

TOWN OF CUTLER BAY, FLORIDA



Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2007

Town of Cutler Bay, Florida
Comprehensive Annual Financial Report
Fiscal Year Ended September 30, 2007

Prepared by Robert Daddario, CPA, Finance Director

TOWN OF CUTLER BAY, FLORIDA

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TOWN OF CUTLER BAY, FLORIDA

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INTRODUCTORY SECTION



Office of the Town Manager

Steven J. Alexander
Town Manager

February 15, 2008

To the Citizens of the Town of Cutler Bay:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Town of Cutler Bay, Florida, for the fiscal year ended September 30, 2007, pursuant to Section 218.39 of the Florida Statutes, Chapter 10.550 of the Rules of the Auditor General of the State of Florida, and the Town Charter. The financial statements included in this report conform to generally accepted accounting principles in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Town. The financial statements have been audited by Alberni, Caballero & Castellanos, L.L.P. Certified Public Accountants. The independent auditor has issued an unqualified opinion that this report fairly represents the financial position of the Town in conformity with GAAP.

The CAFR is divided into three parts. The Introductory Section provides a summary of the contents of the entire report and general information about the reporting entity. The Financial Section includes the Auditor's Opinion, Management's Discussion and Analysis (MD&A), the Basic Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information, and the Combining and Individual Fund Financial Statements and Schedules. Other financial information includes budgeting and other statements and schedules provided to supplement required financial data. The Statistical Section includes a number of tables that provide historical, social, economic and financial trend data that offers an overview of the Town's fiscal situation. The contents of the report have been influenced by compliance with GASB pronouncements, including Statement 34 that has required the preparation of new government-wide financial statements on a full accrual basis of accounting for all funds as well as Management's Discussion and Analysis. The MD&A can be found immediately following the independent auditors' report.

PROFILE OF THE GOVERNMENT

The Town of Cutler Bay (the "Town") is a political subdivision of the State of Florida located in Miami-Dade County (the "County") and was incorporated in November 2005. The Town operates under a Council-Manager form of government in which the Town elects five council members, one of whom is the Mayor. Except for the initial election and terms of office specified in the Town Charter, council members are elected for four year terms. The Town Council determines the policies that guide the Town's operations and hiring a Town Manager to implement and administer these policies on a full-time basis. The Town of Cutler Bay provides a full range of municipal services including police, parks and recreation facilities, building and zoning, planning, code enforcement, and public works.

The annual budget serves as the foundation for the Town's financial planning and control. All departments of the Town are required to submit proposed budgets to the Town Manager, who then makes any necessary revisions. The Town Manager then presents to the Town Council for their review, a budget estimate of the expenditures and revenues of all the Town's departments and divisions. Two public hearings are then conducted to inform taxpayers of the proposed budget, to receive their comments, and respond to their questions of the proposed budget. A majority affirmative vote of the quorum is needed to adopt the budget, which is legally enacted prior to October 1st by the passage of an Ordinance. The Town's budget is approved at the department level. The Town Manager and Finance Director may amend the adopted budget for adjustments within a department. The Town Council must approve all other budget adjustments as well as any supplemental appropriations. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the fund from which it was appropriated and is subject to future appropriations.



Office of the Town Manager

Budgets are monitored at varying levels of classification detail; however, budgetary control is legally maintained at the fund level except for the General Fund, which is maintained at the departmental level. Budget-to-actual comparisons are provided in this report for each major individual governmental fund for which an appropriated annual budget has been adopted. For all non-major governmental funds with appropriated annual budgets, this comparison is presented in the combining and individual fund section of this report.

ECONOMIC CONDITION AND OUTLOOK

The Town is located in southeast Florida, Miami-Dade County, and is primarily residential in nature. It comprises approximately 10 square miles with approximately 40,000 full-time residents. The western-most area of the Town, located along the South Dixie Highway (U.S.1), is commercial in nature with hotels, restaurants and office complexes.

The Town has been successful in providing a high quality of life for its residents, by enhancing the level of services being offered. But in addition to the increased efforts to enhance services, the Town has also provided increased benefits to its employees, as recognition of the fact that, in order to continue to provide these valuable services, it must retain and reward its valuable employees.

Town administrators recognize the importance of increasing its commercial tax base for future economic health and to reduce the tax burden on the residents. To this end, the Town is pursuing a growth management plan that smartly incorporates "mixed-use" residential and commercial development within the Town as is consistent with such growth plan. On January 29, 2008, the Florida electorate approved an amendment to the Florida Constitution relative to property taxation. The amendment, which primarily provides for additional property tax exemptions and adds a "portability" provision, will impact the Town commencing in fiscal 2009 and will have a negative impact on the amount of property tax revenue the Town generates going forward, assuming the Town does not increase its millage rate or achieve growth in its tax base which will offset the amendment's effects.

LONG TERM FINANCIAL PLAN

The Town is pursuing grant and other funding opportunities to provide needed improvements to the Town, including funding for park land acquisition and improvements, road improvements and other public works projects. During fiscal year 2008, the Town anticipates that it will take possession of the local roadways within the Town from the County. The Town also anticipates completing a streets master plan to map out its plan to maintain and upgrade the local roadways it receives from the County.

Additionally, the Town anticipates creation of its own stormwater utility during fiscal year 2008 which would lead to the Town assuming that function from the County as well. The Town's operation of the stormwater utility within its Town boundaries will generate revenues which will enable the Town to perform the functions and services to maintain the utility within Cutler Bay.

During fiscal year 2007, the County transferred to the Town park lands and related assets within the Town's boundaries. Pursuant to the transfer agreement, the Town agreed to continue to operate such facilities as public parks in perpetuity. The Town's recreation infrastructure and facilities are aging and need renovation and/or replacement. During fiscal year 2008, the Town will prepare a parks master plan to develop its approach to upgrading and enhancing its facilities. The fiscal year 2008 budget also provides approximately \$2.7 million for park land acquisition and improvements, funded by various means including grants, impact fees and general fund sources.

FINANCIAL INFORMATION

Town management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable

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Office of the Town Manager

assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of state and local financial assistance, the Town is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management. In addition, the Town maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Town Council. The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is the departmental level within each fund.

The Town's *accounting system* is organized on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. The types of funds used are generally determined by the Town Council upon the recommendations of the Town Manager and the Finance Director which are based upon established and accepted accounting policies and procedures as well as the number of funds required.

CASH MANAGEMENT

The Town Council and Town Manager of the Town are fully charged with the security of the Town's funds and assets with the goal of maximizing return on surplus or idle cash. Cash management policies are clearly identified in the adopted budget documents along with regulations defined by the laws of the State of Florida. The Town's excess funds are invested primarily in interest bearing deposits in a qualified public depository. The principal focus of cash management is to ensure the safety of the Town's cash while maximizing its return on investment. During fiscal year 2007, the Town earned \$237,000 in investment income, as compared to \$43,800 earned in fiscal year 2006.

DEBT ADMINISTRATION

The Town has no separately issued debt instruments. Long-term debt at fiscal year-end 2007 and 2006 consists primarily of capital leases and compensated absences liabilities.

The Town is required to pay the County its pro rata share for the Public Service Tax Revenue Bonds, Series 1999, 2002 and 2006 issued or authorized prior to the Town's incorporation. The payments for the fiscal year ended September 30, 2007 and 2006 were approximately \$378,600 and \$257,200, respectively. The payment for fiscal year 2008 is anticipated to approximate \$379,200.

As a condition of incorporation, the Town agreed that, until the bonds have been paid or provision made for their payment pursuant to the ordinance enacted by the County, the County shall have the right to receive and apply to debt service on the bonds all of the public service taxes, as defined, collected on behalf of the Town with respect to bonds outstanding at the time of the municipal incorporation. The Town's debt service obligations as to the bonds in each fiscal year shall be its pro rata share of such debt service obligation. The Town's pro rata share will be equal to that percentage of the total debt service accruing on the bonds in such fiscal year calculated by multiplying such total debt service by a fraction the numerator of which will be the total amount of public service taxes collected within the boundaries of the unincorporated area comprising the boundaries of the Town during the fiscal year in which the Town incorporated and the denominator of which will be the total amount of public service taxes collected in the entire unincorporated area of the County. The balance of the public service taxes collected within the boundaries of the Town are remitted to the Town after the County satisfies the debt service requirements for the bonds.

RISK MANAGEMENT

The Town purchases general liability, automobile, property and casualty, and workers' compensation insurance coverage through the Florida League of Cities (the "FLC") risk pool program, a statewide pool with several hundred governmental members. The FLC pool is non-assessable. There is no self-insurance retention for the Town other than a \$1,000 per occurrence property deductible.



Office of the Town Manager

RETIREMENT BENEFITS

The Town elected to participate in the Florida Retirement System ("FRS") effective February 1, 2007. The FRS is a cost sharing, multiple employer, public retirement system controlled by the State Legislature and administered by the State of Florida Board of Administration, Division of Retirement. Benefits are established by Chapter 121, Florida Statutes and Chapter 22B, Florida Administrative Code. Amendments to the law can only be made by an act of the Florida Legislature.

Once an agency elects to participate in the FRS, membership is compulsory for all full-time and part-time employees working in a regularly established position, as defined. Contributions are currently funded entirely by employer contributions based on contribution rates, which vary by defined membership class, set by the State Legislature each year. The contribution rates are applied to the employees' eligible wages to calculate the required monthly contribution.

Participants (employees) have the option of joining one of two FRS plans, the FRS Pension Plan, a defined benefit plan, and the FRS Investment Plan, a defined contribution plan. Each plan has its own unique features and terms. Generally, employees are initially enrolled in the FRS Pension Plan but can make an election to switch into the FRS Investment Plan before the end of the fifth month following initial enrollment in the FRS. Outside of this window, the employee is provided one other opportunity to switch between plans at any future date. After electing that other one-time switch, the employee can no longer switch between plans.

As part of its participation in FRS, the Town elected to purchase "past service credit" for eligible employees and elected officials, which would provide FRS participation for eligible employees from his/her hire date through February 1, 2007 (the date of the Town's enrollment in FRS). The Town has appropriated budgeted funds in fiscal 2008 to pay for the past service credit.

INDEPENDENT AUDIT

In accordance with Florida Statutes Section 218.39, the Town has engaged the firm of Alberni, Caballero & Castellanos, L.L.P., to perform the independent audit of the Town's financial statements. The Independent Certified Public Accountant's report is included in the financial section of this Comprehensive Annual Financial Report.

AWARDS AND ACKNOWLEDGEMENTS

This year the Town has applied for the Certificate of Achievement for Excellence in Financial Reporting awarded by the Governmental Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

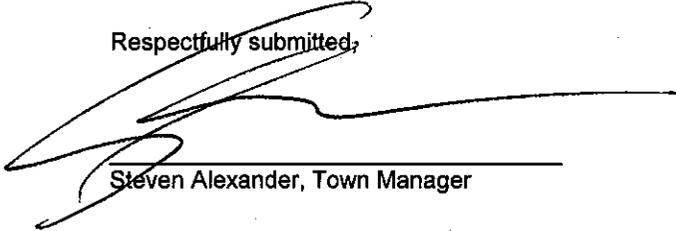
The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department and the Town's audit firm, Alberni, Caballero & Castellanos, L.L.P. We wish to express our appreciation to them for their interest and support in planning and conducting the financial operations of the Town in a responsible and progressive manner. Finally, we would also like to thank the various operating departments for their timely contributions in the writing of this report.



Office of the Town Manager

In closing, without the leadership and support of the Mayor and Town Council, the accomplishments and anticipated future successes noted in this report would not have been possible.

Respectfully submitted,



Steven Alexander, Town Manager



Robert Daddario, Finance Director

TOWN OF CUTLER BAY, FLORIDA

List of Elected Town Officials

September 30, 2007

Council-Manager Form of Government

TOWN COUNCIL

Paul Vrooman, Mayor

Edward MacDougall, Vice Mayor

Timothy Meerbott, Councilmember, Seat 1

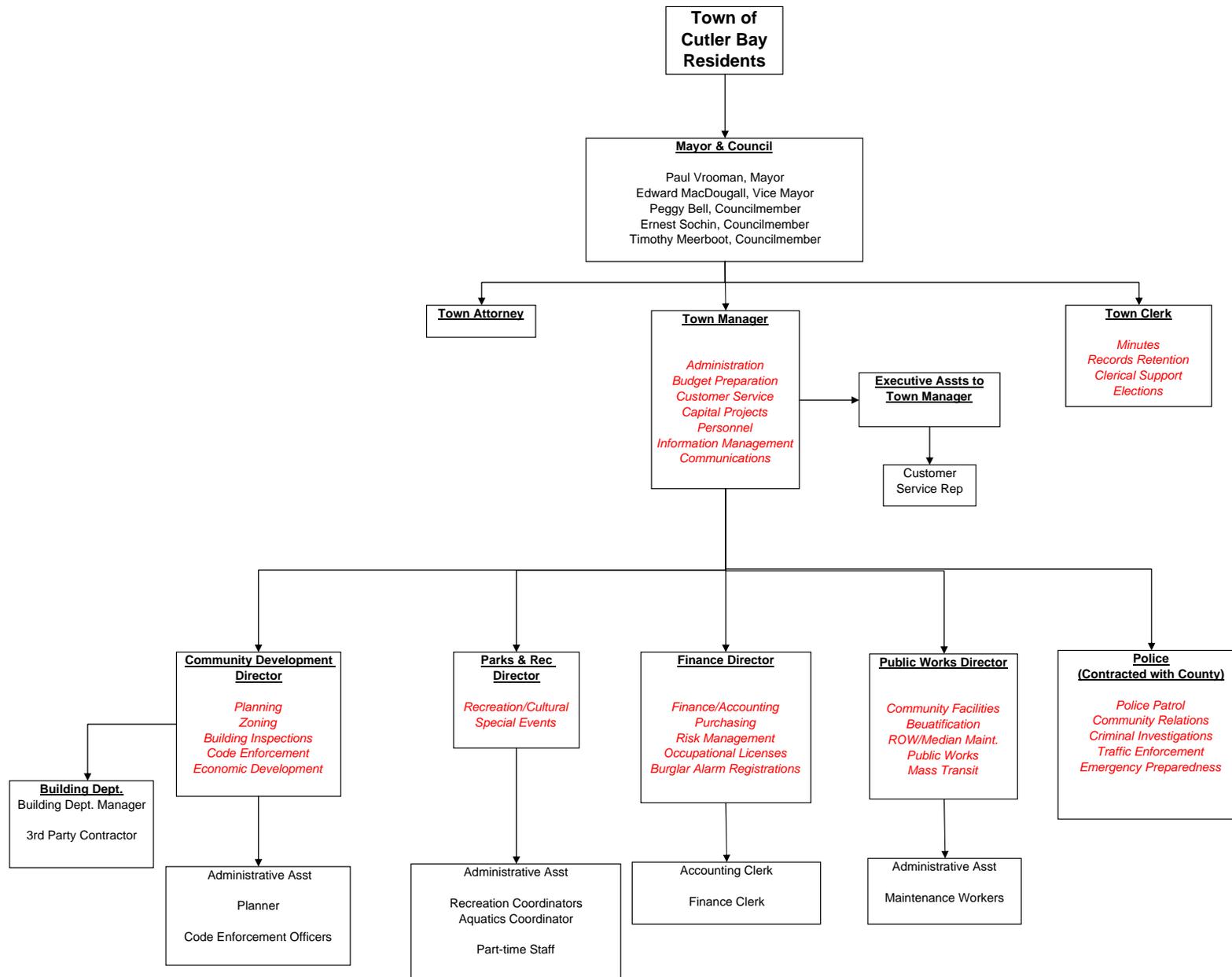
Ernest Sochin, Councilmember, Seat 2

Peggy Bell, Councilmember, Seat 3

Prepared by:

Finance Department and Administration

TOWN OF CUTLER BAY, FLORIDA
 ORGANIZATIONAL CHART
 SEPTEMBER 30, 2007



FINANCIAL SECTION

REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS



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SUITE 404
CORAL GABLES, FL 33146
TEL: 305-662-7272
FAX: 305-662-4266
ACC-CPA.COM

INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Town Council and Town Manager
Town of Cutler Bay, Florida

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town'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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Cutler Bay, Florida as of September 30, 2007, and the respective changes in financial position, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 15, 2008 on our consideration of the Town's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedules, listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor, Town Council and Town Manager
Town of Cutler Bay, Florida

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

Alfonso Estellans & Estellans LLP

February 15, 2008
Coral Gables, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)

Management's Discussion and Analysis

As management of the Town of Cutler Bay (the "Town"), we offer in conjunction with the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2007 with a comparative analysis with the prior fiscal period.

Financial Highlights

- The fiscal year ended September 30, 2007 was the Town's first full year of operations. The fiscal period ended September 30, 2006 was the Town's initial, interim period of operations which covered a period of less than twelve months. Virtually all of the Town's employees were hired in fiscal 2007 as only a few employees and contractors were utilized in the fiscal 2006 interim period, a period which was governed by an Interlocal agreement between the Town and Miami-Dade County (the "County").
- The assets of the Town exceeded its liabilities at September 30, 2007 by \$15.46 million (net assets). Of this amount, \$4.62 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$13.02 million from the total net assets balance at September 30, 2006. The increase results primarily from the Town's fiscal year 2007 operations and from transfer of park lands and related assets from the County to the Town. As part of the agreement to transfer the County park lands and related assets within the Town's boundaries to the Town, the Town agreed to continue to operate such facilities as public parks in perpetuity.
- As of September 30, 2007, the Town's governmental funds reported combined ending fund balances of \$6.02 million, an increase of \$3.66 million from the September 30, 2006 balances, which represents the net results of the Town's operations during the fiscal year. The increase reflects a full year of operations in fiscal 2007 versus fiscal 2006, which was a period of less than twelve months.
- At September 30, 2007, unreserved fund balance for the general fund was \$4.41 million, or 38% of total general fund expenditures, versus \$1.33 million and 16%, respectively, at September 30, 2006. The increase in unreserved fund balance, both in gross dollar terms and as a percentage of general fund expenditures, is a positive indicator of improved financial health of the government.
- Of the unreserved fund balance at September 30, 2007, \$1 million has been designated by management, and approved by Council, for contingencies and other operating emergencies.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Cutler Bay's basic financial statements. The basic financial statements are comprised of (a) government-wide financial statements, (b) fund financial statements, and (c) 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 Town's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Town'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 Town is improving or deteriorating.

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

Both of the government-wide financial statements of the Town are principally supported by taxes and intergovernmental revenues (governmental activities), and also reflect the transfer of infrastructure assets (park lands and related assets) to the Town from the County. The governmental activities of the Town include general government, public safety, public works, parks and recreation, and community development. The government-wide financial statements report on only the Town of Cutler Bay.

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 Town of Cutler Bay, like other state and local governments, uses fund accounting to ensure and demonstrate accountability for the collection and use of public resources. The use of funds is an important tool for governments to demonstrate their compliance with the lawfully permitted use of resources. All of the funds of the Town are governmental funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Cutler Bay maintains various governmental funds, some of which meet the criteria of major 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 and special revenue funds. Both of these funds are considered major funds. The Town also maintains two special revenue funds which do not meet the criteria of major funds. The totals of these funds are presented in the aforementioned governmental fund statements in a separate column entitled "Other Governmental Funds", with the detail provided in supplemental combining financial statements.

The Town of Cutler Bay adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for both the general and special revenue funds to demonstrate compliance with these budgets.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Cutler Bay, assets exceeded liabilities by \$15.46 million and \$2.44 million, respectively, at September 30, 2007 and 2006, an increase of \$13.02 million during fiscal 2007.

The largest portion of the Town's net assets at September 30, 2007 consists of capital assets, primarily park lands and related assets transferred to the Town by the County (a \$9.13 million capital contribution). The other significant components of net assets at September 30, 2007 and 2006 consist of cash on hand and receivables due from the County and the State of Florida (the "State").

Receivables at September 30, 2007 and 2006 consist primarily of amounts due from the County (\$414,800 and \$976,800, respectively) as well as intergovernmental receivables due from the State (\$566,500 and \$221,500, respectively).

The receivables due from the County at September 30, 2007 related primarily to utility taxes due the Town at that date, while the 2006 balance due from the County relates to the balance owed to the Town by the County pursuant to the Interlocal agreement governing the Town's first interim fiscal operating period.

The increase in intergovernmental receivables at September 30, 2007 over the comparable 2006 balance reflects the fact that, at the end of the fiscal 2006 period, the Town was just beginning to directly receive certain of its intergovernmental revenues from the State while in fiscal 2007 the Town was receiving all of its intergovernmental State revenue sources directly. In the fiscal 2006 period, virtually all of the Town's revenues were pass-through items from the County pursuant to the governing Interlocal agreement (see preceding paragraph). Accordingly, the year-end fiscal 2007 period reflects more activity with the State related to intergovernmental revenues.

Town of Cutler Bay's Net Assets
Governmental Activities
(in thousands)

	<u>September 30,</u>	
	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 6,956	\$ 2,982
Capital assets, net	9,619	136
	-----	-----
Total assets	\$ 16,575	\$ 3,118
	=====	=====
Long-term liabilities	\$ 128	\$ 47
Other liabilities	990	630
	-----	-----
Total liabilities	\$ 1,118	\$ 677
	=====	=====
Net assets	\$ 15,457	\$ 2,441
	=====	=====
Invested in capital assets, net of related debt	\$ 9,479	\$ 73
Restricted	1,355	994
Unrestricted	4,623	1,374
	-----	-----
	\$ 15,457	\$ 2,441
	=====	=====

The balance of unrestricted net assets (\$4.62 million and \$1.37 million, respectively at September 30, 2007 and 2006) may be used to meet the government's ongoing obligations to citizens and creditors.

At September 30, 2007 and 2006, the Town of Cutler Bay is able to report positive balances in all three categories of net assets.

Governmental activities. Governmental activities increased net assets by \$13.02 million and \$2.44 million, respectively at September 30, 2007 and 2006, representing the results of the Town's operations for the applicable fiscal periods and, as to the fiscal 2007 period, the transfer of park lands and related assets from the County to the Town. Key elements in the changes in net assets activity are as follows:

Town of Cutler Bay's Changes in Net Assets
Governmental Activities
For the Fiscal Period Ended
(in thousands)

	<u>2007</u>	<u>September 30,</u> <u>2006</u>
Revenues		
Program revenues:		
Charges for services	\$ 1,415	\$ 841
Operating grants and contributions	586	349
Capital grants and contributions	9,320	138
General revenues:		
Taxes and franchise fees	12,664	9,421
Other	262	46
	-----	-----
Total revenues	24,247	10,795
	-----	-----
Expenses		
General government	2,834	2,266
Public safety	6,250	5,364
Parks and recreation	931	652
Community development	1,211	71
Interest on long-term debt	5	1
	-----	-----
Total expenses	11,231	8,354
	-----	-----
Increase in net assets	13,016	2,441
Net assets, beginning	2,441	--
	-----	-----
Net assets, ending	\$ 15,457	\$ 2,441
	=====	=====

- Taxes and franchise fees (\$12.66 million and \$9.42 million, respectively, for fiscal 2007 and fiscal 2006) comprised 52% and 87%, respectively, of total revenues of \$24.25 million and \$10.80 million for fiscal 2007 and fiscal 2006, respectively, with property taxes representing the largest single tax source (\$5.34 million in fiscal 2007 and \$3.59 million in fiscal 2006). The increase in these revenues in fiscal 2007 over fiscal 2006 amounts result primarily from (a) a full year of operations in fiscal 2007 and (b) growth in the Town's property tax base.
- Operating and capital grants and contributions (\$586,300 and \$9.32 million at September 30, 2007 and \$349,400 and \$137,900 at September 30, 2006, respectively) account for 41% and 5% of total revenues at September 30, 2007 and 2006, respectively. \$9.13 million of the fiscal 2007 capital grants and contributions represents the park lands and related assets transferred to the Town by the County. The remaining amounts in both the fiscal 2007 and fiscal 2006 periods are comprised primarily of local option gas tax receipts received by the Town. Use of these funds is restricted to certain prescribed uses.
- Charges for services account for 6% and 8% of total revenues at September 30, 2007 and 2006, respectively. The fiscal 2007 amounts consist primarily of building and zoning fees (\$833,600), park service fees and park impact fees (\$221,900) and public safety fines and forfeitures and impact fees (\$348,700). The fiscal 2006 amounts consist primarily of impact fees received for parks (\$555,900) and public safety (\$144,700). Use of these funds is generally restricted to certain prescribed uses.

Financial Analysis of the Government's Funds

The Town of Cutler Bay uses fund accounting to ensure and demonstrate accountability for the collection and use of public resources.

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

As of September 30, 2007 and 2006, the Town's governmental funds reported combined ending fund balances of \$6.02 million and \$2.36 million, respectively, generated from the Town's operations. The increase in the balance results primarily from a full year of operating activity in fiscal 2007. Approximately 73% and 56% of this amount, or \$4.41 million and \$1.33 million, respectively, constitutes unreserved fund balance at September 30, 2007 and 2006, respectively, which is available for spending at the government's discretion. Of the unreserved fund balance at September 30, 2007, \$1 million has been designated by management, and approved by Council, for contingencies and other operating emergencies. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for prepaid expenses or reserved for special revenue fund purposes.

The general fund is the primary operating fund of the Town of Cutler Bay. At September 30, 2007 and 2006, unreserved fund balance of the general fund was \$4.41 million and \$1.33 million, respectively. As a measure of the fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance at September 30, 2007 represents 38% of total general fund expenditures (16% at September 30, 2006), while total fund balance represents 41% of that same total fund expenditure amount (17% at September 30, 2006).

The fund balance of the Town of Cutler Bay's general fund increased by \$3.3 million and \$1.36 million during fiscal 2007 and fiscal 2006, respectively. The increase reflects the results of the Town's operating activity, which was a full year of operations in fiscal 2007 versus a less than a full twelve month period in fiscal 2006.

The special revenue fund was established to account for revenues whose expenditure is restricted to certain prescribed uses. During fiscal 2007 and fiscal 2006, the Town received, and recorded as special revenues, local option gas taxes, whose expenditure is limited to certain prescribed transportation related items, and parks and law enforcement impact fees, whose expenditure is limited to certain prescribed parks and public safety uses, respectively.

The fund balance of the Town of Cutler Bay's special revenue fund increased by \$359,700 and \$994,200, respectively, during fiscal 2007 and fiscal 2006, reflecting the net operating results for the respective fiscal periods.

General Fund Budget Highlights

During fiscal 2007 and fiscal 2006, the actual "excess of revenues over expenditures" exceeded the corresponding budgetary amounts by \$3.51 million and \$814,500, respectively. For fiscal 2007, the results were achieved as actual revenues exceeded budgeted amounts by \$847,800 while actual expenditures were \$2.66 million less than budgeted. In fiscal 2006, actual revenues were \$287,300 less than budgeted while actual expenditures were \$1.102 million less than budgeted. The favorable results in both fiscal periods result from close monitoring of operations by Town personnel.

There were no supplemental appropriations during either fiscal 2007 or fiscal 2006.

Special Revenue Fund Budget Highlights

During fiscal 2007, the actual "excess of revenues over expenditures" was \$2.41 million below budget while the corresponding amount for fiscal 2006 was \$243,300 more than budget. The fiscal 2007 results were due to two primary factors. First, the Town's budget estimates for fiscal 2007 building and permitting revenue, and corresponding impact fees, were based on projections the Town received from the County which turned out to be overly optimistic. Accordingly, actual revenues from these activities came in significantly under budget. Second, certain revenues, such as a portion of the local option gas taxes and building and zoning fees, were transferred to the general fund to cover qualified expenses incurred to carry out the functions related to those revenue sources. Accordingly, the actual revenues shown on the special revenue budgetary comparison schedule do not reflect these amounts (while the corresponding budget amounts are reflected).

Capital Assets and Debt Administration

Capital assets. The Town of Cutler Bay's investment in capital assets for its governmental activities as of September 30, 2007 and 2006, amounts to approximately \$9.62 million and \$135,800 (net of accumulated depreciation), respectively. This investment in capital assets includes acquisition, by purchase and/or through capital lease, of computer hardware and software, furniture and equipment, vehicles and improvements other than buildings which were necessary for the Town to operate, and , in the fiscal 2007 period, includes park lands and related assets transferred to the Town by the County.

The following summarizes the Town's investment in capital assets for its governmental activities, net of accumulated depreciation:

	2007	<u>September 30,</u> (in thousands)	<u>2006</u>
General government	\$ 240		\$ 113
Community development	41		9
Public safety	147		7
Parks	9,131		4
Public works	60		3
	-----		-----
Total	\$ 9,619		\$ 136
	=====		=====

Long-term debt. At September 30, 2007 and 2006, the Town's capital lease obligations were approximately \$139,500 and \$62,700, respectively, for governmental activities. The capital leases were entered into for the acquisition of vehicles, furniture and telecom equipment which are included in capital assets.

The Town has no separately issued debt. The Town is required to pay the County its pro rata share for the Public Service Tax Revenue Bonds, Series 1999, 2002 and 2006, issued or authorized prior to the Town's incorporation. The payment for the period ended September 30, 2007 was approximately \$378,600. The estimated payment for the fiscal year ended September 30, 2008 is approximately \$379,200.

As a condition of incorporation, the Town agreed that, until the bonds have been paid or provision made for their payment pursuant to the ordinance enacted by the County, the County shall have the right to receive and apply to debt service on the bonds all of the public service taxes, as defined, collected on behalf of the Town with respect to bonds outstanding at the time of the municipal incorporation. The Town's debt service obligations as to the bonds in each fiscal year shall be its pro rata share of such debt service obligation. The Town's pro rata share will be equal to that percentage of the total debt service accruing on the bonds in such fiscal year calculated by multiplying such total debt service by a fraction the numerator of which will be the total amount of public service taxes collected within the boundaries of the unincorporated area comprising the boundaries of the Town during the fiscal year in which the Town incorporated and the denominator of which will be the total amount of public service taxes collected in the entire unincorporated area of the County. The balance of the public service taxes collected within the boundaries of the Town are remitted to the Town after the County satisfies the debt service requirements for the bonds.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Miami-Dade County area at September 30, 2007 is 4.2%, which is an increase from a rate of 3.8% a year ago.
- Inflationary trends in the region compare unfavorably to national indices.
- In setting its fiscal 2008 budget, the Town adopted the same mil rate as was in effect for both fiscal 2007 and fiscal 2006.
- On January 29, 2008, the Florida electorate approved an amendment to the Florida Constitution relative to property taxation. The amendment, which primarily provides for additional property tax exemptions and adds a "portability" provision, will impact the Town commencing in fiscal 2009 and will have a negative impact on the amount of property tax revenue the Town generates going forward, assuming the Town does not increase its millage rate or achieve growth in its tax base which will offset the amendment's effects.

Requests for Information

This financial report is designed to provide a general overview of the Town of Cutler Bay's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Finance, 10720 Caribbean Blvd., Suite 105, Cutler Bay, FL 33189.

BASIC FINANCIAL STATEMENTS

TOWN OF CUTLER BAY, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

<u>ASSETS</u>	Governmental <u>Activities</u>
Cash and cash equivalents	\$ 4,255,895
Restricted cash and cash equivalents	1,355,365
Accounts receivable - net	1,076,326
Prepays	255,608
Other assets	12,758
Capital assets:	
Land	6,062,776
Building	1,238,279
Computer hardware and software	186,476
Furniture and equipment	382,223
Improvements other than building	1,895,392
Total capital assets	<u>9,765,146</u>
Less accumulated depreciation	<u>(146,374)</u>
Total capital assets - net	<u>9,618,772</u>
Total assets	<u>16,574,724</u>
<u>LIABILITIES</u>	
Accounts payable	920,152
Other liabilities	15,466
Noncurrent liabilities:	
The amount due in one year	54,404
The amount due in over one year	128,024
Total liabilities	<u>1,118,046</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	9,479,324
Restricted for:	
Capital projects	551,302
Public safety	174,778
Parks and recreation	629,285
Unrestricted	<u>4,621,989</u>
Total net assets	<u>\$ 15,456,678</u>

See notes to basic financial statements

TOWN OF CUTLER BAY, FLORIDA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2007

<u>Functions/programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	
Governmental activities:					
General government	\$ 2,834,148	\$ 10,914	\$ -	\$ -	\$ (2,823,234)
Public safety	6,249,705	348,726	-	-	(5,900,979)
Community development	1,211,490	833,563	586,030	186,068	394,171
Parks and recreation	931,051	221,865	265	9,133,587	8,424,666
Interest on long-term debt	4,570	-	-	-	(4,570)
Total governmental activities	<u>11,230,964</u>	<u>1,415,068</u>	<u>586,295</u>	<u>9,319,655</u>	<u>90,054</u>
General revenues:					
Property taxes					5,335,778
Utility taxes					2,684,168
Franchise fees on gross receipts					1,373,216
Intergovernmental (unrestricted)					3,270,556
Investment income					237,033
Miscellaneous					<u>24,597</u>
Change in net assets					<u>13,015,402</u>
Net assets, Beginning					<u>2,441,276</u>
Net assets, Ending					<u>\$ 15,456,678</u>

See notes to basic financial statements

TOWN OF CUTLER BAY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

	Major Funds		Other	Total
	General	Special Revenue Fund	Governmental Funds	Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 5,609,750	\$ -	\$ -	\$ 5,609,750
Restricted cash and cash equivalents	1,510	-	-	1,510
Accounts receivable - net	1,076,061	-	265	1,076,326
Prepays	255,608	-	-	255,608
Other assets	12,759	-	-	12,759
Due from other funds	90,265	1,353,855	90,000	1,534,120
Total assets	\$ 7,045,953	\$ 1,353,855	\$ 90,265	\$ 8,490,073
<u>LIABILITIES AND FUND BALANCES</u>				
Accounts payable	\$ 920,153	\$ -	\$ -	\$ 920,153
Accrued compensated absences	3,144	-	-	3,144
Deferred revenues	15,466	-	-	15,466
Due to other funds	1,443,855	-	90,265	1,534,120
Total liabilities	2,382,618	-	90,265	2,472,883
<u>FUND BALANCES</u>				
Reserved for:				
Prepays	255,608	-	-	255,608
Capital projects	-	551,302	-	551,302
Parks and recreation		629,285	-	629,285
Public safety	1,510	173,268	-	174,778
Unreserved:				
Designated for:				
Contingencies and emergencies	1,000,000	-	-	1,000,000
Undesignated	3,406,217	-	-	3,406,217
Total fund balances	4,663,335	1,353,855	-	6,017,190
Total liabilities and fund balances	\$ 7,045,953	\$ 1,353,855	\$ 90,265	\$ 8,490,073

See notes to basic financial statements

TOWN OF CUTLER BAY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

Fund balances - total government funds (Page 12) \$ 6,017,190

Amounts reported for governmental activities in the statement
of net assets are different as a result of:

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

Governmental capital assets	9,765,146
Less accumulated depreciation	(146,374)

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

Capital leases	(139,447)
Compensated absences	<u>(39,837)</u>

Net assets of governmental activities (Page 10) \$ 15,456,678

TOWN OF CUTLER BAY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General	Special Revenue Fund		
Revenues:				
Property taxes	\$ 5,335,778	\$ -	\$ -	\$ 5,335,778
Franchise fees	1,373,216	-	-	1,373,216
Utility taxes	2,725,188	-	-	2,725,188
Charges for services	257,469	-	-	257,469
Intergovernmental	3,749,866	186,068	90,265	4,026,199
Licenses and permits	833,563	-	-	833,563
Impact fees	-	91,961	-	91,961
Fines and forfeitures	222,075	10,000	-	232,075
Interest	165,404	71,629	-	237,033
Miscellaneous	24,597	-	-	24,597
Total revenues	14,687,156	359,658	90,265	15,137,079
Expenditures:				
Current:				
General government	2,640,121	-	90,000	2,730,121
Public safety	6,224,741	-	-	6,224,741
Community development	1,185,763	-	-	1,185,763
Parks and recreation	915,199	-	265	915,464
Debt service:				
Principal retirement	44,835	-	-	44,835
Interest	4,570	-	-	4,570
Capital outlay:				
General government	298,638	-	-	298,638
Public safety	160,001	-	-	160,001
Community development	33,022	-	-	33,022
Parks and recreation	2,793	-	-	2,793
Total expenditures	11,509,683	-	90,265	11,599,948
Excess (Deficiency) of revenues over expenditures and other financing sources (uses):	3,177,473	359,658	-	3,537,131
Other financing sources (uses) :				
Proceeds from capital leases	121,537	-	-	121,537
Total other financing sources (uses)	121,537	-	-	121,537
Net change in fund balances	3,299,010	359,658	-	3,658,668
Fund balances - Beginning	1,364,325	994,197	-	2,358,522
Fund balances - Ending	\$ 4,663,335	\$ 1,353,855	\$ -	\$ 6,017,190

See notes to basic financial statements

TOWN OF CUTLER BAY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2007

Amounts reported for governmental activities in the statement of activities are different as a result of:

Net change in fund balances - total government funds (Page 14) \$ 3,658,668

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

Expenditures for capital outlays	\$ 494,454	
Less current year depreciation	<u>(141,329)</u>	353,125

The net effect of various transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets.

Transfers from of capital assets from Miami-Dade County	\$ 9,133,587	
Capital outlay which did not meet the threshold for capitalization	<u>(3,742)</u>	9,129,845

The issuance of long-term debt (e.g. bonds, leases) provided current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Proceeds from capital leases	(121,537)	
Principal payments on capital leases	<u>44,835</u>	(76,702)

Some expenses reported in the statement of activities do not require current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Expenses from county	7,580	
Compensated absences	<u>(32,813)</u>	<u>(25,233)</u>

Under the modified accrual basis of accounting used in the governmental funds, revenues are not recognized until the funds are measurable and available to finance current expenditures. In the statement of activities, however, which is presented on the accrual basis, revenues are reported when earned.

Revenues from Miami-Dade County		<u>(24,301)</u>
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Change in net assets of governmental activities (Page 11) \$ 13,015,402

NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF CUTLER BAY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of the Town of Cutler Bay, Florida's (the Town) significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. This report, the accounting systems and classification of accounts conform to standards of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

a. Financial Reporting Entity

The Town was incorporated on November 9, 2005 as a municipal corporation, resulting from the election authorized by Resolution R-1318-04 adopted by the Miami-Dade County Board of County Commissioners, and was established to conduct a government, perform municipal functions, and provide services to its citizens, as provided by the Constitution of the State of Florida and the Home Rule Charter of Miami-Dade County. The Town operates under a Council-Manager form of government. The Town Council is responsible for legislative and fiscal control of the Town. A Town Manager is appointed by the Town Council and is responsible for the administration of all Town affairs placed in the manager's charge by charter or action of the Town Council.

The financial statements were prepared in accordance with government accounting standards which establishes standards for defining and reporting on the financial reporting entity. The definition of the financial reporting entity is based upon the concept that elected officials are accountable to their constituents for their actions. One of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of the elected officials. The financial reporting entity consists of the Town, organizations for which the Town is financially accountable and other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Town is financially accountable for a component unit if it appoints a voting majority of the organization's governing board and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Town. Based upon the application of these criteria, there were no organizations which met the criteria described above.

b. Government-wide and fund financial statements

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

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

Separate financial statements are provided for governmental funds. Major individual governmental 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The Town reports the following major governmental funds:

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

The **special revenue fund** accounts for revenues and expenditures restricted to specific purposes/uses.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources and then from the unrestricted resources.

d. Assets, liabilities and net assets

1. Deposits

The Town's cash and cash equivalents are considered to be cash on hand and demand deposits.

2. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

3. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds.

All other receivables due from external sources are considered to be fully collectible and as such, an allowance for doubtful accounts has not been established.

4. Restricted Assets

Proceeds from police forfeiture funds, impact fees and local option gas taxes are classified as restricted in the Special Revenue Fund since these resources are specifically earmarked for law enforcement, transportation and recreational purposes only.

5. Property Taxes

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

Assessed values are established by the Miami-Dade County Property Appraiser. In November 1992, a Florida constitutional amendment was approved by the voters which provides for limiting the increases in homestead property valuations for Ad Valorem tax purposes to a maximum of 3% annually and also provides for reassessment of market values upon changes in ownership. The County bills and collects all property taxes and remits them to the Town.

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

6. Capital Assets

Capital assets, which include furniture, equipment, computer equipment, leasehold improvements and certain infrastructure assets (e.g. park lands, facilities and improvements) are reported in the government-wide financial statements. Capital assets, excluding infrastructure assets, are defined by the Town as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Infrastructure assets are recorded as capital assets if they have an initial, individual cost in excess of \$10,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

During 2007, Miami Dade County transferred certain land, building and equipment for parks. However; as of September 30, 2007 the County has not transferred the roads, sidewalks and similar items to the Town. As a result, no such infrastructure assets are reflected in the accompanying financial statements. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

	<u>Years</u>
Buildings	20
Improvements other than buildings	5-10
Furniture, equipment and software	3-5

When capital assets are sold or disposed of, the related cost and accumulated depreciation are removed from the accounts and a resulting gain or loss is recorded in the government-wide financial statements.

7. Compensated Absences

It is the Town's policy to permit employees to accumulate, within certain limits, earned but unused vacation time and sick leave. All vacation pay is accrued when incurred in the government-wide financial statements. The Town's sick leave policy does not meet the criteria for accrual under current accounting standards. In the governmental funds, a liability is recorded only when they matured, for example, as a result of employee resignations or retirements. Compensated absences of governmental funds are typically liquidated from the general fund.

The Town Manager, by contract, receives 160 hours of vacation leave per year. For employees other than the Town Manager, the vacation policy of the Town provides for employees to earn 80 hours of vacation leave during each of the first four years of service. From five through nine years of service, 120 hours are earned each year and for ten or more years of service, 160 hours are earned each year. Unused vacation leave, for all employees, including the Town Manager, may be carried over to the following year and accumulated up to a maximum of 280 hours. Employees who terminate employment under terms of voluntary separation are paid for all unused accumulated vacation leave at their final rate of pay.

Employees earn 96 hours of sick leave each year with a maximum accumulation of 1,040 hours. Unused sick leave is not paid to employees upon separation from Town service.

8. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets.

9. Grant Revenue

The Town, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any) when all applicable eligibility requirements, including time requirements, are met.

10. Fund Balance/Net Assets

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

Unreserved, undesignated fund balance is the portion of fund balance available for any lawful use.

In the government-wide financial statements, net assets represent the difference between assets and liabilities and are reported in three categories as hereafter described.

- Net assets invested in capital assets, net of related debt, represent capital assets, net of accumulated depreciation and any outstanding debt related to those assets.
- Net assets are reported as restricted when there are legal limitations imposed on their use by legislation, or external restrictions imposed by other governments, creditors, or grantors.
- Unrestricted net assets are net assets that do not meet the definitions of the classifications previously described.

11. Use of Estimates

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations. The Town has no material violations of finance-related legal and contractual obligations.

Fund Accounting Requirements- A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like any other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related requirements, and segregation for management purposes.

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

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Gas Tax	Roads, sidewalks, streets
Transportation Tax	Transportation and roads
South Florida Water Management District	Grant Program Expenditures
Police Forfeitures	Law Enforcement

For the year ended September 30, 2007, the Town complied, in all material respects, with these revenue restrictions.

III. DEPOSITS AND INVESTMENTS

Deposits

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

Investments

The Town does not have a written investment policy and follows the State of Florida investment policy as set forth in State Statute 218.415. In accordance with Section 218.415 of the Florida Statutes, the Town is authorized to invest in obligations of the U.S. Treasury, its agencies and instrumentalities and in the Local Government Surplus Trust Funds administered by the State Board of Administration (SBA).

As of September 30, 2007, the Town had no investments.

IV. RECEIVABLES/PAYABLES

Receivables

The Town's receivables at September 30, 2007 were as follows:

	Due from Miami-Dade County	State Revenue Sharing	Grants	Others	Totals
General fund	\$414,759	\$566,522	\$ 90,000	\$4,780	\$1,076,061
Non-major governmental funds	-	-	265	-	265
	<u>\$414,759</u>	<u>\$566,522</u>	<u>\$ 90,265</u>	<u>\$4,780</u>	<u>\$1,076,326</u>

All amounts due from Miami-Dade County, the State of Florida and grants are considered fully collectible.

Payables

	Due to Miami-Dade County	Vendors	Total
General fund	<u>\$352,798</u>	<u>\$567,355</u>	<u>\$920,153</u>

Interfund balances as of September 30, 2007, were as follows:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$90,265	\$1,443,855
Special Revenue Fund	1,353,855	-
Non-major governmental funds	<u>90,000</u>	<u>90,265</u>
	<u>\$1,534,120</u>	<u>\$1,534,120</u>

The outstanding balances between funds result primarily from revenues received in the general fund on behalf of special revenue funds.

V. CAPITAL ASSETS

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

	<u>Balance</u> <u>October 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>September 30,</u> <u>2007</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ -	\$6,062,776	\$ -	\$6,062,776
Total capital assets not being depreciated	<u>-</u>	<u>6,062,776</u>	<u>-</u>	<u>6,062,776</u>
Capital assets being depreciated:				
Building	-	1,238,279	-	1,238,279
Improvements other than buildings	4,091	1,891,301	-	1,895,392
Computer hardware and software	64,099	122,377	-	186,476
Furniture and equipment	<u>72,657</u>	<u>309,566</u>	<u>-</u>	<u>382,223</u>
Total capital assets being depreciated	<u>140,847</u>	<u>3,561,523</u>	<u>-</u>	<u>3,702,370</u>
Less accumulated depreciation for:				
Building	-	(2,580)	-	(2,580)
Improvements other than buildings	(34)	(23,452)	-	(23,486)
Computer hardware and software	(3,553)	(57,852)	-	(61,405)
Furniture and equipment	<u>(1,458)</u>	<u>(57,445)</u>	<u>-</u>	<u>(58,903)</u>
Total accumulated depreciation	<u>(5,045)</u>	<u>(141,329)</u>	<u>-</u>	<u>(146,374)</u>
Total capital assets being depreciated, net	<u>135,802</u>	<u>3,420,194</u>	<u>-</u>	<u>3,555,996</u>
Governmental activities capital assets, net	<u>\$135,802</u>	<u>\$9,482,970</u>	<u>\$ -</u>	<u>\$9,618,772</u>

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

General government	\$91,429
Public Safety	24,964
Community development	12,694
Culture and Recreation	<u>12,242</u>
Total depreciation expense – governmental activities	<u>\$141,329</u>

VI. LONG-TERM DEBT

The Town has entered into several lease agreements for the purchase of furniture, equipment and vehicles totaling approximately \$191,665.

These lease agreements qualify as capital leases for accounting purposes and, therefore, have been capitalized and a liability has been recorded at the net present value of the future minimum lease payments, as of the inception date.

The value of assets acquired through capital leases and accumulated depreciation are as follows:

Furniture and equipment	\$103,363
Vehicles	<u>88,302</u>
	\$191,665
Less accumulated depreciation	<u>(37,762)</u>
	<u>\$153,903</u>

Future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2007 are as follows:

Year ending September 30,	
2008	\$58,458
2009	50,469
2010	30,797
2011	<u>13,110</u>
Total	<u>152,834</u>
Less amount representing interest	<u>(13,387)</u>
	<u>\$139,447</u>

Changes in general long-term debt during the year were as follows:

	Balance October 1,			Balance September 30,	
	<u>2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>2007</u>	<u>Due Within One year</u>
Compensated absences	\$7,024	\$57,597	\$21,640	\$42,981	\$3,144
Capital leases	<u>62,744</u>	<u>121,537</u>	<u>44,834</u>	<u>139,447</u>	<u>51,260</u>
	<u>\$69,768</u>	<u>\$179,134</u>	<u>\$66,474</u>	<u>\$182,428</u>	<u>\$54,404</u>

VII. FLORIDA RETIREMENT SYSTEM

The Town elected to participate in the Florida Retirement System (FRS) effective February 1, 2007. The FRS is a cost sharing, multiple employer, public retirement system controlled by the State Legislature and administered by the State of Florida Board of Administration, Division of Retirement. Benefits are established by Chapter 121, Florida Statutes and Chapter 22B, Florida Administrative Code. Amendments to the law can only be made by an act of the Florida Legislature.

The most recent actuarial report was prepared as of July 1, 2007. Section 121.031(3) of the Florida Statutes requires that an actuarial review of the FRS be performed biannually. The conclusions of the review are included in the annual report of the FRS.

The Florida Retirement System issues a financial report that includes the financial statements and other statistically relevant financial information. That report may be obtained from the State of Florida, Division of Retirement, 2639 N. Monroe Street, Tallahassee, Florida 32399 or by calling (850) 488-2879.

Once an agency elects to participate in the FRS, membership is compulsory for all full-time and part-time employees working in a regularly established position, as defined. Contributions are currently funded entirely by employer contributions based on contribution rates, which vary by defined membership class, set by the State Legislature each year. The contribution rates are applied to the employees' eligible wages to calculate the required monthly contribution.

Participants (employees) have the option of joining one of two FRS plans, the FRS Pension Plan, a defined benefit plan, and the FRS Investment Plan, a defined contribution plan. Each plan has its own unique features and terms. Generally, employees are initially enrolled in the FRS Pension Plan but can make an election to switch into the FRS Investment Plan before the end of the fifth month following initial enrollment in the FRS. Outside of this window, the employee is provided one other opportunity to switch between plans at any future date. After electing that other one-time switch, the employee can no longer switch between plans.

FRS Pension Plan

In general, the FRS Pension Plan provides for vesting of benefits after 6 years of creditable service. For other than special risk classes, which do not currently apply to the Town, employees are eligible for normal retirement after six years of service and attaining age 62 or the age after 62 the member becomes vested or after thirty years of service regardless of age, whichever comes first. Early retirement may be taken any time after vesting; however, there is a 5% benefit reduction for each year from the member's retirement date to his/her normal retirement age. Benefits are computed on the basis of age and/or years of service, average final compensation, and service credit. Average final compensation is the average of the 5 highest fiscal years of earnings. The system also provides for death and disability benefits.

FRS Investment Plan

The FRS Investment Plan is a defined contribution retirement plan qualified under Section 401(a) of the Internal Revenue Code and was enacted as an optional retirement plan during the 2000 legislative session. Its formal name, as set out in Part II of Chapter 121, Florida Statutes, is the "Public Employee Optional Retirement Program".

Contribution amounts for employees participating in the FRS Investment Plan are calculated in the same manner as those participating in the FRS Pension Plan, as discussed previously. However, the FRS Investment Plan participants direct the investment of the funds contributed on their behalf among the investment funds available through the plan. For the FRS Investment Plan, vesting in all contributions and earnings thereon occurs after completion of 1 year of service. There is no "normal retirement age" for the FRS Investment Plan. Rather, when employment ends with all FRS employers, an employee/FRS Investment Plan participant can take the value of the account with him/her. The retirement benefit will depend on the account balance and the type of payout chosen.

As part of its participation in FRS, the Town elected to purchase "past service credit" for eligible employees and elected officials, which would provide FRS participation for eligible employees from his/her hire date through February 1, 2007 (the date of the Town's enrollment in FRS). The funding for this past service credit will be appropriated in future year budgets and paid prospectively. Based on the wages paid and the contribution rates in effect during this period, the estimated future cost for past service credit is approximately \$47,000 (of which approximately \$33,000 would relate to the period ended September 30, 2007). The Town can pay this past service credit over a period of no more than 15 years. However, no minimum or fixed installments are required to be paid in any given year. Further, FRS adds interest at the current rate of 6.5% on any unpaid balance as of June 30th of any fiscal year, and that revised balance carries forward until paid (and if unpaid by June 30 of the subsequent fiscal year, additional interest would be assessed at the then current rate set by Statute).

The Town's contribution to the Florida Retirement System was \$92,414 for the fiscal year ended September 30, 2007.

VIII. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Town participates in the Florida League of Cities (FLC) risk pool. This is a statewide pool with several hundred governmental members. FLC provides the Town with auto liability, general liability, property and workers' compensation coverage. The FLC pool is no assessable. There is no self-insured retention for the Town, excluding a \$1,000 per occurrence property deductible. FLC provides \$1,000,000 for general liability and statutorily required coverage for workers' compensation.

During its first two years, the Town has not incurred any significant claims nor have there been any significant reductions in coverage.

IX. COMMITMENTS AND CONTINGENCIES

Grants

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

Lawsuits

As of September 30, 2007, the Town was not involved in any lawsuits.

Operating Lease

The Town executed operating lease agreements, for office space and copiers for the period November 1, 2006 through October 31, 2009. The minimum lease payments under the lease agreements are as follows:

Year ending September 30,	
2008	\$194,091
2009	27,841
2010	<u>2,644</u>
Total	<u>\$224,575</u>

Agreement with Miami-Dade County for Local Police Patrol Services

On August 8, 2006, the Town executed an agreement with Miami-Dade County for local police patrol services. Services to the Town under the contract commenced on August 28, 2006. The County provides a quarterly reconciliation to the Town whereby these monthly budgeted amounts are compared with actual costs incurred and the resulting difference is billed or credited to the Town. Payments for the services provided by the County for subsequent fiscal years shall be based upon the level of staffing services requested by the Town utilizing the actual personnel costs of officers and equipment. For fiscal year 2007, approximately \$5,248,000 was paid by the Town for such services. Starting in fiscal year 2008, the Town will make regular monthly installments of \$462,000 to the County based on the budgeted level of staffing. The initial term of the agreement expires on July 20, 2009 and may be renewed for a period of up to five years.

Agreement with Miami-Dade County for Specialized Police Services

On August 8, 2006, the Town executed an agreement with Miami-Dade County for specialized police services. Services to the Town under the contract commenced on August 28, 2006. For fiscal year 2007, approximately \$737,000 was paid by the Town for such services. A payment credit is provided to the Town based on the contribution made by Town residents in their countywide millage for specialized police services. This ensures that there is no double taxation to the residents of the Town. Payments for the services provided by the County for subsequent fiscal years shall be determined by the County based on factors detailed in the agreement. The amount established for specialized services for fiscal year 2008 is approximately \$736,000. The initial term of the agreement expires in three years, unless otherwise terminated in accordance with Article X of the agreement; the agreement is automatically renewed for consecutive three year terms in perpetuity.

Quality Neighborhood Improvement Program (QNIP)

The Town is required to pay the County its pro rata share for the Public Service Tax Revenue Bonds, Series 1999, 2002 and 2006, issued or authorized prior to the Town's incorporation. The payment for the period ended September 30, 2007 was \$378,630. The estimated payment for the fiscal year ended September 30, 2008 is approximately \$379,150.

As a condition of incorporation, the Town agreed that, until the bonds have been paid or provision made for their payment pursuant to the ordinance enacted by the County, the County shall have the right to receive and apply to debt service on the bonds all of the public service taxes, as defined, collected on behalf of the Town with respect to bonds outstanding at the time of the municipal incorporation. The Town's debt service obligations as to the bonds in each fiscal year shall be its pro rata share of such debt service obligation. The Town's pro rata share will be equal to that percentage of the total debt service accruing on the bonds in such fiscal year calculated by multiplying such total debt service by a fraction the numerator of which will be the total amount of public service taxes collected within the boundaries of the unincorporated area comprising the boundaries of the Town during the fiscal year in which the Town incorporated and the denominator of which will be the total amount of public service taxes collected in the entire unincorporated area of the County. The balance of the public service taxes collected within the boundaries of the Town are remitted to the Town after the County satisfies the debt service requirements for the bonds.

X. SUBSEQUENT EVENTS

Property Tax Amendment 1

On January 29, 2008, the Florida electorate approved an amendment to the Florida Constitution relative to property taxation. This amendment (referred to as Amendment 1) was placed on the ballot by the Florida Legislature at a special session held in October 2007. With respect to homestead property, Amendment 1 increases the current \$25,000 homestead exemption by another \$25,000 (for property values between \$50,000 - \$75,000), except for school district taxes. Since the new \$25,000 homestead exemption does not apply to school district taxes, this effectively amounts to a \$15,000 increase to the existing homestead exemption, resulting in an estimated annual savings of \$240 for an average homeowner. Amendment 1 also allows property owners to transfer (make portable) up to \$500,000 of their Save Our Homes benefits to their next homestead when they move. Save Our Homes became effective in 1995 and limits (caps) the annual increase in assessed value for homestead property to three percent (3%) or the percentage change in the Consumer Price Index, whichever is less.

With respect to non-homestead property, Amendment 1 limits (caps) the annual increase in assessed value for non-homestead property (businesses, industrial property, rental property, second homes, etc.) to ten percent (10%), except for school district taxes. The Amendment also provides a \$25,000 exemption for tangible personal property.

Amendment 1 becomes effective on October 1, 2008, with the exception of the ten percent (10%) assessment cap on non-homestead property which becomes effective on January 1, 2009.

Based on information received from the Miami-Dade County Property Appraiser's Office, the estimated annual loss of property tax revenues for the Town from the additional homestead exemption and the \$25,000 exemption for tangible personal property is approximately \$540,000. At present, there is no accurate way to determine the impact of the portability and assessment cap on non-homestead property provisions in terms of potential loss of property tax revenues. Estimates for the Town based on information provided by the Miami-Dade County Property Appraiser's Office translate into an additional loss of property tax revenues of approximately \$100,000. These estimates by the Miami-Dade County Property Appraiser's Office were based on assumptions that may or may not transpire. Additionally, the estimates were calculated using 2007 property tax roll data. Any future growth in the Town's tax base after 2007 could help mitigate the negative impact of these property tax law changes on the Town's property tax revenues.

REQUIRED SUPPLEMENTARY INFORMATION
(Other Than MD&A)

TOWN OF CUTLER BAY, FLORIDA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive/(Negative)
Revenues:				
Property taxes	\$ 5,267,000	\$ 5,267,000	\$ 5,335,778	\$ 68,778
Franchise fees	1,007,000	1,007,000	1,373,216	366,216
Utility taxes	3,703,000	3,703,000	2,725,188	(977,812)
Charges for services	126,400	126,400	257,469	131,069
Intergovernmental	3,436,000	3,436,000	3,749,866	313,866
Licenses and permits	100,000	100,000	833,563	733,563
Fines and forfeitures	125,000	125,000	222,075	97,075
Interest	75,000	75,000	165,404	90,404
Miscellaneous	-	-	24,597	24,597
Total revenues	<u>13,839,400</u>	<u>13,839,400</u>	<u>14,687,156</u>	<u>847,756</u>
Expenditures:				
Current:				
General government	2,243,538	2,243,538	1,910,128	333,410
Legislative	151,375	151,375	104,817	46,558
Town clerk	218,851	218,851	142,188	76,663
Town attorney	360,000	360,000	308,152	51,848
Community development	2,560,010	2,560,010	1,226,366	1,333,644
Public works	725,427	725,427	515,304	210,123
Culture and recreation	1,262,304	1,262,304	917,991	344,313
Physical environment	<u>6,652,339</u>	<u>6,652,339</u>	<u>6,384,737</u>	<u>267,602</u>
Total expenditures	<u>14,173,844</u>	<u>14,173,844</u>	<u>11,509,683</u>	<u>2,664,161</u>
(Deficiency) Excess of revenues under expenditures before other financing sources (uses)	<u>(334,444)</u>	<u>(334,444)</u>	<u>3,177,473</u>	<u>3,511,917</u>
Other financing sources (uses):				
Appropriation of prior year fund balance	845,493	845,493	-	(845,493)
Reserve for future expenditures	(500,000)	(500,000)	-	500,000
Contingency reserve	(1,000,000)	(1,000,000)	-	1,000,000
Energy and insurance reserve	(100,000)	(100,000)	-	100,000
Grant match reserve	(250,000)	(250,000)	-	250,000
Reserve for prior year encumbrances	(50,000)	(50,000)	-	50,000
Reserve for wage adjustments	(100,000)	(100,000)	-	100,000
Tax equalization and revenue reserve	(87,049)	(87,049)	-	87,049
Transfers in	1,576,000	1,576,000	-	(1,576,000)
Proceeds from capital leases	-	-	121,537	121,537
Total other financing sources	<u>334,444</u>	<u>334,444</u>	<u>121,537</u>	<u>(212,907)</u>
Net change in fund balance	-	-	3,299,010	<u>3,299,010</u>
Fund balances - Beginning	-	-	1,364,325	
Fund balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,663,335</u>	

See notes to budgetary comparison schedule

TOWN OF CUTLER BAY, FLORIDA
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 674,000	\$ 674,000	\$ 186,068	\$ (487,932)
Licenses, permits and fines	1,476,000	1,476,000	-	(1,476,000)
Impact fees	617,936	617,936	91,961	(525,975)
Fine and forfeitures	-	-	10,000	10,000
Interest	-	-	<u>71,629</u>	<u>71,629</u>
Total revenues	<u>2,767,936</u>	<u>2,767,936</u>	<u>359,658</u>	<u>(2,408,278)</u>
Expenditures:				
Current:				
General government	-	-	-	-
Excess of revenues over expenditures and other financing uses	<u>2,767,936</u>	<u>2,767,936</u>	<u>359,658</u>	<u>(2,408,278)</u>
Other financing uses:				
Reserve for future police impact fees	(114,271)	(114,271)	-	114,271
Reserve for future park impact fees	(503,665)	(503,665)	-	503,665
Reserve for County public works projects	(184,000)	(184,000)	-	184,000
Reserve for future public works projects	(390,000)	(390,000)	-	390,000
Transfers out	<u>(1,576,000)</u>	<u>(1,576,000)</u>	-	<u>1,576,000</u>
Total other financing uses	<u>(2,767,936)</u>	<u>(2,767,936)</u>	-	<u>2,767,936</u>
Net change in fund balance	-	-	359,658	359,658
Fund balances, Beginning	-	-	994,197	
Fund balances, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,353,855</u>	

TOWN OF CUTLER BAY, FLORIDA
NOTES TO BUDGETARY COMPARISON SCHEDULES
FISCAL YEAR ENDED SEPTEMBER 30, 2007

Notes to Budgetary Comparison Schedule

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to September 1, the Town Manager submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to October 1, the budget is legally enacted through passage of two ordinances - one fixing a millage rate and another adopting the final budget.
- d. Appropriations which are neither expended, encumbered, or specifically designated to be carried over lapse at the end of the fiscal year.
- e. The Town prepares and adopts a budget for the General Fund and the Special Revenue Fund. The budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except for principal payments on their debt. No differences exist between the budgetary or GAAP basis of accounting. Budgeted amounts are as originally adopted, or as amended by the Town Council. The Town Manager may transfer any unencumbered line item allocation of funds, or any portion thereof, to another line item classification within the same department. Amendments to total budgeted appropriations of any of the Town's departments must be approved by the Town Council. Therefore, the legal level of control (level of which expenditures may not exceed the budget) is at the department level.
- f. During fiscal year ended September 30, 2007, there were no supplemental appropriations.
- g. Formal budgetary integration is employed as a management control device. Additionally, the Town does not utilize encumbrance accounting. Budget amendments were not material in relation to the original appropriation.

COMBINING AND INDIVIDUAL FUND STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenue that is legally restricted to expenditure for particular purposes.

Stormwater Fund – This fund was established to account for revenues derived from the South Florida Water Management District.

The Children's Trust Fund – This fund was established to account for revenues derived from the Children's Trust of Miami Dade County.

TOWN OF CUTLER BAY, FLORIDA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

	Special Revenue Funds		Total
	Stormwater Fund	The Children's Trust Fund	Nonmajor Governmental Funds
<u>ASSETS</u>			
Accounts receivable - net	\$ -	\$ 265	\$ 265
Due from other funds	90,000	-	90,000
Total assets	\$ 90,000	\$ 265	\$ 90,265
<u>LIABILITIES</u>			
Due to other funds	\$ 90,000	\$ 265	\$ 90,265
Total liabilities	90,000	265	90,265
<u>FUND BALANCES</u>			
Unreserved:			
Undesignated	-	-	-
Total fund balances	-	-	-
Total liabilities and Fund balances	\$ 90,000	\$ 265	\$ 90,265

TOWN OF CUTLER BAY, FLORIDA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2007

	<u>Special Revenue Funds</u>		
	<u>Stormwater</u>	<u>The Children's</u>	<u>Total</u>
	<u>Fund</u>	<u>Trust</u>	<u>Nonmajor</u>
		<u>Fund</u>	<u>Governmental</u>
			<u>Funds</u>
Revenues:			
Intergovernmental	\$ 90,000	\$ 265	\$ 90,265
Total revenues	<u>90,000</u>	<u>265</u>	<u>90,265</u>
Expenditures:			
Current:			
General government	90,000	-	90,000
Parks and recreation	-	265	265
Total expenditures	<u>90,000</u>	<u>265</u>	<u>90,265</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, Beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

STATISTICAL SECTION

STATISTICAL SECTION

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

<u>Contents</u>	<u>Page</u>
Financial Trends	
<i>These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time. These schedules include:</i>	32-35
Revenue Capacity	
<i>These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.</i>	36-40
Debt Capacity	
<i>These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.</i>	41-42
Demographic and Economic Information	
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.</i>	43-46
Operating Information	
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.</i>	47

TOWN OF CUTLER BAY, FLORIDA

Net Assets By Component
 Last Ten Fiscal Years (1)
 (accrual basis of accounting)

	Fiscal Year	
	2006	2007
Governmental activities:		
Invested in capital assets, net of related debt	\$ 73,058	\$ 9,479,324
Restricted	994,197	1,355,365
Unrestricted	1,374,021	4,621,989
Total governmental activities net assets	<u>\$ 2,441,276</u>	<u>\$ 15,456,678</u>
Primary government:		
Invested in capital assets, net of related debt	\$ 73,058	\$ 9,479,324
Restricted	994,197	1,355,365
Unrestricted	1,374,021	4,621,989
Total primary government net assets	<u>\$ 2,441,276</u>	<u>\$ 15,456,678</u>

(1) - Information for fiscal years prior to September 30, 2006 are unavailable in this format since the Town was incorporated in November 2005.

TOWN OF CUTLER BAY, FLORIDA

Changes in Net Assets
Last Ten Fiscal Years (1)
(accrual basis of accounting)

	Fiscal Year	
	2006	2007
EXPENSES		
Governmental activities:		
General government	\$ 2,266,246	\$ 2,834,148
Public safety	5,363,660	6,249,705
Community development	70,757	1,211,490
Parks	652,494	931,051
Interest on long-term debt	906	4,570
Total governmental activities	8,354,063	11,230,964
 Total primary government expenses	 8,354,063	 11,230,964
 PROGRAM REVENUES		
Governmental activities:		
Charges for services:		
General government	140,310	10,914
Public safety	144,735	348,726
Community development	-	833,563
Parks	555,857	221,865
Operating grants and contributions	349,393	586,295
Capital grants and contributions	137,881	9,319,655
Total governmental activities program revenues	1,328,176	11,321,018
 Total primary government revenues	 1,328,176	 11,321,018
 Net (expense) revenue of governmental activities	 (7,025,887)	 90,054
 Total primary government net expenses	 (7,025,887)	 90,054
 General revenues and Other Changes in Net Assets:		
Governmental activities:		
Property taxes	3,591,359	5,335,778
Utility taxes	2,460,001	2,684,168
Franchise fees based on gross receipts	960,000	1,373,216
Unrestricted intergovernmental revenue	2,409,983	3,270,556
Unrestricted interest earnings	43,806	237,033
Miscellaneous revenues	2,014	24,597
Total governmental activities	9,467,163	12,925,348
 Total primary government	 9,467,163	 12,925,348
 Change in Net Assets		
Governmental activities	\$ 2,441,276	\$ 13,015,402
 Total primary government	 \$ 2,441,276	 \$ 13,015,402

(1) - Information for fiscal years prior to September 30, 2006 are unavailable in this format since the Town was incorporated in November 2005.

TOWN OF CUTLER BAY, FLORIDA
Fund Balances of Governmental Funds
Last Ten Fiscal Years (1)
(modified accrual basis of accounting)

	Fiscal Year	
	2006	2007
General Fund		
Reserved	\$ 38,033	\$ 257,118
Unreserved	1,326,292	4,406,217
Total general fund	\$ 1,364,325	\$ 4,663,335
All other governmental funds		
Reserved	\$ 994,197	\$ 1,353,855
Total all other governmental funds	\$ 994,197	\$ 1,353,855

(1) - Information for fiscal years prior to September 30, 2006 are unavailable in this format since the Town was incorporated in November 2005.

TOWN OF CUTLER BAY, FLORIDA
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years (1)
(modified accrual basis of accounting)

	Fiscal Year	
	2006	2007
REVENUES		
Ad valorem taxes	\$ 3,591,359	\$ 5,335,778
Licenses, permits and fines	127,260	1,065,638
Utility taxes	2,449,745	2,725,188
Franchise fees	960,000	1,373,216
Intergovernmental revenue	2,897,257	4,026,199
Charges for services	700,592	349,430
Interest and other	44,826	261,630
Total revenues	<u>10,771,039</u>	<u>15,137,079</u>
EXPENDITURES		
Current:		
General government	2,245,553	2,730,121
Public safety	5,363,617	6,224,741
Community development	70,757	1,185,763
Parks	652,494	915,464
Capital outlay	141,934	494,454
Debt service:		
Principal	7,384	44,835
Interest	906	4,570
Total expenditures	<u>8,482,645</u>	<u>11,599,948</u>
Excess (deficiency) of revenues over expenditures	2,288,394	3,537,131
Other financing sources (uses):		
Capital lease proceeds	<u>70,128</u>	<u>121,537</u>
Net change in fund balances	<u><u>\$ 2,358,522</u></u>	<u><u>\$ 3,658,668</u></u>
Debt service as a percentage of noncapital expenditures	<u><u>0.1%</u></u>	<u><u>0.4%</u></u>

(1) - Information for fiscal years prior to September 30, 2006 are unavailable in this format since the Town was incorporated in November 2005.

TOWN OF CUTLER BAY, FLORIDA
 General Governmental Tax Revenues By Source
 Last Ten Fiscal Years (1)
 (accrual basis of accounting)

<u>Fiscal Year</u>	<u>Ad-Valorem Taxes General Purpose</u>	<u>Utility Tax</u>	<u>Intergovernmental</u>	<u>Franchise Tax</u>	<u>Interest</u>	<u>Miscellaneous</u>	<u>Total</u>
2006	\$ 3,591,359	\$ 2,460,001	\$ 2,409,983	\$ 960,000	\$ 43,806	\$ 2,014	\$ 9,467,163
2007	\$ 5,335,778	\$ 2,684,168	\$ 3,270,556	\$ 1,373,216	\$ 237,033	\$ 24,597	\$ 12,925,348

(1) - Information for fiscal years prior to September 30, 2006 are unavailable in this format since the Town was incorporated in November 2005.

TOWN OF CUTLER BAY, FLORIDA
 Assessed Value and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years (1)
 (amounts expressed in thousands, except as noted)

Fiscal Year	Real Property		Personal Property	Net Assessed Value	Total Direct Tax Rate (2)	Estimated Actual Value	Net Assessed Value as a Percentage of Estimated Actual Value
	Residential Property	Commercial Property					
2006	(1)	(1)	(1)	(1)	(1)	(1)	(1)
2007	\$ 1,752,683	\$ 431,400	\$ 46,852	\$ 2,230,935	2.4470	\$ 3,548,313	62.87%

Note: Property in the Town is reassessed each year. State law requires the Property Appraiser to appraise property at 100% of market value. The Florida Constitution was amended, effective January 1, 1995, to limit annual increases in assessed value of property with homestead exemption to 3% per year or the amount of the Consumer Price Index, whichever is less. The increase is not automatic since no assessed value shall exceed market value. Tax rates are per \$1,000 of assessed value.

Source: Miami-Dade County Property Appraisal office.

- (1) The Town incorporated in November 2005 and its first year of setting its millage rate was fiscal year 2007. Therefore, information for fiscal periods prior to that are not available.
- (2) Property tax rates are assessed per \$1,000 of taxable assessed valuation

TOWN OF CUTLER BAY, FLORIDA
Property Tax Rates
Direct and Overlapping Governments (2)
Last Ten Fiscal Years (1)

Fiscal Year	OVERLAPPING RATES							Total Direct and Overlapping Rates
	Town of Cutler Bay	County			Special Districts			
	Town-wide	County-wide	Debt Service	Fire	Library	School	State	
2006	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
2007	2.4470	5.6150	0.2850	2.6132	0.4860	8.1050	0.7355	20.2867

(1) The Town incorporated in November 2005 and its first year of setting its millage rate was fiscal year 2007. Therefore, information for fiscal periods prior to that are not available.

(2) Overlapping rates are those of local and county governments that apply to property owners within the Town of Cutler Bay.

Additional information:

Property tax rates are assessed per \$1,000 of taxable assessed valuation

Tax rate limits:

Town	10.0000 mills
County	10.0000 mills
School	10.0000 mills
State	10.0000 mills

Source: Miami-Dade County Property Appraisal office.

TOWN OF CUTLER BAY, FLORIDA

Principal Property Taxpayers

2007 (1)

(amounts expressed in thousands)

<u>Taxpayer</u>	<u>Assessed Valuation</u>	<u>Percentage Total Assessed Valuation</u>
SOUTHLAND MALL PROPERTIES LLC	\$ 40,283	1.8%
WRI TC S DADE SHOPPING CENTER LLC	22,400	1.0%
FLORIDA POWER AND LIGHT	14,172	0.6%
EQUITY ONE (POINT ROYALE) INC	13,038	0.6%
LENNAR HOMES INC	12,468	0.6%
A&E PARTNERS HOLDING LLC	10,320	0.5%
SEARS ROEBUCK & CO	9,900	0.4%
HEALTH CARE FUND	9,222	0.4%
HOMESTAR AT CUTLER BAY PALMS LLC	8,755	0.4%
ALL STORES REALTY CORP	8,200	0.4%
	<u>\$ 148,758</u>	<u>6.7%</u>

(1) - Information for fiscal years prior to September 30, 2006 are unavailable in this format since the Town was incorporated in November 2005.

Source: Miami-Dade County Property Appraisal office.

TOWN OF CUTLER BAY, FLORIDA
Property Tax Levies and Collection
Last Ten Fiscal Years (1)
(amounts expressed in thousands)

Fiscal Year	Total Taxes Levied for Fiscal Year	Collected Within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2006	(1)	(1)	(1)	(1)	(1)	(1)
2007	\$ 5,459,098	\$ 5,193,807	95.1%	\$ 141,971	\$ 5,335,778	97.7%

(1) The Town incorporated in November 2005 and its first year of setting its millage rate was fiscal year 2007. Therefore, information for fiscal periods prior to that are not available.

Note: Total adjusted tax levy is based on final assessed property tax values by Miami-Dade County Department of Property Appraisal Office after the Property Appraisal Adjustment Board has completed hearings on the tax roll, and before discounts.

Discounts Allowed:

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

Source: Miami-Dade County Tax Collector's Office.

TOWN OF CUTLER BAY, FLORIDA
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years (1)

<u>Fiscal Year</u>	<u>Governmental Activities Capital Leases</u>	<u>Total Primary Government</u>	<u>Percentage of Personal Income (2)</u>	<u>Per Capita (2)</u>
2006	\$ 62,744	\$ 62,744	0.5%	\$ 1.70
2007	\$ 139,447	\$ 139,447	n/a	\$ 3.76

(1) Information for fiscal years prior to September 30, 2006 are unavailable in this format since the Town was incorporated in November 2005.

(2) See the schedule of Demographics and Economic Statistics for the personal income and per capita.

n/a All data necessary for computation not available.

TOWN OF CUTLER BAY, FLORIDA
Direct and Overlapping Governmental Activities Debt
Fiscal Year Ended September 30, 2007
(amounts expressed in thousands)

Jurisdiction	Net Debt Outstanding	Estimated Percentage Applicable (1)	Amount Applicable to Cutler Bay
Miami-Dade County Schools (2)	\$ 903,577	0.87%	\$ 7,861
Miami-Dade County (3)	<u>507,316</u>	0.87%	<u>4,414</u>
Subtotal overlapping debt	1,410,893		12,275
Town of Cutler Bay direct debt	<u>139</u>	100.00%	<u>139</u>
Total direct and overlapping debt	<u><u>\$ 1,411,032</u></u>		<u><u>\$ 12,414</u></u>

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

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

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

TOWN OF CUTLER BAY, FLORIDA
Demographic and Economic Statistics
Last Ten Fiscal Years (1)

<u>Fiscal Year</u>	<u>Population (2)</u>	<u>Personal Income (in thousands) (3)</u>	<u>Per Capita Personal Income (4)</u>	<u>Unemployment Rate (5)</u>
2006	37,000	\$ 1,159,839	\$ 31,347	3.8%
2007	37,103	n/a	n/a	4.2%

- (1) Information for fiscal years prior to September 30, 2006 are unavailable in this format since the Town was incorporated in November 2005.
- (2) Population estimate for 2007 as published by the University of Florida, Bureau of Economic and Business Research. Estimated population for 2006 is from Adopted Operating Budget.
- (3) Personal income is the Miami-Dade per capita personal income applied to the Cutler Bay population.
- (4) Per Capita Personal Income is for Miami-Dade County from the U.S. Department of Commerce, Bureau of Economic Analysis. The most recent data are for fiscal 2006.
- (5) Florida Agency for Workplace Innovation, Labor Force Statistics, Labor Force Summary, Annual Average Employment for Miami-Dade County.
- n/a Data not available.

TOWN OF CUTLER BAY, FLORIDA
Principal Employers
2007 (1)

Employer	Employees	Percentage of Total
PRC, INC	1,537	54.4%
PUBLIX SUPERMARKETS	291	10.3%
SEARS ROEBUCK & CO	265	9.4%
JC PENNEY	114	4.0%
MACY'S	99	3.5%
LA QUINTA INNS	97	3.4%
WINN DIXIE STORES	69	2.4%
TOWN OF CUTLER BAY	46	1.6%
PETERSON'S HARLEY-DAVIDSON	41	1.5%
WILLIAMSON SATURN	40	1.4%
ROSS STORES	40	1.4%
OLD NAVY	35	1.2%
JO ANN FABRIC & CRAFTS	30	1.1%
BED, BATH & BEYOND	24	0.8%
CHARLOTTE RUSSE	21	0.7%
CAC FLORIDA MEDICAL	19	0.7%
SOUTHLAND MALL	16	0.6%
PETCO	16	0.6%
HAIR EGO	14	0.5%
BERLO INDUSTRY	13	0.5%
	<u>2,827</u>	<u>100.0%</u>

Source: Town of Cutler Bay local business tax registrations

(1) - Information for fiscal years prior to September 30, 2006 are unavailable in this format since the Town was incorporated in November 2005.

TOWN OF CUTLER BAY, FLORIDA
 Full-Time Equivalent Town Government Employees By Function
 Last Ten Fiscal Years (1)

Function	Fiscal Year	
	2006	2007
Legislative	5	5
Clerk	1	1
General government	3	6
Community Development	-	5
Public Works	-	5
Parks	-	6
Public Safety:		
Police	n/a (2)	n/a (2)
Civilian administrative staff	-	1
	<u>9</u>	<u>29</u>

(1) - Information for fiscal years prior to September 30, 2006 are unavailable in this format since the Town was incorporated in November 2005.

(2) - Police services contracted through Miami-Dade County.

Source: Town of Cutler Bay Finance Department

TOWN OF CUTLER BAY, FLORIDA
 Operating Indicators By Function
 Last Ten Fiscal Years (1)

Function/Program	Fiscal Year	
	2006	2007
Public Safety		
Police:		
Number of emergency calls for service	708	2,369
Number of non-emergency calls for service	7,381	20,806
Number of arrests	455	1,289
Number of uniformed officers	36	44
Building and Zoning:		
Number of building permits issued	n/a (2)	2,297
Number of certificates of use issued	n/a (2)	185
Number of occupational licenses issued	n/a (2)	605
Culture and Recreation		
Number of parks	n/a (2)	7

(1) - Information for fiscal years prior to September 30, 2006 are unavailable in this format since the Town was incorporated in November 2005.

(2) - The Town did not take over this function until fiscal year 2007. Information prior to the take-over date is not available.

Source: Various Town departments

TOWN OF CUTLER BAY, FLORIDA
 Capital Asset Statistics By Function/Program
 Last Ten Fiscal Years (1)

Function/Program	Fiscal Year	
	2006	2007
Culture and Recreation		
Parks	n/a (2)	7
Swimming pools	n/a (2)	1
Tennis courts	n/a (2)	3
Playgrounds	n/a (2)	3
Soccer/Football/Lacrosse fields	n/a (2)	2
Baseball fields	n/a (2)	3
Picnic shelters	n/a (2)	1

(1) - Information for fiscal years prior to September 30, 2006 are unavailable in this format since the Town was incorporated in November 2005.

(2) - The Town did not take over this function until fiscal year 2007. Information prior to the take-over date is not available.

Source: Town of Cutler Bay Parks department.

COMPLIANCE SECTION



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

Honorable Mayor and Members of the Town Council
Town of Cutler Bay, Florida

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Cutler Bay, Florida (the Town) as of and for the fiscal year ended September 30, 2007, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

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

Honorable Mayor, Town Council and Town Manager
Town of Cutler Bay, Florida

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters that we have reported in the schedule of recommendations and responses as required by the Auditor General of the State of Florida.

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

This report is intended solely for the information and use of the Town Council, management, others within the Town, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Albano Caballero & Castellanos LLP". The signature is written in a cursive, flowing style.

February 15, 2008
Coral Gables, Florida



4649 PONCE DE LEON BLVD.
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CORAL GABLES, FL 33146
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MANAGEMENT LETTER REQUIRED BY SECTION 10.550 OF THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

Honorable Mayor and Members of the Town Council
Town of Cutler Bay, Florida

We have audited the financial statements of the Town of Cutler Bay, Florida, as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated February 15, 2008.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over financial reporting and on Compliance and Other Matters. Disclosures in that report, which are dated February 15, 2008, should be considered in conjunction with this management letter

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

- ❖ Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial report. Corrective actions have been taken to address recommendations made in the preceding annual financial audit report.
- ❖ Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Town of Cutler Bay, Florida complied with Section 218.415, Florida Statutes.
- ❖ Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we have one recommendation which has been included in the schedule of comments and recommendations as item 2007-1.
- ❖ Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Honorable Mayor, Town Council and Town Manager
Town of Cutler Bay, Florida

- ❖ Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.
- ❖ Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The Town of Cutler Bay was created pursuant to the Constitution of the State of Florida and the Home Rule Charter of Miami-Dade County. There were no component units related to the Town.
- ❖ Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town of Cutler Bay, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- ❖ Section 10.554(1)(i)7.b., Rules of the Auditor General, required that the annual financial report for the Town of Cutler Bay, Florida for the fiscal year ended September 30, 2007, was filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, and is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007. In connection with our audit, we determined that these two reports were in agreement.
- ❖ Sections 10.554(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

We wish to thank the Town of Cutler Bay, Florida, and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements and the courtesies extended to us.

 Albert Castellans & Castellans LLP

February 15, 2008
Coral Gables, Florida

TOWN OF CUTLER BAY, FLORIDA
SCHEDULE OF COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2007

I. CURRENT YEAR RECOMMENDATIONS

Other Matter

2007-1 Pooled Cash System

Condition:

During our audit we noted that the Town does not utilize a formal pooled cash system but rather uses the interfund accounts (due to and due from) to expense items in the funds. In essence, all disbursements are made through the general fund rather than the respective funds where the transaction took place.

Effect:

By not using a pooled cash system all the cash is reported in the general fund and interest earned may not be properly allocated to the other governmental funds.

Recommendation:

Although the Town did properly allocate the interest income earned by the special revenue funds. We recommend that the Town implement a pooled cash system rather than use the interfund accounts to account for transactions. The Town can better track the cash balances and all transactions in each fund for amounts received and disbursed and the interfund accounts can be used to keep track of amounts actually owed or receivable from the other funds.

View of Responsible Officials and Planned Corrective Actions:

While we believe that the approach the Town follows conforms to appropriate financial reporting standards and that interest earned is allocated to the proper funds, we do understand that a pooled cash approach may be preferable going forward as the Town grows. Accordingly, we will review the requirements and methodology of the pooled cash system and look to implement such a system as soon as is practicable.

II. STATUS OF PRIOR YEAR RECOMMENDATIONS

Other Matter

2006-1 Accounting Policies and Procedures Manual

Condition:

We noted during our inquiries of management and our audit testing that the Town does not maintain a written Accounting Policies and Procedures Manual. This is due to the fact that the Town is newly incorporated and is in the process of formalizing policies and procedures.

Effect:

Not having a formal written Accounting Policies and Procedures Manual can create inconsistencies in the process, which can cause difficulties ensuring that all proper procedures were followed in order to complete a transaction.

Recommendation:

We recommend that the Town formalize a written Accounting Policies and Procedures Manual because it is imperative that a Town develop, maintain, and enforce formal, written accounting policies and procedures in order to facilitate the creation of an audit trail. A formal written manual will ensure that assets are safeguarded and that finances are managed with responsible stewardship. In the absence of formal procedures, mistakes, whether intentional or not can occur. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs.

The benefit of such a manual is that it would assist the employees in discharging their responsibilities consistently and in accordance with Town guidelines. This becomes more important as new personnel are hired by the Town to replace terminating or retiring personnel and also provides guidance for personnel when they have to assume other functions resulting from personnel vacations or other personal leave instances.

Current Year Status:

The Town developed and implemented an accounting procedures manual during the 2006-07 fiscal year. This recommendation will not be repeated.