governmental Funds
For the Fiscal Year Ended September 30, 2007

| | Stormwater Drain Trust Fund | | | | Federal Forfeiture Fund | | | |
|---|------------------------------------|-------------------|-------------------|---|--------------------------------|------------------|-------------------|---|
| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
| | Original | Final | | | Original | Final | | |
| Revenues: | | | | | | | | |
| Intergovernmental | \$ 405,000 | \$ 405,000 | \$ 439,230 | \$ 34,230 | \$ - | \$ - | \$ - | \$ - |
| Fines and forfeitures | - | - | - | - | - | - | 18,969 | 18,969 |
| Investment earnings | 8,000 | 8,000 | 9,530 | 1,530 | 500 | 500 | 2,298 | 1,798 |
| Other | - | - | (215) | (215) | - | - | 9,763 | 9,763 |
| Total Revenues | <u>413,000</u> | <u>413,000</u> | <u>448,545</u> | <u>35,545</u> | <u>500</u> | <u>500</u> | <u>31,030</u> | <u>30,530</u> |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| Public safety: | - | - | - | - | 24,677 | 54,677 | 61,292 | (6,615) |
| Public works | 290,257 | 290,257 | 264,006 | 26,251 | - | - | - | - |
| Total Expenditures | <u>290,257</u> | <u>290,257</u> | <u>264,006</u> | <u>26,251</u> | <u>24,677</u> | <u>54,677</u> | <u>61,292</u> | <u>(6,615)</u> |
| Excess (deficiency) of revenues over expenditures before other financing uses | 122,743 | 122,743 | 184,539 | 61,796 | (24,177) | (54,177) | (30,262) | 23,915 |
| Other financing uses: | | | | | | | | |
| Capital leases | - | - | - | - | - | - | 24,827 | 24,827 |
| Transfers | (250,000) | (250,000) | (250,000) | - | - | - | - | - |
| Total Other Financing (Uses) | <u>(250,000)</u> | <u>(250,000)</u> | <u>(250,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>24,827</u> | <u>24,827</u> |
| Net change in fund balances | (127,257) | (127,257) | (65,461) | 61,796 | (24,177) | (54,177) | (5,435) | 48,742 |
| Fund balances, beginning | 645,196 | 645,196 | 645,196 | | 126,309 | 126,309 | 126,309 | |
| Fund balances, ending | <u>\$ 517,939</u> | <u>\$ 517,939</u> | <u>\$ 579,735</u> | | <u>\$ 102,132</u> | <u>\$ 72,132</u> | <u>\$ 120,874</u> | |

(Continued)

City of South Miami, Florida
Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Nonmajor Governmental Funds
For the Fiscal Year Ended September 30, 2007

| | <u>Local Option Gas Tax Fund</u> | | | | <u>Peoples Transportation Tax Fund</u> | | | |
|-----------------------------|----------------------------------|-------------------|-------------------|---|--|-------------------|-----------------------|---|
| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
| | Original | Final | | | Original | Final | | |
| Revenues: | | | | | | | | |
| Intergovernmental | \$ 72,000 | \$ 72,000 | \$ 68,974 | \$ (3,026) | \$ 325,000 | \$ 325,000 | \$ 351,494 | \$ 26,494 |
| Fines and forfeitures | - | - | - | - | - | - | - | - |
| Investment earnings | 2,000 | 2,000 | 4,729 | 2,729 | 5,500 | 5,500 | 5,200 | (300) |
| Other | - | - | - | - | - | - | - | - |
| Total Revenues | <u>74,000</u> | <u>74,000</u> | <u>73,703</u> | <u>(297)</u> | <u>330,500</u> | <u>330,500</u> | <u>356,694</u> | <u>26,194</u> |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| Public works | <u>86,237</u> | <u>86,237</u> | <u>140,134</u> | <u>53,897</u> | <u>319,015</u> | <u>304,715</u> | <u>278,804</u> | <u>25,911</u> |
| Net change in fund balances | (12,237) | (12,237) | (66,431) | (54,194) | 11,485 | 25,785 | 77,890 | 52,105 |
| Fund balances, beginning | <u>285,092</u> | <u>285,092</u> | <u>285,092</u> | | <u>544,334</u> | <u>544,334</u> | <u>544,334</u> | |
| Fund balances, ending | <u>\$ 272,855</u> | <u>\$ 272,855</u> | <u>\$ 218,661</u> | | <u>\$ 555,819</u> | <u>\$ 570,119</u> | <u>\$ 622,224</u> | |

TRUST AND AGENCY FUNDS

These funds account for assets held by the City in a trustee capacity or as an agent for employees, other governments and/or other funds.

Pension Trust Fund

General Employees Pension - To account for the accumulation of resources for pension benefit payments to qualified City employees.

Police Pension - To account for the accumulation of resources for pension benefit payments to qualified public safety employees.

City of South Miami, Florida

Combining Statement of Net Assets

Fiduciary Funds

September 30, 2007

| | General Employees Pension Fund | Police Pension Fund | Total |
|--|---|--------------------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 466,076 | \$ 548,548 | \$ 1,014,624 |
| Receivables: | | | |
| Employer | 78,435 | 45,819 | 124,254 |
| Employees | 13,843 | 13,902 | 27,745 |
| Dividends and interest | 26,359 | 31,022 | 57,381 |
| South Miami Police Officers' Retirement Plan | - | 203,249 | 203,249 |
| Total receivables | <u>118,637</u> | <u>293,992</u> | <u>412,629</u> |
| Investments, at fair value | | | |
| U.S. Government securities | 2,371,663 | 2,791,326 | 5,162,989 |
| Corporate obligations | 794,115 | 934,634 | 1,728,749 |
| Equity instruments | <u>5,094,927</u> | <u>5,996,471</u> | <u>11,091,398</u> |
| Total investments | <u>8,260,705</u> | <u>9,722,431</u> | <u>17,983,136</u> |
| Total assets | <u>8,845,418</u> | <u>10,564,971</u> | <u>19,410,389</u> |
| NET ASSETS | | | |
| Held in trust for pension benefits | <u>\$ 8,845,418</u> | <u>\$ 10,564,971</u> | <u>\$ 19,410,389</u> |

City of South Miami, Florida
Combining Statement of Changes in Net Assets
Fiduciary Fund
For the Fiscal Year Ended September 30, 2007

| | General Employees Pension Fund | Police Pension Fund | Total |
|---|---|--------------------------------|---------------|
| ADDITIONS: | | | |
| Contributions: | | | |
| Employer | \$ 365,630 | \$ 390,658 | \$ 756,288 |
| Employees | 348,251 | 368,987 | 717,238 |
| State | - | 37,780 | 37,780 |
| Total Contributions | 713,881 | 797,425 | 1,511,306 |
| Investment income: | | | |
| Net increase in fair value of investments | 765,426 | 909,732 | 1,675,158 |
| Interest and dividend income | 281,423 | 334,481 | 615,904 |
| Total investment income | 1,046,849 | 1,244,213 | 2,291,062 |
| Less investment expenses | (1,081) | (1,284) | (2,365) |
| Net investment income | 1,045,768 | 1,242,929 | 2,288,697 |
| Total Additions | 1,759,649 | 2,040,354 | 3,800,003 |
| DEDUCTIONS: | | | |
| Benefits paid | 258,394 | 242,803 | 501,197 |
| Refunds of contributions | 123,843 | 56,620 | 180,463 |
| Administrative expenses | 37,448 | 44,508 | 81,956 |
| Total Deductions | 419,685 | 343,931 | 763,616 |
| Changes in net assets | 1,339,964 | 1,696,423 | 3,036,387 |
| Net assets - beginning of year | 7,505,454 | 8,868,548 | 16,374,002 |
| Net assets - end of year | \$ 8,845,418 | \$ 10,564,971 | \$ 19,410,389 |

III. STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of South Miami, Florida's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

| <u>Contents</u> | <u>Page</u> |
|--|-------------|
| Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time. | 57-61 |
| Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax. | 62-66 |
| Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future. | 67-70 |
| Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place. | 71-72 |
| Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs. | 73-75 |

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF SOUTH MIAMI, FLORIDA

NET ASSETS BY COMPONENT

LAST TEN FISCAL YEARS (1)

(accrual basis of accounting)

(amounts expressed in thousands)

| | Fiscal Year | | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| Governmental activities | | | | | |
| Invested in capital assets, net of related debt | \$ 6,983 | \$ 9,139 | \$ 10,604 | \$ 14,302 | \$ 16,694 |
| Restricted | 7,817 | 6,849 | 6,255 | 4,165 | 4,304 |
| Unrestricted | <u>2,081</u> | <u>4,117</u> | <u>5,492</u> | <u>7,661</u> | <u>10,003</u> |
| Total governmental activities net assets | <u><u>\$ 16,881</u></u> | <u><u>\$ 20,105</u></u> | <u><u>\$ 22,351</u></u> | <u><u>\$ 26,128</u></u> | <u><u>\$ 31,001</u></u> |

(1) Information for fiscal years ending September 30, 1995-2002 are unavailable in this format since the City implemented *Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

CITY OF SOUTH MIAMI, FLORIDA

CHANGES IN NET ASSETS

LAST TEN FISCAL YEARS (1)

(accrual basis of accounting)

(amounts expressed in thousands)

| | Fiscal Year | | | | |
|---|--------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| EXPENSES | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 4,847 | \$ 3,737 | \$ 5,828 | 5,868 | 6,970 |
| Public safety | 4,990 | 4,446 | 4,386 | 4,280 | 4,554 |
| Public works | 2,821 | 3,541 | 5,258 | 5,909 | 5,014 |
| Culture and recreation | 1,399 | 1,222 | 1,231 | 1,366 | 861 |
| Non-departmental | - | 1,182 | - | | |
| Interest on long-term debt | 380 | 416 | 531 | 613 | 487 |
| Total governmental activities | <u>14,437</u> | <u>14,544</u> | <u>17,234</u> | <u>18,036</u> | <u>17,886</u> |
| PROGRAM REVENUES | | | | | |
| Governmental activities: | | | | | |
| Charges for services: | | | | | |
| General government | 1,831 | 3,312 | 3,336 | 3,036 | 2,753 |
| Public safety | 2,513 | 404 | 304 | 748 | 457 |
| Public works | 346 | 372 | 326 | 316 | 343 |
| Culture and recreation | 105 | 272 | 279 | 161 | 182 |
| Operating grants and contributions | 4,194 | 1,856 | 3,931 | 4,526 | 4,458 |
| Total governmental activities program revenues | <u>8,989</u> | <u>6,216</u> | <u>8,176</u> | <u>8,787</u> | <u>8,193</u> |
| Net (expense)/revenue | | | | | |
| Governmental activities | <u>\$ (5,448)</u> | <u>\$ (8,328)</u> | <u>\$ (9,058)</u> | <u>\$ (9,249)</u> | <u>\$ (9,693)</u> |
| Total primary government net expenses | <u>\$ (5,448)</u> | <u>\$ (8,328)</u> | <u>\$ (9,058)</u> | <u>\$ (9,249)</u> | <u>\$ (9,693)</u> |
| General Revenues and Other Changes in Net Assets | | | | | |
| Governmental activities: | | | | | |
| Taxes | | | | | |
| Property taxes | 4,817 | 6,632 | 7,238 | 8,170 | 8,876 |
| Utility taxes | 1,718 | 1,645 | 1,633 | 1,776 | 1,829 |
| Franchise fees on gross receipts | 730 | 815 | 813 | 1,008 | 1,116 |
| Intergovernmental (unrestricted) | 2,427 | 1,992 | 1,245 | 1,310 | 1,297 |
| Investment income | 158 | 249 | 375 | 594 | 809 |
| Miscellaneous | - | - | - | 168 | 524 |
| Total governmental activities | <u>\$ 9,850</u> | <u>\$ 11,333</u> | <u>\$ 11,304</u> | <u>\$ 13,026</u> | <u>\$ 14,451</u> |
| Change in Net Assets | | | | | |
| Governmental activities | \$ 4,402 | \$ 3,005 | \$ 2,246 | \$ 3,777 | \$ 4,758 |
| Total primary government | <u>\$ 4,402</u> | <u>\$ 3,005</u> | <u>\$ 2,246</u> | <u>\$ 3,777</u> | <u>\$ 4,758</u> |

(1) Information for fiscal years ending September 30, 1995-2002 are unavailable in this format since the City implemented *Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

CITY OF SOUTH MIAMI, FLORIDA

GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE

LAST TEN FISCAL YEARS (1)

(accrual basis of accounting)

(amounts expressed in thousands)

| Fiscal Year | Ad-Valorem Taxes General Purpose | Local Option Gas Tax | 2nd Local Option Gas Tax | People's Transportation Tax | State Revenue Sharing Tax | Half Cent Sales tax | Franchise Taxes | Utility Taxes | Total |
|--------------------|---|-----------------------------|---------------------------------|------------------------------------|----------------------------------|----------------------------|------------------------|----------------------|--------------|
| 2003 | 4,818 | 202 | 84 | 204 | 300 | 628 | 730 | 1,686 | 8,652 |
| 2004 | 5,897 | 194 | 75 | 312 | 315 | 648 | 791 | 1,645 | 9,877 |
| 2005 | 6,457 | 191 | 72 | 324 | 353 | 662 | 813 | 1,634 | 10,506 |
| 2006 | 6,964 | 194 | 72 | 360 | 355 | 723 | 1,008 | 1,776 | 11,452 |
| 2007 | 7,304 | 184 | 69 | 351 | 359 | 705 | 1,116 | 1,829 | 11,917 |

(1) Information for fiscal years ending September 30, 1995-2002 are unavailable in this format since the City implemented *Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

CITY OF SOUTH MIAMI, FLORIDA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|------------------------------------|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|-----------------|------------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| General fund | | | | | | | | | | |
| Reserved | \$ 831 | \$ 409 | \$ 535 | \$ 452 | \$ 1,884 | \$ 6,558 | \$ 6,258 | \$ 6,288 | \$ 5,130 | \$ 5,720 |
| Unreserved | <u>2,450</u> | <u>3,245</u> | <u>3,168</u> | <u>2,608</u> | <u>1,920</u> | <u>3,088</u> | <u>3,825</u> | <u>4,319</u> | <u>4,796</u> | <u>5,268</u> |
| Total general fund | <u>\$ 3,281</u> | <u>\$ 3,654</u> | <u>\$ 3,703</u> | <u>\$ 3,060</u> | <u>\$ 3,804</u> | <u>\$ 9,646</u> | <u>\$ 10,083</u> | <u>\$ 10,607</u> | <u>\$ 9,926</u> | <u>\$ 10,988</u> |
| All other governmental funds | | | | | | | | | | |
| Reserved | \$ - | \$ 21 | \$ 32 | \$ 639 | \$ 344 | \$ 1,358 | \$ 1,494 | \$ 1,705 | \$ 1,854 | \$ 1,986 |
| Unreserved, reported in: | | | | | | | | | | |
| Special revenue funds | 453 | 228 | 464 | 364 | 460 | 130 | 607 | 579 | 750 | 2,612 |
| Debt service funds | 323 | - | - | - | - | - | - | - | - | - |
| Undesignated | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total all other governmental funds | <u>\$ 776</u> | <u>\$ 249</u> | <u>\$ 496</u> | <u>\$ 1,003</u> | <u>\$ 804</u> | <u>\$ 1,488</u> | <u>\$ 2,101</u> | <u>\$ 2,284</u> | <u>\$ 2,604</u> | <u>\$ 4,598</u> |

CITY OF SOUTH MIAMI, FLORIDA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|-----------------|-----------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| REVENUES | | | | | | | | | | |
| Taxes and franchise fees | \$ 3,579 | \$ 3,712 | \$ 4,119 | \$ 4,981 | \$ 5,277 | \$ 5,547 | \$ 7,423 | \$ 8,050 | \$ 9,178 | \$ 9,992 |
| Charges for services | 790 | 1,699 | 1,788 | 1,618 | 1,819 | 2,276 | 2,332 | 2,352 | 2,532 | 2,197 |
| Utility taxes | 1,895 | 2,067 | 2,046 | 2,131 | 2,510 | 1,718 | 1,669 | 1,634 | 1,776 | 1,829 |
| Intergovernmental | 1,395 | 1,815 | 2,454 | 1,462 | 3,856 | 2,427 | 1,992 | 5,176 | 5,686 | 5,593 |
| Development fees - Shops at Sunset | - | 225 | - | - | - | - | - | - | - | - |
| Licenses and permits | 617 | 628 | 654 | 646 | 695 | 1,163 | 1,285 | 1,101 | 1,202 | 1,102 |
| Fines and forfeitures | 144 | 200 | 432 | 539 | 282 | 763 | 355 | 304 | 442 | 349 |
| Interest | 322 | 320 | 263 | 277 | 160 | 158 | 248 | 375 | 594 | 809 |
| Grants | - | - | - | - | - | 3,964 | 1,856 | - | - | - |
| Miscellaneous | 394 | 774 | 637 | 643 | 437 | 824 | 389 | 488 | 403 | 774 |
| Total revenues | <u>9,136</u> | <u>11,440</u> | <u>12,393</u> | <u>12,297</u> | <u>15,036</u> | <u>18,840</u> | <u>17,549</u> | <u>19,480</u> | <u>21,813</u> | <u>22,645</u> |
| EXPENDITURES | | | | | | | | | | |
| General government | 3,574 | 4,807 | 5,496 | 5,064 | 5,190 | 4,768 | 3,598 | 5,648 | 5,745 | 6,660 |
| Public safety | 3,219 | 4,027 | 4,529 | 4,812 | 4,872 | 4,877 | 4,281 | 4,270 | 4,194 | 4,253 |
| Public works | 1,212 | 1,248 | 1,342 | 1,564 | 1,604 | 2,490 | 3,116 | 4,660 | 5,409 | 5,109 |
| Program expenditures | - | - | - | 175 | 1,226 | - | - | - | - | - |
| Culture and recreation | 561 | 662 | 815 | 858 | 940 | 1,297 | 1,176 | 1,199 | 1,339 | 837 |
| Non-departmental | - | - | - | - | - | - | 1,138 | - | - | - |
| Debt service: | | | | | | | | | | |
| Principal retirement | 76 | 79 | 23 | 168 | 800 | 326 | 533 | 391 | 612 | 2,183 |
| Interest and fiscal charges | 16 | 12 | 8 | 62 | 149 | 382 | 418 | 538 | 614 | 614 |
| Capital outlay: | | | | | | | | | | |
| General government | 313 | 544 | 48 | 1,146 | 1,759 | 4,965 | 2,363 | 3,032 | 7,538 | 8,827 |
| Total expenditures | <u>8,971</u> | <u>11,379</u> | <u>12,261</u> | <u>13,849</u> | <u>16,540</u> | <u>19,105</u> | <u>16,623</u> | <u>19,738</u> | <u>25,451</u> | <u>28,483</u> |
| Excess(deficiency) of revenues over expenditures | 165 | 61 | 132 | (1,552) | (1,504) | (265) | 926 | (258) | (3,638) | (5,838) |
| Other financing (uses) sources: | | | | | | | | | | |
| Transfers in | 60 | 393 | 153 | 856 | 327 | 6,858 | - | - | - | - |
| Transfers out | (85) | (418) | (178) | (856) | (337) | (419) | - | - | - | - |
| Proceeds from note payable and contingencies | - | - | - | 650 | 2,200 | - | - | - | - | 8,360 |
| Proceeds from capital lease | - | - | - | 912 | - | 20 | 547 | 233 | 314 | 319 |
| Proceeds from bond | - | - | - | - | - | - | - | 728 | 2,963 | - |
| Total other financing sources (uses) | <u>(25)</u> | <u>(25)</u> | <u>(25)</u> | <u>1,562</u> | <u>2,190</u> | <u>6,459</u> | <u>547</u> | <u>961</u> | <u>3,277</u> | <u>8,679</u> |
| Net change in fund balances | <u>\$ 140</u> | <u>\$ 36</u> | <u>\$ 107</u> | <u>\$ 10</u> | <u>\$ 686</u> | <u>\$ 6,194</u> | <u>\$ 1,473</u> | <u>\$ 703</u> | <u>\$ (361)</u> | <u>\$ 2,841</u> |
| Debt service as a percentage of noncapital expenditures | 1.1% | 0.8% | 0.3% | 1.8% | 6.9% | 5.3% | 7.1% | 5.9% | 7.3% | 16.6% |

CITY OF SOUTH MIAMI, FLORIDA
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE

LAST TEN FISCAL YEARS (*)

(modified accrual basis of accounting)

(amounts expressed in thousands)

| <u>Fiscal Year</u> | <u>Ad-Valorem Taxes General Purpose</u> | <u>Local Option Gas Tax</u> | <u>2nd Local Option Gas Tax (1)</u> | <u>People's Transportation Tax (1)</u> | <u>State Revenue Sharing Tax</u> | <u>Cigarette Tax</u> | <u>Half Cent Sales tax</u> | <u>Franchise Taxes(2)</u> | <u>Utility Taxes</u> | <u>Total</u> |
|--------------------|---|-----------------------------|-------------------------------------|--|----------------------------------|----------------------|----------------------------|---------------------------|----------------------|--------------|
| 1998 | 3,579 | 184 | - | - | 289 | 11 | 559 | - | 1,895 | 6,517 |
| 1999 | 3,712 | 179 | - | - | 289 | 11 | 578 | - | 2,068 | 6,837 |
| 2000 | 4,119 | 193 | - | - | 293 | 9 | 615 | - | 2,046 | 7,275 |
| 2001 | 4,308 | 197 | - | - | 293 | - | 633 | - | 2,131 | 7,562 |
| 2002 | 4,610 | 198 | - | - | 302 | - | 625 | - | 2,511 | 8,246 |
| 2003 | 4,818 | 202 | 84 | 204 | 300 | - | 628 | 730 | 1,686 | 8,652 |
| 2004 | 5,897 | 194 | 75 | 312 | 315 | - | 648 | 791 | 1,645 | 9,877 |
| 2005 | 6,457 | 191 | 72 | 324 | 353 | - | 662 | 813 | 1,634 | 10,506 |
| 2006 | 6,964 | 194 | 72 | 360 | 355 | - | 723 | 1,008 | 1,776 | 11,452 |
| 2007 | 7,304 | 184 | 69 | 351 | 359 | - | 705 | 1,116 | 1,829 | 11,917 |

(1) FY 2003 was the first year for this tax source.

(2) Prior to 2003 Franchise Fees were reported as part of Utility taxes.

CITY OF SOUTH MIAMI, FLORIDA
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

| Fiscal Year | Real Property | Personal Property | Net Assessed Value | Total Direct Tax Rate | Estimated Actual Value | Net assessed Value as a Percentage of Estimated Actual Value (1) |
|--------------------|----------------------|--------------------------|---------------------------|------------------------------|-------------------------------|---|
| 1998 | \$ 516,067 | \$ 66,755 | \$ 582,822 | 6.590 | 582,822 | 100.00% |
| 1999 | 680,655 | 79,565 | 760,220 | 6.590 | 760,220 | 100.00% |
| 2000 | 688,584 | 91,808 | 780,392 | 6.373 | 780,392 | 100.00% |
| 2001 | 723,957 | 90,942 | 814,899 | 6.373 | 814,899 | 100.00% |
| 2002 | 733,156 | 85,367 | 818,523 | 6.373 | 818,523 | 100.00% |
| 2003 | 798,292 | 81,734 | 880,026 | 7.873 | 880,026 | 100.00% |
| 2004 | 919,791 | 83,712 | 1,003,503 | 7.373 | 1,003,503 | 100.00% |
| 2005 | 1,125,391 | 86,708 | 1,212,099 | 7.213 | 1,212,099 | 100.00% |
| 2006 | 1,363,371 | 82,658 | 1,446,029 | 6.681 | 1,446,029 | 100.00% |
| 2007 | 1,578,948 | 86,150 | 1,665,098 | 5.881 | 1,665,098 | 100.00% |

Note: Property in the City is reassessed each year at actual value. Tax rates are \$1,000 of assessed value.

(1) Includes tax-exempt property.

Sources: Miami-Dade County
Department of Property Appraisal -DR-420

CITY OF SOUTH MIAMI, FLORIDA
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS(1)
LAST TEN FISCAL YEARS

| Fiscal Year | Total City Operations | Overlapping Rates | | Total City Wide |
|--------------------|------------------------------|-------------------------------------|----------------------------------|------------------------|
| | | Miami-Dade County Operations | Miami-Dade County Schools | |
| 1998 | 6.590 | 10.7400 | 10.4620 | 27.7920 |
| 1999 | 6.590 | 9.7240 | 10.1600 | 26.4740 |
| 2000 | 6.373 | 10.4390 | 9.6440 | 26.4560 |
| 2001 | 6.373 | 10.3020 | 9.6170 | 26.2920 |
| 2002 | 6.373 | 10.2040 | 9.3760 | 25.9530 |
| 2003 | 7.873 | 10.3416 | 9.2520 | 27.4666 |
| 2004 | 7.373 | 10.6370 | 9.1000 | 27.1100 |
| 2005 | 7.213 | 10.5440 | 8.6900 | 26.4470 |
| 2006 | 6.681 | 10.4313 | 7.4400 | 24.5523 |
| 2007 | 5.881 | 8.5783 | 7.9480 | 22.4073 |

(1) Overlapping rates are those of local and county governments that apply to property owners within the City of South Miami.

Additional information:

Property tax rates are assessed per \$1,000 of Taxable Assessed Valuation

Tax rate limits:

| | |
|---------|--------------|
| City | 10.000 Mills |
| County | 10.000 Mills |
| SFWMMD* | 1.000 Mills |

Source: Miami-Dade County
Department of Property Appraisal

*South Florida Water Management District

CITY OF SOUTH MIAMI, FLORIDA
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(amounts expressed in thousands)

| <u>2007</u> | | | | <u>1998</u> | | | |
|-----------------------------------|-------------------------------|-------------|--|---------------------------------|-------------------------------|-------------|--|
| <u>Taxpayer</u> | <u>Assessed Valuation</u> | <u>Rank</u> | <u>Percentage Total Assessed Valuation</u> | <u>Taxpayer</u> | <u>Assessed Valuation</u> | <u>Rank</u> | <u>Percentage Total Assessed Valuation</u> |
| Bakery Associates, Ltd. | 96,000 | 1 | 5.8% | Bakery Associates, Ltd. | 11,500 | 2 | 2.0% |
| Valencia South Miami LLC | 23,516 | 2 | 1.4% | | | | |
| South Miami Corp. | 15,651 | 3 | 0.9% | South Miami Corp. | 7,585 | 3 | 1.3% |
| Health South Doctor's Hospital | 14,800 | 4 | 0.9% | Health South Doctor's Hospital | 7,277 | 4 | 1.2% |
| J.W. Advance Development Corp. | 13,928 | 5 | 0.8% | | | | |
| Capstone Capital Trust Inc. | 13,230 | 6 | 0.8% | | | | |
| Larkin Community Hospital | 12,278 | 7 | 0.7% | Larkin Community Hospital | 5,264 | 7 | 0.9% |
| John Hancock-Gannon Joint Venture | 10,658 | 8 | 0.6% | | | | |
| Florida Power & Light Co. | 9,433 | 9 | 0.6% | | | | |
| The Gurkin Family LTD Partnership | 9,431 | 10 | 0.6% | | | | |
| | | | | Advance Dev. Corp. | 12,012 | 1 | 2.1% |
| | | | | Sunset Associates, Ltd. | 5,900 | 5 | 1.0% |
| | | | | KIMCO South Miami | 5,300 | 6 | 0.9% |
| | | | | Highwood/Florida Holdings, L.P. | 5,000 | 8 | 0.9% |
| | | | | A. Grover Matheney | 4,382 | 9 | 0.8% |
| | | | | Sunset Club Apartments | 3,591 | 10 | 0.6% |
| | <u>\$ 218,925</u> | | <u>13.1%</u> | | <u>\$ 67,811</u> | | <u>11.6%</u> |

Sources: Miami-Dade County Tax Assessors' Office
2007 Tax Roll
Real/personal property adjusted taxable value of \$1,665,098

CITY OF SOUTH MIAMI, FLORIDA
PROPERTY TAX LEVIES AND COLLECTION
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

| Fiscal Year Ended September 30, | Total taxes Levied for Fiscal Year | Collected within the Fiscal Year of Levy | | Collections in Subsequent Years | Total Collections to Date | |
|--|---|---|----------------------------|--|--------------------------------------|----------------------------|
| | | Amount | Percent of Levy | | Amount | Percent of Levy |
| 1998 | 3,667 | 3,533 | 96.3% | 43 | 3,576 | 97.5% |
| 1999 | 3,791 | 3,654 | 96.4% | 45 | 3,699 | 97.6% |
| 2000 | 4,668 | 4,054 | 86.8% | 46 | 4,100 | 87.8% |
| 2001 | 4,834 | 4,182 | 86.5% | 31 | 4,213 | 87.2% |
| 2002 | 5,072 | 4,521 | 89.1% | 86 | 4,607 | 90.8% |
| 2003 | 5,259 | 4,737 | 90.1% | 76 | 4,813 | 91.5% |
| 2004 | 6,489 | 5,718 | 88.1% | 174 | 5,892 | 90.8% |
| 2005 | 7,033 | 6,402 | 91.0% | 49 | 6,451 | 91.7% |
| 2006 | 7,936 | 6,886 | 86.8% | 64 | 6,950 | 87.6% |
| 2007 | 8,367 | 7,185 | 85.9% | 92 | 7,277 | 87.0% |

Source: Miami Dade County Tax Collector's Office

Note: Total Adjusted Tax Levy is based on final assessed property values by Miami-Dade County Department of Property Appraisal office after the Property Appraisal Adjustment Board has completed hearings on the tax roll; and before discounts.

Discounts Allowed:

| | |
|----------|------------------|
| November | 4% |
| December | 3% |
| January | 2% |
| February | 1% |
| April | Taxes delinquent |

CITY OF SOUTH MIAMI, FLORIDA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(amounts expressed in thousands, except per capita)

| <u>Fiscal Year</u> | <u>Governmental Activities</u> | | | <u>Business-Type Activities</u> | | | <u>Total Primary Government</u> | <u>Percentage of Personal Income (1)</u> | <u>Per Capita (1)</u> |
|--------------------|---------------------------------|------------------------------------|-----------------------|---------------------------------|----------------------|-----------------------|---------------------------------|--|-----------------------|
| | <u>General Obligation Bonds</u> | <u>Mortgage & Note Payable</u> | <u>Capital Leases</u> | <u>Sewer Bonds</u> | <u>Notes Payable</u> | <u>Capital Leases</u> | | | |
| 1998 | \$ - | \$ 94 | \$ 153 | \$ - | \$ - | \$ - | \$ 247 | 0.52% | 0.023 |
| 1999 | - | 71 | 97 | - | - | - | 168 | 0.33% | 0.016 |
| 2000 | - | 47 | - | - | - | - | 47 | 0.09% | 0.004 |
| 2001 | - | 797 | 595 | - | - | - | 1,392 | 2.40% | 0.132 |
| 2002 | 8,751 | 148 | 487 | - | - | - | 9,386 | 15.54% | 0.874 |
| 2003 | 8,555 | 99 | 319 | - | - | - | 8,973 | 14.32% | 0.835 |
| 2004 | 8,415 | 139 | 503 | - | - | - | 9,057 | 13.98% | 0.842 |
| 2005 | 8,270 | 863 | 511 | - | - | - | 9,644 | 13.68% | 0.896 |
| 2006 | 8,115 | 3,432 | 608 | - | - | - | 12,155 | 16.31% | 1.116 |
| 2007 | 16,133 | 1,850 | 645 | - | - | - | 18,628 | 23.25% | 1.769 |

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(1) See the Schedule of Demographic and Economic Statistics on page 71 for the personal income and population data.

CITY OF SOUTH MIAMI, FLORIDA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(amounts expressed in thousands, except per capita)

| Fiscal Year | General Obligation Bonds | Less: Amounts Available in Debt Service Fund | Total | Percentage of Estimated Actual Taxable Value of Property (1) | Per Capita (2) |
|--------------------|---------------------------------|---|--------------|---|-----------------------|
| 1998 | \$ - | - | - | 0.00% | - |
| 1999 | - | - | - | 0.00% | - |
| 2000 | - | - | - | 0.00% | - |
| 2001 | - | - | - | 0.00% | - |
| 2002 | 8,751 | - | 8,751 | 1.07% | 0.332 |
| 2003 | 8,555 | 140 | 8,415 | 1.03% | 0.311 |
| 2004 | 8,415 | 150 | 8,265 | 0.94% | 0.298 |
| 2005 | 8,270 | 155 | 8,115 | 0.81% | 0.271 |
| 2006 | 8,115 | 160 | 7,955 | 0.66% | 0.254 |
| 2007 | 16,133 | 165 | 15,968 | 0.96% | 0.474 |

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

Note: Total Adjusted Tax Levy is based on final assessed property values by Miami-Dade County Department of Property Appraisal office after the Property Appraisal Adjustment Board has completed hearings on the tax roll; and before discounts.

(1) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 63 for property value data.

(2) See the Schedule of Demographic and Economic Statistics on page 71 for population data.

CITY OF SOUTH MIAMI, FLORIDA

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(amounts expressed in thousands)

| <u>Jurisdiction</u> | <u>Debt Outstanding</u> | <u>Estimated Percentage Applicable(1)</u> | <u>Amount Applicable to South Miami</u> |
|-----------------------------------|-----------------------------|---|---|
| Miami-Dade County Schools (2) | \$ 541,525 | 0.70% | \$ 3,791 |
| Miami-Dade County (3) | <u>472,236</u> | 0.70% | <u>3,306</u> |
| Subtotal overlapping debt | 1,013,761 | | 7,096 |
| City of South Miami direct debt | <u>16,133</u> | 100.00% | <u>16,133</u> |
| Total direct and overlapping debt | \$ 1,029,894 | | \$ 23,229 |

Sources: (1) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the city's boundaries and dividing it by the county's total taxable assessed value.

(2) Miami-Dade County Schools, General Finance Department

(3) Miami-Dade County, Finance Department (includes General Obligation, Special Obligation Bonds)

CITY OF SOUTH MIAMI, FLORIDA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|---|--------------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|---------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| Debt Limit | | | | | 122,778 | 136,522 | 150,526 | 181,814 | 216,904 | 249,765 |
| Total net debt applicable to limit(1) | N/A | N/A | N/A | N/A | <u>8,751</u> | <u>8,555</u> | <u>8,415</u> | <u>8,270</u> | <u>8,115</u> | <u>16,133</u> |
| Legal debt margin | | | | | 114,027 | 127,967 | 142,111 | 173,544 | 208,789 | 233,632 |
| Total net debt applicable to the limit as a percentage of debt limit | N/A | N/A | N/A | N/A | 7.13% | 6.27% | 5.59% | 4.55% | 3.74% | 6.46% |

LEGAL DEBT MARGIN CALCULATION FOR FISCAL YEAR 2007

| | |
|---|---------------------|
| Assessed valuation 2007 roll | <u>\$ 1,665,098</u> |
| Bonded debt limit- 15% of assessed value | \$ 249,765 |
| Total ad valorem debt- General Obligation Bonds | \$ 16,133 |
| Amount of debt applicable | <u>\$ 16,133</u> |
| Legal debt margin | <u>\$ 233,632</u> |

(1) General Obligation Bonds were issued in 2002. In November 2006, the City through its Community Redevelopment Agency (CRA) issued \$2,730,000 of Taxable Redevelopment Bonds.

CITY OF SOUTH MIAMI, FLORIDA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

| Fiscal Year | Population (1) | Personal Income (Amounts Expressed in Thousands) (2) | Per capita Personal Income (2) | Median Age (3) | School Enrollment (4) | Unemployment rate (5) |
|--------------------|-----------------------|---|---------------------------------------|-----------------------|------------------------------|------------------------------|
| 1998 | 10,672 | 47,242 | 21,888 | N/A | 1,708 | 7.0 |
| 1999 | 10,537 | 50,612 | 23,216 | N/A | 1,708 | 5.9 |
| 2000 | 10,518 | 53,414 | 24,050 | 35.6 | 1,708 | 5.1 |
| 2001 | 10,518 | 57,922 | 25,622 | 35.6 | 1,708 | 6.1 |
| 2002 | 10,741 | 60,402 | 26,398 | 35.6 | 1,708 | 6.5 |
| 2003 | 10,741 | 62,665 | 27,050 | 35.6 | 1,708 | 5.9 |
| 2004 | 10,759 | 64,765 | 27,744 | 35.6 | 1,708 | 5.4 |
| 2005 | 10,768 | 70,514 | 29,955 | 37.4 | 1,708 | 4.5 |
| 2006 | 10,891 | 74,534 | 31,347 | 37.4 | 1,708 | 3.8 |
| 2007 | 10,528 | 80,112 | 33,712 | 37.8 | 6,123 | 3.8 |

- Source:
- (1) State of Florida population estimates
 - (2) U.S. Department of Commerce, Bureau of Economic Analysis
 - (3) U.S. Census Bureau
 - (4) Miami-Dade County Public Schools Registrar's Office
 - (5) U.S. Department of Labor

N/A- Information not available

CITY OF SOUTH MIAMI, FLORIDA
 PRINCIPAL EMPLOYERS - Miami Dade County, Florida
 CURRENT YEAR AND NINE YEARS AGO

| <u>EMPLOYER</u> | <u>2007</u> | | | <u>1998</u> | | |
|----------------------------------|------------------|-------------|--|------------------|-------------|--|
| | <u>EMPLOYEES</u> | <u>RANK</u> | <u>Percentage of Total County Employment</u> | <u>EMPLOYEES</u> | <u>RANK</u> | <u>Percentage of Total County Employment</u> |
| Miami-Dade County Public Schools | 50,000 | 1 | 4.27% | N/A | 1 | N/A |
| Miami-Dade County, Florida | 32,000 | 2 | 2.73% | N/A | 2 | N/A |
| Federal Government | 20,400 | 3 | 1.74% | N/A | 3 | N/A |
| Florida State Government | 17,000 | 4 | 1.45% | N/A | 4 | N/A |
| Publix Super Markets | 11,000 | 5 | 0.94% | N/A | 5 | N/A |
| Baptist Health South Florida | 10,826 | 6 | 0.92% | N/A | 6 | N/A |
| Jackson Health System | 10,500 | 7 | 0.90% | N/A | 7 | N/A |
| University of Miami | 9,874 | 8 | 0.84% | N/A | 8 | N/A |
| American Airlines | 9,000 | 9 | 0.77% | N/A | 9 | N/A |
| Miami-Dade College | 6,500 | 10 | 0.55% | N/A | 10 | N/A |
| | <u>177,100</u> | | <u>15.11%</u> | <u>-</u> | | <u>0.00%</u> |

Source: The Beacon Council, U.S. Census Bureau

N/A - Information is not available

CITY OF SOUTH MIAMI, FLORIDA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

| | FULL-TIME EQUIVALENT EMPLOYEES AS OF SEPTEMBER 30 | | | | | | | | | |
|------------------------------|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| Function | | | | | | | | | | |
| General government | 14 | 13 | 15 | 16 | 17 | 17 | 17 | 17 | 20 | 27 |
| Public safety | | | | | | | | | | |
| Police | | | | | | | | | | |
| Officers | 49 | 56 | 60 | 64 | 56 | 51 | 46 | 49 | 49 | 51 |
| Civilians | 12 | 10 | 11 | 13 | 13 | 12 | 7 | 9 | 6 | 7 |
| Building & Zoning | 14 | 14 | 16 | 12 | 13 | 13 | 12 | 13 | 18 | 17 |
| Public Works | 20 | 21 | 17 | 17 | 14 | 16 | 21 | 19 | 24 | 26 |
| Recreation & Social Services | 12 | 14 | 24 | 22 | 23 | 26 | 32 | 32 | 25 | 9 |
| Sanitation | <u>13</u> | <u>13</u> | <u>13</u> | <u>14</u> | <u>14</u> | <u>12</u> | <u>12</u> | <u>12</u> | <u>10</u> | <u>10</u> |
| | <u>134</u> | <u>141</u> | <u>156</u> | <u>158</u> | <u>150</u> | <u>147</u> | <u>147</u> | <u>151</u> | <u>152</u> | <u>147</u> |

Source: City of South Miami Finance Department

CITY OF SOUTH MIAMI, FLORIDA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS

| Function/Program | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|
| Public Safety | | | | | | | | | | |
| Police: | | | | | | | | | | |
| Number of calls answered | 11,211 | 12,389 | 12,900 | 12,828 | 12,631 | 11,185 | 10,973 | 11,005 | 11,526 | 11,136 |
| Number of arrests | 931 | 1,782 | 1,610 | 1,822 | 2,172 | 1,134 | 1,485 | 1,484 | 2,530 | 650 |
| Number of uniformed officers | 49 | 56 | 60 | 64 | 56 | 51 | 46 | 49 | 49 | 51 |
| Building & Zoning: | | | | | | | | | | |
| Number of building permits issued | 1,346 | 1,990 | 1,277 | 1,388 | 1,317 | 1,294 | 1,742 | 1,754 | 1,927 | 1,629 |
| License/Permit revenue generated | \$616,994 | \$ 627,874 | \$653,724 | \$646,189 | \$694,426 | \$ 1,162,733 | \$1,285,200 | \$1,101,120 | \$1,201,948 | \$1,102,083 |
| Occupational licenses issued | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 2,902 | 3,024 | 3,112 |
| Culture and recreation | | | | | | | | | | |
| Number of senior meals served | 13,300 | 21,280 | 18,620 | 22,430 | 25,550 | 26,880 | 28,700 | 32,730 | 42,949 | 38,522 |
| Recreation revenues collected | \$ 43,367 | \$ 43,857 | \$ 44,080 | \$ 54,743 | \$ 53,139 | \$ 55,965 | \$ 71,379 | \$ 79,209 | \$ 76,129 | \$ 94,176 |
| Sanitation | | | | | | | | | | |
| Refuse collected (tons per month) | N/A | N/A | N/A | N/A | N/A | N/A | 845 | 1,114 | 1,348 | 808 |

Sources: Various city departments

Note: Indicators are not available for the general government function.

N/A-information not available for these years

CITY OF SOUTH MIAMI, FLORIDA
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

| <u>Function/Program</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Public Safety | | | | | | | | | | |
| Police: | | | | | | | | | | |
| Police stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Police vehicles | N/A | 66 | 67 | 79 | 74 | 83 | 86 | 76 | 69 | 81 |
| Public works | | | | | | | | | | |
| Streets (Miles-paved) | 47.41 | 47.41 | 47.41 | 47.41 | 47.41 | 47.41 | 47.41 | 47.41 | 47.41 | 47.41 |
| Culture and recreation | | | | | | | | | | |
| Parks | 7 | 7 | 7 | 9 | 9 | 8 | 8 | 8 | 10 | 10 |
| Tennis courts | N/A | 10 | 10 |
| Baseball/Football fields | N/A | 6 | 7 |
| Sanitation | | | | | | | | | | |
| Number of collection trucks | N/A | 12 | 12 | 12 | 14 | 15 | 19 | 15 | 18 | 15 |

Sources: Various city departments

N/A : Information not available

Note: No capital asset indicators are available for the general government function.

IV. 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 and Members of the City Council
City of South Miami, Florida

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Miami, Florida (the "City") as of and for the fiscal year ended September 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider items No. 2007-1, 2007-3, 2005-4, and 2003-1 described in the accompanying schedule of findings and questioned costs and responses to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies listed above and described in the accompanying schedule of findings and questioned costs and responses, we consider item 2007-1 to be a material weakness.

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Honorable Mayor and Members of the City Council
City of South Miami, Florida
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs and responses as items No. 2007-4, 2006-1, 2006-6, and 2005-1.

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

This report is intended solely for the information and use of the council, management, and federal awarding agencies and pass-through entities, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Rodriguez, Trucba & Company

Doral, Florida
May 23, 2008



**MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES OF THE AUDITOR GENERAL OF
THE STATE OF FLORIDA**

Honorable Mayor, City Council and City Manager
City of South Miami, Florida

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of South Miami, Florida (the City), as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated May 23, 2008.

We conducted our audit in accordance with United States generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report and schedule, which are dated May 23, 2008, should be considered in conjunction with this management letter.

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

- 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 findings and recommendations made in the preceding annual financial audit report are addressed in the accompanying schedule of findings and questioned costs and responses.
- 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, accounting procedures, and internal controls. Our recommendations are included in the accompanying schedule of findings and questioned costs and responses.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, our recommendations are listed in the accompanying schedule of findings and questioned costs and responses.
- Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors:
 - (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements;
 - (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and
 - (3) control deficiencies that are not significant deficiencies, including, but not limited to:
 - (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements);
 - (b) failures to properly record financial transactions; and

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Honorable Mayor, City Council and City Manager
City of South Miami, Florida
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(c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

Our audit disclosed the following matters required to be disclosed by Rules of Auditor General under Current Year Findings and Recommendations: 2007-1, 2007-2, 2007-3, and 2007-4.

- 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 South Miami, Florida* was incorporated by Chapter 5799, Laws of Florida, Acts of 1907. The City has one component unit; the City of South Miami Community Redevelopment Agency established by Ordinance number 12-97-1633 of the City of South Miami on April 15, 1997.
- 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, 2007, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007. In connection with our audit, we determined that these two reports were in agreement.
- Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures and no deteriorating financial conditions were noted. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

Rodriguez Trueba & Company

Doral, Florida
May 23, 2008



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Members of the City Council
City of South Miami, Florida

Compliance

We have audited the compliance of the City of South Miami, Florida (the "City"), with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended September 30, 2007. The City's major federal programs are identified in the summary of auditors' 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 the City's 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 on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended September 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs and responses as item 2007-4.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 of the City's internal control over compliance.

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

Honorable Mayor, City Council and City Manager
City of South Miami, Florida
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A control deficiency in a City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs and response as item 2007-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We did not consider item 2007-3 to be a material weakness.

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

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

Rodriguez Trueba & Company

Doral, Florida
May 23, 2008

City of South Miami, Florida
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended September 30, 2007

| Federal Agency Program Pass-through Entity Federal Program | CFDA Number | Contract Grant Number | Expenditures |
|---|------------------------|--------------------------------------|---------------------------------|
| <u>FEDERAL AGENCY NAME</u> | | | |
| U.S. Department of Justice | | | |
| Federal Forfeiture Program | 16.000 | N/A | \$ 36,464 |
| Indirect Programs | | | |
| <i>Pass-through Florida Department of Law Enforcement</i> | | | |
| Justice Assistance Grant Program | 16.738 | 2007-JAGD-Dade-4-P4-158 | 5,565 |
| <i>Pass-through Miami Dade Department of Human Services</i> | | | |
| Federal Drug Control & System Ctr. | 16.579 | 2007-JAGC-Dade-26-P3-151 | <u>2,273</u> |
| TOTAL U.S. DEPT. OF JUSTICE | | | <u>44,302</u> |
| U.S. Department of Agriculture Natural Resource Conservation Service | | | |
| Emergency Watershed Program | 10.904 | 69-4209-6-1667 | 300,891 |
| U.S. Department of Housing and Urban Development | | | |
| Indirect Program | | | |
| <i>Pass-through Miami Dade County OCED</i> | | | |
| FY 2007 CDBG- Madison Square/South Miami Strip Mall Mixed Use Developm | 14.218 | 75306 | 294,000 |
| FY2007 CDBG- Multipurpose Center | 14.218 | CD533C07CI | 849 |
| FY 2006 CDBG-Church Street Improvements PH III | 14.218 | CD532C029 | 193,944 |
| FY 2007 CDBG-Church Street Improvements PH IV | 14.218 | unknown | 1,167 |
| The After School House | 14.218 | CD532C030 | <u>32,810</u> |
| TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | <u>522,770</u> |
| TOTAL EXPENDITURES FEDERAL AWARDS | | | \$ <u><u>867,963</u></u> |

City of South Miami, Florida
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended September 30, 2007

NOTE A – General

The Schedule of Expenditures of Federal Awards Programs included herein represents all of the Federal grant awards of the City over which it exercised direct operating control for the year ended September 30, 2007.

NOTE B – Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards Programs is presented using the accrual basis of accounting and includes expenses incurred by the City during its fiscal year October 1, 2006 to September 30, 2007.

NOTE C – Scope of audit pursuant to OMB CIRCULAR A-133

All Federal grant operations of the City are included in the scope of the Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB *Circular A-133 2007 Compliance Supplement*. Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the grant programs noted below. These programs represent all Major Federal award programs with fiscal 2007 cash and noncash expenditures that ensure coverage of at least 50% of federally granted funds. Actual coverage is approximately 95% of total cash and noncash Federal award program expenses.

| <i>Major Federal Award Program Description</i> | Fiscal Year 2007 Expenses |
|--|--------------------------------------|
| U.S. Department of Agriculture Emergency Watershed Program | 300,891 |
| U.S. Department of Housing and Urban Development CDBG | 522,770 |

NOTE D – Findings of noncompliance

See schedule of findings and questioned costs and responses for a finding of non-compliance related to one of the major federal awards programs, item no 2007-4.

NOTE E – State and Local Awards

The City has been awarded State funds. However, State grant expenditures did not exceed \$500,000 and a Florida Single Audit was not required for the fiscal year ended September 30, 2007. The City has also been awarded local grants from Miami-Dade Department of Human Services, for the After School House Program and Senior Meals Program, and from the South Florida Water Management District, for the improvement of the City’s drainage and water distribution system.

City of South Miami, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended September 30, 2007

SECTION I -SUMMARY OF AUDITORS' RESULTS

Financial Statements

| | |
|---|-------------|
| Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | Yes |
| Reportable conditions identified that are not considered to be material weaknesses? | Yes |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|-------------|
| Internal control over major programs: | |
| Material weaknesses identified? | No |
| Reportable conditions identified that are not considered to be material weaknesses? | Yes |
| Type of auditors' report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | Yes |

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|--|
| 10.904 | U.S. Department of Agriculture- Emergency Watershed Prgm |
| 14.218 | U.S. Department of HUD- CDBG |

| | |
|--|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| Auditee qualifies as low risk auditee? | NO |

City of South Miami, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended September 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS - CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2007-1 Audit Journal Entries

CONDITION:

The City's audit required several material audit adjustments to prepare financial statements in accordance with U.S. generally accepted accounting principles ("GAAP").

CAUSE:

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

EFFECT:

The condition above creates an absence of an internal process to report deficiencies in internal control to management on a timely basis.

RECOMMENDATIONS:

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

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Management accepts the finding and recommendation. The City's Finance Director will meet with the independent auditors prior to closing the books of the City and try to identify possible adjustments and circumstances that would prevent this finding in future years. However, correcting this situation may not provide a cost-effective solution to the finding. The independent auditors assist the City with the preparation of the financial statements as a convenience, because the City has the skills to do so. Having the City staff prepare the financial statements would not be a cost-efficient alternative to the current situation. As a result, management does not presently deem the risk of this deficiency as significant.

2007-2 Pension Plan

CONDITION:

During our testing of pension plan disbursements we noted several errors relating to lump sum distributions: (a) 2 out of 5 disbursements selected reported the total distribution amount as taxable, resulting in incorrect federal withholding; (b) interest portion was calculated incorrectly for 1 out of 5 disbursements selected; and (c) 1 out of 5 disbursements selected did not report the interest portion of the distribution as taxable.

CAUSE:

Persons responsible for approving and signing off on distribution forms noted the errors after the distributions were made.

EFFECT:

Controls currently in place are not effective in identifying and correcting errors in a timely manner.

City of South Miami, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended September 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS - CURRENT YEAR FINDINGS AND RECOMMENDATIONS (continued)

2007-2 Pension Plan (continued)

RECOMMENDATIONS:

We recommend the Plan Administrator, Benefits USA, Inc., provide for the communication of the errors to the recipients and issue amended 1099's where applicable, so that they can rectify their individual accounts with the Internal Revenue Service.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Management agrees with the finding and recommendation. The plan administrator has already communicated these errors to the recipients and initiated action to correct them immediately as well as improve the controls to prevent these errors in the future.

SECTION III - FEDERAL AWARD FINDINGS AND RESPONSES - CURRENT YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2007-3 CFDA #14.218 – U.S. Department of Housing and Urban Development - CDBG - Madison Square/South Miami Strip Mall Mixed Use Development Program

CONDITION:

During our single audit testing of compliance we noted the City recognized revenues of \$394,000 from the U.S. Department of Housing and Urban Development ("HUD") for CDBG funds awarded to the City's Community Redevelopment Agency ("SMCRA") for the Madison Square/South Miami Strip Mall Mixed Use Development project when only \$294,000 had been expended in accordance with grant contract stipulations.

CRITERIA:

Per the grant agreement between the SMCRA and Miami Dade County, only \$294,000 was to be used for land acquisition and the remaining \$100,000 was for development costs. As of the fiscal year ended September 30, 2007, no development costs had been incurred. Therefore, \$100,000 should have been recorded as deferred revenues.

CAUSE:

Controls are not in place to ensure that revenues are properly classified and reported as earned or deferred.

EFFECT:

This resulted in overstated revenues and understated deferred revenues of \$100,000.

QUESTIONED COSTS:

There are no questioned costs related to this condition.

RECOMMENDATION:

We recommend that the City review its controls over grant reporting to ensure only funds expended in accordance with grant specifications are recognized as revenues.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Project funding of this nature is typically encumbered by the SMCRA. However in this instance, funding for future development costs associated with the Madison Square project in the amount of \$100,000 have not be encumbered due to the fact that several outstanding issues must be resolved prior to actual project development. These outstanding project related issues include: 1. Completion of the land acquisition portion of the project (to date, 95% of the proposed site has been purchased); and 2. The existing land use and zoning for the proposed site must be formally changed in order to effectuate the intended development. Given both of these outstanding project related issues and also due to the fact that no vender for the grant funding has been identified, the above referenced \$100,000 cannot be encumbered. Funding however remains within an existing SMCRA budgeted account until such time as formal development of the project commences.

City of South Miami, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended September 30, 2007

SECTION III - FEDERAL AWARD FINDINGS AND RESPONSES - CURRENT YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

2007-4 CFDA #14.218 – U.S. Department of Housing and Urban Development - CDBG - Madison Square/South Miami Strip Mall Mixed Use Development Program

CONDITION:

During our Single Audit test of compliance we noted the following events of noncompliance related to this grant:

- As of September 30, 2007, the SMCRA had not performed a Phase I Environmental Audit of the identified project site.
- The City's audit was not completed and submitted to Miami-Dade County within the required deadline.
- The SMCRA purchased the property related to this program for \$135,000 above the appraised value but no documentation was available in support of the overage expenditures.

CRITERIA:

Respectively,

- The grant agreement between the SMCRA and Miami Dade County required a Phase I Environmental review once the project site was identified. HUD guidelines and regulations required the Phase I Environmental review be performed *before* CDBG funding is obligated or expended.
- The grant agreement requires that the City's audit must be submitted to the County within 6 months from the fiscal year end.
- HUD-CDBG guidelines require full documentation of expenditures associated with overage paid when the purchase price is above the appraised value.

CAUSE:

- The SMCRA filled out and submitted Attachment D of the contract to Miami-Dade. This form provides information to the pass thru agency (the County) regarding the need for an environmental review. However, we noted the need for an environmental review was not identified in this form. Therefore, it is unclear to us whether the SMCRA is exempt from this requirement.
- The SMCRA did not submit the audited financial statements timely due to delays in the completion of the audit.
- The SMCRA itself is not required to purchase property at appraised value. Therefore, the City was not aware of this requirement, especially since all resolutions and disclosures were made to the County prior to funding.

EFFECT:

Auditor could not ensure compliance with HUD requirements.

QUESTIONED COSTS:

\$294,000

RECOMMENDATION:

We recommend that the SMCRA resolve the issues above directly with the grantor to ensure all grant funds are expended in accordance with the funding agency's guidelines, that all required reports are submitted on a timely basis and as they become due and that all records are maintained for a period of at least 5 years.

City of South Miami, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended September 30, 2007

SECTION III - FEDERAL AWARD FINDINGS AND RESPONSES - CURRENT YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (continued)

2007-4 CFDA #14.218 – U.S. Department of Housing and Urban Development - CDBG - Madison Square/South Miami Strip Mall Mixed Use Development Program (continued)

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

- Prior to Miami-Dade County disbursing grant funding to the SMCRA in the total amount of \$394,000, Miami-Dade County was well aware of the fact that the Madison Square Project was in the Land Acquisition Phase. As a matter of fact, funding provided by Miami-Dade County in the amount of \$294,000 was specifically designated for the purpose of purchasing approximately 9% of the entire project site which was previously purchased by the SMCRA. Grant funding was to be used as a reimbursement for the purchase of the above referenced 9% of the project site. Prior to the SMCRA expending additional, substantial costs for expenses such as a Phase I Environmental Audit of the site, the above referenced outstanding issues must be resolved. Again, prior to Miami-Dade County disbursing grant funding to the SMCRA in the total amount of \$394,000, Miami-Dade County was well aware of the fact that the Madison Square Project was in the Land Acquisition Phase of the project.
- The SMCRA annual audit is performed in conjunction with the City's annual audit and therefore completion of the SMCRA audit is contingent upon completion of the City's audit. The City's audit was delayed due to extraneous factors described in finding 2006-1.
- Management of the SMCRA believes that all grant funds received from Miami Dade County have been expended in accordance with the guidelines of the grant agreement. Of the total grant funding received from the County in the amount of \$394,000, \$294,000 has been expended for land acquisition costs as authorized by the County. The remaining \$100,000 designated for development costs associated with the Madison Square Project remains in the SMCRA's budgeted account and will not be expended until such time as development on the Madison Square Project commences. Prior to the receipt of grant funding from Miami-Dade County, executed City SMCRA resolutions were provided to Miami-Dade County indicating the SMCRA's formal approval to purchase two properties located at 6442 SW 59th Place and 6443 SW 60th Avenue for the total purchase price of \$730,000. In correspondence received from Miami-Dade County dated July 10, 2006, Miami-Dade County acknowledged the fact that they received an executed copy of SMCRA Resolution #10-06-203 authorizing purchase of two properties as part of the required land acquisition for the proposed Madison Square site for a total purchase price of \$730,000. The purchase of the two properties was approved by the SMCRA Board based on two property appraisals being obtained by the SMCRA and also based on the inherent value of the properties in relation to the benefits to the SMCRA Community, including fulfillment of the fundamental goal of the SMCRA which is to eliminate previously identified slum and blighted conditions in the SMCRA and to provide economic development to a documented economically distressed community.

The SMCRA will review and implement changes to its controls to ensure compliance with HUD. Additionally, the SMCRA has also contacted the grant administrator from Miami Dade County to ensure completion of any missing items that are necessary in order to warrant the City as compliant with HUD - CDBG guidelines. The City is willing to do everything in its power to establish compliance with grant guidelines. The SMCRA is also requesting a letter of grant sufficiency from the County since all expenditures related to this grant have been incurred subject to their knowledge and authorization.

City of South Miami, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Fiscal Year Ended September 30, 2007

SECTION IV – STATUS OF PRIOR YEAR FINDINGS, QUESTIONED COSTS AND RECOMMENDATIONS

The following is a summary of the September 30, 2006 recommendations, as communicated in the prior year that were not repeated in the current year recommendations, were not implemented or were only partially implemented by the City during the current year. All prior year recommendations that have been fully implemented were not repeated in this section.

| <u>Finding Number</u> | <u>Prior Years' Observation</u> | <u>Comment is Still Relevant</u> | <u>Comment is no Longer Relevant</u> |
|--|---|----------------------------------|--------------------------------------|
| <u>A. PRIOR YEAR FINANCIAL STATEMENT FINDINGS</u> | | | |
| 2006-1 | Audited Financial Statements | X | |
| 2006-2 | Bank Reconciliations | | X |
| 2006-3 | Cash Disbursements | X | |
| 2006-4 | Journal Entries | | X |
| 2006-5 | Encumbrances | X | |
| 2006-6 | Compliance with the City of South Miami's Charter | X | |
| 2006-7 | Minutes for the Budget and Finance Committee | X | |
| 2006-8 | Accounting Policies and Procedures Manual | X | |
| 2006-9 | Fraud Risk Assessment | | X |
| 2005-1 | Budgeting | X | |
| 2005-2 | Employer Contributions to Pension Plans | | X |
| 2005-4 | Inventory Capital Assets | X | |
| 2003-1 | Recording of Transactions in Accordance with GAAP | X | |
| 2003-2 | Compensated Absences | | X |
| <u>B. PRIOR YEAR FEDERAL AWARD FINDING</u> | | | |
| 2006-10 | Waste Fee Reimbursement | X | |

A. FOLLOW UP TO PRIOR YEAR FINANCIAL STATEMENT FINDINGS

2006-1 Audited Financial Statements

CONDITION:

Based on our review of the City's loan agreements, we noted that the agreements required submission of audited financial statements within 120 days of the fiscal year end. The City did not comply with this requirement during 2006.

CURRENT YEAR STATUS:

The City did not comply with this requirement during 2007.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

This City will provide all of its readers and interested parties copies of the final financial reports once the reports are completed. The delay in providing them has been due to the extraneous situation within the finance department, as a result of unexpected turnover in directorship and personnel within the last 3 years.

City of South Miami, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended September 30, 2007

SECTION IV – STATUS OF PRIOR YEAR FINDINGS, QUESTIONED COSTS AND RECOMMENDATIONS (continued)

A. FOLLOW UP TO PRIOR YEAR FINANCIAL STATEMENT FINDINGS (continued)

2006-2 Bank Reconciliations

CONDITION

Bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger controls. There were two bank accounts that were not reconciled for the entire year and had to be reconciled during the audit; which caused further delays. Another bank account was not recorded in the City's books. (see reportable condition 2003-1) We also noted; that there was no documentation of supervisory review of the bank reconciliations.

CURRENT YEAR STATUS:

Since May of 2007 the Finance Department has brought all bank accounts up to date and reconciles each and every one on a monthly basis, as soon as the bank statements arrive. **This condition appears to have been corrected.**

2006-3 Cash Disbursements

CONDITION:

During our cash disbursement testing, 1 of the 47 checks tested did not include approval from the City Council as required for all payments to vendors of over \$5,000. Although, the check selected for testing did not exceed the \$5,000 amount, total payments to the vendor during the year did exceed the \$5,000 amount.

CURRENT YEAR STATUS:

During our 2007 testing of cash disbursements, we noted several items that evidenced the condition described above, where council approval was not obtained for payments to vendors that in the aggregate exceeded \$5,000 within the same year. Many of these related to prior year encumbrances, which were approved by council in the prior year. We also noted the following deficiencies during our disbursements control testing:

- (a) A payment to an employee for education reimbursement was approved for the full cost of tuition; however, the City's policy is to reimburse for only half of tuition costs.
- (b) 3 out of 25 items selected did not have the corresponding requisition signed by the Department Head, as per City's control policies.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

The City has implemented a review on a monthly basis of all vendors and payments to ensure that Commission review of over \$5,000 amounts are authorized. In addition certain procedures are currently in effect which provide for the proper review and approval of all supporting documentation accompanying the requests for disbursements.

2006-4 Journal Entries

CONDITION:

The City implemented a form to document the approval of journal entries; which require preparer and supervisory sign-offs during 2005. During our testing of journal entries, we noted that most journal entry forms did not have the preparer and supervisor sign offs and that there was not supporting documentation for the journal entries. Our testing did verify that the entries tested were proper; however, internal controls over journal entries were not effective.

CURRENT YEAR STATUS:

The form mentioned above to document the approval of journal entries is no longer used. The actual group update with its appropriate backup documentation is reviewed and approved by the Finance Director and subsequently filed by month and group number in binders easily accessible for review. During our testing of journal entries, we noted these controls were effectively in place. **This condition appears to have been corrected.**

City of South Miami, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended September 30, 2007

SECTION IV – STATUS OF PRIOR YEAR FINDINGS, QUESTIONED COSTS AND RECOMMENDATIONS (continued)

A. FOLLOW UP TO PRIOR YEAR FINANCIAL STATEMENT FINDINGS (continued)

2006-5 Encumbrances

CONDITION:

During our testing of encumbrances, we noted that the City is tracking open purchase orders manually and that there are two types of purchase orders. Manual purchase orders are prepared and issued for payments to vendors paid from funds of grant or debt proceeds. System generated purchase orders are used for all other vendors. The City records grant revenues and expenditures net, in a receivable account as reported in finding 2003-1. The accounting system does not allow the user to generate purchase orders on payments to a receivable account and therefore the City prepares manual purchase orders for those vendors.

CURRENT YEAR STATUS:

During the year 2007 the conditions above still existed.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

The Finance department reviewed the process and implemented a fully automated purchase order system. These changes have corrected the condition beginning Fiscal Year 2007 - 2008.

2006-6 Compliance with the City of South Miami's Charter

CONDITION:

During our compliance testing we noted that the City of South Miami's charter require that all finance department personnel be properly bonded. Also, that a performance based audit be performed on each department at least once every five years. Based on our testing, none of the City's finance department personnel have been bonded and no performance based audits have been performed.

CURRENT YEAR STATUS:

The City obtained bonding for the finance department personnel. However, the performance based audit has yet to be performed.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

At the present time the City has complied with the bonding requirement. Presently, the City is still in the process of advertising and obtaining bids for a performance based audit.

2006-7 Minutes for the Budget and Finance Committee

CONDITION:

During our compliance testing we requested the minutes of the Budget and Finance Committee for 2006 and the City was not able to provide the minutes.

CURRENT YEAR STATUS:

Although meeting recordings are available, the minutes of the Budget and Finance Committee for 2006 and 2007 still have not been prepared and thus, are not available.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

The Finance Department will establish procedures to correct this situation.

City of South Miami, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended September 30, 2007

SECTION IV – STATUS OF PRIOR YEAR FINDINGS, QUESTIONED COSTS AND RECOMMENDATIONS (continued)

A. FOLLOW UP TO PRIOR YEAR FINANCIAL STATEMENT FINDINGS (continued)

2006-8 Accounting Policies and Procedures Manual

CONDITION:

During our testing, we noted that the City has a written accounting policies and procedures manual; however, due to recent restructurings of City departments and turn-over in the finance department we **believe** that the manual needs to be updated.

CURRENT YEAR STATUS:

Although, the Finance Department has already begun the process of updating the procedures manual, it has not been completed.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

The Finance department began to update the procedures manual during the year 2007 and plans to finalize it by end of FY 2007-2008.

2006-9 Fraud Risk Assessment

CONDITION:

For all organizations, one of the primary fraud risks is the ever-present risk of misappropriation of assets, particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. During our audit we noted that the City has not performed a fraud risk assessment.

This condition will result in the City not being able to effectively mitigate its risk of fraud from the misappropriation of assets.

CURRENT YEAR STATUS:

We noted that the City's Finance Department performed this risk assessment, resulting in changes to original procedures and the implementation of new procedures that help mitigate the risk of misappropriation of assets. **This condition appears to have been corrected.**

2005-1 Budgeting

CONDITION:

Section 166.241 (3) of the Florida Statutes states that "The governing body of each municipality shall adopt a budget each fiscal year. The budget must be adopted by ordinance unless otherwise specified in the respective municipality's charter. The amount available from taxation and other sources, including amounts carried over from prior fiscal years, must equal the total appropriations for expenditures and reserves. The budget must regulate expenditures of the municipality, and it is unlawful for any officer of a municipal government to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations." The City did not adopt a budget for all of the special revenue funds; therefore, it is not in compliance with the above mentioned Florida Statute.

Also, the City has not included in its budget, expenditures for debt service, grant expenditures and capital leases, which caused expenditures over appropriations once the audit adjustments were recorded.

City of South Miami, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended September 30, 2007

SECTION IV – STATUS OF PRIOR YEAR FINDINGS, QUESTIONED COSTS AND RECOMMENDATIONS (continued)

A. FOLLOW UP TO PRIOR YEAR FINANCIAL STATEMENT FINDINGS (continued)

2005-1 Budgeting (continued)

CURRENT YEAR STATUS:

The City did not include in its budget, expenditures for debt service, capital outlay funded by grant and debt proceeds and capital leases; which caused expenditures over appropriations once the audit adjustments were recorded. The overexpenditures appear to have been approved by the commission; however the City failed to amend the budget accordingly.

For the year ended September 30, 2007, expenditures exceeded appropriations in the City Manager, Legal, Finance, Police, Public Works, Culture and Recreation and Non-departmental departments (the legal level of budgetary control) of the general fund by \$4,574, \$30,241, \$90,986, \$106,045, \$136,875, \$11,890 and \$7,554,418, respectively.

In addition, budgets were prepared for all governmental funds. As a result, part of this condition appears to have been corrected.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

For the 2006 -2007 and 2007-2008 Budgets, the City of South Miami adopted a budget for its special revenue funds, bringing us into compliance with the State of Florida Statute Section 166.241 (3). Additionally, we intend to include appropriations for expenditures for debt service and capital outlay funded by debt proceeds and capital leases in the 2008-2009 Budget.

2005-2 Employer Contributions to Pension Plans

CONDITION:

Section 185.11 Florida Statutes requires that employer contributions be deposited at least quarterly. The City did not deposit its employer contributions to the Police and General Plan on a quarterly basis.

CURRENT YEAR STATUS:

The City made quarterly contributions for the fiscal year ended September 30, 2007. **This condition has been corrected.**

2005-4 Inventory Capital Assets

We noted that the City has not performed a physical inventory of capital assets since 2003, when an outside consultant was hired to perform the inventory.

CURRENT YEAR STATUS:

During 2006, the City hired an independent consultant to perform a physical count of capital assets. However, during FY 2007 this detail was still not input into the City's fixed asset module because the City's central services department noted significant discrepancies in reconciling this report to their own inventory list and general ledger; in essence leaving the City with no accurate list of inventories. We recommend that the City move to resolve this issue by reconciling the reports to the general ledger or manual inventory list and specifically identify the differences that need to be corrected and adjusted by the consultants. The City should then update their fixed asset module and perform yearly physical inventory counts of its capital assets.

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

The Finance Department will establish procedures to correct this situation.

City of South Miami, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended September 30, 2007

SECTION IV – STATUS OF PRIOR YEAR FINDINGS, QUESTIONED COSTS AND RECOMMENDATIONS (continued)

A. FOLLOW UP TO PRIOR YEAR FINANCIAL STATEMENT FINDINGS (continued)

2003-1 Recording of Transactions in Accordance with Generally Accepted Accounting Principles (GAAP)

CONDITION:

During our testing of long term debt and grant activity we noted that the City was not recording certain transactions in accordance with GAAP, for example:

- a) Expenditures paid by funds held by the Trustees from the Florida Municipal Loan Council Loans (FMLC) were not being recorded as expenditures but were debited to a balance sheet account.
- b) Revenue and expenditures from grants were not being recorded and all transactions flowed through the grants receivable account.
- c) Capital leases were not being capitalized and expenditures for debt service were not recorded properly.

CURRENT YEAR STATUS:

During our audit for 2007, the City did not properly record expenditures paid by funds held by the Trustees during 2007. The City still did not properly record capital leases and debt service expenditures during the 2007. We noted that the City was still not recording the grant revenues and expenditures properly. The City did not properly recognize revenue for grant funds of \$1.3 million received from the County that was previously in deferred revenues. **Therefore, this comment is still applicable. (See current year finding 2007-1)**

VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Beginning in the 2008 Fiscal Year all expenditures, revenues, leases and debt service transactions will be recorded as required.

2003-2 Compensated Absences

CONDITION:

During our testing of compensated absences, we noted that the City continued to accrue and pay out vacation time for employees once separated from the City, although according to the employee handbook and union contracts the policy was use it or lose it. Therefore, the City was not liable for the accrued vacation, which was paid out.

CURRENT YEAR STATUS:

This comment has been corrected. In 2007 the City has implemented and been enforcing its “use it or lose it” policy. **This condition has been corrected.**

B. PRIOR YEAR FEDERAL AWARD FINDING AND QUESTIONED COST

2006-10 Waste Fee Reimbursement

CONDITION:

During our testing of hurricane clean up expenditures submitted for reimbursement to the Federal Emergency Management Agency (FEMA) we noted that the City included the entire month's invoice for waste management services by the County for the month of November 2005. Although the majority of the invoice was for hurricane clean-up, a portion of the invoice (approximately \$56,000) was due to regular monthly services. Therefore, the reimbursement request to FEMA was overstated by \$56,000.

CURRENT YEAR STATUS:

No change.