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## Independent Auditors' Report

The Honorable Mayor and Members of the City Commission  
City of Miami Beach, Florida:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Miami Beach, Florida (the City), as of and for the year ended September 30, 2005, 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 did not audit the financial statements of the City of Miami Beach, Florida Retirement System for General Employees, the City of Miami Beach, Florida Retirement System for Firefighters and Police Officers, the City of Miami Beach, Florida Retirement System for Unclassified Employees and Elected Officials, the Firemen's Relief and Pension Fund, and the Policemen's Relief and Pension Fund (the Plans), which represents 91% of the assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, in so far as it relates to the amounts included for the Plans, is based solely on the reports of the other auditors.

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. The financial statements of the City of Miami Beach, Florida Retirement System for Firefighters and Police Officers and the Policemen's Relief and Pension Fund were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in note IIA to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 or on 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.

The management's discussion and analysis on pages 11 through 28, the schedule of funding progress – Retirement Systems, on page 81 and the budgetary comparison information for the general fund, resort tax revenue fund, and Miami Beach Redevelopment Agency fund on pages 82 through 84, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We and the other auditors 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, combining and individual nonmajor fund statements and schedules, and statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

March 24, 2006  
Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

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Our discussion and analysis of the City of Miami Beach's (the "City") financial performance provides an overview of the City's financial activities for the year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-5 of this report.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at September 30, 2005 by \$635.2 million. Of this amount, \$110.6 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- During fiscal year 2005, the City's net assets increased by \$19.8 million. The increase was attributed to the increase in ad-valorem tax revenue, increase in fees charged for services, and increases in operating contributions, specifically intergovernmental revenues.
- The City's total long-term liabilities increased by \$3.3 million or 1 % during the year. The net increase is firstly attributed to the issue of \$53 million of debt to refund \$42.1 million of Taxable Special Obligation Bonds and a net termination fee and bond costs of \$10.9 million, and finally as a result of making scheduled required payments.
- At September 30, 2005 the unreserved fund balance for the general fund was \$34.6 million, or 20.6% of the total general fund expenditures.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to that of a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during each fiscal year. 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 the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned, but unused vacation leave).

Both the statement of net assets and the statement of activities of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their cost through user fees and charges. The governmental activities of the City include general government, public safety, physical environment, transportation, economic

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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development, human services, and culture and recreation. The business-type activities of the City includes storm water, water and sewer, parking, convention center complex, sanitation, and Miami Beach Redevelopment Agency's parking and leasing operations.

The government-wide financial statements include not only the City itself, but also a legally separate Visitor and Convention Authority and a legally separate Health Facilities Authority. Financial information for these component units are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 29-30 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City can be divided into three categories: governmental funds, proprietary 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. 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 a 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 the comparison between governmental funds and governmental activities.

The City maintains sixteen 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, resort tax special revenue fund, Miami Beach Redevelopment Agency special revenue fund, and capital projects fund which are considered to be major funds. Data from the other twelve governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds are provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund, its resort tax special revenue fund, and its Miami Beach Redevelopment Agency's special revenue fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the general fund's budget.

**Proprietary Funds.** The City maintains seven different types of proprietary or enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its storm water utilities, water and sewer, parking, convention center complex, sanitation, and Miami Beach Redevelopment Agency's parking and leasing. Internal service funds are an

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

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accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet management, property management, central services, self insurance, and communications operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements separate information for the storm water utilities, water and sewer, parking, and convention center complex, which are considered to be major funds of the City. Data from the other three proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary funds is provided in the form of combining statements elsewhere in this report.

Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 34-37 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 statements because the resources of those funds are not available to support the City's own programs. The fiduciary funds include the Pension Trust Funds and the general agency fund.

The fiduciary fund financial statements can be found on pages 38-39 of this report

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 40-80 of this report.

### **Other information**

In addition to the basic financial statements and accompanying notes, this report also represents certain required supplementary information concerning the City's progress in funding its obligations to provide pension benefits to its employees. Required supplemental information can be found on pages 81-84 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplemental information on pensions. Combining and individual fund statements and schedules can be found on pages 85-108 of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**Government-wide Financial Analysis**

The table below summarizes the statement of net assets:

**CITY OF MIAMI BEACH  
Net Assets  
(in thousands)**

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 288,434	\$ 253,829	\$ 224,128	\$ 228,934	\$ 512,562	\$ 482,763
Capital assets	320,814	370,310	345,753	316,529	666,567	686,839
Total assets	<u>609,248</u>	<u>624,139</u>	<u>569,881</u>	<u>545,463</u>	<u>1,179,129</u>	<u>1,169,602</u>
Long-term liabilities						
outstanding	328,310	321,086	178,467	182,438	506,777	503,524
Other liabilities	21,189	37,404	15,953	13,300	37,142	50,704
Total liabilities	<u>349,499</u>	<u>358,490</u>	<u>194,420</u>	<u>195,738</u>	<u>543,919</u>	<u>554,228</u>
Net assets:						
Invested in capital assets, net of related debt	158,235	177,688	256,118	230,925	414,353	408,613
Restricted	97,309	83,374	12,920	12,017	110,229	95,391
Unrestricted	4,205	4,587	106,423	106,783	110,628	111,370
	<u>\$ 259,749</u>	<u>\$ 265,649</u>	<u>\$ 375,461</u>	<u>\$ 349,725</u>	<u>\$ 635,210</u>	<u>\$ 615,374</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$635.2 million at September 30, 2005, an increase of \$19.8 million or 3.2% from the prior year.

By far the largest portion of the City's net assets, \$414.4 million or 65.2%, reflects its investment in capital assets (e.g., land, building, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. 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.

An additional portion of the City's net assets, \$110.2 million or 17.4% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$110.6 million or 17.4%, may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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The City's net assets increased by \$19.8 million or 3.2% during the current fiscal year. Governmental activities accounted for a net decrease of \$5.9 million or (29.7%) while Business-type accounted for a net increase for \$25.7 million or 129.7% of the increase.

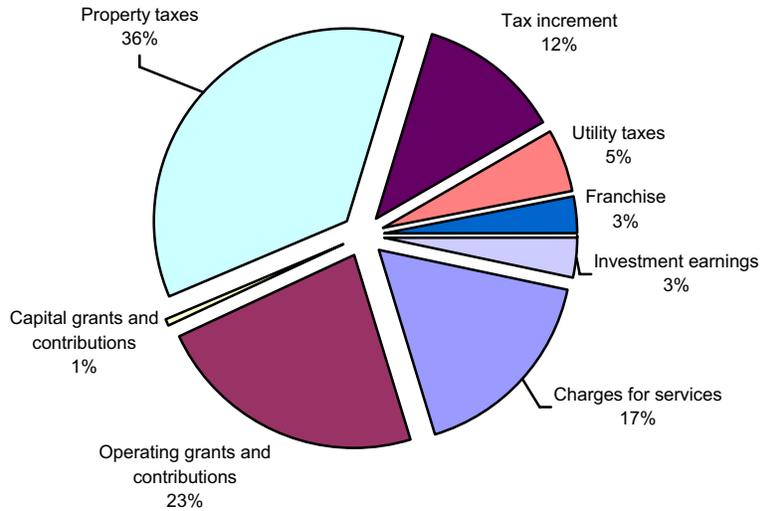
**Governmental activities.** Governmental activities decreased the City's net assets by \$5.9 million, thereby accounting for (29.7%) of the total growth in the net assets of the City.

Key elements of the net decrease are as follows:

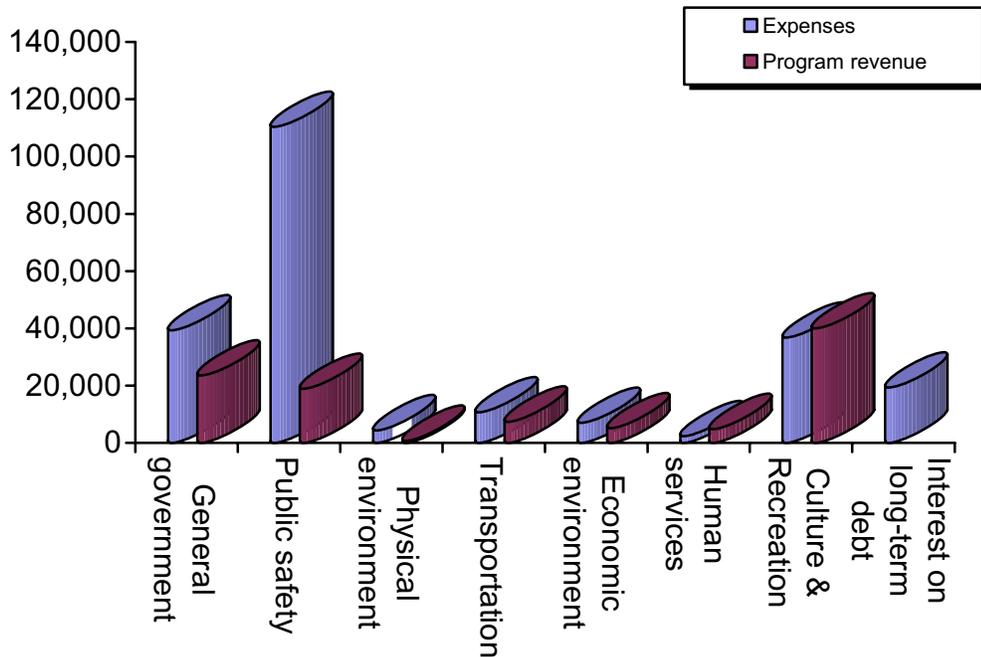
- The City's issued \$53 million of debt to refund \$42.1 million of Taxable Special Obligation Bonds. The refunding resulted in a net termination fee and bond costs of \$10.9 million.
- Property taxes collected for general purposes increased by \$10.7 million or 15.6% over the prior year. This was attributed to an increase in taxable property values from \$12.1 billion to \$14 billion, which includes \$348.9 million in new construction. The City's operating millage rate increased from 7.299 mills to 7.425 mills, while the debt service millage rate decreased from .874 mills to .748 mills.
- Operating grants and contributions increased by \$11.1 million or 25%. This resulted from an increase of \$3.4 million or 7.5% in intergovernmental revenue and \$4.7 million or 17.2% increase in resort taxes.
- During the fiscal year, the Loews Miami Beach Hotel exercised its option to buy the land underlying the Loews Miami Beach Hotel and the building from the City for \$27.9 million. The Royal Palm Hotel also purchased the land underlying the Royal Palm Hotel for \$12.5 million. Both hotels had previously leased the land from the City. The sales resulted in a combined loss of \$25.8 million to the governmental activities and a reduction of approximately \$3 million in land lease revenue.
- Total expenses for the governmental activities increased by \$26.8 million or 13.2%. Major components of the increase are as follows:
  - \$10.5 million or 39.2% from governmental activities.
  - \$9.9 million or 37% from public safety activities.
  - \$1.6 million or 6.1% from physical environment activities
  - \$2.9 million or 10.9% was from economic environment activities
  - \$1.9 million or 7.1% from interest on long-term debt.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**Revenue by Source – Governmental Activities  
for the year ended September 30, 2005 (in thousands)**



**Expenses and Program Revenues – Governmental Activities  
for the year ended September 30, 2005 (in thousands)**



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

The table below summarizes the changes in net assets - Governmental Activities

**CITY OF MIAMI BEACH  
Changes in Net Assets  
Governmental Activities  
for the fiscal year ended September 30,  
(in thousands)**

	2005	2004
Revenues:		
Program revenues:		
Charges for services	\$ 42,338	\$ 42,665
Operating grants and contributions	56,373	45,281
Capital grants and contributions	1,718	1,720
General revenues:		
Taxes:		
Property taxes, levied for general purposes	79,594	68,854
Property taxes, levied for debt services	10,059	10,211
Tax increment	29,815	31,352
Utility	12,785	12,436
Franchise fees	8,030	7,629
Miscellaneous	224	108
Unrestricted investment earnings	8,164	4,649
Total revenues	249,100	224,905
Expenses:		
General government	39,320	28,795
Public safety	110,402	100,473
Physical environment	4,378	2,740
Transportation	10,666	11,603
Economic environment	6,976	4,053
Human services	2,323	1,481
Culture and recreation	36,737	36,733
Interest on long-term debt	19,285	17,370
Total expenses	230,087	203,248
Increase in net assets before transfers	19,013	21,657
Transfers	926	4,422
Loss on sale of land and building	(25,839)	
(Decrease) increase in net assets	(5,900)	26,079
Net assets - beginning	265,649	239,570
Net assets - ending	\$ 259,749	\$ 265,649

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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**Business-type activities.** Business-type activities increased the City's net assets net assets by \$25.7 million, thereby accounting for 129.7% of the total growth in the net assets of the City.

Key elements of the net increase are as follows:

- The Stormwater fund had a change in net assets of \$6 million. Operating revenues increased .2% while operating expenses increased 22.3% from the prior year. Change in net assets increased by \$453,638 or 8.2% from the prior year. This increase was due to 4,530 new residential and commercial customers, which resulted in approximately \$315,300 in additional revenue.
- Water and Sewer fund had a change in net assets of \$11.6 million. Operating revenues increased 12.1% while operating expenses increased 7.7% from the prior year. Change in net assets increased by \$3.6 million or 45 % from the prior year. This was primarily due to a 2% increase in rates for both water and sewer, the number of residential and commercial properties in the City, and greater customer demands. Rates were \$2.54 for water and \$4.21 for sewer per 1,000 gallon for the fiscal year. Secondly, the Water and Sewer fund received a \$2.7 million payment from final settlement of cases regarding the citywide water and wastewater pump station upgrade project.
- Parking Systems fund had a change in net assets of \$8.7 million. Operating revenues increased 18.4%, while operating expenses increased 11.4% from the prior year. Change in net assets increased by \$6.8 million or 348.6% from the prior year. This resulted from the fact that in the prior fiscal year, the Parking Systems fund had non-operating expenses of \$4.9 million consisting of interest and fiscal charges of \$1.1 million and a loan reserve of \$3.8 million. In the current fiscal year, non-operating expenses totaled \$967,986, a decrease of \$3.9 million or 80%. In addition, the Parking Systems fund recorded a \$3.5 million one-time non-recurring lease revenue adjustment for straight-line revenue recognition provisions.
- Convention Center Fund had a change in net assets of (\$3 million). Operating revenues increased 23.8%, while operating expenses increased 12.8% from the prior year. Change in net assets decreased by \$14.3 million or 127.2% from the prior year. This resulted from the fact that in the prior fiscal year, the Convention Center Fund had non-operating revenues of \$15 million which included a capital contribution of \$15 million. In the current fiscal year, non-operating revenues totaled \$49,915, a decrease of \$15 million or 99.7%. In addition, the City received \$4.5 million in convention development taxes from Miami-Dade County.
- Other Enterprise Funds, which includes the Sanitation, RDA Parking and RDA leasing Funds, had a change in net assets of \$2.4 million. Operating revenues increased 32.4%, while operating expenses increased 20.9% from the prior year. Change in net assets increased by \$1.4 million or 127.9% from the prior year. This resulted from the fact that in the current fiscal year, the City received \$1.3 million in Federal Emergency Management Funding (FEMA) funding for Hurricane Katrina related expenses as compared to \$204,367 in the prior year. This was an increase of \$1.1 million or 534.5%.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

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The table below summarizes the changes in net assets - Business-type Activities

**CITY OF MIAMI BEACH  
Changes in Net Assets  
Business-type Activities  
for the fiscal year ended September 30,  
(in thousands)**

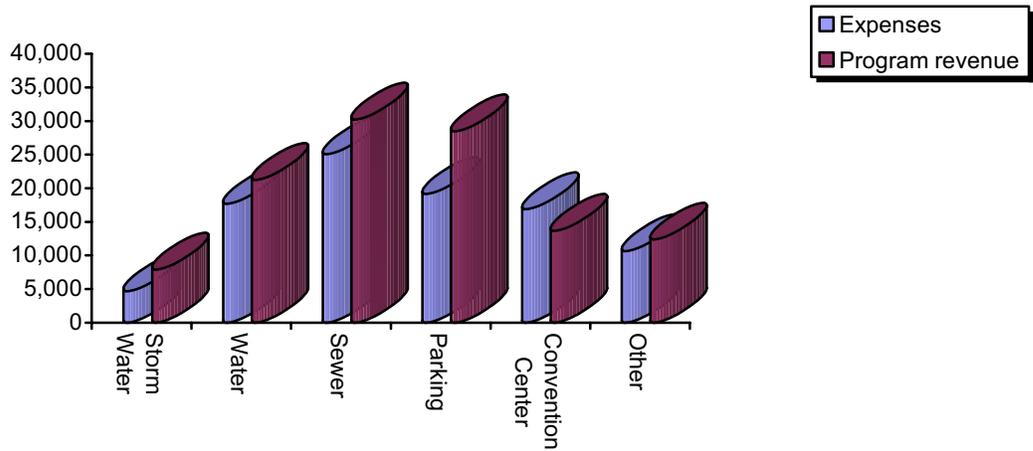
	2005	2004
Revenues:		
Program revenues:		
Charges for services	\$ 93,373	\$ 87,139
Operating grants and contributions	20,459	11,076
Capital grants and contributions		15,000
General revenues:		
Unrestricted investment earnings	6,896	6,345
Total revenues	120,728	119,560
Expenses:		
Storm water	4,666	4,891
Water	17,673	17,267
Sewer	25,075	23,855
Parking	19,147	17,460
Convention Center	16,886	15,023
Sanitation	8,934	7,047
Redevelopment Agency's Parking	1,567	1,698
Redevelopment Agency's Leasing	119	110
Total expenses	94,067	87,351
Increase in net assets before transfers	26,661	32,209
Transfers	(926)	(4,421)
Increase in net assets	25,735	27,788
Net assets - beginning	349,725	321,937
Net assets - ending	\$ 375,460	\$ 349,725

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

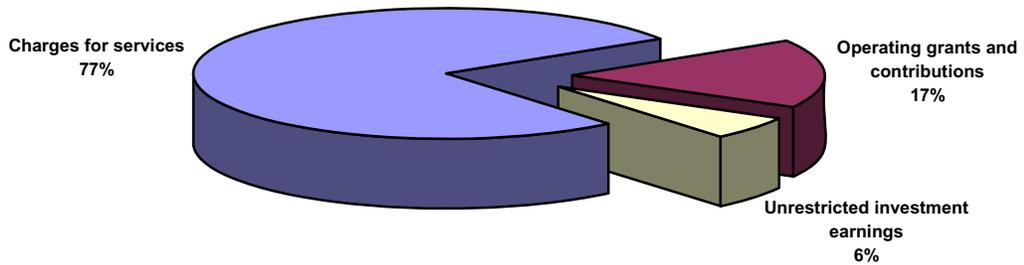
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The following chart shows a comparison of expenses to program revenues for business-type activities for fiscal year 2005:

**Expenses and Program Revenues – Business-type Activities  
for the year ended September 30, 2005 (in thousands)**



**Revenue by Source – Business-type Activities  
for the year ended September 30, 2005 (in thousands)**



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**Financial Analysis of the Governmental Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The table below summarizes the changes in the fund balances of the City's governmental funds.

**Governmental Funds**  
(in thousands)

	<u>General</u>	<u>Resort Tax</u>	<u>Miami Beach Redevelop- ment Agency</u>	<u>Capital Projects</u>	<u>Other Govern- mental Funds</u>	<u>Total Govern- mental Funds</u>
Fund balances						
Sep. 30, 2004	\$ 29,656	\$ 5,106	\$ 27,749	\$ 101,758	\$ 33,511	\$ 197,780
Revenues	154,006	33,499	31,946	4,454	25,178	249,083
Expenditures	(159,257)	(8,532)	(7,540)	(22,776)	(47,518)	(245,623)
Other financing sources (uses)	10,853	(20,303)	18,355	14,617	21,711	45,233
Fund balances						
Sept. 30, 2005	<u>\$ 35,258</u>	<u>\$ 9,770</u>	<u>\$ 70,510</u>	<u>\$ 98,053</u>	<u>\$ 32,882</u>	<u>\$ 246,473</u>

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

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$34.6 million, while total fund balance reached \$35.3 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to fund balance expenditures. Unreserved fund balance represents 20.6% of total general fund expenditures, while total fund balance represents 21% of the same amount.

The fund balance of the City's general fund increased by \$5.6 million during the current fiscal year. A key factor in this growth was the ability to maintain expenditures under budgeted amounts.

The resort tax fund accounts for the collection of special tax levied city-wide on food, beverage and room rents used to support tourist related activities. The fund balance of the resort tax fund increased by \$4.7 million from the prior fiscal year.

The Miami Beach Redevelopment Agency Special Revenue Fund accounts for the operations of the Miami Beach Redevelopment Agency, a tax increment district of the City. The Agency was established in 1976 under the provisions of Chapter 163 of the Florida Statutes to spur development and redevelopment in the South Shore and City Center/Historic Convention Village Redevelopment and Revitalization Area of the City. The fund balance of the Miami

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Beach Redevelopment Agency Special Revenue Fund increased by \$42.8 million from the prior fiscal year.

The City's general fund is required to adopt an annual budget prepared on a basis consistent with Generally Accepted Accounting Principles (GAAP). Surpluses from any prior fiscal years cannot be appropriated in future fiscal years.

The City's capital projects fund accounts for the funding of the City's capital program. The primary resources are obtained from the issuance of City debt.

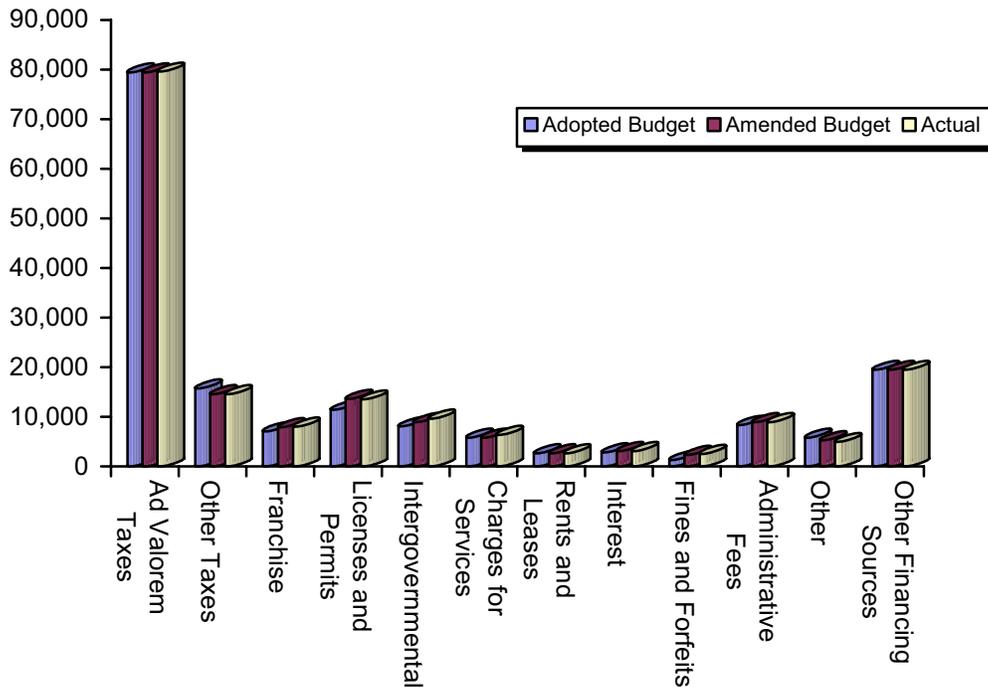
**Proprietary funds.** The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

The total growth in net assets for all enterprise funds was \$25.7 million. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

### General Fund Budgetary Highlights

The following information is presented to assist the reader in comparing the original budget (Adopted Budget), and the final amended budget (Amended Budget), and how actual results compared with these budgeted amounts. The Amended Budget can be modified subsequent to the end of the fiscal year.

**General Fund Revenues  
for the year ended September 30, 2005 (in thousands).**



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

The variance between the adopted budget and the amended budget for estimated revenues was approximately \$4 million dollars. This consisted of additional revenues of \$2.2 million from licenses & permits and \$1 million from fines & forfeits.

The variance between the adopted budget and the amended budget for appropriations was approximately \$4.2 million dollars, which mainly consisted \$3.7 million in increase appropriations for capital reserves and additional increases in funding for various Citywide departments.

**General Fund Revenues  
for the fiscal year ended September 30, 2005  
(in thousands)**

	Original Adopted Budget	Final Amended Budget	Actual
Taxes:			
Property	\$ 79,473	\$ 79,473	\$ 79,614
Sales, use, fuel	1,820	1,820	1,788
Utility	12,459	12,759	12,786
Other	1,440		
Taxes	95,192	94,052	94,188
Other than taxes:			
Franchise	7,110	7,910	8,030
Licenses and permits	11,446	13,646	13,530
Intergovernmental	8,099	8,939	9,645
Charges for services	5,811	5,811	6,368
Rents and leases	2,651	2,651	2,673
Interest income	2,837	3,137	3,121
Fines and forfeits	1,322	2,322	2,552
Administrative fees	8,383	8,936	8,952
Other	5,830	5,277	4,947
Other financing sources	19,489	19,489	19,492
Other than taxes	72,978	78,118	79,310
Total revenues	\$ 168,170	\$ 172,170	\$ 173,498

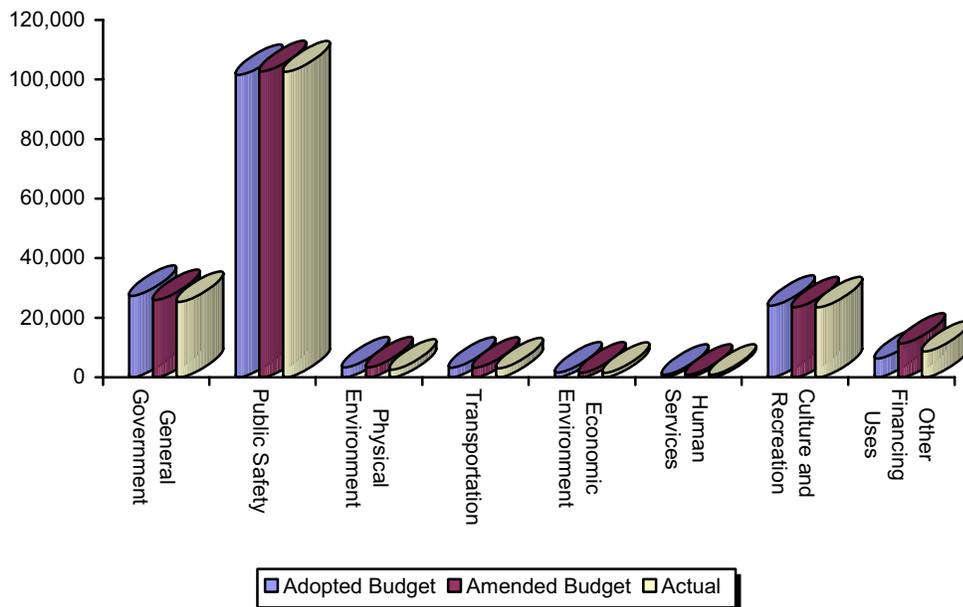
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**General Fund Expenditures  
for the fiscal year ended September 30, 2005  
(in thousands)**

	Original Adopted Budget	Final Amended Budget	Actual
General government	\$ 27,317	\$ 25,960	\$ 25,266
Public safety	101,510	102,758	102,657
Physical environment	3,278	3,278	2,529
Transportation	3,200	3,222	2,959
Economic environment	1,610	1,530	1,495
Human services	858	858	844
Culture and recreation	24,055	23,451	23,507
Other financing uses	6,342	11,291	8,639
<b>Total expenditure</b>	<b>\$ 168,170</b>	<b>\$ 172,348</b>	<b>\$ 167,896</b>

The following chart and table summarizes actual expenditures by function/program for fiscal year 2005 and compares expenditures with Adopted Budget, Amended Budget and Actual.

**General Fund Expenditures  
for the year ended September 30, 2005 (in thousands)**



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**Capital Assets and Debt Administration**

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities at September 30, 2005 amounts to \$666.7 (net of accumulated depreciation). This investment in capital assets includes land, buildings, water & sewer distribution, storm drainage systems, lighting systems, sidewalks, curbs, signage, equipment, street improvements, and parks, which are detailed as follows (net of accumulated depreciation):

	<b>Capital Assets</b> (in thousands)					
	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Land	\$ 45,453	\$ 77,404	\$ 23,602	\$ 22,510	\$ 69,055	\$ 99,914
Construction						
work-in-progress	165,815	149,952	156,260	121,980	322,075	271,932
Building & Structure	41,355	74,823	131,584	136,275	172,939	211,098
Permanent						
improvements	14,506	8,067	2,112	2,191	16,618	10,258
Furniture, Fixtures &						
Equipment	20,701	22,573	13,243	14,214	33,944	36,787
Infrastructure	32,984	37,491	18,952	19,359	51,936	56,850
<b>Total</b>	<b>\$ 320,814</b>	<b>\$ 370,310</b>	<b>\$ 345,753</b>	<b>\$ 316,529</b>	<b>\$ 666,567</b>	<b>\$ 686,839</b>

The City has developed various capital improvement programs to improve the quality of life of its residents. Major projects include citywide water, wastewater and storm water improvements, streetscape enhancements and improvements to parks, beaches, and fire stations. Major capital asset events in progress during the current fiscal year included the following:

- Renovations to Lummus Park located in South Beach. The overall Lummus Park Facilities Project was comprised of the widening of the existing 5' wide sidewalks to 10' wide along Ocean Drive from 5th Street to 14th Lane, concrete and paved plazas, curb and gutter replacement, irrigation, landscaping, utility relocation and adjustment, installation of Master Meter slabs, bike racks, trash receptacles, and benches, demolition of the existing restroom facility located at 1401 Ocean Drive, and construction of a new restroom at that same site.
- Renovations to the Normandy Isle Park and Pool entailing renovations to the 3.6 acre park including: new pool facility and locker rooms; new recreation center; shade pavilions; field renovations; multi-purpose court; gated park entries; promenade; court, field, and security lighting; new tot lot; furnishings; signage; landscaping; and irrigation.
- Improvements to the North Shore Park and Youth Center encompassing the renovation of the 17.22 acre park including: new recreation center; new tennis center; community center; tennis court replacement; new basketball and shuffleboard courts; new ball field and dugouts; new park entries; security lighting; new playground equipment; signs; furnishings; fencing; landscaping; and irrigation.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

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- Improvements to the North Shore Open Space Park and Nature Center entailing the renovation of the 34.61 acre passive park including: restroom renovations; renovation of existing shade pavilions, concession restoration; new tot lot; construction of the combined Miami-Dade County and City of Miami Beach Parks and Recreation Maintenance Facility; construction of new recreation and interpretive nature center; and the renovation of the south parking lot.
- Construction of the South Pointe Streetscape, a five phase improvement that is the first substantial upgrade to the area's water, sewer, roadway, signalization, street lighting, irrigation and landscaping. It will advance the quality of residential life by refurbishing the sewer and drainage systems, promoting safe pedestrian travel, increasing the urban tree canopy, and mitigating vehicle congestion.
- Renovations to Fire Station No. 2, located in Middle Beach, consisting of: the construction of a new three bay Fire Station, living quarters, and the City's Emergency Operations Center; and historic restoration of the existing Fire Station Building for use as Fire Department Administrative Offices.
- Renovations to Fire Station No. 4, located in North Beach, consisting of: a new two story structure with three bays; living quarters; and new docks and seawalls.
- Improvements to the Scott Rakow Youth Center, located in Middle Beach, consisting of a new office, lobby, renovation of existing pool, addition of a new play yard and renovating the parking facilities.
- Renovations to the Central Bayshore Right-of-Way Improvement project which include a variety of streetscape, water and Stormwater upgrades.
- Construction of Miami Beach Convention Center ADA improvements to include: restroom, door, and box office improvements.
- Construction of the Washington Avenue Master Plan to include streetscape improvements along Washington Avenue. Improvements include sidewalks; curb and gutter; sidewalk lighting; landscaping; median planting; irrigation and median design elements; water line replacements, upgrades; and drainage upgrades.
- Construction of the Macarthur Causeway New 20-Inch Water Main & Terminal Island Water Booster Pump Station.
- Construction of the West Avenue/Bay Road streetscape project, located in South Beach, entailing area-wide street improvements including: street resurfacing; swale restoration; repair of sidewalks; street lighting upgrades; and enhanced landscaping.
- Structural and Electrical Repairs to Citywide Parking Garages.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

- On December 2, 2004, the Loews Hotel exercised the Purchase Option as provided in Section 36.2(b)(iii) of the Ground Lease to acquire the land underlying the Loews Miami Beach Hotel, the land improvements and the building. These assets were sold for \$27,498,974, net of \$384,813 closing costs. The land and the land improvements had a cost of \$21,748,105 and \$2,508,051, respectively, with the land improvements having an accumulated depreciation of \$292,606. The building had a cost of \$34,840,724 with an accumulated depreciation of \$3,484,074. This sale resulted in a loss, for government-wide purpose, of \$27,821,226.
- In addition, on February 16, 2005, the Agency sold to the Royal Palm Hotel Property, LLC the land and land improvements underlying the Royal Palm Hotel. These assets were sold for \$12,399,128, net of \$131,572 closing costs. The land had a cost of \$10,202,267, and the land improvements had cost of \$234,501 with an accumulated depreciation of \$19,544. This sale resulted in a gain, for government-wide purpose, of \$1,981,904.

Additional information on the City's capital assets can be found in Note C to the financial statements.

**Long-term Debt**

At the end of the current fiscal year, the City had a total bonded debt, loans and other long-term debt of \$467.1million. Governmental activities debt increased by \$5.3 million or 1.8% while business-type activities debt decreased by \$5.1 million or 2.9%.

During the year, the City issued \$53 million of debt to refund \$42.1 million of Taxable Special Obligation Bonds. The refunding involved exercising a ten-year interest rate swaption agreement for the Series 1994 Taxable Pension Special Obligations bonds. The swaption was exercised by the holder and the City sold its position in the swap through competitive bid for \$9.9 million. This amount was financed as part of the Taxable Special Obligation Bonds.

In addition, the City drew the remaining \$2 million on the Section 108 U.S. Housing and Urban Development loan and \$5.2 million on a loan agreement to purchase machinery and equipment.

**CITY OF MIAMI BEACH'S Outstanding Debt  
General Obligation, Special Obligation, Revenue Bonds and Loans  
(in thousands)**

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation	\$ 87,500	\$ 93,475	\$	\$	\$ 87,500	\$ 93,475
Special obligation	191,907	182,516			191,907	182,516
Revenue bonds			170,763	175,829	170,763	175,829
Loans	12,295	11,629	561	622	12,856	12,251
Other debt	4,089	2,909			4,089	2,909
<b>Total</b>	<b>\$ 295,791</b>	<b>\$ 290,529</b>	<b>\$ 171,324</b>	<b>\$ 176,451</b>	<b>\$ 467,115</b>	<b>\$ 466,980</b>

Additional information on the City's long-term debt can be found in Note G to the financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

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**Requests for Information**

This financial report is designed to provide a general overview of the City of Miami Beach's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to The City of Miami Beach, Finance Department, 1700 Convention Center Drive, Miami Beach, Florida 33139.



MIAMI BEACH

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**CITY OF MIAMI BEACH, FLORIDA**  
**STATEMENT OF NET ASSETS**  
**September 30, 2005**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and investments	\$ 270,869,489	\$ 54,958,869	\$ 325,828,358	\$ 2,985,665
Cash with fiscal agent	100,000		100,000	
Inventories at cost	387,673	1,766,202	2,153,875	
Receivables (net)	10,539,233	15,776,166	26,315,399	147,590
Due from other governments	1,586,107	1,361,801	2,947,908	
Internal balances	(358,295)	358,295		
Prepaid expenses	1,743,579	195,564	1,939,143	
Restricted cash and investments		146,952,398	146,952,398	
Deferred charges	3,565,902	2,759,190	6,325,092	
Capital assets not being depreciated:				
Land	45,453,400	23,601,927	69,055,327	
Construction in progress	165,814,718	156,259,758	322,074,476	
Capital assets net of accumulated depreciation:				
Buildings and structures	41,355,145	131,584,621	172,939,766	
Permanent improvements	14,504,154	2,111,206	16,615,360	
Machinery and equipment	20,703,264	13,242,652	33,945,916	3,507
Infrastructure	32,983,311	18,952,347	51,935,658	
Total assets	<u>609,247,680</u>	<u>569,880,996</u>	<u>1,179,128,676</u>	<u>3,136,762</u>
<b>LIABILITIES</b>				
Accounts payable	9,955,044	10,463,057	20,418,101	1,500
Accrued expenses	4,768,486	2,543,541	7,312,027	281,213
Accrued interest payable	2,918,593		2,918,593	
Unearned revenues	3,546,216	649,890	4,196,106	
Due to other governments		2,296,978	2,296,978	
Noncurrent liabilities:				
Due within one year	24,275,680	5,590,592	29,866,272	
Due in more than one year	304,034,334	172,876,523	476,910,857	
Total liabilities	<u>349,498,353</u>	<u>194,420,581</u>	<u>543,918,934</u>	<u>282,713</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	158,234,524	256,118,268	414,352,792	3,507
Restricted for:				
Debt Service	10,111,592	12,919,888	23,031,480	
Capital improvements	21,960,925		21,960,925	
Economic development	40,970,727		40,970,727	
Transportation	15,478,862		15,478,862	
Other purposes	8,787,720		8,787,720	
Unrestricted	4,204,977	106,422,259	110,627,236	2,850,542
Total net assets	<u>\$ 259,749,327</u>	<u>\$ 375,460,415</u>	<u>\$ 635,209,742</u>	<u>\$ 2,854,049</u>

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

**CITY OF MIAMI BEACH, FLORIDA**  
**STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended September 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 39,320,007	\$ 17,266,876	\$ 6,259,684	\$	\$ (15,793,447)	\$	\$ (15,793,447)	\$
Public safety	110,402,334	18,255,615	581,295	68,340	(91,497,084)		(91,497,084)	
Physical environment	4,377,740		278,960	443,815	(3,654,965)		(3,654,965)	
Transportation	10,665,897	965,609	6,240,176	163,822	(3,296,290)		(3,296,290)	
Economic environment	6,975,706	317,618	4,816,918	2,775	(1,838,395)		(1,838,395)	
Human services	2,323,536		4,820,596		2,497,060		2,497,060	
Culture and recreation	36,736,715	5,532,048	33,375,356	1,039,897	3,210,586		3,210,586	
Interest on long-term debt	19,284,911				(19,284,911)		(19,284,911)	
Total governmental activities	<u>230,086,846</u>	<u>42,337,766</u>	<u>56,372,985</u>	<u>1,718,649</u>	<u>(129,657,446)</u>		<u>(129,657,446)</u>	
Business-type activities:								
Storm Water	4,665,458	7,872,251	1,975			3,208,768	3,208,768	
Water	17,672,606	20,014,509	1,210,422			3,552,325	3,552,325	
Sewer	25,074,612	28,597,701	1,640,886			5,163,975	5,163,975	
Parking	19,147,189	21,107,793	7,348,942			9,309,546	9,309,546	
Convention Center	16,885,954	8,330,757	5,344,599			(3,210,598)	(3,210,598)	
Sanitation	8,933,591	4,907,938	4,774,675			749,022	749,022	
Redevelopment Agency's Parking	1,567,387	1,898,534	77,375			408,522	408,522	
Redevelopment Agency's Leasing	119,421	643,213	60,410			584,202	584,202	
Total business-type activities	<u>94,066,218</u>	<u>93,372,696</u>	<u>20,459,284</u>			<u>19,765,762</u>	<u>19,765,762</u>	
Total primary government	<u>\$ 324,153,064</u>	<u>\$ 135,710,462</u>	<u>\$ 76,832,269</u>	<u>\$ 1,718,649</u>	<u>(129,657,446)</u>	<u>19,765,762</u>	<u>(109,891,684)</u>	
<b>Component units:</b>								
Visitor and Convention Health Facilities	\$ 1,196,382	\$	\$ 56,313	\$				(1,140,069)
Health Facilities	4,280							(4,280)
Total component units	<u>\$ 1,200,662</u>	<u>\$</u>	<u>\$ 56,313</u>	<u>\$</u>				<u>(1,144,349)</u>
<b>General revenues:</b>								
Taxes:								
Property taxes, levied for general purposes					79,594,151		79,594,151	
Property taxes, levied for debt service					10,059,170		10,059,170	
Tax increment					29,814,708		29,814,708	
Utility					12,785,676		12,785,676	
Franchise					8,029,982		8,029,982	
Miscellaneous					224,200		224,200	1,345,568
Loss on sale of land and building					(25,839,322)		(25,839,322)	
Unrestricted investment earnings					8,163,573	6,895,744	15,059,317	7,054
Transfers					925,797	(925,797)		
Total general revenues and transfers					<u>123,757,935</u>	<u>5,969,947</u>	<u>129,727,882</u>	<u>1,352,622</u>
Change in net assets					(5,899,511)	25,735,709	19,836,198	208,273
Net assets - beginning					265,648,838	349,724,706	615,373,544	2,645,776
Net assets - ending					<u>\$ 259,749,327</u>	<u>\$ 375,460,415</u>	<u>\$ 635,209,742</u>	<u>\$ 2,854,049</u>

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

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2005**

	General	Resort Tax	Miami Beach Redevelopment Agency	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and investments	\$ 33,486,646	\$ 8,800,528	\$ 72,009,601	\$ 102,311,258	\$ 34,366,304	\$ 250,974,337
Receivables (net of allowance for uncollectibles)	5,570,705	2,199,471		37,964	845,587	8,653,727
Accrued interest	1,116,187		312,207	409,196	18,089	1,855,679
Due from other funds	3,116,822		314,208		319,779	3,750,809
Due from other governments	167,656			1,276,327	122,471	1,566,454
Inventories				31,297		31,297
Prepaid expenditures			601,254		166,097	767,351
Total assets	<u>\$ 43,458,016</u>	<u>\$ 10,999,999</u>	<u>\$ 73,237,270</u>	<u>\$ 104,066,042</u>	<u>\$ 35,838,327</u>	<u>\$ 267,599,654</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 1,179,302	\$ 127,348	\$ 156,006	\$ 5,101,331	\$ 2,509,186	\$ 9,073,173
Accrued expenditures	3,363,628	400,247	229,116	34,337	161,057	4,188,385
Deferred revenues	3,334,086			270,000	93,484	3,697,570
Due to other funds	322,988	702,673	2,342,772	607,088	191,727	4,167,248
Total liabilities	<u>8,200,004</u>	<u>1,230,268</u>	<u>2,727,894</u>	<u>6,012,756</u>	<u>2,955,454</u>	<u>21,126,376</u>
Fund balances:						
Reserved for:						
Encumbrances	610,236	367,558	121,425	21,253,795	2,604,954	24,957,968
Debt service					5,770,553	5,770,553
Inventories				31,297		31,297
Prepaid			601,254		166,097	767,351
Unreserved:						
Designated for contingencies	18,607,574					18,607,574
Undesignated:						
General	16,040,202					16,040,202
Special Revenue		9,402,173	69,786,697		24,341,269	103,530,139
Capital Projects				76,768,194		76,768,194
Total fund balances	<u>35,258,012</u>	<u>9,769,731</u>	<u>70,509,376</u>	<u>98,053,286</u>	<u>32,882,873</u>	<u>246,473,278</u>
Total liabilities and fund balances	<u>\$ 43,458,016</u>	<u>\$ 10,999,999</u>	<u>\$ 73,237,270</u>	<u>\$ 104,066,042</u>	<u>\$ 35,838,327</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 299,526,959

Internal service funds are used by management to charge the costs of fleet management, property management, central services, self insurance, and communications to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 9,585,940

Other liabilities are not due and payable in the current period and therefore are not reported in the funds. (2,767,239)

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

Bonds payable	(279,406,524)	
Other long-term liabilities	(17,228,989)	
Deferred charges for bond issuance costs	3,565,902	<u>(293,069,611)</u>

Net assets of governmental activities (page 29) \$ 259,749,327

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

**CITY OF MIAMI BEACH, FLORIDA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended September 30, 2005**

	General	Resort Tax	Miami Beach Redevelopment Agency	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes:						
Property	\$ 79,613,636				\$ 10,059,170	\$ 89,672,806
Sales, use and fuel taxes	1,787,769				2,670,859	4,458,628
Utility	12,785,676					12,785,676
Resort		32,112,039				32,112,039
Franchise fees	8,029,982					8,029,982
Licenses and permits	13,529,531					13,529,531
Intergovernmental	9,644,536		29,814,708	2,098,280	7,446,472	49,003,996
Charges for services	6,368,454				1,271,663	7,640,117
Rents and leases	2,673,388		275,086			2,948,474
Interest	3,121,623	171,353	1,748,260	2,207,646	730,727	7,979,609
Fines and forfeitures	2,552,152				331,251	2,883,403
Administrative fees	8,951,878					8,951,878
Other	4,947,500	1,215,936	108,309	148,574	2,667,380	9,087,699
<b>Total revenues</b>	<b>154,006,125</b>	<b>33,499,328</b>	<b>31,946,363</b>	<b>4,454,500</b>	<b>25,177,522</b>	<b>249,083,838</b>
<b>EXPENDITURES</b>						
Current:						
General government	25,289,507	792,572		220,156	62,121	26,364,356
Public safety	102,657,367		3,228,808	3,296,805	2,336,805	111,519,785
Physical environment	2,529,500			3,182,865		5,712,365
Transportation	2,958,727			3,445,895	4,341,665	10,746,287
Economic environment	1,494,684	1,214,786	4,311,565	2,850,079	3,614,387	13,485,501
Human services	843,925				1,455,504	2,299,429
Culture and recreation	21,709,290	6,524,268		9,780,513	3,611,790	41,625,861
Debt service:						
Principal retirement	963,261				12,869,732	13,832,993
Interest and fiscal charges	810,748				19,225,653	20,036,401
<b>Total expenditures</b>	<b>159,257,009</b>	<b>8,531,626</b>	<b>7,540,373</b>	<b>22,776,313</b>	<b>47,517,657</b>	<b>245,622,978</b>
Excess (deficiency) of revenues over (under) expenditures	(5,250,884)	24,967,702	24,405,990	(18,321,813)	(22,340,135)	3,460,860
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	19,478,609	4,843,534	5,217,862	14,462,679	22,681,169	66,683,853
Transfers out	(8,639,018)	(25,147,262)	(26,761,246)	(1,676,753)	(1,941,008)	(64,165,287)
Refunding bonds issued					135,726,047	135,726,047
Payment to refunding bond escrow agent					(137,712,609)	(137,712,609)
Loan proceeds					2,957,930	2,957,930
Sale of capital assets	13,012			1,831,501		1,844,513
Proceeds from sale of land and building			39,898,102			39,898,102
<b>Total other financing sources (uses)</b>	<b>10,852,603</b>	<b>(20,303,728)</b>	<b>18,354,718</b>	<b>14,617,427</b>	<b>21,711,529</b>	<b>45,232,549</b>
<b>Net change in fund balances</b>	<b>5,601,719</b>	<b>4,663,974</b>	<b>42,760,708</b>	<b>(3,704,386)</b>	<b>(628,606)</b>	<b>48,693,409</b>
Fund balances - beginning of year	29,656,293	5,105,757	27,748,668	101,757,672	33,511,479	197,779,869
<b>Fund balances - end of year</b>	<b>\$ 35,258,012</b>	<b>\$ 9,769,731</b>	<b>\$ 70,509,376</b>	<b>\$ 98,053,286</b>	<b>\$ 32,882,873</b>	<b>\$ 246,473,278</b>

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

**CITY OF MIAMI BEACH, FLORIDA  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

**For the Year Ended September 30, 2005**

Amounts reported for governmental activities in the statement of activities (page 30) are different because:

Net change in fund balances - total governmental funds (page 32)	\$ 48,693,409
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciated expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(48,330,030)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(689,034)
The issuance of long-term debt (e.g. bonds, loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations is an expenditure in the governmental funds. Neither transaction, however, 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. The statement of net assets has been adjusted for these transactions as follows:	
Repayments:	
Principal - debt service	13,832,993
Principal - debt service refunded	117,330,000
Reduction in due to developer	10,045
Issuance of new bonds	(133,800,000)
Cost of issuance	2,813,009
Increase in loans payable	(1,958,000)
Increase in due to developer	(136,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds and are included in the governmental activities section of the statement of net assets.	1,216,825
Internal funds are used by management to charge the costs of fleet management, property management, central services, self insurance, and communications to individual funds.	(4,882,728)
Change in net assets of governmental activities (page 30)	<u>\$ (5,899,511)</u>

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



MIAMI BEACH

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**CITY OF MIAMI BEACH, FLORIDA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**September 30, 2005**

	Storm Water Utility Fund	Water and Sewer Fund	Parking System Fund	Convention Center Complex Fund	Other Enterprise Funds	Totals	Governmental Activities- Internal Service Funds
<b>ASSETS</b>							
<b>Current assets:</b>							
Cash and investments	\$ 6,750,074	\$ 1,600,685	\$ 33,310,482	\$ 3,748,918	\$ 9,548,710	\$ 54,958,869	\$ 19,895,152
Cash with fiscal agent							100,000
<b>Restricted cash and investments:</b>							
Revenue bonds covenant	995,000	2,875,000	1,443,400			5,313,400	
Inventories at cost		1,766,202				1,766,202	356,376
Accounts receivable (net of allowance for uncollectibles)	1,169,807	8,131,909	3,751,243	863,016	1,355,487	15,271,462	29,827
Accrued interest receivable	271,757	232,947				504,704	
Due from other governments	1,303	17,034	46,870		1,296,594	1,361,801	19,653
Due from other funds			2,500		357,486	359,986	58,144
Prepaid expenses				56,072	139,492	195,564	976,228
<b>Total current assets</b>	<b>9,187,941</b>	<b>14,623,777</b>	<b>38,554,495</b>	<b>4,668,006</b>	<b>12,697,769</b>	<b>79,731,988</b>	<b>21,435,380</b>
<b>Noncurrent assets:</b>							
<b>Restricted cash and investments:</b>							
Customer deposits		6,330,781	51,780	1,881,160	63,254	8,326,975	
Interlocal agreement				15,594,017		15,594,017	
Revenue bonds covenant	51,833,995	49,232,952	16,651,059			117,718,006	
Deferred charges	631,410	1,217,133	910,647			2,759,190	
<b>Capital assets:</b>							
Land		1,492,598	16,610,997	2,089,371	3,408,961	23,601,927	608,520
Buildings and structures	556,939	7,292,177	25,602,985	154,374,958	13,397,987	201,225,046	2,020,545
Parking lots			4,069,504			4,069,504	
Mains and lines		39,450,266				39,450,266	
Meters and hydrants		10,100,250	2,680,094			12,780,344	
Machinery and equipment	1,165,833	14,787,954	2,090,626	6,843,928	2,038,184	26,926,525	56,346,619
Construction in progress	16,750,794	99,501,653	19,286,248	20,419,807	301,256	156,259,758	1,949,714
Less accumulated depreciation	(640,166)	(39,345,593)	(18,058,916)	(56,304,121)	(4,212,063)	(118,560,859)	(39,638,365)
<b>Total capital assets (net of accumulated depreciation)</b>	<b>17,833,400</b>	<b>133,279,305</b>	<b>52,281,538</b>	<b>127,423,943</b>	<b>14,934,325</b>	<b>345,752,511</b>	<b>21,287,033</b>
<b>Total assets</b>	<b>79,486,746</b>	<b>204,683,948</b>	<b>108,449,519</b>	<b>149,567,126</b>	<b>27,695,348</b>	<b>569,882,687</b>	<b>42,722,413</b>
<b>LIABILITIES</b>							
<b>Current liabilities:</b>							
Accounts payable	1,923,834	4,373,279	1,595,865	975,607	1,594,472	10,463,057	881,871
Accrued expenses	241,518	633,071	453,973	820,419	394,560	2,543,541	580,101
Due to other funds					1,691	1,691	
Due to other governments	305,236	1,934,073		57,669		2,296,978	
Current portion of loans payable					151,310	151,310	1,900,500
Accrued compensated absences	42,540	32,389	95,519	30,113	45,773	246,334	191,140
Deferred revenues			438,009	211,881		649,890	
<b>Total current liabilities</b>	<b>2,513,128</b>	<b>6,972,812</b>	<b>2,583,366</b>	<b>2,095,689</b>	<b>2,187,806</b>	<b>16,352,801</b>	<b>3,553,612</b>
<b>Liabilities payable from restricted assets:</b>							
Current portion of bonds payable	995,000	2,875,000	1,443,400			5,313,400	
Deposits		6,330,781	51,780	1,881,160	63,254	8,326,975	
<b>Total liabilities payable from restricted assets</b>	<b>995,000</b>	<b>9,205,781</b>	<b>1,495,180</b>	<b>1,881,160</b>	<b>63,254</b>	<b>13,640,375</b>	
<b>Noncurrent liabilities:</b>							
Pending insurance claims							8,155,969
Insurance claims incurred but not reported							10,131,731
Accrued compensated absences	85,633	284,778	261,838		238,882	871,131	900,356
Loans payable					409,501	409,501	10,394,805
Revenue bonds payable (net of unamortized discounts)	47,053,558	87,001,259	29,093,647			163,148,464	
<b>Total noncurrent liabilities</b>	<b>47,139,191</b>	<b>87,286,037</b>	<b>29,355,485</b>		<b>648,383</b>	<b>164,429,096</b>	<b>29,582,861</b>
<b>Total liabilities</b>	<b>50,647,319</b>	<b>103,464,630</b>	<b>33,434,031</b>	<b>3,976,849</b>	<b>2,899,443</b>	<b>194,422,272</b>	<b>33,136,473</b>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	9,610,979	77,175,337	27,534,495	127,423,943	14,373,514	256,118,268	8,991,728
Restricted	3,572,213	4,763,692	4,583,983			12,919,888	
Unrestricted	15,656,235	19,280,289	42,897,010	18,166,334	10,422,391	106,422,259	594,212
<b>Total net assets</b>	<b>\$ 28,839,427</b>	<b>\$ 101,219,318</b>	<b>\$ 75,015,488</b>	<b>\$ 145,590,277</b>	<b>\$ 24,795,905</b>	<b>\$ 375,460,415</b>	<b>\$ 9,585,940</b>

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

**CITY OF MIAMI BEACH, FLORIDA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Fiscal Year Ended September 30, 2005**

	Storm Water Utility Fund	Water and Sewer Fund	Parking System Fund	Convention Center Complex Fund	Other Enterprise Funds	Totals	Governmental Activities- Internal Service Funds
<b>Operating revenues:</b>							
Charges for services	\$ 7,872,251	\$ 48,589,021	\$ 21,107,793	\$ 8,330,757	\$ 7,449,685	\$ 93,349,507	\$ 37,870,651
Permits, rentals, and other	1,693	2,851,308	7,318,664	5,344,599	4,901,536	20,417,800	148,721
<b>Total operating revenues</b>	<b>7,873,944</b>	<b>51,440,329</b>	<b>28,426,457</b>	<b>13,675,356</b>	<b>12,351,221</b>	<b>113,767,307</b>	<b>38,019,372</b>
<b>Operating expenses:</b>							
Personal services	1,203,077	5,178,198	5,765,775	5,178,090	3,263,834	20,588,974	8,541,228
Operating supplies	134,923	1,211,864	818,389	840,087	1,816,650	4,821,913	8,486,881
Contractual services	477,792	25,414,588	5,221,870	2,478,725	3,030,739	36,623,714	5,350,021
Utilities	6,913	518,923	535,822	1,957,341	38,060	3,057,059	1,824,952
Insurance				162,237		162,237	2,917,788
Internal charges	411,305	3,019,615	1,849,986	1,248,675	992,908	7,522,489	2,242,744
Depreciation	115,786	1,742,679	1,217,687	4,164,109	687,116	7,927,377	5,018,552
Administrative fees	264,500	3,062,800	2,433,400	740,600	264,500	6,765,800	965,431
Amortization	47,514	156,582	161,015			365,111	
Claims and judgements							6,898,945
Other operating	17,204	283,642			425,424	726,270	
<b>Total operating expenses</b>	<b>2,679,014</b>	<b>40,588,891</b>	<b>18,003,944</b>	<b>16,769,864</b>	<b>10,519,231</b>	<b>88,560,944</b>	<b>42,246,542</b>
<b>Operating income (loss)</b>	<b>5,194,930</b>	<b>10,851,438</b>	<b>10,422,513</b>	<b>(3,094,508)</b>	<b>1,831,990</b>	<b>25,206,363</b>	<b>(4,227,170)</b>
<b>Nonoperating revenues</b>							
(expenses):							
Interest and fiscal charges	(1,947,127)	(1,871,067)	(967,986)		(5,522)	(4,791,702)	(240,890)
Gain on sale of capital assets	282	23,189	30,278		10,924	64,673	97,631
Interest income	3,092,706	2,664,387	1,023,275	49,915	65,461	6,895,744	183,964
<b>Total nonoperating revenues</b>							
(expenses)	1,145,861	816,509	85,567	49,915	70,863	2,168,715	40,705
<b>Income (loss) before</b>							
contributions and transfers	6,340,791	11,667,947	10,508,080	(3,044,593)	1,902,853	27,375,078	(4,186,465)
Capital contributions	57,334	(57,334)	20,334		10,649	30,983	151,951
Transfers in					531,542	531,542	
Transfers out	(386,700)		(1,809,458)		(5,736)	(2,201,894)	(848,214)
<b>Change in net assets</b>	<b>6,011,425</b>	<b>11,610,613</b>	<b>8,718,956</b>	<b>(3,044,593)</b>	<b>2,439,308</b>	<b>25,735,709</b>	<b>(4,882,728)</b>
<b>Total net assets - beginning</b>	<b>22,828,002</b>	<b>89,608,705</b>	<b>66,296,532</b>	<b>148,634,870</b>	<b>22,356,597</b>	<b>349,724,706</b>	<b>14,468,668</b>
<b>Total net assets - ending</b>	<b>\$ 28,839,427</b>	<b>\$ 101,219,318</b>	<b>\$ 75,015,488</b>	<b>\$ 145,590,277</b>	<b>\$ 24,795,905</b>	<b>\$ 375,460,415</b>	<b>\$ 9,585,940</b>

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

**CITY OF MIAMI BEACH, FLORIDA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Fiscal Year Ended September 30, 2005

	<u>Storm Water Utility Fund</u>	<u>Water and Sewer Fund</u>	<u>Parking System Fund</u>	<u>Convention Center Complex Fund</u>	<u>Other Enterprise Funds</u>	<u>Totals</u>	<u>Governmental Activities- Internal Service Funds</u>
Cash flows from operating activities:							
Cash received from customers	\$ 7,694,697	\$ 47,821,198	\$ 17,959,877	\$ 8,259,779	\$ 6,611,349	\$ 88,346,900	\$ 37,826,911
Cash paid to suppliers	(1,264,352)	(27,683,938)	(5,314,910)	(6,215,111)	(3,813,976)	(44,292,287)	(18,131,245)
Cash paid to employees	(1,156,616)	(5,162,601)	(5,611,796)	(5,101,251)	(3,224,439)	(20,256,703)	(8,345,644)
Cash paid for claims and judgements							(4,944,020)
Internal charges-payments made to other funds	(675,805)	(6,082,415)	(4,283,386)	(1,323,275)	(1,257,408)	(13,622,289)	(3,208,175)
Miscellaneous revenues	23,690	2,857,573	7,318,664	5,344,599	3,671,523	19,216,049	155,078
Net cash provided by operating activities	<u>4,621,614</u>	<u>11,749,817</u>	<u>10,068,449</u>	<u>964,741</u>	<u>1,987,049</u>	<u>29,391,670</u>	<u>3,352,905</u>
Cash flows for non-capital financing activities:							
Loans proceeds							5,117,645
Loan payable					77,092	77,092	
Repayment of loan					(137,830)	(137,830)	(1,361,500)
Transfers in					531,542	531,542	
Transfers out	(386,700)		(1,809,458)		(5,736)	(2,201,894)	(848,214)
Net cash provided by (used in) non-capital financing activities	<u>(386,700)</u>		<u>(1,809,458)</u>		<u>465,068</u>	<u>(1,731,090)</u>	<u>2,907,931</u>
Cash flows from capital and related financing activities:							
Interest and fiscal charges	(1,936,890)	(1,882,691)	(973,166)		(14,899)	(4,807,646)	(209,963)
Bond payments-principal	(950,000)	(2,735,000)	(1,380,276)			(5,065,276)	
Purchase of capital assets	(6,357,940)	(18,406,395)	(6,091,803)	(4,691,286)	(330,575)	(35,877,999)	(6,631,986)
Proceeds from sale of capital assets	10,427	23,189	30,278		10,924	74,818	(60,530)
Net cash provided by (used in) capital and related financing activities	<u>(9,234,403)</u>	<u>(23,000,897)</u>	<u>(8,414,967)</u>	<u>(4,691,286)</u>	<u>(334,550)</u>	<u>(45,676,103)</u>	<u>(6,902,479)</u>
Cash flows from investing activities:							
Interest on investments	3,102,751	2,735,901	1,023,275	49,915	65,461	6,977,303	183,964
Net cash provided by investing activities	<u>3,102,751</u>	<u>2,735,901</u>	<u>1,023,275</u>	<u>49,915</u>	<u>65,461</u>	<u>6,977,303</u>	<u>183,964</u>
Net increase (decrease) in cash and equivalents	(1,896,738)	(8,515,179)	867,299	(3,676,630)	2,183,028	(11,038,220)	(457,679)
Cash and investments - beginning of year	<u>61,475,807</u>	<u>68,554,597</u>	<u>50,589,422</u>	<u>24,900,725</u>	<u>7,428,936</u>	<u>212,949,487</u>	<u>20,452,831</u>
Cash and investments - end of year	<u>\$ 59,579,069</u>	<u>\$ 60,039,418</u>	<u>\$ 51,456,721</u>	<u>\$ 21,224,095</u>	<u>\$ 9,611,964</u>	<u>\$ 201,911,267</u>	<u>\$ 19,995,152</u>
Classified as:							
Current assets	\$ 6,750,074	\$ 1,600,685	\$ 33,310,482	\$ 3,748,918	\$ 9,548,710	\$ 54,958,869	\$ 19,995,152
Restricted assets	52,828,995	58,438,733	18,146,239	17,475,177	63,254	146,952,398	
Total cash and investments	<u>\$ 59,579,069</u>	<u>\$ 60,039,418</u>	<u>\$ 51,456,721</u>	<u>\$ 21,224,095</u>	<u>\$ 9,611,964</u>	<u>\$ 201,911,267</u>	<u>\$ 19,995,152</u>
Non-cash transactions affecting financial position:							
Capital contributions of capital assets	\$ 57,334	\$ (57,334)	\$ 20,334	\$	\$ 10,649	\$ 30,983	\$ 151,951

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

(continued)

CITY OF MIAMI BEACH, FLORIDA  
STATEMENT OF CASH FLOWS  
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES  
PROPRIETARY FUNDS  
For the Fiscal Year Ended September 30, 2005

(continued)

	Storm Water Utility Fund	Water and Sewer Fund	Parking System Fund	Convention Center Complex Fund	Other Enterprise Funds	Totals	Governmental Activities- Internal Service Funds
Operating income (loss)	\$ 5,194,930	\$ 10,851,438	\$ 10,422,513	\$ (3,094,508)	\$ 1,831,990	\$ 25,206,363	\$ (4,227,170)
Adjustments to reconcile operating income (loss) to cash provided by (used in) operating activities:							
Depreciation and amortization	138,044	1,823,197	1,378,702	4,164,109	687,116	8,191,168	5,018,552
Provision for uncollectible accounts	20,242	283,643	(9,494)	47,726	5,965	348,082	
Changes in assets and liabilities:							
Decrease in inventories		96,997				96,997	27,351
(Increase) decrease in accounts receivable	(197,796)	(1,623,668)	(3,160,101)	(222,712)	(456,465)	(5,660,742)	(7,574)
(Increase) decrease in due from other govern- ments	21,997	6,265	(35,749)		(1,092,228)	(1,099,715)	20,100
(Increase) decrease in due from other funds			(2,500)		(302,243)	(304,743)	(92,174)
(Increase) decrease in prepaid expense	25,256	76,064		60,283	19,958	181,561	117,030
Increase (decrease) in accounts payable	608,725	2,020,242	1,311,037	11,048	1,355,231	5,306,283	123,322
Increase (decrease) in accrued expenses	(244,137)	(1,720,557)	131,951	(145,845)	101,456	(1,877,132)	286,747
Increase (decrease) in deposits		572,202	8,186	308,607	3,954	892,949	
Increase (decrease) in due to other governments	(987,483)	(666,101)		34,889	1,330	(1,617,365)	
Decrease in due to other funds							(149)
Increase (decrease) in deferred revenues			15,993	(204,599)	(204,366)	(392,972)	
Increase in pending insurance claims							657,297
Increase in insurance claims incurred but not reported							1,297,628
Increase (decrease) in accrued compensated absences	41,836	30,095	7,911	5,743	35,351	120,936	131,945
Total adjustments	(573,316)	898,379	(354,064)	4,059,249	155,059	4,185,307	7,580,075
Net cash provided by operating activities	<u>\$ 4,621,614</u>	<u>\$ 11,749,817</u>	<u>\$ 10,068,449</u>	<u>\$ 964,741</u>	<u>\$ 1,987,049</u>	<u>\$ 29,391,670</u>	<u>\$ 3,352,905</u>

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

**CITY OF MIAMI BEACH, FLORIDA  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS**

**September 30, 2005**

	<u>Pension Trust Funds</u>	<u>Agency Fund</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 575,111	\$ 14,836,338
Receivables:		
Accounts, net		27,557
Accrued interest	3,243,200	
Contributions	1,071,652	
Investments, at fair value:		
Short-term investments	7,781,724	
U.S. Government securities	79,891,441	
Corporate bonds	148,668,150	
Common stocks and index funds	455,061,425	
Aggregated bond index funds	81,036,158	
Money market funds	4,858,836	
Collective investment fund	62,218,668	
Mutual funds self-directed DROP participants	6,522,364	
Other bonds	250,000	
Total investments	<u>846,288,766</u>	
 Total assets	 <u>851,178,729</u>	 <u>14,863,895</u>
<b>Liabilities</b>		
Accounts payable	6,536,964	588,739
Deposits		14,275,156
 Total liabilities	 <u>6,536,964</u>	 <u>14,863,895</u>
<b>Net Assets</b>		
Held in trust for pension benefits	<u>\$ 844,641,765</u>	<u>\$</u>

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

**CITY OF MIAMI BEACH, FLORIDA  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS**

**For the Fiscal Year Ended September 30, 2005**

	Pension Trust Funds
<b>Additions:</b>	
Contributions -	
Employer	\$ 16,940,201
Employee	7,658,233
State of Florida	1,663,678
Buybacks/transfers from other systems	1,382,787
Other	5,000
Total contributions	27,649,899
Investment income -	
Net increase in fair value of investments	69,097,605
Gain from sale of investments	128,604
Interest income	14,376,316
Dividends	4,499,419
	88,101,944
Investment management expenses	(2,456,375)
Net investment income	85,645,569
Total additions	113,295,468
<b>Deductions:</b>	
Benefit paid	49,977,150
Contributions refunded	448,195
Transfers to other systems	508,425
Administrative expenses	1,268,942
Total deductions	52,202,712
Net increase	61,092,756
Net assets held in trust for pension benefits - beginning of year	783,549,009
Net assets held in trust for pension benefits - end of year	\$ 844,641,765

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

**CITY OF MIAMI BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**  
**(Continued)**

**I. Summary of Significant Accounting Policies**

The financial statements of the City of Miami Beach, Florida (the "City") have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund types in accordance with GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

**A. Reporting entity**

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.

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

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. 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 component units are described below.

1. Blended Component Units:

Miami Beach Redevelopment Agency

The Miami Beach Redevelopment Agency (the "Agency") was created under the Community Redevelopment Act of 1969, enacted by the Florida Legislature. The Agency's Board of Directors is the City Commission. The Agency's executive director is the City Manager. The Agency's budget is adopted by its directors, and approximately 50% of the Agency's operating revenue is derived from the City's tax increment contributions.

Miami Beach Neighborhood Improvement District No. 1

The Miami Beach Neighborhood Improvement District No. 1 (the "NID No. 1") was created under Chapter 87-243, Section 55-73, of the Florida Statutes. The NID No. 1's Board of Directors is the City Commission. The NID No. 1 had no financial activity during fiscal year 2005.

Miami Beach Neighborhood Improvement District No. 2

The Miami Beach Neighborhood Improvement District No. 2 (the "NID No. 2") was created under Chapter 87-243, Section 55-73, of the Florida Statutes. The NID No. 2's Board of Directors is the City Commission. The NID No. 2 had no financial activity during fiscal year 2005.

Miami Beach Neighborhood Improvement District No. 3

The Miami Beach Neighborhood Improvement District No. 3 (the "NID No. 3") was created under Chapter 87-243, Section 55-73, of the Florida Statutes. The NID No. 3's Board of Directors is the City Commission. The NID No. 3 had no financial activity during fiscal year 2005.

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Normandy Shores Local Government Neighborhood Improvement District

The Miami Beach Normandy Shores Local Government Neighborhood Improvement District (the "NSNID") was created under Chapter 163.506, of the Florida Statutes. The NSNID's Board of Directors is the City Commission. The NSNID's revenues are derived from ad valorem taxes. The NSNID is accounted for as a blended component unit in the City's Governmental Funds financial statements under the column entitled, "Other Governmental Funds".

2. Discrete Component Units-Government Fund Type:

Miami Beach Health Facilities Authority

The Miami Beach Health Facilities Authority (the "Authority") was created under the Health Facilities Authorities Law, Chapter 154, Part III of the Florida Statutes. The Authority is appointed by the City Commission, serves a four-year term and is subject to reappointment. The revenue of the Authority is derived from fees generated from the sale of bonds to finance health facilities within Miami Beach. The City receives all funds of the Authority in excess of operational needs of the Authority. Debt issued under the oversight of the Authority is not debt of the City or the Authority and therefore is not included in the accompanying financial statements. The Authority is accounted for as a discretely presented component unit in the City's financial statements. The Authority accounts for its financial activities using only a general fund.

Miami Beach Visitor and Convention Authority

The Miami Beach Visitor and Convention Authority (the "VCA") was created under Chapter 67-930, Section 8, of the Florida Statutes. The VCA is appointed by the City Commission to administer a portion of the collections of the municipal resort tax in order to promote tourism and convention business. Operating costs of the VCA are paid by the City. The VCA is accounted for as a discretely presented component unit in the City's financial statements.

Complete financial statements for the component units may be obtained at the entity's offices:

Miami Beach Redevelopment Agency  
1700 Convention Center Drive  
Miami Beach, Florida 33139

Miami Beach Visitor and Convention Authority  
555 - 17<sup>th</sup> Street  
Miami Beach, Florida 33139

**B. Government-wide and fund financial statements**

The government-wide financial statements report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns reflect a full accrual, economic resource basis, which incorporates long-term assets as well as long-term debt and obligations.

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

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The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner that these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation.

Internal service funds of a government are presented in summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level. The costs of these services are allocated to the appropriated functional activity.

The City's fiduciary funds are presented in the fund financial statements by type. Since by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

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

**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 proprietary fund and fiduciary fund financial statements, except for the agency fund which has no measurement focus. 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 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 thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 45 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, franchise taxes, licenses, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available when the City receives the cash.

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**Governmental funds** – typically are used to account for tax-supported activities. The City reports the following major governmental funds:

- The *General Fund* is the City's primary operating fund. It accounts for all financial resources that relate to the general operations of the City, except those required to be accounted for in another fund.
- The *Resort Tax Special Revenue Fund* accounts for the collection of the special tax levied city-wide on food, beverage and room rents used to support tourist related activities.
- The *Miami Beach Redevelopment Agency Special Revenue Fund* accounts for the operations of the Miami Beach Redevelopment Agency, a tax increment district of the City. The Agency was established in 1976 under the provisions of Chapter 163 of the Florida Statutes to spur development and redevelopment in the South Shore and City Center/Historic Convention Village Redevelopment and Revitalization Area of the City.
- The *Capital Projects Fund* accounts for proceeds of the City's bond sales and other revenues whose expenditure is restricted to the construction and acquisition of major capital projects.

**Proprietary funds** – are used to account for activities supported, at least in part, by fees or charges. The City reports the following major proprietary funds:

- The *Storm Water Utility Fund* accounts for the storm water utility operations of the City.
- The *Water and Sewer Fund* accounts for the water and sewer operations of the City.
- The *Parking System Fund* accounts for the parking operations of the City.
- The *Convention Center Complex Fund* accounts for the Convention Center and the Theatre of Performing Arts (TOPA) operations of the City.

**Other fund types:**

*Internal service funds* - account for services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. The internal service operations include:

- *Fleet Management* – accounts for the warehouse operations and the purchase and maintenance of the City's fleet of vehicles.
- *Property Management* – accounts for the cleaning, operating and renovations of City buildings.
- *Central Services* – accounts for the operation of the office supplies warehouse, central printing function and central mail facility.
- *Self Insurance* – accounts for the City's insurance operations, both retained and insured.
- *Communications* – accounts for centralized telecommunications operations.

*Fiduciary Funds* - used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other Governments and other funds. The City reports the following fiduciary fund types:

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- *Pension trust* funds include:
  - Retirement System for General Employees,
  - Retirement System for Firefighters and Police Officers, and
  - Retirement System for Unclassified Employees and Elected Officials
  - Policemen's Relief and Pension Fund
  - Firemen's Relief and Pension Fund
- *General Agency fund* – this fund accounts for general deposits held in trust until obligations are met or refunds are made.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. The following describes the four basic types of *interfund transactions* made during the year and the related accounting policies:

1. Transactions for services rendered or facilities provided are recorded as revenue in the receiving fund and expenditures, either as internal charges or administrative fees, in the disbursing fund;
2. Transactions to reimburse a fund for expenditures made by it for the benefit of another fund are recorded as expenditures in the disbursing fund and as a reduction of expenditures in the receiving fund;
3. Transactions which are recurring annual transfers between two or more budgetary funds are recorded as transfers in and out; and
4. Transactions recording capital contributions between funds are recorded in the proprietary funds and are net to zero in the government-wide statement of activities. The governmental funds do not record capital assets or capital transfers of assets.

Amounts reported as *program revenues* include: charges to customers or applicants for goods, services, or privileges provided, operating grants and contributions, and capital grants and contributions, including special assessments.

Internally dedicated resources are reported as general revenues rather than as program revenues. All taxes are included in general revenues.

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

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. *Cash and investments*

The City maintains an accounting system in which substantially all cash and investments are recorded in separate accounts. All such cash and investments are reflected as pooled cash and investments. Cash

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and investments consist of demand deposits with banks, United States Treasury Obligations, State or Municipal Obligations, Commercial Paper, Money Market Funds, and Repurchase Agreements. Investments are recorded at historical costs, except for those investments with remaining maturities of one year or less at the time of purchase, which are recorded at amortized cost.

For the purpose of the Statement of Cash Flows for the Proprietary Fund Types, cash and investments represents short term, highly liquid investments with an original maturity of three months or less.

The cash and investments for the retirement system are maintained in separate cash and investment accounts. The retirement system investments are held in United States Treasury Obligations, loans guaranteed by Government agencies, General Obligation or Revenue Bonds issued by States and Municipalities, dividend paying stocks of domestic corporations, bonds, notes or other interest bearing obligations of domestic corporations, and shares and accounts of savings and loan associations. The retirement system's investments are recorded at fair market value.

**2. *Receivables and payables***

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets and service debt. To the extent that certain transactions between funds have not been paid or received as of September 30, balances of interfund amounts receivable or payable have been reflected. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for uncollectibles. Accounts receivable in excess of 90 days comprise the allowance for uncollectibles.

Following are the significant components of the receivables due to the City at September 30, 2005:

- a. Water, Sewer and Waste Fees – This amount represents the unpaid, unbilled and billed charges for various fines and municipal services;
- b. Taxes, Franchise Fees and Rents – This amount represents Ad Valorem taxes, including delinquent taxes, communication and utility taxes, along with franchise fees and rent payments due by September 30, 2005, but not collected as of that date;
- c. Resort Taxes Receivable – This amount represents resort taxes due by September 30, 2005, but not collected as of that date;
- d. Storm Water Receivable – This amount represents the unpaid, billed charges for treating water runoff from impervious areas; and
- e. Accrued Interest Receivable – This amount represents the interest earned but not collected on the City's investments at September 30, 2005.

**3. *Inventories, prepaid and deferred items***

Inventories are stated at cost. Cost is determined by the average cost method, which approximates the first-in, first-out method. Inventories are accounted for on the consumption basis. Fund balance has been reserved for the amount of inventories since they are not available for appropriation and expenditure at September 30, 2005.

Expenditures made for services that will benefit periods beyond September 30, 2005 are recorded as prepaid items and deferred items in both the government-wide and fund financial statements. Accordingly a portion of fund balance has been reserved to indicate that these funds are not available for appropriation.

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4. *Restricted assets*

Certain proceeds of the storm water enterprise fund revenue bonds, water and sewer enterprise fund revenue bonds, and the parking system enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Certain proceeds in the convention center complex enterprise fund are restricted as a result of an interlocal agreement between Miami-Dade County and the City to fund the cost of capital improvements to the Convention Center and the Theatre of Performing Arts (TOPA).

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$500 or more, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or at valuations, which approximate cost. In the case of initial capitalization of general infrastructure assets, the City chose to include all such items regardless of their acquisition date or amount. Gifts or contributions of property received are recorded at their estimated fair market value at the time received by the City.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. During the construction phase of capital assets, interest of business-type activities is included as part of the capitalized value of the assets constructed. Interest expense capitalized is offset by interest earned on the unspent bond proceeds. The following is a schedule by fund, of interest expense and the amounts included as part of the cost of capital assets under construction.

	Interest Expense		Amount Capitalized
Storm Water Utility	\$ 2,611,586		\$ 664,459
Water and Sewer	5,051,292		3,180,225
Parking Systems	1,589,042		621,056

Property, plant, and equipment of the City, as well as the component units, is depreciated over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and Structures	30-60 years
Parking Lots	30 years
Improvements	10-60 years
Mains and Lines	60 years
Meters and Hydrants	10-50 years
Machinery and Equipment	2-20 years

6. *Compensated Absences*

The City's vacation and sick leave policies grant a specific number of days of annual and sick leave with pay. In addition, these policies provide for paying a regular employee after an initial probationary period for accumulated, unused annual and sick leave upon termination.

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For all employees hired prior to October 1, 1978, annual and sick leave may be accumulated to a combined maximum of 64 hours for each year of service plus 360 hours. Upon resignation, termination or retirement, the City will paid for full annual and sick leave, up to a maximum payment of 2,088 hours.

For regular and Fraternal Order of Police (FOP) employees hired after October 1, 1978, the accumulated annual and sick pay to be paid upon termination is limited to a maximum of 580 hours of unused annual and 50% of 1,200 hours of accumulated sick. Therefore, the maximum combined payment of unused annual and sick leave is 1,180 hours.

For American Federation of State County and Municipal Employees (AFSCME), Communications Workers of America (CWA) and Government Supervisors Association (GSA) employees hired after October 1, 1978, the accumulated annual and sick pay to be paid upon termination is limited to a maximum of 480 hours of unused annual and 50% of 1,200 hours of accumulated sick. Therefore, the maximum combined payment of unused annual and sick leave is 1,080 hours.

For Internal Association of Fire Fighters (IAFF) employees hired after October 1, 1978 and worked a 24 hour shift, the accumulated annual and sick pay to be paid upon termination is limited to a maximum of 870 hours of unused annual and 100% of the 1<sup>st</sup> 180 hours and 50% up to 360 hours of accumulated sick. Therefore, the maximum combined payment of unused annual and sick leave is 1,230 hours. For those working regular shift, the accumulated annual and sick pay to be paid upon termination is limited to a maximum of 580 hours of unused annual and 100% of the 1<sup>st</sup> 120 hours and 50% up to 240 hours of accumulated sick. Therefore, the maximum combined payment of unused annual and sick leave is 820 hours.

*7. Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while 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.

*8. Fund Equity*

- a. Reserved Fund Balance - A fund balance reservation indicates that this portion of fund equity has been segregated for specific or legal purposes or is not otherwise available for appropriation, such as encumbrances, which are purchase order commitments for the expenditures of monies recorded in order to reserve that portion of the applicable appropriation in the governmental funds. They do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year; and
- b. Designated Fund Balance - A fund balance designation indicates that this portion of fund equity has been segregated based on tentative plans of the City; and
- c. Undesignated Fund Balance - This portion of fund equity is available for any lawful use by the City.

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9. *Use of estimates*

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

10. *Restricted Net Assets*

Net assets are restricted to comply with debt covenants, loan agreements, grant contracts and other externally imposed constraints or by legislation.

**II. Stewardship, compliance, and accountability**

**A. New accounting standards adopted**

On October 1, 2004, the City adopted Statement No. 40 of the Governmental Accounting Standards Board (GASB), *Deposit and Investment Risk Disclosures*. This statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial risk and concentration of credit risk), interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risk: custodial risk and foreign currency risk. The objective of this statement is to update the custodial credit risk disclosure requirements of GASB statement No. 3 and to establish more comprehensive disclosure requirements addressing other common risks of deposits and investments of state and local governments.

**B. Excess of expenditures over appropriations**

For the year ended September 30, 2005, expenditures exceeded appropriations in the Miami Beach Redevelopment Agency's (the Agency) Special Revenue Fund in the economic environment category by \$1,703,461. This variance is attributed to debt service payments made for Lincoln Road and the Bass Museum. Expenditures were incurred in the Agency's Special Revenue Fund, but budgeted for in the Agency's Debt Service Fund.

**C. Deficit net assets**

At September 30, 2005 the City's Internal Service Self Insurance Fund has a cumulative deficit of \$11.1 million. The increase of \$1.8 million or 19.6% in the cumulative deficit, over the prior year, is a result of the increased liability based on an actuarial study. It is the City's intention to fund the liability and thus reduce the deficit in future years.

**III. Detailed notes on all funds**

**A. Deposits and Investments**

On October 1, 2004, the City implemented GASB No. 40 "Deposit and Investment Risk Disclosures." Risk disclosures in previous financial statements (under the provisions of GASB No. 3) focused only on custodial risk. GASB No. 40 not only addresses custodial risk but also interest rate risk, credit risk, and concentration of credit risk.

City's Pooled Portfolio Investments:

Interest Rate Risk Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

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The City's Investments are made based on prevailing market conditions at the time of the transaction with the intent to hold the instrument until maturity. If the yield of the portfolio can be improved by the sale of an investment, prior to its maturity, with the reinvestment of the proceeds, then this provision is allowed. As a means of limiting exposure to fair value losses, the City's investment policy limits maturity of its investments to seven (7) years or less.

As of September 30, 2005, the City had the following investments in its portfolio:

City's Investment Type	Fair Value	Investment Maturities (in years)	
		Less Than 1	1-5
U.S. government agency	\$ 155,157,090	\$ 77,345,500	\$ 77,811,590
U.S. treasuries	182,616,105	147,116,355	35,499,750
Corporate bonds	6,526,200	6,526,200	
Repurchase agreement	97,557,679	97,557,679	
Total	<u>441,857,074</u>	<u>328,545,734</u>	<u>113,311,340</u>

**Credit Risk** This is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. State law limits investments in commercial paper and corporate bonds rated in one of the top two ratings issued by the Nationally Recognized Statistical Rating Organization (NRSROs). It is the City's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2005 the City's investments were rated by Moody's Investors Service and Standard & Poor's as follow:

Corporate Bonds	Standard & Poor's	Moody's
Solomon Smith Barney	AA-	Aa1
GE Capital	AAA	Aaa
Citigroup	AA-	Aa1

**Concentration of Credit Risk** The City's investment plan limits the amount that can be invested in any one issuer as well as maximum portfolio allocation percentages. The City's cash management investments held at September 30, 2005 (including restricted cash and cash with paying agent) are shown below:

	Carrying Amount
	Historical Cost
U.S. government agency	\$ 156,470,091
U.S. treasuries	182,762,500
Corporate bonds	6,933,370
Common stock	34,377
Demand deposit	19,581,107
Money market	24,172,617
Repurchase agreements	97,557,679
Total City cash management investments	<u>487,511,741</u>
City funds managed by others:	
Cash with fiscal agent	100,000
Money market	105,353
Total cash and investments	<u>\$ 487,717,094</u>

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Schedule of cash & investments by funds:

General	\$ 33,486,646
Resort Tax	8,800,528
Redevelopment Agency	72,009,601
Capital Projects	102,311,258
Storm Water	59,579,069
Water & Sewer	60,039,418
Parking	51,456,721
Convention Center Complex	21,224,095
Internal Service	19,995,152
Agency	14,836,338
Nonmajor Funds	43,978,268
Total cash and investments	<u>\$ 487,717,094</u>

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Deposits

All deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under the Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", the State Treasurer requires all qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral equal to 50% to 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, United States governmental and agency securities, state or municipality government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280, Florida Statutes. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

Securities pledged as collateral are held by a third party. Joint custody safekeeping receipts are held in the name of the depository institution, but pledged to the City. The security can not be released, substituted or sold without the City's approval and release of the security.

Investments The City's investment policy requires that securities be registered in the name of the City. All safekeeping receipts for investment instruments are held in accounts in the City's name and all securities are registered in the City's name. The City has adopted an ordinance designating the investments which are allowable for its cash management activities. The policy specifies the types and limits by instrument and establishes a diversified investment objective that takes into consideration the safety, return, and liquidity of capital.

The authorized investments include direct United States Treasury obligations, United States government agencies, corporate bonds, state or municipal obligations, commercial paper and repurchase agreements. All City investments, except for swap agreements must be held in an independent custodial account. The custodial account will not be utilized to buy or sell investments for the City. These investments are insured or registered, or the securities are held by the City or its agent in the City's name.

Employee Retirement Systems Investments:

The City has adopted ordinances which govern the investment of funds for all of the Employee's Retirement Systems (the System). These investments include United States Treasury obligations, loans guaranteed by government agencies, General Obligation or Revenue Bonds issued by states and municipalities, dividend

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paying stocks of domestic corporations, bonds, notes or other interest bearing obligations of domestic corporations, and shares and accounts of savings and loan associations.

**Interest Rate Risk** As a means of limiting exposure to interest rate risk, the System diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations and maturities. Information about the sensitivity of fair value of the System's investments to market interest rate fluctuations is provided in the table below that shows the distribution of the Systems investment by maturity at September 30, 2005.

**City Pension Fund for Firefighters and Police Officers:**

Investment Type	Fair Value	Investment Maturities (in years)		
		Less Than 1	1-5	More than 6
U.S. Government Securities	\$ 60,119,623	\$ 2,811,023	\$ 27,396,634	\$ 29,911,966
Corporate bonds and notes	132,023,099	10,238,927	61,559,919	60,224,253
Short-term obligations	5,005,000	5,005,000		
<b>Total</b>	<b>\$ 197,147,722</b>	<b>\$ 18,054,950</b>	<b>\$ 88,956,553</b>	<b>\$ 90,136,219</b>

**General Employee Retirement System:**

Investment Type	Fair Value	Investment Maturities (in years)		
		Less Than 1	1-2	2-30
Aggregated index bond fund	\$ 63,433,649	\$ 460,929	\$ 5,807,712	\$ 57,165,008
U.S. Government Securities	16,591,434			16,591,434
Corporate bonds	14,420,853			14,420,853
Short-term obligations	2,053,811	2,053,811		
<b>Total</b>	<b>\$ 96,499,747</b>	<b>\$ 2,514,740</b>	<b>\$ 5,807,712</b>	<b>\$ 88,177,295</b>

**Unclassified Employees and Elected Officials Retirement System:**

Investment Type	Fair Value	Investment Maturities (in years)		
		Less Than 1	1-2	2-30
Aggregated index bond fund	\$ 17,602,509	\$ 105,615	\$ 2,129,904	\$ 15,366,990
Other bonds	250,000			250,000
Short-term obligations	74,856	74,856		
<b>Total</b>	<b>\$ 17,927,365</b>	<b>\$ 180,471</b>	<b>\$ 2,129,904</b>	<b>\$ 15,616,990</b>

**CITY OF MIAMI BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**  
**(Continued)**

**Firemen's Relief and Pension Fund**

Investment Type	Fair Value	Investment Maturities (in years)		
		Less Than 1	1-5	More than 6
U.S. Government Securities	\$ 1,861,084	\$ 203,403	\$ 702,907	\$ 954,774
Corporate bonds and notes	1,199,897	255,831	420,184	523,882
Total	<u>\$ 3,060,981</u>	<u>\$ 459,234</u>	<u>\$ 1,123,091</u>	<u>\$ 1,478,656</u>

**Policemen's Relief and Pension Fund**

Investment Type	Fair Value	Investment Maturities (in years)		
		Less Than 1	1-5	More than 6
U.S. Government Securities	\$ 1,319,300	\$ 202,907	\$ 402,782	\$ 713,611
Corporate bonds	1,024,305	254,080	365,407	404,818
Short-term obligations	648,057	648,057		
Total	<u>\$ 2,991,662</u>	<u>\$ 1,105,044</u>	<u>\$ 768,189</u>	<u>\$ 1,118,429</u>

**Credit Risk** The System's investment policy utilizes portfolio diversification in order to control credit risk. This is generally measured by the assignment of a rating by a nationally recognized rating organization. The following table discloses credit ratings by investment type at September 30, 2005:

**City Pension Fund for Firefighters and Police Officers:**

	Fair Value	Percentage of Portfolio
U.S. Government Securities	\$ 60,119,623	31.29 %
Quality rating of credit risk debt securities		
AAA	7,138,173	3.71
AAA-	9,836,246	5.12
AA-	6,117,285	3.18
A+	33,769,736	17.58
A	43,328,183	22.55
A-	17,234,319	8.97
BBB+	9,825,911	5.11
BBB	3,282,261	1.71
BBB-	1,490,985	0.78
Total credit risk debt securities	<u>132,023,099</u>	<u>68.71</u>
Total fixed income securities	<u>\$ 192,142,722</u>	<u>100.00 %</u>

**CITY OF MIAMI BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005  
(Continued)**

**General Employee Retirement System:**

Investment Type	AAA	Aa	A	Unrated
Aggregated index bond fund	\$ 53,708,037	\$ 2,350,740	\$ 3,917,901	3,456,971
U.S. Government Securities	16,591,434			
Corporate bonds		14,420,853		
Short-term obligations	2,053,811			
<b>Total</b>	<u>72,353,282</u>	<u>16,771,593</u>	<u>3,917,901</u>	<u>3,456,971</u>

**Unclassified Employees and Elected Officials Retirement System:**

Investment Type	AAA	Aa	A	Unrated
Aggregated index bond fund	\$ 13,870,778	\$ 862,523	\$ 1,531,418	1,337,790
Other bonds				74,856
Short-term obligations				250,000
<b>Total</b>	<u>13,870,778</u>	<u>862,523</u>	<u>1,531,418</u>	<u>1,662,646</u>

**Fireman's Relief and Pension Fund:**

Investment Type	AAA	A	BBB
U.S. Government Securities	\$ 1,861,084	\$	\$
Corporate bonds	104,415	1,044,509	50,973
<b>Total</b>	<u>1,965,499</u>	<u>1,044,509</u>	<u>50,973</u>

**Policeman's Relief and Pension Fund:**

Investment Type	AAA	A	BBB
U.S. Government Securities	\$ 1,319,300	\$	\$
Corporate bonds		973,796	50,509
Short-term obligations	648,057		
<b>Total</b>	<u>1,967,357</u>	<u>973,796</u>	<u>50,509</u>

**Concentration of Credit Risk** The System's investment policy contains limitations on the amounts that can be invested in any one issuer as well as maximum portfolio allocation percentages. As of September 30, 2005, the System had the following investments in its portfolio:

**CITY OF MIAMI BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**  
**(Continued)**

	Fair Value
Short term investments	\$ 7,781,724
U.S. government securities	79,891,441
Corporate bonds	148,668,150
Common stock and index funds	455,061,425
Aggregated bond index fund	81,036,158
Money market funds	4,858,836
Collective investment funds	62,218,668
Mutual funds	6,522,364
Cash	575,111
Other	250,000
Total cash and investments	\$ 846,863,877

**Custodial Credit Risk** Consistent with the System's investment policy, the investments are held in safe keeping by the System's custodial bank or a third party custodial institution, chartered by the United States Government or the State of Florida.

**Discretely Presented Component Units**

Component unit's cash and investment in the amount of \$2,985,665 consists of demand deposit and money market deposit accounts. These accounts are not subjected to interest rate risks, credit risks or concentration of credit risks. All deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under the Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", the State Treasurer requires all qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral equal to 50% to 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, United States governmental and agency securities, state or municipality government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280, Florida Statutes. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

Securities pledged as collateral are held by a third party. Joint custody safekeeping receipts are held in the name of the depository institution, but pledged to the component unit. The security can not be released, substituted or sold without the component unit's approval and release of the security.

**CITY OF MIAMI BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**  
**(Continued)**

**B. Receivables**

Receivables at September 30, 2005 for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental Activities							
	General	Resort Tax	Redevel- opment Agency	Capital Projects	Internal Service	Nonmajor Funds	Total
Receivables:							
Accounts	\$ 4,965,408	\$ 2,199,471		\$ 37,964	\$ 29,827	\$ 630,564	\$ 7,863,234
Taxes	1,758,416					228,223	1,986,639
Interest	1,116,187		312,207	409,196		18,089	1,855,679
Gross receivables	7,840,011	2,199,471	312,207	447,160	29,827	876,876	11,705,552
Less: allowance for uncollectible accounts	(1,153,119)					(13,200)	(1,166,319)
Net total receivables	<u>\$ 6,686,892</u>	<u>\$ 2,199,471</u>	<u>\$ 312,207</u>	<u>\$ 447,160</u>	<u>\$ 29,827</u>	<u>\$ 863,676</u>	<u>\$ 10,539,233</u>
Business-type Activities							
	Storm Water	Water and Sewer	Parking	Convention Center Complex	Nonmajor Funds	Total	
Receivables:							
Accounts	\$ 1,487,017	\$ 9,544,406	\$ 3,751,243	\$ 910,742	\$ 1,665,503	\$ 17,358,911	
Interest	271,757	232,947				504,704	
Gross receivables	1,758,774	9,777,353	3,751,243	910,742	1,665,503	17,863,615	
Less: allowance for uncollectible accounts	(317,210)	(1,412,497)		\$ (47,726)	(310,016)	(2,087,449)	
Net total receivables	<u>\$ 1,441,564</u>	<u>\$ 8,364,856</u>	<u>\$ 3,751,243</u>	<u>\$ 863,016</u>	<u>\$ 1,355,487</u>	<u>\$ 15,776,166</u>	

The City's governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Revenue recognition in connection with resources that have been received, but not yet earned, are also deferred in the City's governmental funds.

Property values are assessed (levied) at fair market value (100%) by the Miami-Dade County Property Assessor as of January 1 of each year, at which time taxes become an enforceable lien on property. State of Florida Amendment No. 10 to the Florida Constitution known as "Save our Homes" limits assessment increases on homestead property to the lesser of 3% or the consumer price index. Tax bills are mailed in October and are payable upon receipt with discounts at the rate of 4% if paid in November, decreasing by 1% per month with no discount available if paid in the month of March. Taxes become delinquent on April 1 of the year following the year of assessment and State law provides for enforcement of collection of personal property taxes by seizure of the property or by the sale of the property or by the sale of interest bearing tax certificates to satisfy unpaid property taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

**CITY OF MIAMI BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005  
(Continued)**

**C. Capital assets**

Capital asset activity for the year ended September 30, 2005 was as follows:

**Primary Government  
Governmental activities:**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital assets, not being depreciated:</b>				
Land	\$ 77,403,771	\$	\$ 31,950,371	\$ 45,453,400
Construction work-in-progress	149,952,469	25,824,563	9,962,314	165,814,718
<b>Total capital assets, not being depreciated</b>	<b>227,356,240</b>	<b>25,824,563</b>	<b>41,912,685</b>	<b>211,268,118</b>
<b>Capital assets, being depreciated:</b>				
Building	113,498,057		34,840,724	78,657,333
Permanent improvements	69,280,079	9,835,110	2,742,552	76,372,637
Furniture & fixtures	1,757,698	77,568	157,341	1,677,925
Equipment	60,862,348	7,887,401	5,554,755	63,194,994
Infrastructure	116,795,794			116,795,794
<b>Total capital assets, being depreciated</b>	<b>362,193,976</b>	<b>17,800,079</b>	<b>43,295,372</b>	<b>336,698,683</b>
<b>Less: accumulated depreciation for:</b>				
Building	38,675,444	2,110,818	3,484,074	37,302,188
Permanent improvements	61,213,057	967,574	312,148	61,868,483
Furniture & fixtures	1,263,883	186,016	157,341	1,292,558
Equipment	38,783,225	5,672,064	1,578,192	42,877,097
Infrastructure	79,304,783	4,507,700		83,812,483
<b>Total accumulated depreciation</b>	<b>219,240,392</b>	<b>13,444,172</b>	<b>5,531,755</b>	<b>227,152,809</b>
<b>Total capital assets, being depreciated, net</b>	<b>142,953,584</b>	<b>4,355,907</b>	<b>37,763,617</b>	<b>109,545,874</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 370,309,824</b>	<b>\$ 30,180,470</b>	<b>\$ 79,676,302</b>	<b>\$ 320,813,992</b>

**CITY OF MIAMI BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**  
**(Continued)**

**Primary Government**  
**Business-type activities**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 22,510,131	\$ 1,091,796	\$	\$ 23,601,927
Construction work-in-progress	121,979,856	35,116,726	836,824	156,259,758
Total capital assets, not being depreciated	<u>144,489,987</u>	<u>36,208,522</u>	<u>836,824</u>	<u>179,861,685</u>
Capital assets, being depreciated:				
Mains & lines	39,155,575	294,691		39,450,266
Building & structure	200,591,814	633,232		201,225,046
Meters & hydrants	12,780,343	1		12,780,344
Furniture, equipment & vehicles	26,697,933	883,538	654,946	26,926,525
Improvements other than building	4,069,504			4,069,504
Total capital assets, being depreciated	<u>283,295,169</u>	<u>1,811,462</u>	<u>654,946</u>	<u>284,451,685</u>
Less: accumulated depreciation for:				
Mains & lines	19,797,027	700,892		20,497,919
Building & structure	64,316,479	5,323,946		69,640,425
Meters & hydrants	7,939,817	222,447		8,162,264
Furniture, equipment & vehicles	17,324,682	1,600,173	622,902	18,301,953
Improvements other than building	1,878,379	79,919		1,958,298
Total accumulated depreciation	<u>111,256,384</u>	<u>7,927,377</u>	<u>622,902</u>	<u>118,560,859</u>
Total capital assets, being depreciated, net	<u>172,038,785</u>	<u>(6,115,915)</u>	<u>32,044</u>	<u>165,890,826</u>
Business-type activities, combined capital assets, net	<u>\$ 316,528,772</u>	<u>\$ 30,092,607</u>	<u>\$ 868,868</u>	<u>\$ 345,752,511</u>

**CITY OF MIAMI BEACH, FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**(Continued)**

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

**Governmental activities:**

General government	\$ 5,865,247
Public safety	1,683,455
Physical environment	1,889
Transportation	3,910,477
Economic environment	796,677
Human services	1,261
Culture and recreation	<u>1,185,166</u>
Total depreciation expense - governmental activities	<u>\$ 13,444,172</u>

**Business-type activities**

Storm Water	\$ 115,786
Water & Sewer	1,742,679
Parking Systems	1,217,687
Convention Center Complex	4,164,109
Nonmajor enterprise	<u>687,116</u>
Total depreciation expense - business-type activities	<u>\$ 7,927,377</u>

**D. Construction commitments**

At September 30, 2005, the City has active construction projects which includes, but is not limited to water, waste water and storm water improvements; as well as a variety of streetscape enhancement projects. The following table set forth these commitments by fund:

Capital Projects	\$ 22,375,182
Storm Water Utility	3,309,262
Water & Sewer	10,567,329
Parking Systems	1,125,949
Convention Center Complex	<u>732,583</u>
	<u>\$ 38,110,305</u>

**E. Loss on Sale of Land and Building**

On December 2, 2004, the Loews Hotel exercised the Purchase Option as provided in Section 36.2 of the Ground Lease to acquire the land underlying the Loews Miami Beach Hotel, the land improvements and the building. These assets were sold for \$27,498,974, net of \$384,813 closing costs. The land and the land improvements had a cost of \$21,748,105 and \$2,508,051, respectively, with the land improvements having an accumulated depreciation of \$292,606. The building had a cost of \$34,840,724 with an accumulated depreciation of \$3,484,074. This sale resulted in a loss, for government-wide purpose, of \$27,821,226.

In addition, on February 16, 2005, the Agency sold to the Royal Palm Hotel Property, LLC the land and land improvements underlying the Royal Palm Hotel. These assets were sold for \$12,399,128, net of \$131,572 closing costs. The land had a cost of \$10,202,267, and the land improvements had cost of \$234,501 with an accumulated depreciation of \$19,544. This sale resulted in a gain, for government-wide purpose, of \$1,981,904.

The net book value of the above capital assets that were sold was a total of \$65,737,424. The proceeds received from the sale of these capital assets was \$39,839,102, which resulted in a net loss of \$25,839,322.

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**(Continued)**

**E. Interfund receivables, payables and transfers**

Interfund balances at September 30, 2005 consist of the following:

Due From	Due To						Total
	General	Redevelopment Agency	Other Governmental	Parking Systems	Other Enterprise	Internal Service	
General	\$	\$ 1,144	\$ 319,344	\$ 2,500	\$	\$	322,988
Resort Tax	395,155	307,518					702,673
Redevelopment Agency	1,928,152		435		357,486	56,699	2,342,772
Capital Projects	606,939					149	607,088
Other Governmental	186,397	4,798				532	191,727
Other Enterprise	179	748				764	1,691
	<u>\$ 3,116,822</u>	<u>\$ 314,208</u>	<u>\$ 319,779</u>	<u>\$ 2,500</u>	<u>\$ 357,486</u>	<u>\$ 58,144</u>	<u>\$ 4,168,939</u>

The outstanding balances between fund result mainly 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) payment between funds are made. All outstanding balances will be paid within the subsequent fiscal year.

Interfund transfers for the year ended September 30, 2005 consisted of the following:

Transfer Out	Transfer In						Total
	General	Resort Tax	Redevelopment Agency	Capital Projects	Other Governmental	Other Enterprise	
General	\$	\$	\$	\$ 808,893	\$ 7,830,125	\$	8,639,018
Resort Tax	18,928,609		2,817,396	1,312,791	1,938,466	150,000	25,147,262
Redevelopment Agency		4,843,534		11,563,991	10,353,721		26,761,246
Capital Projects			1,672,577		4,176		1,676,753
Other Governmental			727,889		1,213,119		1,941,008
Storm Water					5,158	381,542	386,700
Parking	550,000				1,259,458		1,809,458
Other Enterprise					5,736		5,736
Internal Service				777,004	71,210		848,214
	<u>\$ 19,478,609</u>	<u>\$ 4,843,534</u>	<u>\$ 5,217,862</u>	<u>\$ 14,462,679</u>	<u>\$ 22,681,169</u>	<u>\$ 531,542</u>	<u>\$ 67,215,395</u>

**CITY OF MIAMI BEACH, FLORIDA  
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Transfers are used to (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due (2) move restricted amounts from borrowing to the debt service fund to establish mandatory reserve accounts, and (3) move unrestricted general revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations. Major transfers for the year were:

(a) Transfer from the Resort Tax Fund to the General Fund of \$18,928,609 to support South Beach, Middle Beach and North Beach Services, various culture and recreation events, tourism related citywide expenditures.

(b) Transfer from the Redevelopment Agency Fund to the Capital Projects fund of \$11,563,991 was for projects including but not limited to the South Pointe Streetscapes, South Pointe Park, Cobb Project, South Pointe Library, Colony Theater, City Center streetscapes, Washington Avenue Streetscape, Beachwalk, and Collins Park, and Right of Way Infrastructure Improvements.

(c) Transfer from the General Fund to Other Governmental Funds of \$7, 830,125 was for debt service and capital renewal and replacement.

(d) Transfer from the Redevelopment Agency Fund to Other Governmental Funds \$10,353,721 were payments for bonded debt and loans.

**F. Leases**

**1. Operating Leases**

The City serves as the lessor for tenants leasing various building, parking lots, office and retail facilities. The tenant leases are considered operating leases, which expire at various dates through fiscal year 2053. Future minimum lease receivables under the operating leases at September 30, 2005, are as follows:

<u>September 30</u>	<u>Governmental Operating Leases</u>	<u>Business-type Operating Leases</u>
2006	\$ 494,361	\$ 1,006,251
2007	148,625	1,006,251
2008	173,624	1,006,251
2009	173,624	1,006,251
2010	173,624	1,006,251
2011 and thereafter	1,673,999	41,229,180
	<u>\$ 2,837,857</u>	<u>\$ 46,260,435</u>

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The Miami Beach Redevelopment Agency serves as the lessor for tenants leasing various retail facilities. The tenant leases are considered operating leases, which expire at various dates through fiscal year 2015. Future minimum lease receivables under the operating leases at September 30, 2005, are as follows:

September 30	Operating Leases
2006	\$ 650,187
2007	650,187
2008	642,383
2009	556,536
2010	556,536
2011 and thereafter	1,431,316
	\$ 4,487,145

On June 24, 1983, the City and the Miami Beach Redevelopment Agency entered into a 30-year net operating lease (the Lease) expiring on December 31, 2014, with Carner-Mason Associates, Ltd. (Carner-Mason) to construct, develop and operate the Miami Beach Marina (the Marina). The Lease provides for three 10-year renewal options at the same lease terms. Rent under the Lease equals the minimum annual guaranteed rent, as defined in the Lease. The lease further requires the lessee to pay all operating and maintenance expenses of the Marina. As provided by the third amendment to the Lease, dated May 27, 1997, the operating lease is now held by the Miami Beach Marina Associates, Ltd.

Approximate minimum annual guaranteed rent payments to be received under the Marina lease at September 30, 2005 is as follows:

September 30	Operating Leases
2006	\$ 120,000
2007	120,000
2008	120,000
2009	120,000
2010	120,000
2011 and thereafter	510,000
	\$ 1,110,000

**G. Long-Term debt**

**1. General Obligation Bonds – Governmental Activities**

The City issues general obligation bonds to provide funds for the acquisition, construction and improvements of major capital facilities. General obligation bonds have been issued for governmental activities. The amount of outstanding general obligation bonds issued is \$87,500,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are generally issued as 20-year serial bonds.

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The General Obligation Bonds outstanding at September 30, 2005 consist of the following:

Issue Name	Interest Rate	Year Issued	Final Maturity	Original Issue	Outstanding 9/30/2005
General Obligation - Series 1996	3.70-4.50	1997	2007	\$ 15,000,000	\$ 1,000,000
1985B Gulf Breeze	4.55-5.40	2000	2013	15,910,000	12,030,000
1985E Gulf Breeze	5.50-5.80	2000	2020	14,090,000	14,090,000
General Obligation - Series 2003	2.00-5.25	2003	2033	62,465,000	60,380,000
<b>Total General Obligation Bonds</b>				<b>\$ 107,465,000</b>	<b>\$ 87,500,000</b>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year Ending September 30	General Obligation Bonds Governmental Activities		
	Principal	Interest	Total
2006	\$ 6,060,000	\$ 3,889,277	\$ 9,949,277
2007	2,820,000	3,722,834	6,542,834
2008	2,535,000	3,615,557	6,150,557
2009	2,505,000	3,520,367	6,025,367
2010	2,595,000	3,420,528	6,015,528
2011-2015	14,785,000	15,248,625	30,033,625
2016-2020	18,780,000	11,149,294	29,929,294
2021-2025	14,035,000	6,782,834	20,817,834
2026-2030	13,650,000	4,066,131	17,716,131
2031-2033	9,735,000	888,750	10,623,750
	<b>\$ 87,500,000</b>	<b>\$ 56,304,197</b>	<b>\$ 143,804,197</b>

The City's \$15,000,000 General Obligation Bonds, Series 1996, will be repaid solely from ad-valorem taxes assessed, levied and collected. They are registered transcripts, and insured. The bonds were issued to construct, renovate and rebuild parks and recreation facilities within the City's park system.

The Gulf Breeze VDRS Series 1985B, in the amount of \$15,910,000, principal is to be repaid in thirteen annual installments commencing December 1, 2001 with interest paid semi-annually. The Gulf Breeze VDRS Series 1985E, in the amount of \$14,090,000, principal is to be repaid in seven annual installments commencing December 1, 2014 with interest paid semi-annually. The funds are being used to expand, renovate and improve fire stations and related facilities; improve recreation and maintenance facilities for parks and beaches; and, improve neighborhood infrastructure and related facilities.

On July 22, 2003, the City issued General Obligation Bonds, Series 2003, in the amount of \$62,465,000. These bonds were issued to provide funds to pay the cost of improving neighborhood infrastructure in the City, consisting of streetscape and traffic calming measures, shoreline stabilization and related maintenance facilities, and Fire Safety Projects and the Parks and Beaches projects. The Bonds will be repaid solely from ad-valorem taxes assessed, levied and collected.

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**SEPTEMBER 30, 2005**  
**(Continued)**

**2. Special Obligation Bonds – Governmental Activities**

At September 30, 2005 the outstanding principal of special obligation bond issues and repayment sources were as follows:

Issue Name	Repayment Source	Total Original Issue	Total Outstanding Principal
1996 Resort Tax Revenue Refunding Bonds	2% Resort Tax	\$ 4,095,000	\$ 3,290,000
1985B Gulf Breeze fixed rate	Non Ad-Valorem	2,200,000	1,845,000
1985C Gulf Breeze fixed rate	Non Ad-Valorem	14,301,954	11,896,524
1985E Gulf Breeze fixed rate	Non Ad-Valorem	22,500,000	19,615,000
1994 Sunshine State VRDS	Non Ad-Valorem	30,000,000	4,930,000
1996A Tax Increment Revenue Bonds	RDA Tax increment Revenue	37,500,000	1,625,000
1996B Tax Increment Revenue Bonds	RDA Tax increment Revenue	7,705,000	405,000
1998A Tax Increment Revenue Bonds	RDA Tax increment Revenue	29,105,000	13,320,000
1998B Tax Increment Revenue Bonds	RDA Tax increment Revenue	9,135,000	1,180,000
2005 Pension Refunding Bonds	Non Ad-Valorem	53,030,000	53,030,000
2005A Tax Increment Revenue Refunding Bonds	RDA Tax increment Revenue	51,440,000	51,440,000
2005B Tax Increment Revenue Refunding Bonds	RDA Tax increment Revenue	29,300,000	29,330,000
		<u>29,300,000</u>	<u>29,330,000</u>
		<u>\$ 290,311,954</u>	<u>\$ 191,906,524</u>

On May 14, 1996 the City issued \$4,095,000 of Resort Tax Refunding Bonds by placing the proceeds of new bonds in an irrevocable trust, to provide for all future debt service payments on the old bonds. The Series 1996 bonds were issued with interest rates of 3.60% to 5.50% payable in annual installments through 2010. Accordingly, the trust assets and the liability for the defeased bonds are not included in the City's Financial Statements. At September 30, 2005, all bonds have been defeased.

During fiscal 1994, the City executed a loan agreement with The Sunshine State Governmental Financing Commission to borrow \$30,000,000 on a variable rate note, principal to be repaid in twenty annual installments commencing September 1, 1995 with interest paid monthly at a variable rate. On August 1, 2001 the City executed a loan agreement to repay a portion of the outstanding principal for this loan of \$14,977,000.

On September 2005 the City issued \$53,030,000 in taxable Series 2005 Special Obligation Bonds for the purposes of, together with other legally available funds of the City, refunding the City's outstanding Taxable Special Obligation Bonds( Pension Funding Project), Series 1994 maturing September 1, 2015 and September 1, 2021, making the required payment with respect to a Hedge Agreement and paying the costs of issuing the Series 2005 and refunding the Refunded Bonds, including the premiums for the Bond Insurance Policy and Reserve Account Surety Bond.

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On August 1, 1996, the Miami Beach Redevelopment Agency (the "Agency") issued \$37,500,000 (Series 1996A) and \$7,705,000 (Series 1996B) in tax-increment bonds. These bonds are secured by a lien upon and pledge of the pledged funds, which include (a) the net trust fund revenue received by the Agency from the City Center/Historic Convention Village Redevelopment and Revitalization Area, (b) the portion of the proceeds of the City's municipal resort tax levied and collected by the City and received by the trustee, and (c) moneys and investments in the funds and accounts created under the resolution. The Series 1996A bonds were issued with interest rate of 7.86% to 8.95% payable semiannually on each June 1 and December 1, and will mature serially through December 1, 2006. The Series 1996B bonds were issued with interest rates of 4% to 6.35% payable semiannually on each June 1 and December 1, and will mature serially through December 1, 2006. The bonds are subject to a trust indenture, which requires that annual debt service requirements be fully funded upon receipt of trust fund revenue and supplemental revenue, and that any shortage shall be funded based on the supplemental revenue resolution. The Series 1996A and 1996B tax-increment bonds were partially refunded/defeased by the issuance of the Series 2005A and 2005B tax increment revenue refunding bonds on September 22, 2005. The Series 1996A and Series 1996B bonds had a remaining outstanding principal balance, after the refunding, of \$2,030,000 at September 30, 2005.

On July 1, 1998, the Agency issued \$29,105,000 (Series 1998A) and \$9,135,000 (Series 1998B) in tax-increment bonds. These bonds are secured by a lien upon and pledge of the pledged funds, which include (a) the net trust fund revenue received by the Agency from the City Center/Historic Convention Village Redevelopment and Revitalization Area, (b) the portion of the proceeds for the City's municipal resort tax levied and collected by the City and received by the trustee, and (c) moneys and investments in the funds and accounts created under the resolution. The Series 1998A bonds were issued with interest rates of 6.70% to 7.00% payable semiannually on each June 1 and December 1, and will mature serially through December 1, 2020. The Series 1998B bonds were issued with interest rates of 3.60% to 5.20% payable semiannually on each June 1 and December 1, and will mature serially through December 1, 2008. The bonds are subject to a trust indenture, which requires that annual debt service requirements be fully funded upon receipt of trust fund revenue and supplemental revenue, and that any shortage shall be funded based on the supplemental revenue resolution. . The Series 1998A and 1998B tax-increment bonds were partially refunded/defeased by the issuance of the Series 2005A and 2005B tax increment revenue refunding bonds on September 22, 2005. The Series 1998A and Series 1998B bonds had a remaining outstanding principal balance, after the refunding, of \$14,500,000 at September 30, 2005.

On September 22, 2005, the Agency issued \$51,440,000 (Series 2005A) and \$29,330,000 (Series 2005B) in tax-increment bonds. These bonds are secured by a lien upon and pledge of the pledged funds, which include (a) the net trust fund revenue received by the Agency from the Redevelopment Area, (b) the portion of the proceeds for the City's municipal resort tax levied and collected by the City and received by the trustee, and (c) moneys and investments in the funds and accounts created under the resolution. The Series 2005A bonds were issued with interest rates of 4.31% to 5.22% payable semiannually on each June 1 and December 1, and will mature serially through December 1, 2022. The Series 2005B bonds were issued with interest rates of 3.25% to 5.00% payable semiannually on each June 1 and December 1, and will mature serially through December 1, 2022. The bonds are subject to a trust indenture, which requires that annual debt service requirements be fully funded upon receipt of trust fund revenue and supplemental revenue, and that any shortage shall be funded based on the supplemental revenue resolution.

#### Loan Pool

On August 1, 2001, the City executed three loan agreements with the City of Gulf Breeze, Florida, Local Government Pool to borrow \$47,145,000 on fixed rate notes. The Gulf Breeze Series B, in the amount of \$2,200,000, principal is to be repaid in fourteen annual installments commencing December 1, 2002 with interest paid semi-annually. The Gulf Breeze Series C, in the amount of \$22,445,000, principal is to be repaid in fourteen annual installments commencing December 1, 2002 with interest paid semi-annually. The Gulf Breeze Series E, in the amount of \$22,500,000, principal is to be repaid in nineteen annual installments commencing December 1, 2002 with interest paid semi-annually. \$17,115,000 was used to repay the outstanding balance of the City Gulf Breeze, Florida Local Government Loan Program Series

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1985 C variable rate notes. \$14,977,000 was used to repay a portion of the outstanding principal from the Sunshine State Loan. The remaining funds will be used for the renovation and improvement of two City owned golf courses and their related facilities.

A portion of the Gulf breeze 1985 C outstanding debt relates to the construction of a Parking Garage. The Parking Enterprise Fund includes an outstanding amount of \$6,773,476 that relates to this debt.

Annual debt service requirements to maturity for special obligation bonds are as follows:

Fiscal Year Ending September 30	Debt Service Requirements Special Obligation Bonds		
	Principal	Interest	Total
2006	\$ 7,001,592	\$ 8,310,838	\$ 15,312,430
2007	8,874,824	9,101,986	17,976,810
2008	9,303,056	8,678,797	17,981,853
2009	9,716,288	8,245,009	17,961,297
2010	10,172,706	7,792,129	17,964,835
2011-2015	58,343,566	31,085,427	89,428,993
2016-2020	61,609,492	15,862,364	77,471,856
2021-2023	26,885,000	2,038,551	28,923,551
	<u>\$ 191,906,524</u>	<u>\$ 91,115,101</u>	<u>\$ 283,021,625</u>

**3. Revenue bonds**

a. Parking Fund

The Parking Revenue Fund had the following changes in its current and Long-Term debt outstanding for the year ended September 30, 2005:

Indebtedness	Balance 10/1/2004	Debt Repaid	Balance 9/30/2005
Special Obligation Bonds & Loan	\$ 32,568,744	\$ 1,380,276	\$ 31,188,468
	<u>\$ 32,568,744</u>	<u>\$ 1,380,276</u>	<u>\$ 31,188,468</u>

Parking Revenue Fund indebtedness at September 30, 2005, is comprised of the following issued indebtedness:

\$10,795,000	1996 Special Obligation Refunding Bonds due in annual installments through 2009: interest at 3.2% and 5.0%	<u>\$ 3,795,000</u>
\$21,000,000	1997 Special Obligation Bonds due in annual installments through 2022: interest at 4.00% - 5.125%	<u>\$ 20,620,000</u>
\$ 8,143,046	2001 Gulf Breeze Loan Pool due in annual installments through 2015: interest at 3.875% - 4.75%	<u>\$ 6,773,468</u>

**CITY OF MIAMI BEACH, FLORIDA  
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The aggregate maturities of Long-Term Debt at September 30, 2005, are as follows:

Fiscal Year Ending September 30	Bonded Debt		
	Principal	Interest	Total
2006	\$ 1,443,400	\$ 1,524,259	\$ 2,967,659
2007	1,510,176	1,458,821	2,968,997
2008	1,576,944	1,390,054	2,966,998
2009	1,648,712	1,318,222	2,966,934
2010	1,727,294	1,240,684	2,967,978
2011-2015	9,971,434	4,846,268	14,817,702
2016-2020	9,270,508	2,404,638	11,675,146
2021-2022	4,040,000	313,138	4,353,138
	31,188,468	14,496,084	45,684,552
Less: Unamortized Bond Discount	651,421		651,421
	<u>\$ 30,537,047</u>	<u>\$ 14,496,084</u>	<u>\$ 45,033,131</u>

b. Water and Sewer Fund

The Water & Sewer Fund issued \$59,060,000 in Water and Sewer Revenue Bonds, Series 1995, on June 8, 1995. The bonds will be repaid solely from pledged revenues of the Water and Sewer system. They are registered transcripts and insured. The bonds were issued to construct various improvements and extensions to the Water and Sewer utility.

The Water & Sewer Fund issued \$54,310,000 in Water and Sewer Revenue Bonds, Series 2000, on September 1, 2000. The bonds will be repaid solely from pledged revenues of the Water and Sewer system. They are registered transcripts and insured. The bonds were issued to construct various improvements and extensions to the Water and Sewer utility.

Indebtedness of the Water and Sewer Fund at September 30, 2005 is as follows:

\$59,060,000	1995 Revenue Bonds Due in annual installments through 2015: Interest at 4.20% - 5.40%	<u>\$ 36,660,000</u>
\$54,310,000	2000 Revenue Bonds Due in annual installments through 2030: Interest at 5.00% - 5.75%	<u>\$ 54,310,000</u>

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SEPTEMBER 30, 2005  
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The aggregate maturities of Long-term debt as of September 30, 2005 are as follows:

Fiscal Year Ending September 30	Bonded Debt		
	Principal	Interest	Total
2006	\$ 2,875,000	\$ 4,913,488	\$ 7,788,488
2007	3,020,000	4,766,143	7,786,143
2008	3,180,000	4,607,594	7,787,594
2009	3,350,000	4,436,668	7,786,668
2010	3,530,000	4,255,770	7,785,770
2011-2015	20,705,000	18,220,468	38,925,468
2016-2020	13,480,000	13,341,400	26,821,400
2021-2025	17,660,000	9,165,838	26,825,838
2026-2030	23,170,000	3,658,275	26,828,275
	90,970,000	67,365,644	158,335,644
Less: Unamortized Bond Discount	1,093,741		1,093,741
	<u>\$ 89,876,259</u>	<u>\$ 67,365,644</u>	<u>\$ 157,241,903</u>

c. Storm Water

The Storm Water Fund issued \$52,170,000 in Storm Water Revenue Bonds, Series 2000, on November 7, 2000. The bonds will be repaid solely from pledged revenues of the Storm Water System. They are registered transcripts and insured. The bonds were issued to construct certain improvements to the Storm Water utility. Indebtedness of the Storm Water Fund at September 30, 2005 is as follows:

\$52,170,000 2000 Storm Water Revenue Bonds Due in annual installments through 2030:  
Interest at 4.5%-5.75% \$48,605,000

The aggregate maturities of Long-term debt at September 30, 2005 are as follows:

Fiscal Year Ending September 30	Bonded Debt		
	Principal	Interest	Total
2006	\$ 995,000	\$ 2,575,997	\$ 3,570,997
2007	1,040,000	2,531,221	3,571,221
2008	1,085,000	2,484,421	3,569,421
2009	1,135,000	2,434,511	3,569,511
2010	1,190,000	2,381,167	3,571,167
2011-2015	6,935,000	10,916,404	17,851,404
2016-2020	9,120,000	8,723,643	17,843,643
2021-2025	11,810,000	6,034,131	17,844,131
2026-2030	15,295,000	2,552,857	17,847,857
	48,605,000	40,634,352	89,239,352
Less: Unamortized Bond Discount	556,442		556,442
	<u>\$ 48,048,558</u>	<u>\$ 40,634,352</u>	<u>\$ 88,682,910</u>

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**4. Due to Developers**

Amount classified as "due to developer" represents the estimated amount of the cost that the Agency is legally required to perform based on a settlement agreement. The settlement agreement calls for specific performance by the Agency, which includes, but not limited to, the following:

- a. Provide an additional 485 parking spaces for both the south and north parcels of the property. In addition, provide for laundry and bathroom facilities on the north parcel of the property;
- b. Provide valet service for the Marina during construction on the north parcel of the property;
- c. Responsible for the seawall along the property;
- d. Release a utility easement in favor of the City across the "Diamond C Parcel";
- e. Responsible for improving the "Alaska Parcel" for temporary parking for the construction on the north parcel of the property;
- f. Provide for use of sidewalk and the westernmost lane of Alton Road to be used as staging areas for construction on the north parcel of the property; and
- g. Remove a pump station on the north parcel of the property.

As of September 30, 2005, the estimated remaining costs of such performance as per the settlement agreement was approximately \$311,814.

**5. Loans**

In October 2001, the City entered into a loan agreement that allows the City to be reimbursed for purchases of machinery and equipment up to a maximum of \$21,000,000. The interest is calculated at funding at ninety day LIBOR rates times 64%, plus spreads for the specified life terms. At September 30, 2005, the City was indebted for \$12,856,117.

The aggregate maturities of loans at September 30, 2005, is as follows:

Fiscal Year Ending September 30	Loans		
	Principal	Interest	Total
2006	\$ 2,051,810	\$ 287,253	\$ 2,339,063
2007	2,157,846	302,098	2,459,944
2008	2,118,444	296,582	2,415,026
2009	1,748,788	244,830	1,993,618
2010	1,278,914	179,048	1,457,962
2011-2015	3,500,315	490,044	3,990,359
	<u>\$ 12,856,117</u>	<u>\$ 1,799,855</u>	<u>\$ 14,655,972</u>

The above debt has been recorded in the following funds:

Internal Service	\$ 12,295,306
Other Enterprise	560,811
	<u>\$ 12,856,117</u>

**CITY OF MIAMI BEACH, FLORIDA**  
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**6. Other Obligations**

On June 28, 1999, the City issued a Non-ad Valorem Revenue Note, Series 1999, to Florida Power & Light Company ("FPL") in the amount of \$3,941,059 with an annual interest rate not to exceed 4.75 percent. The note is for a ten year period and interest and principal payments of \$248,857 are due on the first day of June and December of each year until June 1, 2009. The City issued the note to finance a contribution to aid construction of an underground electric transmission line within the City limits. At September 30, 2005 the City was indebted for \$1,793,890.

On September 27, 2000, the City was granted a \$4,000,000 Section 108 U. S. Housing and Urban Development loan. The City has drawn \$4,000,000 of this loan for improvements to neighborhood Streets, North Shore Park and Youth Center. At September 30, 2005, the outstanding balance on the amount drawn was \$2,295,000. The interest rate on this loan is a variable rate (LIBOR plus 20 basis points or .2%) Principal payments are made annually on the first of August and interest payments are made quarterly. This loan matures on August 1, 2010.

The aggregate maturities of other long-term obligations at September 30, 2005, is as follows:

Fiscal Year Ending September 30	Long-term Obligation	Interest	Total
2006	\$ 822,403	\$ 80,312	\$ 902,715
2007	867,466	60,249	927,715
2008	913,492	39,223	952,715
2009	970,529	17,186	987,715
2010	515,000		515,000
	<u>\$ 4,088,890</u>	<u>\$ 196,970</u>	<u>\$ 4,285,860</u>

**7. Advance and Current Refundings**

On September 22, 2005, the Agency issued a total of \$80,770,000 in Tax Increment Revenue Refunding Bonds, Series 2005A and 2005B, with interest rates ranging from 4.310% to 5.220%, depending on maturity. The proceeds were used to advance refund the following bonds:

Bonds Refunded	Amount Refunded
\$25,000,000 Tax Increment Revenue Bonds, Series 1993	\$ 19,460,000
\$37,500,000 Tax Increment Revenue Bonds, Series 1996A	31,005,000
\$ 7,705,000 Tax Increment Revenue Bonds, Series 1996B	5,855,000
\$29,105,000 Tax Increment Revenue Bonds, Series 1998A	12,240,000
\$ 9,135,000 Tax Increment Revenue Bonds, Series 1998B	6,515,000
	<u>\$ 75,075,000</u>

The net proceeds of \$80,492,308 (after payments of \$277,692 in underwriting fees, issuance and other costs, and net of original issue premium) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the above mentioned bonds. As a result, \$75,075,000 of the above bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets. The Agency advance refunded the above mentioned bonds to obtain a net present value economic gain of \$7,018,611.

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**(Continued)**

The City issued \$53,030,000 of Taxable Special Obligation Refunding Bonds for the purposes of, together with other legally available funds of the City, (i) refunding the City's outstanding Taxable Special Obligation Bonds, Series 1994, maturing September 1, 2005 and September 1, 2021 (the "Refunded Bonds"), (ii) making a required termination payment of \$9,939,921 with respect to a Hedge Agreement and (iii) paying the costs of issuing the Series 2005 Bonds and refunding the Refunded Bonds, including the premiums for the Bond Insurance Policy and the Reserve Account Surety Bond. The issuance of these bonds resulted in the City's debt payments remaining essentially unchanged relative to the Series 1994 debt service; however the City eliminates interest rate, counterparty and liquidity facility renewal risk.

**8. Changes in long-term liabilities**

Long-term liability activity for the year ended September 30, 2005, was as follows:

**Governmental activities:**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Bonds payable:</b>					
General obligation	\$ 93,475,000	\$	\$ 5,975,000	\$ 87,500,000	\$ 6,060,000
Special obligation	182,516,256	133,800,000	124,409,732	191,906,524	7,001,592
Total bonds payable	<u>275,991,256</u>	<u>133,800,000</u>	<u>130,384,732</u>	<u>279,406,524</u>	<u>13,061,592</u>
Due to developer	185,859	136,000	10,045	311,814	311,814
Claims and judgements	16,332,775	6,898,945	4,944,020	18,287,700	6,353,221
Compensated absences	14,038,243	1,579,440	1,697,903	13,919,780	1,826,150
Other obligations	2,909,151	1,958,000	778,261	4,088,890	822,403
Loans payable	11,628,508	5,169,124	4,502,326	12,295,306	1,900,500
Governmental activity					
Long-term liabilities	<u>321,085,792</u>	<u>149,541,509</u>	<u>142,317,287</u>	<u>328,310,014</u>	<u>24,275,680</u>
<b>Business-type activities:</b>					
Revenue bonds payable	175,828,744		5,065,276	170,763,468	5,313,400
Less deferred amounts:					
for issuance discounts					
on refunding	2,442,709		141,105	2,301,604	141,089
Total bonds payable	<u>173,386,035</u>		<u>4,924,171</u>	<u>168,461,864</u>	<u>5,172,311</u>
Loans payable	621,548	111,211	171,948	560,811	171,947
Compensated absences	996,530	409,032	288,097	1,117,465	246,334
Deposits	7,434,026	3,648,157	2,755,208	8,326,975	
Business-type activity					
Long-term liabilities	<u>\$ 182,438,139</u>	<u>\$ 4,168,400</u>	<u>\$ 8,139,424</u>	<u>\$ 178,467,115</u>	<u>\$ 5,590,592</u>

The City's internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At September 30, 2005, \$1,091,496 internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the internal service and general fund respectively.

**CITY OF MIAMI BEACH, FLORIDA**  
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**9. Restricted assets**

The balances of the restricted asset accounts in the Enterprise Funds are as follows:

	Storm Water	Water and Sewer	Parking Systems	Convention Center Complex	Other Enterprise Funds	Total
Customer deposits	\$	\$ 6,330,781	\$ 51,780	\$ 1,881,160	\$ 63,254	\$ 8,326,975
Interlocal agreement				15,594,017		15,594,017
Revenue Bonds - construction	49,256,782	47,344,260	13,510,476			110,111,518
Revenue Bonds - debt service	3,572,213	4,763,692	2,969,498			11,305,403
Revenue Bonds - future debt service			1,614,485			1,614,485
<b>Total Restricted Cash</b>	<b>\$ 52,828,995</b>	<b>\$ 58,438,733</b>	<b>\$ 18,146,239</b>	<b>\$ 17,475,177</b>	<b>\$ 63,254</b>	<b>\$ 146,952,398</b>

**H. Other Information**

**1. Risk Management**

The City is exposed to various risks of loss from civil liability to other parties (automobile liability, general liability, police professional liability, public official liability); statutory workers' compensation benefits for injured employees; and the theft or accidental damage to City property (buildings and business contents). The City established an internal service Self-Insurance Fund (the "Fund") to account for its risk financing activities. The Fund pays for all claims and judgments made against the City for accidental losses for which the City is self-insured, and the premium costs for insurance policies to protect the City's property.

All-Risk property insurance (exclusive of windstorm coverage) provides coverage for losses to City buildings above various deductible amounts. The City maintains no excess coverage with independent insurance carriers for the workers' compensation, general, automobile, police professional and public official liability self-insurance program. Premiums are charged to the respective City funds and determined based on amounts necessary to provide funding for current losses and to meet the required annual payments during the fiscal year. There were no settlements in excess of applicable insurance for the past three years. During fiscal year 2005, the City's total property insurance premium rate decreased 9.3%. However, premium cost increased 71% due to the increase in property values and purchase of additional windstorm insurance.

The Fund derives revenue from all City departments through an allocation formula and from investment income earned on reserved funds. The required funding levels of reserves and future needs was determined by an actuarial study performed by an external actuarial firm. The City funds and reserves on an "occurrence" basis, reserving for anticipated and known claims when they occur, regardless of the ultimate date of payment or disposition.

The following are the changes in the funds' claims liability amount during fiscal year 2005 and 2004 respectively:

	2005	2004
Unpaid claims, beginning of year	\$ 16,332,775	\$ 12,347,000
Incurred claims (include incurred but not yet reported)	6,898,945	8,446,482
Less: claim payments	4,944,020	4,460,707
<b>Unpaid claims, end of year</b>	<b>\$ 18,287,700</b>	<b>\$ 16,332,775</b>

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**2. Significant Commitments and Contingencies**

- a. The City, in the normal course of operations, is a party to various other actions in which plaintiffs have alleged certain damages. In all cases, management does not believe the disposition of these matters will materially affect the financial position of the City.
- b. The City participates in a number of Federal and State assisted grant programs, which are subject to financial and compliance audits. Audits for these programs are to be conducted at a future date, and the City expects the amount, if any, of the expenditures which may be disallowed by the granting agency to be immaterial.
- c. The Agency has committed to provide the developers of two hotels certain incentives. At September 30, 2005, the outstanding commitment balance was \$564,000. This amount will be used to construct a boardwalk, sidewalk and streetscape improvements, and restoration of a cultural center facility, and of the Colony Theater.
- d. The City believes it is in compliance with all material terms of bond indenture agreements, contracts, and federal, state and local laws and regulations.
- e. At September 30, 2005, the City recorded obligations to rebate arbitrage interest earnings on certain Revenue Bonds (the Bonds") issued after the passage of the Tax Reform Act of 1986. The proceeds of the Bonds were used to finance certain capital projects and acquisitions accounted for within the Storm Water Utility and Water and Sewer Funds.

The rebate to the Federal Government, required to be paid within five years from the date of issuance and each five years thereafter, is estimated to be \$305,236 and \$1.9 million for the Storm Water Utility and Water and Sewer Funds respectively. Both payments are due within the period ending September 30, 2006 and recording as current liabilities within its respective fund.

**3. Post Retirement Benefits**

The City paid \$4,782,124 for health, life and dental insurance coverage for its 1,771 participating retirees and beneficiaries during the fiscal year ended September, 30, 2005. Under City ordinances, retirees are entitled to 50% of the cost of health, life and dental insurance to be paid by the City. These expenditures are considered current costs and no provision for future funding has been made.

**4. Pension Plan**

**a. Retirement System For General Employees**

i. Plan Description

All full-time employees of the City, who work more than 30 hours per week and hold classified positions, except for Policemen and Fireman, are covered by the City's General Employees Retirement System (the "Plan"). A classified employee is one who is employed by the City on a regular basis, receives compensation from the City for personal services, and who is within a group or classification of employees designated by the Board of Trustees as eligible for membership in the Plan. The Plan is the administrator of a Single-Employer Defined Benefit Plan that was established by the City under Ordinance No. 1901 on November 1, 1971, as amended through January 10, 1996.

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At October 1, 2004 and 2003, membership consisted of the following:

	2004	2003
Retired and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	900	900
Current employees	590	587

Principally all full-time classified employees of the City, except those joining the 401(a) Plan, must participate in the Plan.

All employees in the Plan are segregated into three unions: American Federal of State, County, and Municipal Employees ("AFSCME"), CWA (formerly Benevolent) and Government Supervisors Association ("GSA"). Certain other employees are also segregated into a category called "Other"

The Plan provides retirement benefits as well as death and disability benefits at two different tiers depending on when the employees entered the program.

Generally, employee members of the System vest after 5 years. Members are eligible to retire at age 50 at a benefit of 3% of final average salary based on the highest two years salary for the first 15 years of service and 4% of final average salary thereafter to a maximum of 90%. However, certain employees who are members of the labor union "AFSCME" employed on or after April 30, 1993, employees in the classification of "Other" (non-unionized classified employees), employed on or after August 1, 1993, and employees who are members of the labor union "CWA" employed on or after February 21, 1994, vest after 10 years of service and are eligible to retire at age 60 with 10 years creditable service at a benefit level of 3% of their highest three years' average salary times years of service to a maximum of 80%. These benefit provisions and all other requirements are established by City Ordinance.

All employees who participate are required to contribute 10% of their salary to the Plan. Employees contribution as disclosed in the financial statements include buybacks.

ii. Funding Policy, Contributions Required and Contributions Made

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial cost method. The Plan also uses the level percentage of payroll method to amortize any unfunded actuarial accrued liability over a 30-year period. The unfunded actuarial accrued liability as of October 1, 2004, the date of the latest actuarial report, was \$ 25,977,745.

Effective October 1, 1996, the asset valuation method was changed to the difference between actual investment return and expected return and will be recognized over 5 years.

Significant actuarial assumptions used include: (a) investment return of 8.5%, net rate after investment related expenses; (b) 2000 Group Annuity Mortality Table; for those who have terminated employment before October 1, 1993, rates are based on the Plan's own experience; (c) for retirement, once a member is eligible to retire, a probability of retirement based on age is used (effective October 1, 1996); (d) projected salary increases of 6% per year compounded annually, attributable to inflation and (e) cost of living increases of 2.5% per year compounded annually.

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The Plan uses the following actuarial valuations:

Actuarial Cost Method	Entry age
Equivalent Single Amortization Period	32 years
Amortization Method	Level Dollar Method, closed
Amortization Period	30 years
Actuarial Asset Valuation Method	5 years smoothed market
Actuarial Assumptions:	
Investment rate of return	8.5%
Projected salary increases	6%
Inflation	4%
Cost of living adjustment (COLA)	2.5% Compounded

For the year ended September 30, 2005 the City was required to make a contribution of \$3,466,378 to the Plan in accordance with actuarially determined requirements computed through an actuarial valuation performed as of October 1, 2003. A contribution of \$3,466,378 was required for the year ended September 30, 2005 based on an actuarial valuation report as of October 1, 2003. For the year ended September 30, 2005, the employees contributed \$2,575,925 which represents 10.19% of covered payroll.

Effective with the Actuarial Valuation Report performed as of October 1, 2003, an employee transferring after September 30, 2003 from the Unclassified Employees and Elected Retirement System to the General Employee Retirement System will have transferred the actuarially determined accumulated benefit obligation that he or she has accrued. The amount of each accumulated benefit obligation of each such transferee will be determined by the actuarial valuation report as of October 1, and will be transferred during the fiscal year ended September 30. Conversely, an employee transferring from the General Employee Retirement System to the Unclassified Employees and Elected Retirement System will have transferred to Unclassified Retirement System the actuarially determined accumulated benefit obligation that he or she has accrued. The net amount due as a result of such transfer should be paid, or received, by the General Employee Retirement System. The Boards of both systems have agreed to this policy. Prior to this policy, when an employee transferred between systems only his or her contribution to the Plan was transferred.

iii. Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due. An analysis of funding progress for the fiscal year ended September 30, 2005, for the Retirement System for General Employees is as follows:

Year Ended September 30,	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2003	\$ -	N/A	\$ N/A
2004	1,806,367	100%	-
2005	3,466,378	100%	-

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**SEPTEMBER 30, 2005**  
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**b. Retirement System For Unclassified Employees and Elected Officials**

i. Plan Description

All elected officials and full-time employees of the City who have unclassified positions and who do not have civil service status are covered by the City's Unclassified Employees and Elected Official Retired System Plan (the "Plan"). The Plan is the administrator of a Single-Employer Defined Benefit Pension Plan that was established by the City in accordance with City Ordinance No. 88-2603. (the "ordinance"), as amended through February 19, 1997. At October 1, 2004 and 2003, membership consisted of the following:

	2004	2003
Retired and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	166	163
Current employees	135	127

Eligible employees in the predecessor plan prior to April 1, 1988 had the option to become a participant of the Plan or remain in the General Employee Retirement Plan. Each elected official and full-time unclassified employee of the City, subsequent to April 1, 1988, except for the City Manager and City Attorney, must participate in the Plan starting on the first day of employment. Subsequent to October 18, 1992, new employees have the option to join a 401(a) plan or the Plan.

Employee members of the System prior to October 18, 1992 vest after 5 years. Members are eligible to retire at age 50 with 5 years creditable service at a benefit of 4% for years earned prior to October 18, 1992, and 3% for years thereafter times the final average salary, to a maximum of 80%. New employee members of the System on or after October 18, 1992 vest after 10 years. Members are eligible to retire at age 60 with 10 years creditable service at a benefit of 3% of final 3 years average salary times years of service to a maximum of 80%. These benefit provisions and all other requirements are established by City Ordinance. All covered employees are required by ordinance to contribute 10% of their salary to the Plan. Employee contributions include buybacks.

ii. Funding Policy, Contributions Required and Contributions Made

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial cost method. The unfunded actuarial accrued liability as of October 1, 2004, the date of the latest actuarial report was \$5,391,558. The unfunded actuarial accrued liability is amortized over a period of 30 years, using a level dollar amount method.

Significant actuarial assumptions used in the latest actuarial report include: (a) investment return of 9.0%, net after administrative expenses; (b) 1983 Group Annuity Mortality Table for males and females (effective October 1, 1996); (c) for retirement, a probability of retirement based on age, once a member is eligible to retire, is used (effective October 1, 1996); (d) projected salary increases of 6.0% per year compounded annually; (e) cost of living increase of 1.5% per year and (f) projected inflation of 4% per year.

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SEPTEMBER 30, 2005  
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The Plan uses the following actuarial valuations:

Actuarial Cost Method	Frozen entry age
Actuarial Asset Valuation Method	Market value of assets
Amortization Method	Level dollar, closed
Amortization Period	30 years
Actuarial Assumptions:	
Investment rate of return	9%
Projected salary increases	6%
Inflation	4%
Cost of living adjustment (COLA)	1.5%

For the year ended September 30, 2005, the City was required to make a contribution of \$1,616,217 to the Plan in accordance with actuarially determined requirements computed through an actuarial valuation performed as of October 1, 2003. A contribution of \$670,335 was required for the year ended September 30, 2004 based on the actuarial valuation report performed as of October 1, 2002. For the year ended September 30, 2005, the employees contributed \$1,001,375, which represents 10.02% of covered payroll.

Effective with the Actuarial Valuation Report performed as of October 1, 2003, an employee transferring after September 30, 2003 from the General Employee Retirement System to the Unclassified Employee and Elected Official Retirement System will have transferred the actuarially determined accumulated benefit obligation that he or she has accrued. The amount of accumulated benefit obligation of each such transferee will be determined by the actuarial valuation report as of October 1, and will be transferred during the fiscal year ended September 30. Conversely, an employee transferring from the Unclassified Employees and Elected Officials Retirement System to the General Employee Retirement System will have transferred to General Employees Retirement System the actuarially determined accumulated benefit obligation that he or she has accrued. The net amount due as a result of such transfer should be paid, or received, by the Unclassified Employees and Elected Officials Retirement System. The Boards of both systems have agreed to this policy. Prior to this policy, when an employee transferred between systems only his or her contribution to the Plan was transferred.

iii. Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due. An analysis of funding progress for the fiscal year ended September 30, 2004, for the Retirement System for Non-Civil Service Employees is as follows:

Year Ended September 30,	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2003	\$ -	N/A	\$ N/A
2004	670,335	100%	-
2005	1,616,217	100%	-

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**(Continued)**

**c. Retirement System for Firefighters and Police Officers**

i. Plan Description

The City's Pension Fund for Firefighters and Police (the "Plan") was formally known as City Pension Fund for Fireman and Policeman – City of Miami Beach and City Supplemental Pension Fund for Firefighters and Police Officers – City of Miami Beach. The former plans were merged and the name was changed to City Pension Fund for Firefighters and Police Officers in the City of Miami Beach. The Plan is Defined Benefit Pension Plans covering substantially all police officers and firefighters of the City, as established by Chapter 23414, Laws of Florida, Special Acts of 1945 as amended through November 4, 2003.

Any member may retire on a service retirement pension upon the attainment of age 50 or, if earlier, the date when age and length of creditable service equals to at least 70.

Upon retirement, a member will receive a monthly pension, payable for life, equal to 3% of the average monthly salary for each of the first 15 years of creditable service and 4% of the average monthly salary for each year of creditable service in excess of 15 years, provided that the pension does not exceed 90% of the average monthly salary. The average monthly salary of the member is computed based on the salary for the two highest paid years prior to the date of retirement or the average of the last 2 paid years of the member prior to the date of retirement.

Effective November 4, 2003, A member who retires, enters the deferred retirement option plan, or separate from the City employment, and is entitled to service or disability benefits, may elect in lieu of such benefit, a joint and contingent survivor option, at any time prior to retirement. Under the joint and contingent survivor option, the member shall receive an actuarially adjustment retirement benefit during the member's lifetime, and have monthly benefit (or designated percentage of 25%, 50%, 66.67% or 75% thereof) continued after the member's death to and for the lifetime of the member's designated joint pensioner. The election of the joint and contingent survivor option shall be null and void if the designated joint pensioner dies before the member's retirement. The value of the joint and contingent survivor option shall be actuarially equivalent to the value otherwise payable.

In the alternative and in lieu of the normal form of benefit, the member may, at any time prior to retirement, elect to receive a lifetime retirement benefit with 120 monthly payments guaranteed. If the member should die before 120 monthly payments are made, benefits will continue to be paid to the member's designated beneficiary for the balance of the 120 month period. If the retired member is living after 120 monthly payments are made, the payment shall be continued for the member's remaining lifetime.

ii. Deferred retirement option plan

An active employee member may enter into the Deferred Retirement Option Plan (the DROP) on the first day of any month after attainment of age 50 or rule of 70 retirement and becoming eligible to receive a service retirement pension. Upon becoming eligible to participate in the DROP, an employee may elect to enter that program for a period not to exceed 36 months.

DROP participants have self-directed accounts, and the rate of return earned will therefore depend on the return of the particular accounts selected by the individuals. Once a member enters the DROP, their monthly retirement benefit is fixed, and their monthly benefit is paid into their DROP account. Upon termination of employment, the balance in the member's DROP account, including earnings, is payable to them and they also begin to receive their previously fixed monthly retirement benefit. The DROP is administrated by the Plan's Board of Trustees.

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At September 30, 2005, \$6,522,364, the total amount of the Deferred Retirement Option Plan payable represents the balance of the self-directed participants as all of the participants are now in the self-directed DROP.

At October 1, 2004 and 2003, the plan membership consisted of the following:

	As of October 1, 2004		As of October 1, 2003
Active Members	488		493
Deferred Vested Members	8		9
Retired Members:			
a. Service	360*		351*
b. Disabled	61		59
c. Beneficiaries	94	515	85
Total	1,011		997

\* Including members in the DROP

iii. Funding Policy, Contributions Required and Contributions Made.

The City (the "Employer") is required to contribute an actuarially determined amount that, when combined with members' contributions, will fully provide for all benefits as they become payable. Members of the Plan contribute 10% of their salary.

The contributions to the Plan for the year ended September 30, 2005, of \$16,960,734 were made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of October 1, 2003. The contributions consisted of \$16,960,734 normal cost (41.5% of current covered payroll). The City contributed \$11,978,155 (29.3% of current payroll) and employees contributed \$4,982,579 (12.2% of current covered payroll) including buybacks of \$874,362 and transfers of \$27,284.

Significant actuarial assumptions used include: (a) investment return of 8.5%; (b) projected salary increases of 4.53%-10.17% including 3.5% for inflation; and (c) post retirement benefit has a cost of living increases of 2.5% per year compounded annually.

The Plan uses the following actuarial valuations at 10/01/04:

Actuarial Cost Method	Normal entry age
Amortization Method	Level percentage, closed
Remaining amortization period	27 – 30 years
Asset Valuation Method	Market related value
Actuarial Assumptions:	
Investment rate of return	8.5%
Projected salary increases	4.53% - 10.17%
*Includes inflation at:	3.5%
Cost of living adjustment	2.5%

**CITY OF MIAMI BEACH, FLORIDA**  
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iv. Trend Information

Trend information indicates the progress made in accumulating sufficient assets to pay benefits when due. An analysis of funding progress for the fiscal year ended September 30, 2005, for the Retirement System for Fire Fighters and Police Officers is as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Annual</u> <u>Pension Cost</u>	<u>Percentage of</u> <u>Annual Pension Cost</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2003	\$ 8,577,326	100%	\$ -
2004	9,494,091	100%	-
2005	11,978,155	100%	-

**d. Firemen's and Police Relief and Pension Funds**

The City's fire fighters and police officers are members of two separate non-contributory money purchase benefit plans established under the provisions of Florida Statutes, Chapters 175 and 185, respectively. These plans are funded solely from proceeds of certain excise taxes levied by the City and imposed upon property and casualty insurance coverage within City limits. This tax, which is collected from insurers by the State of Florida, is remitted to the Plans' Boards of Trustees. The City is under no obligation to make any further contributions to the plans. The excise taxes received from the State of Florida and remitted to the plan was \$1,663,678 for the year ended September 30, 2005.

Plan benefits are allocated to participants based upon their service during the year and the level of funding received during the year. Participants are fully vested after 10 years of service with no benefits vested prior to 10 years of service, except those prior to June 1983. All benefits are paid in a lump sum format.

**e. Defined Contribution Retirement Plan-401(A)**

Effective October 18, 1992 City's Ordinance No. 92-2813 provided for the creation of a Defined Contribution Retirement Plan (the "Plan") under section 401(A) of the internal revenue code of 1986. The Plan provides retirement and other related benefits for eligible employees as an option over the other retirement systems sponsored by the City.

Any person employed on or after October 18, 1992, in the unclassified service of the City, has the right to select the Plan as an optional retirement plan to the Unclassified Employees and Elected Officials Retirement System. At the time of the Ordinance, employees of the City who were members of the Unclassified Employee and Elected Official Retirement System (the "System") had the irrevocable right to elect to transfer membership from the System to the Plan for a limited period of time.

The Plan is administrated by a Board of Trustees, which has the general responsibility for the proper operation and management of the Plan. The Plan complies with the provisions of section 401(A) of the Internal Revenue Code of 1986 and may be amended by the City Commission of the City of Miami Beach.

An employee joining the Plan is required to contribute 10% of their salary which the City matches with a 10% contribution. The Plan of each employee is the immediate property of the employee and investment of these funds is directed by the employee amongst choices of investment vehicles offered by Nationwide Retirement Solutions (formerly Public Employee Benefits Services Corporation – PEBSCO) or ICMA Retirement Corporation.

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Plan information as of and for the fiscal year ended September 30, 2005 is as follows:

Members in the Plan		393
City's contribution	\$1,862,168	
Percentage of covered payroll		10.09%
Employees' contribution	1,916,129	
Percentage of covered payroll		10.38%

**f. Financial Statements**

Each of the Retirement Systems are audited separately. Complete financial statements can be obtained at the following offices:

City of Miami Beach  
Retirement System for General Employees  
1700 Convention Center Drive  
Miami Beach, Florida 33139

City of Miami Beach  
Retirement System for Unclassified Employees  
and Elected Officials  
1700 Convention Center Drive  
Miami Beach, Florida 33139

City of Miami Beach  
Retirement System for Firefighters and  
Police Officers  
605 Lincoln Road, Suite 400  
Miami Beach, Florida 33139

Firemen's and Police Relief and Pension Funds are audited separately. Complete financial statements can be obtained at the following offices:

Miami Beach Policemen's Relief and Pension Fund  
999 11<sup>th</sup> Street  
Miami Beach, Florida 33139

Miami Beach Firemen's Relief and Pension Fund  
City of Miami Beach  
1700 Convention Center Drive  
Miami Beach, Florida 33139

**5. Subsequent Events**

On February 9, 2006, the Agency purchased the Miami City Ballet building located within the City Center district at a cost of \$3,849,400 in addition to the amount of earnest money deposited on September 23, 2005 of \$550,000 resulting in a total payment of \$4,399,400.