CITY OF MIAMI BEACH
1700 Convention Center Drive, Miami Beach, FL 33139
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April 8, 2005

Honorable Mayor and Members of the City Commission:

State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Miami Beach, Florida (the "City"), for the fiscal year ended September 30, 2004.

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 of the governmental activities, business-type activities, fiduciary activities, and discretely presented components units of the City. All disclosures necessary to enable the reader to gain an understanding of the financial activities of the City have been included.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

State statutes require an annual audit by independent certified public accountants. The accounting firm of KPMG LLP was recommended by the City Manager, following a review by an appointed evaluation committee, and approved by the City Commission. The independent audit involved examining, on a test basis, evidence supporting the amounts 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 basic financial statements for the fiscal year ended September 30, 2004, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the federal Single Audit Act of 1996 as amended and the State of Florida Single Audit Act in accordance with OMB Circular A-133 and Florida Rules of the Auditor General, Section 10.550 respectively. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

As a recipient of federal, state, and county financial assistance, the City also is responsible for

ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the Internal Audit Department of the City.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City was incorporated as a municipal corporation on March 26, 1915 and was created by the Florida Legislature, Chapter 7672, Laws of Florida (1917). The City is governed by an elected mayor and six-member commission. The City operates under a Commission-Manager form of government. The term for the Mayor is two years, with a term limit of six consecutive years. The term for the Commission is four years, with a term limit of eight consecutive years. The Commission is responsible, among other things, for passing ordinances, adopting the budget, approval of property tax levies, outstanding debt secured by the full faith credit of the City or any of its revenue streams, appointing committees, and hiring both the City's manager and attorney. The City's manager is responsible for carrying out the policies and ordinances of the Commission, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments.

The accompanying financial statements present the City and its component units, entities for which the City is considered financially responsible. Blended component units, although legally separate entities, are, in substance, part of the City's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

The City provides a full range of services. These services include police and fire protection; recreational activities; cultural events; sanitation services; water, sewer and storm water services; neighborhood community services; and the construction and maintenance of streets and infrastructure. This report includes activities of the Miami Beach Visitor and Convention Authority, the Retirement System for General Employees, the Retirement System for Firefighters and Police Officers , the Retirement System for Unclassified Employees and Elected Officials, the Miami Beach Health Facilities Authority, and the Miami Beach Redevelopment Agency (the "Agency").

The annual budget serves as the foundation for the City's financial planning and control. At least 65 days prior to the beginning of the fiscal year, the City Commission is presented with a proposed budget. The proposed budget includes anticipated expenditures and the means of funding them. After Commission review and public hearings, the budget is adopted prior to October 1. The budget is approved by fund and department. Management may transfer amounts between line items within a department as long as the transfer does not result in an increase in the department budget. Increases to funds or department budgets and transfers between departments require Commission approval. Annual budgets are adopted on a basis consistent with GAAP for all governmental funds except the capital projects fund, which adopts project-length budgets. Budget-to-actual comparisons are provided in the required supplementary information section of this report for the general fund, the resort tax special revenue fund, and the Miami Beach Redevelopment Agency Special Revenue Fund. Funds and grants that have multi-year project budgets are not presented in the statements.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy. The City is a barrier island surrounded by the Atlantic Ocean to the east and Biscayne Bay to the west. Tourism is the largest contributor to the City's economy with almost $1.3 billion in direct tourist spending on hotel, retail, food, and beverage alone. This spending generated approximately $1.8 billion in total output into the local economy, and $580 million in earnings. This past year, the City's hotels hosted over 4.5 million visitors, and almost 8 million tourists visited South Beach and the Art Deco Historic district. Additionally, the City remains a regional resource, with approximately 9 million day-trips by residents of the surrounding area, making the City one of the most popular attractions in Florida.

Moreover, the overall economy of the City continues to diversify. In recent years, the City has expanded beyond its traditional tourism based economy to become a multifaceted center for real estate, entertainment, health care, and culture. This past year, one of the world's most prestigious art fair, based in Basel, Switzerland, held its third Miami Beach exhibition, with attendance and sales exceeding expectations. Additionally, the City and the New World Symphony have entered into a partnership through which the Symphony proposed to develop a new facility on City-owned land. This facility will be a technological wonder designed by celebrity architect Frank Gehry and the first of its kind in the world.

Commercial and residential construction accounted for over $400 million in 2004. Retail tenants continue to open locations in the City, joining established operations such as Armani Exchange, Kenneth Cole and Nichole Miller. New retailers include Office Depot, Von Dutch, Diesel, Adidas, Barney's Co-op, Kiehl's and Levi's. Class A office space is available in prime locations. The office market is anchored by LNR Property Corporation, the City's largest corporate tenant.

The entertainment industry continues as an important part of the City's economy. The production sector spends approximately $70 million a year in the City for the production of movies and fashion campaigns. Many international talent and model agencies have locations in the City. The corporate component of the industry continues to view the City as the epicenter of the Latin American entertainment industry. This is evidenced by the recent opening of branches by the William Morris Agency and Warner Music International. The year-round corporate operations of this industry contributes an additional $170 million to the local economy. The third component of our entertainment industry, also continues to grow with venues such as the Jackie Gleason Theater, home of the MTV's Latin America Video Music Awards and numerous other award shows and events.

The City continues to be a leader in the real estate industry. In 2004, total real estate sales were valued at $2.2 billion, up from $1.5 billion in 2003. There was also an increase in the average price of homes and condominiums. The average sales price of a house in 2004 was $1.3 million, up from $863,000 in 2003, and the average condominium price was $292,417, up from $262,000 in 2003. Of the cities with the top 20 sales volume of single family home sales nationwide, Miami Beach was the only non-California city.

Long-Term Financial Planning. In an effort to meet the service demands of residents and visitors, the City continues to address, with a creative and resourceful approach, the long-term financing necessary in order to fund the capital projects essential to the creation, improvement, enhancement and preservation of public facilities and infrastructure.

The City's FY 2004-2008 five year Capital Improvement Plan, covering the period from October 1, 2003 through September 30, 2008, has earmarked funding in an estimated $338 million for the following program areas:

- Parking
  - Garages
  - Surface Lots
- Public Safety

- Fire/Rescue

❖ Parks and Recreation
  - Community Centers
  - Golf Courses
  - Parks

❖ Public Facilities
  - Convention Center & Theater of Performing Arts
  - General Public Buildings

❖ Transportation
  - Transit

❖ Public Works
  - Environmental
  - Lighting
  - Storm Drainage
  - Street/Sidewalk/Streetscape Improvements

❖ Equipment
  - Fleet Management
  - Information Technology
  - Property Management
  - Water & Sewer

The City, in an efficient and innovative manner, has prudently funded its Capital Improvement Program and for seven straight years achieved a reduction in its General Obligation Debt Service Millage to the current rate of 0.874 mills for FY 2003/04. The City has been able to achieve this reduction in its Debt Service Millage at the same time, issuing over $228 million in new debt through the following funding mechanisms during the last four years:

- $92 million of General Obligation Bonds (for improvements to neighborhoods, parks and public safety),
- $54 million of Water and Sewer Revenue Bonds,
- $52 million of Stormwater Revenue Bonds,
- $15 million Golf Course Loan, and
- $15 million Equipment Loan

Debt Administration. The City continues to maintain its A1 rating from Moody's Investors Services and AA- rating with Standard and Poor's. Under current state statutes, general obligation bonded debt issued by the City is subject to a legal limitation based on 15% of total assessed value of real and personal property. As of September 30, 2004, the general obligation bonded debt of the City totaling $93 million was well below the legal limit of $1.7 billion, and debt per capita equaled $1,029.

Cash management policies and practices. In accordance with the City's investment policy, excess cash during the year was invested in U. S. Treasury obligations, U. S. government agencies, commercial paper, corporate bonds, money market funds, and repurchase agreements. The investment portfolio of the pension trust fund includes cash deposits, U. S. government securities, corporate bonds, common stock, money market funds, and commercial paper. The average yield on investments, except for the pension trust funds, was 2%. The pension trust funds had a yield rate gain of 10.6% for this same period.

The investment policy of the City is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either covered by federal depository

insurance or a collateral pool held by the State Treasurer for the benefit of all public deposits in Florida, or by collateral held by third parties in trust in the name of the City. All cash and investments of the City, at September 30, 2004, met the criteria for Risk Category #1 as defined by the Governmental Accounting Standards Board, Statement #3, "Deposits with financial institutions, investments (including repurchase agreements) and reversed repurchased agreements."

Risk management. The City has a risk management program for workers' compensation, general liability, and auto liability. As part of this comprehensive plan, resources are being accumulated in the self-insurance internal service fund to meet potential losses. In addition, various risk control techniques, including employee accident prevention training, have been implemented to minimize accident-related losses. The City has $6.1 million currently restricted for future losses.

Awards and Acknowledgements

The Government 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 (CAFR) for the fiscal year ended September 30, 2003. This was the seventeenth (17) consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied 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 comprehensive annual financial report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of the comprehensive annual financial report was made possible by the dedicated work and tireless efforts of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, without the leadership and support of the Mayor and City Commission, preparation of this report would not have been possible.

Sincerely,

Jorge M. Gonzalez
City Manager

Patricia D. Walker
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Miami Beach, Florida

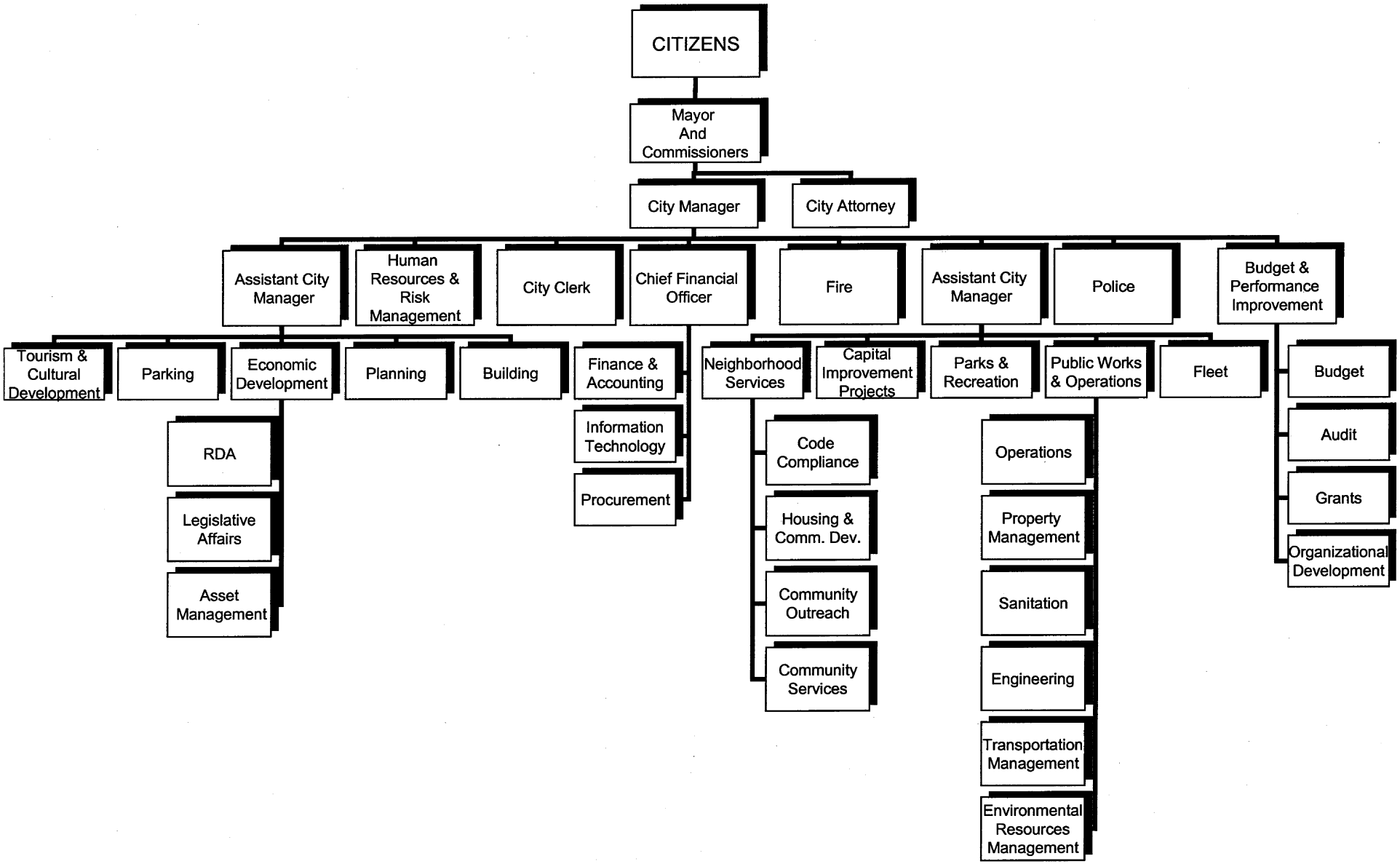
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2003

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.

President

Executive Director

CITY OF MIAMI BEACH ORGANIZATIONAL CHART



CITY OF MIAMI BEACH, FLORIDA
List of Elected Officials and Administration

September 30, 2004

City Commission

David Dermer, Mayor

Richard L. Steinberg, Vice-Mayor

Matti Herrera Bower, Commissioner
Simon Cruz, Commissioner
Luis R. Garcia, Jr., Commissioner
Saul Gross, Commissioner
Jose Smith, Commissioner

Administration

Jorge M. Gonzalez, City Manager

Patricia D. Walker, Chief Financial Officer

Christina M. Cuervo, Assistant City Manager
Robert C. Middaugh, Jr., Assistant City Manager