TOWN OF CUTLER BAY, FLORIDA

BASIC FINANCIAL STATEMENTS

FOR THE PERIOD FROM NOVEMBER 9, 2005
(DATE OF INCORPORATION)
TO SEPTEMBER 30, 2006

Prepared by:

THE FINANCE DEPARTMENT

TOWN OF CUTLER BAY, FLORIDA

FOR THE PERIOD FROM NOVEMBER 9, 2005 (DATE OF INCORPORATION) TO SEPTEMBER 30, 2006

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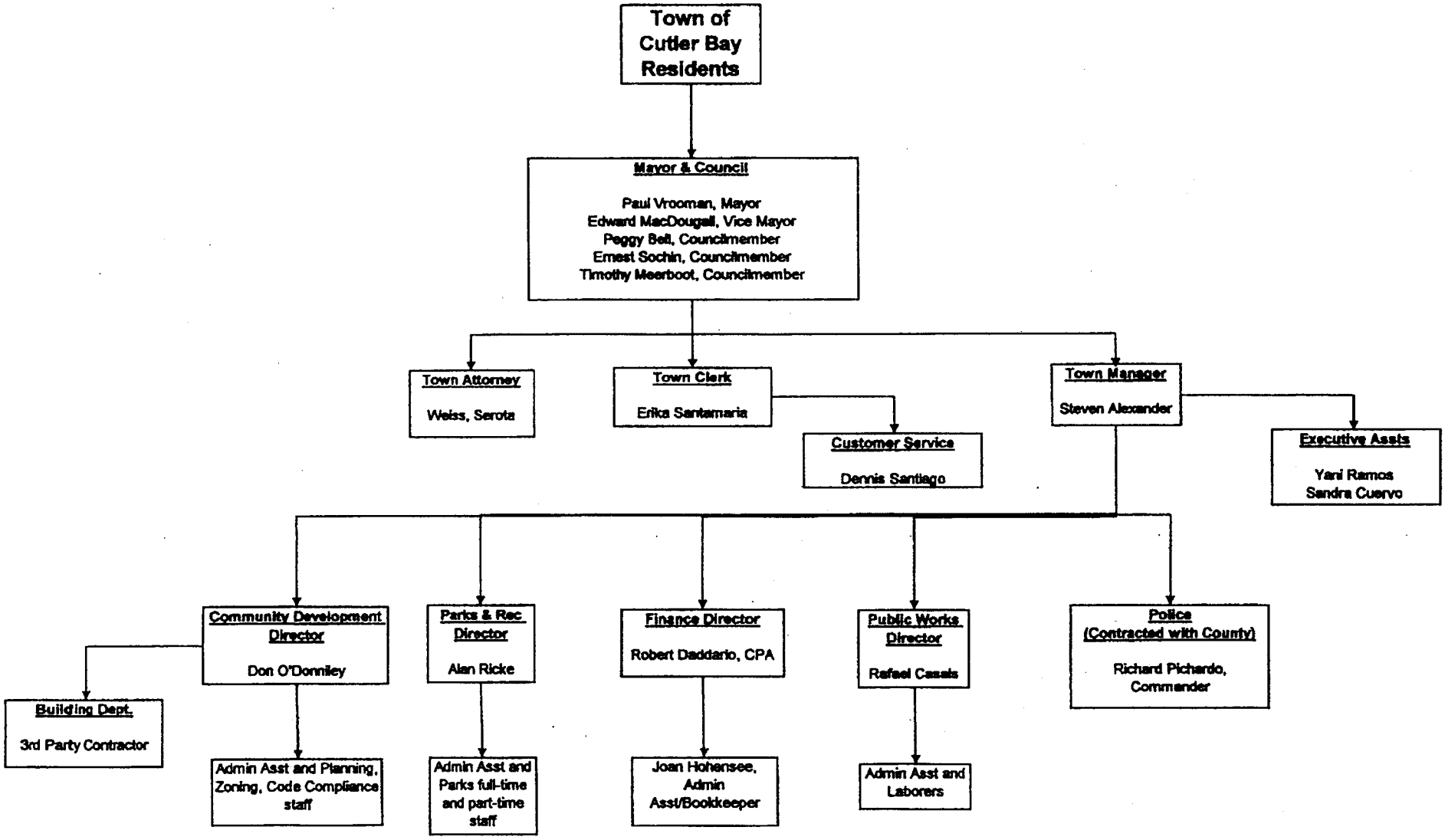
INTRODUCTORY SECTION

TOWN OF CUTLER BAY, FLORIDA

ORGANIZATION CHART INCLUDING TOWN OFFICIALS



FINANCIAL SECTION

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Cutler Bay, Florida (the Town) as of September 30, 2006 and for the period from November 9, 2005 (date of incorporation) to September 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town, as of September 30, 2006 and the respective changes in the financial position thereof for the period from November 9, 2005 (date of incorporation) to September 30, 2006, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 11, 2007 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Rachlin Cohen & Holtz LLP
One Southeast Third Avenue ▪ Tenth Floor ▪ Miami, Florida 33131 ▪ **Phone** 305.377.4228 ▪ **Fax** 305.377.8331 ▪ **www.rachlin.com**
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MIAMI ▪ FORT LAUDERDALE ▪ WEST PALM BEACH

Management's Discussion and Analysis and the Required Supplementary Information on pages 3 - 9 and pages 27 - 29, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Cutler Bay's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Town. The information identified in the table of contents as the Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion thereon.

Rachlin Cohen & Holtz LLP

Miami, Florida
April 11, 2007

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 period from November 9, 2005 (date of incorporation) to September 30, 2006, the Town's "first fiscal period" of existence. A comparative analysis will be provided in future years when prior year information is available.

Financial Highlights

- The assets of the Town exceeded its liabilities at September 30, 2006 by $2,441,276 (net assets). Of this amount, $1,374,021 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors.

- The Town's total net assets increased by $2,441,276, attributable to the results of the Town's first fiscal period of operation.

- As of September 30, 2006, the Town's governmental funds reported combined ending fund balances of $2,358,522, which represents the net results of the Town's operations during its first fiscal period.

- At September 30, 2006, unreserved fund balance for the general fund was $1,326,292, or 16% of total general fund expenditures.

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 Town'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 distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Town include general government, police, public works, parks, and planning and building. The government-wide financial statements report on only the Town of Cutler Bay.

The government-wide financial statements can be found on pages 10 – 11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The 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 a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town of Cutler Bay maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and special revenue funds. Both of these funds are considered major funds.

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

The basic governmental fund financial statements can be found on pages 12 – 14 of this report.

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

The notes to the basic financial statements can be found on pages 15 – 26 of this report.

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 $2,441,276 at September 30, 2006.

The largest portion of the Town's net assets at September 30, 2006 consists of cash on hand and receivables due from Miami-Dade County (the "County") and the State of Florida (the "State"). As previously mentioned, the Town incorporated on November 9, 2005 and the period from incorporation to September 30, 2006 was the Town's first fiscal period. The Town negotiated an Interlocal Agreement with the County which enabled it to receive advances from the County in anticipation of net revenues to be allocated to the Town by the County for the first fiscal period. Those advances, combined with additional intergovernmental revenues received directly from the State and the Town's limited operating activity in which it had limited direct expenditures, allowed the Town to accumulate a significant cash balance by September 30, 2006.

Receivables at September 30, 2006 consist primarily of amounts due from the County pursuant to the Interlocal Agreement ($993,566) as well as intergovernmental receivables ($221,506) due from the State.

Town of Cutler Bay's Net Assets
September 30, 2006

	Governmental Activities
Current and other assets	$ 2,982,433
Capital assets	135,802
Total assets	3,118,235
Long-term liabilities	69,768
Other liabilities	607,191
Total liabilities	676,959
Investment in capital assets, net of related debt	73,058
Restricted	994,197
Unrestricted	1,374,021
Total net assets	$ 2,441,276

The balance of unrestricted net assets of $1,374,021 may be used to meet the Town's ongoing obligations to citizens and creditors.

At September 30, 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 $2,441,276, representing the results of the Town's operations for its first fiscal period. Key elements in the changes in net assets activity are as follows:

Town of Cutler Bay's Changes in Net Assets
For the Period November 9, 2005
(Date of Incorporation) to September 30, 2006

	Governmental Activities
Revenues:	
Program revenues:	
Charges for services	$ 840,902
Operating grants and contributions	349,393
Capital grants and contributions	137,881
General revenues:	
Taxes and franchise fees	9,421,343
Other	45,820
Total revenues	10,795,339
Expenses:	
General government	1,886,141
Public safety	5,363,660
Parks	652,494
Public works	193,669
QNIP	257,193
Interest on long-term debt	906
Total expenses	8,354,063
Increase in net assets	2,441,276
Net assets, beginning	-
Net assets, ending	$ 2,441,276

- Taxes and franchise fees of $9,421,343 comprised 87% of total revenues of $10,795,339 during the first fiscal period, with property taxes of $3,591,359 representing the largest single tax source.

- Operating and capital grants and contributions of $349,393 and $137,881, respectively, account for 4.5% of total revenues and represent the local option gas tax receipts received by the Town. Use of these funds is restricted to certain prescribed uses.

- Charges for services account for 7.8% of total revenues and consist primarily of impact fees received for Parks of $555,857 and Public Safety of $144,735. Use of these funds is restricted to certain prescribed uses.

Financial Analysis of the Government's Funds

The Town of Cutler Bay used 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, 2006, the Town's governmental funds reported combined ending fund balances of $2,358,522, generated from the Town's operations in its first fiscal period. Approximately 56% of this amount, or $1,326,292, constitutes unreserved fund balance, which is available for spending at the Town's discretion. 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 ($38,033) or reserved for special revenue fund purposes ($994,197).

The general fund is the primary operating fund of the Town of Cutler Bay. At September 30, 2006, unreserved fund balance of the general fund was $1,326,292. 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 represents 16% of total general fund expenditures, while total fund balance represents 16.5% of that same total fund expenditure amount.

The fund balance of the Town of Cutler Bay's general fund increased by $1,364,325 during the first fiscal period.

The special revenue fund was established to account for revenues whose expenditure is restricted to certain prescribed uses. For the first fiscal period ended September 30, 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 $994,197 during the first fiscal period.

General Fund Budget Highlights

During the first fiscal period, the actual "excess of revenues over expenditures" exceeded the corresponding budgetary amounts by $814,523. There were no supplemental appropriations for the first fiscal period ended September 30, 2006.

Capital Assets and Debt Administration

The Town of Cutler Bay's investment in capital assets for its governmental activities as of September 30, 2006, amounts to $135,802 (net of accumulated depreciation). This investment in capital assets includes purchases of computer hardware and software, furniture and fixtures and improvements other than buildings which were necessary for the Town to commence operations in its first fiscal period of existence. It does not include infrastructure assets, such as roads, sidewalks or parks, as the Town does not control any such infrastructure assets as of September 30, 2006 (i.e. control has not yet been 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, as of September 30, 2006:

	Governmental Activities
General government	$ 113,017
Building, planning and zoning	8,915
Public safety	6,613
Parks	4,188
Public works	3,069
Total	$ 135,802

Additional information on the Town's capital assets can be found in Note 6 on page 21 of this report.

Long-term debt. At September 30, 2006, the town's capital lease obligations were $62,744 for governmental activities. The capital leases were entered into for the acquisition of furniture and telecom equipment which are included in capital assets.

Additional information on the Town's long-term debt can be found in Note 7 on page 22 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Miami-Dade County area at September 30, 2006 is 4%, which is a decrease from a rate of 4.4% a year ago.

- Inflationary trends in the region compare favorably to national indices.

- In setting its fiscal 2007 budget, the Town adopted the same mil rate as was in effect for the first fiscal period, as used by the County for the unincorporated areas within the County.

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 Boulevard, Suite 105, Cutler Bay, FL 33189.

BASIC FINANCIAL STATEMENTS

TOWN OF CUTLER BAY, FLORIDA

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

	Governmental Activities
ASSETS	
Cash	$ 1,670,833
Receivables, net	1,215,096
Due from other governmental agencies	2,012
Prepaids	38,033
Other assets	56,459
Capital assets, net of accumulated depreciation	135,802
Total assets	3,118,235
LIABILITIES	
Accounts payable and accrued liabilities	597,964
Due to other governmental agencies	9,227
Noncurrent liabilities:	
Due within one year	22,448
Due in more than one year	47,320
Total liabilities	676,959
NET ASSETS	
Invested in capital assets, net of related debt	73,058
Restricted for:	
Transportation	293,605
Law enforcement	144,735
Parks	555,857
Unrestricted	1,374,021
Total net assets	$ 2,441,276

See notes to basic financial statements.

TOWN OF CUTLER BAY, FLORIDA

STATEMENT OF ACTIVITIES

FOR THE PERIOD FROM NOVEMBER 9, 2005 (DATE OF INCORPORATION) TO SEPTEMBER 30, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental activities:					
General government	$ 1,886,141	$ 140,310	$ -	$ -	$ (1,745,831)
Public safety	5,363,660	144,735	-	-	(5,218,925)
Public works	193,669	-	349,393	137,881	293,605
Parks	652,494	555,857	-	-	(96,637)
Interest on long-term debt	906	-	-	-	(906)
QNIP	257,193	-	-	-	(257,193)
Total governmental activities	$ 8,354,063	$ 840,902	$ 349,393	$ 137,881	(7,025,887)

General revenues:	
Property taxes	3,591,359
Utility taxes	1,298,688
Communication services tax	1,161,313
Franchise fees based on gross receipts	960,000
Unrestricted intergovernmental revenue	2,409,983
Unrestricted interest earnings	43,806
Miscellaneous revenues	2,014
Total general revenues	9,467,163
Change in net assets	2,441,276
Net assets, beginning	-
Net assets, ending	$ 2,441,276

See notes to basic financial statements.

TOWN OF CUTLER BAY, FLORIDA

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2006

	General	Special Revenue	Total Governmental Funds
ASSETS			
Cash	$1,670,833	$ -	$ 1,670,833
Receivables, net	1,198,376	-	1,198,376
Due from other funds	-	994,197	994,197
Due from other governmental agencies	2,012	-	2,012
Prepaids	38,033	-	38,033
Other assets	56,459	-	56,459
Total assets	$2,965,713	$994,197	$ 3,959,910
LIABILITIES AND FUND BALANCES			
Accounts payable and accrued liabilities	$ 597,964	$ -	$ 597,964
Due to other funds	994,197	-	994,197
Due to other governmental agencies	9,227	-	9,227
Total liabilities	1,601,388	-	1,601,388
Fund balances:			
Reserved:			
Prepaids	38,033	-	38,033
Transportation	-	293,605	293,605
Law enforcement	-	144,735	144,735
Parks	-	555,857	555,857
Unreserved, undesignated, reported in:			
General fund	1,326,292	-	1,326,292
Total fund balances	1,364,325	994,197	2,358,522
Total liabilities and fund balances	$2,965,713	$994,197	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	135,802
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore not reported in the funds	(69,768)
Other long term assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (receivable from County)	16,720
Net assets of governmental activities	$ 2,441,276

See notes to basic financial statements.

TOWN OF CUTLER BAY, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE PERIOD FROM NOVEMBER 9, 2005 (DATE OF INCORPORATION) TO SEPTEMBER 30, 2006

	General	Special Revenue	Total Governmental Funds
Revenues:			
Ad valorem taxes	$3,591,359	$ -	$ 3,591,359
Licenses, permits and fines	127,260	-	127,260
Utility taxes	1,288,432	-	1,288,432
Communication services tax	1,161,313	-	1,161,313
Franchise fees	960,000	-	960,000
Intergovernmental revenue	2,409,983	487,274	2,897,257
Charges for services	-	700,592	700,592
Interest and other	44,826	-	44,826
Total revenues	9,583,173	1,187,866	10,771,039
Expenditures:			
Current:			
General government	1,865,448	-	1,865,448
Public safety	5,363,617	-	5,363,617
Public works	-	193,669	193,669
Parks	652,494	-	652,494
QNIP	257,193	-	257,193
Capital outlay	141,934	-	141,934
Debt service:			
Principal	7,384	-	7,384
Interest and fiscal charges	906	-	906
Total expenditures	8,288,976	193,669	8,482,645
Excess of revenues over expenditures	1,294,197	994,197	2,288,394
Other financing sources:			
Capital lease proceeds	70,128	-	70,128
Net change in fund balances	1,364,325	994,197	2,358,522
Fund balances, beginning	-	-	-
Fund balances, ending	$1,364,325	$ 994,197	$ 2,358,522

See notes to basic financial statements.

TOWN OF CUTLER BAY, FLORIDA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE PERIOD FROM NOVEMBER 9, 2005 (DATE OF INCORPORATION) TO SEPTEMBER 30, 2006

Amounts reported for governmental activities in the statement of activities (Page 11) are different because:		
Net change in fund balances - total governmental funds (Page 13)		$2,358,522
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
The details of the difference are as follows:		
Capital outlay	$ 140,847	
Depreciation expense	(5,045)	
Net adjustment		135,802
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.		
The details of the difference are as follows:		
Principal payments		7,384
Capital lease proceeds		(70,128)
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.		
Revenue from the County		24,300
Some expenses reported in the statement of activities do not require current financial resources and, therefore, are not reported as expenditures in governmental funds.		
The details of the difference are as follows:		
Compensated absences	(7,024)	
Expenses from County	(7,580)	
Net adjustment		(14,604)
Change in net assets of governmental activities (Page 11)		$2,441,276

See notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Cutler Bay, Florida (the Town) incorporated effective 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 of the Town have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below:

A. Financial Reporting Entity

The financial statements were prepared in accordance with governmental accounting standards, which establish 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 that 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 Town. 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 does not currently have any business-type activities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. At September 30, 2006, the Town has only two governmental funds, both of which are considered major.

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. Expenditures 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. There was an exception in the current year since this was the first year and there were amounts due from the County at year end that were not received until December 2006 but were considered current financial resources.

Property taxes, franchise fees and other 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 Town.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for the general operations of the Town and all other transactions which are not accounted for in other funds.

The *Special Revenue Fund* is used by the Town to account for revenues and expenditures restricted to specific purposes/uses.

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 Governmental Accounting Standards Board.

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

Cash includes cash on deposit in a financial institution.

2. Receivables and Payables

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

3. Capital Assets

Capital assets, which include furniture, equipment, computer equipment 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Capital Assets (Continued)

As of September 30, 2006, Miami-Dade County has not transferred the roads, sidewalks and similar items to the Town, nor has it transferred the parks to the Town. As a result, the Town controls no infrastructure assets as of September 30, 2006 and, accordingly, no 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 of the Town are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Computer hardware and software	3
Furniture and equipment	5
Improvements other than buildings	5

4. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

5. Long-Term Obligations

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

6. 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, disclosures 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 these estimates, as well as all 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.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances, where noted, represent tentative management plans that are subject to change.

NOTE 2. 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 is authorized to invest in obligations of the U.S. Treasury, its agencies, instrumentalities and the Local Government Surplus Funds Trust Fund administered by the State Board of Administration. The investments follow the investment rules defined in

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Florida Statutes Chapter 215. The investment policy defined in the statutes attempts to promote, through state assistance, the maximization of net interest earnings on invested surplus funds of local units of governments while limiting the risk to which the funds are exposed. The Town has no investments at September 30, 2006.

NOTE 3. RECEIVABLES

Receivables as of September 30, 2006 for the Town's individual major funds, including the allowances for uncollectible accounts are as follows:

	General Fund
Due from Miami-Dade County	$ 976,846
Intergovernmental	221,506
Other	24
Receivables, gross	1,198,376
Less allowance for uncollectibles	-
Receivables, net	$ 1,198,376

NOTE 4. PROPERTY TAXES

Property values are assessed on a county-wide basis by the Miami-Dade County Property Appraiser as of January 1, the lien date, of each year and are due the following November 1. Taxable value of property within the Town is certified by the Property Appraiser and the Town levies a tax millage rate upon the taxable value, which will provide revenue required for the fiscal year beginning October 1.

Property taxes levied each November 1, by the Town and all other taxing authorities within the County, are centrally billed and collected by Miami-Dade County, with remittances to the Town of their proportionate share of collected taxes. Taxes for the fiscal year beginning October 1 are billed in the month of November, subject to a discount for the period of November through February (4% if paid in November and a reduction of 1% each month through February), and are due no later than March 31. On April 1, unpaid amounts become delinquent with interest and penalties added thereafter. Beginning June 1, tax certificates representing delinquent taxes with interest and penalties are sold by Miami-Dade County, with remittance to the Town for its share of those receipts.

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of September 30, 2006 is a follows:

Due from/to Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
Special Revenue	General	$ 994,197	To record revenue in Special Revenue Fund which was received by the General Fund.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, being depreciated:				
Computer hardware and software	$ -	$ 64,099	$ -	$ 64,099
Furniture and equipment	-	72,657	-	72,657
Improvements other than buildings	-	4,091	-	4,091
Total capital assets, being depreciated	-	140,847	-	140,847
Less accumulated depreciation for:				
Computer hardware and software	-	(3,553)	-	(3,553)
Furniture and equipment	-	(1,458)	-	(1,458)
Improvements other than buildings	-	(34)	-	(34)
Total accumulated depreciation	-	(5,045)	-	(5,045)
Total capital assets, net of accumulated depreciation	-	135,802	-	135,802
Governmental activities capital assets, net of accumulated depreciation	$ -	$ 135,802	$ -	$ 135,802

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

Governmental activities:	
General government	$ 5,002
Public safety	43
Total depreciation expense - governmental activities	$ 5,045

NOTE 7. LONG-TERM DEBT

The following is a summary of changes in long-term liabilities of the Town for governmental activities for the period ended September 30, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Capital leases	$ -	$ 70,128	$ 7,384	$ 62,744	$ 22,448
Other liabilities:					
Compensated absences	-	7,024	-	7,024	-
Total other liabilities	-	7,024	-	7,024	-
Governmental activities long-term liabilities	$ -	$ 77,152	$ 7,384	$ 69,768	$ 22,448

Capital Leases

The Town has entered into lease purchase agreements as lessee for financing the acquisition of furniture and equipment in the General Fund. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of the future minimum lease payments as of the inception date.

The fair value of assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Furniture and equipment	$ 70,128

Future minimum lease payments and the present value of minimum lease payments as of September 30, 2006 are as follows:

	Governmental Activities
Fiscal year ending September 30:	
2007	$ 26,692
2008	25,639
2009	17,650
Total minimum lease payments	69,981
Less amount representing interest	(7,237)
Present value of minimum lease payments	$ 62,744

NOTE 8. COMMITMENTS AND CONTINGENCIES

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 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 provided the Town with auto liability, general liability, property and workers' compensation coverage. The FLC pool is nonassessable. There is no self-insured retention for the Town excluding a $1,000 per occurrence property deductible. FLC provided $1,000,000 for general liability and statutorily required coverage for workers' compensation.

Agreement for Office Space Lease

The Town executed operating lease agreements, as amended, for office space for the period November 1, 2006 through October 31, 2008. Prior to this period, the Town was leasing its space on a month-to-month basis. The minimum lease payments under the lease agreements are as follows:

Fiscal Year Ended September 30:	
2007	$ 121,604
2008	162,186
2009	13,559
	$ 297,349

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 Town will make regular monthly installments of $378,750 to the County based on a budgeted amount of $4,545,000 for the first year of the agreement. Payments for this initial term will be adjusted to actual costs incurred and billed or credited to the Town by Miami-Dade Police Department quarterly. 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. 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. No amount was due for specialized services for the period ended September 30, 2006. 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

NOTE 8. COMMITMENTS AND CONTINGENCIES (Continued)

Agreement with Miami-Dade County for Specialized Police Services (Continued)

in the agreement. The amount established for specialized services for the year ending September 30, 2007 is approximately $737,000. 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, 2006 was $257,193. The estimated payment for the fiscal year ended September 30, 2007 is $378,600.

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.

NOTE 9. SUBSEQUENT EVENT

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 State of Florida issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report was for the fiscal year ended June 30, 2006. That report may be obtained by writing to the State of Florida Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000.

NOTE 9. SUBSEQUENT EVENT (Continued)

Florida Retirement System (Continued)

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.

NOTE 9. SUBSEQUENT EVENT (Continued)

Florida Retirement System (Continued)

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 $14,000 would relate to the period ended September 30, 2006). 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 30th of the subsequent fiscal year, additional interest would be assessed at the then current rate set by Statute).

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF CUTLER BAY, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

FOR THE PERIOD FROM NOVEMBER 9, 2005 (DATE OF INCORPORATION) TO SEPTEMBER 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Ad valorem taxes	$3,591,935	$3,591,935	$3,591,359	$ (576)
Licenses, permits and fines	478,811	478,811	127,260	(351,551)
Utility taxes	1,864,121	1,864,121	1,288,432	(575,689)
Communication services tax	1,161,418	1,161,418	1,161,313	(105)
Franchise fees	839,185	839,185	960,000	120,815
Intergovernmental	1,891,084	1,891,084	2,409,983	518,899
Interest and other	43,902	43,902	44,826	924
Total revenues	9,870,456	9,870,456	9,583,173	(287,283)
Expenditures:				
Current:				
General government:				
General government	1,524,176	1,524,176	1,331,244	192,932
Legislative	111,305	81,305	57,469	23,836
Town clerk	198,958	222,578	225,604	(3,026)
Town attorney	258,512	323,512	317,967	5,545
Community development	460,809	447,476	70,757	376,719
Total general government	2,553,760	2,599,047	2,003,041	596,006
Public safety	6,053,012	5,829,026	5,367,958	461,068
Public works	60,151	25,151	-	25,151
Parks	671,703	671,703	652,494	19,209
QNIP	257,565	257,565	257,193	372
Debt service:				
Principal	-	-	7,384	(7,384)
Interest and other fiscal charges	-	-	906	(906)
Total expenditures	9,596,191	9,382,492	8,288,976	1,101,806
Excess of revenues over expenditures	274,265	487,964	1,294,197	814,523
Other financing sources:				
Capital lease proceeds	-	-	70,128	70,128
Net change in fund balances	$ 274,265	$ 487,964	$1,364,325	$ 884,651

See note to budgetary comparison schedule.

TOWN OF CUTLER BAY, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND

FOR THE PERIOD FROM NOVEMBER 9, 2005 (DATE OF INCORPORATION) TO SEPTEMBER 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Intergovernmental revenue	$ 556,656	$ 556,656	$ 487,274	$ (69,382)
Charges for services:				
Parks impact fees	311,128	311,128	555,857	244,729
Police impact fees	75,778	75,778	144,735	68,957
Total charges for services	386,906	386,906	700,592	313,686
Total revenues	943,562	943,562	1,187,866	244,304
Expenditures:				
Public works	134,679	194,679	193,669	1,010
Excess of revenues over expenditures	808,883	748,883	994,197	243,294
Other financing uses:				
Reserve for future transportation projects	(421,977)	(361,977)	-	361,977
Net change in fund balances	$ 386,906	$ 386,906	$ 994,197	$ 607,291

See note to budgetary comparison schedule.

TOWN OF CUTLER BAY, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

NOTE TO BUDGETARY COMPARISON SCHEDULE

FOR THE PERIOD FROM NOVEMBER 9, 2005 (DATE OF INCORPORATION) TO SEPTEMBER 30, 2006

NOTE 1. BUDGETS AND BUDGETARY ACCOUNTING

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 resolutions - 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, 2006, 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.

COMPLIANCE SECTION

Report of Independent Certified Public Accountants 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, Town Council and Town Manager
Town of Cutler Bay, Florida

We have audited the financial statements of the governmental activities and each major fund of Town of Cutler Bay, Florida (the Town) as of September 30, 2006 and for the period from November 9, 2005 (date of incorporation) to September 30, 2006, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated April 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

Rachlin Cohen & Holtz LLP
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We noted one matter that we have reported to management in the management letter accompanying this report.

This report is intended solely for the information and use of the Mayor, Town Council, management and regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin Cohen & Holtz LLP

Miami, Florida
April 11, 2007

Management Letter in Accordance with the Rules of the Auditor General of the State of Florida

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

We have audited the basic financial statements of the governmental activities and each major fund of Town of Cutler Bay, Florida (the Town) as of September 30, 2006 and for the period from November 9, 2005 (date of incorporation) to September 30, 2006, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated April 11, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements. Disclosures in this report, which is dated April 11, 2007, 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 require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(h)1.) require that we address in the management letter, if not already addressed in the auditor's report on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial report have been followed. There were no prior year recommendations as the Town was incorporated and commenced operations during the period ended September 30, 2006.

As required by the Rules of the Auditor General (Section 10.554(l)(h)2.), the scope of our audit included 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 did not have any investments.

The Rules of the Auditor General (Section 10.554(l)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, there is one matter reported in the accompanying management letter.

Rachlin Cohen & Holtz LLP
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The Rules of the Auditor General (Section 10.554(l)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs and are not clearly inconsequential: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor. Our audit found no matters that were required to be disclosed.

The Rules of the Auditor General (Section 10.554(l)(h)5.) also require 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. 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.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6a.), a statement must 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. In connection with our audit, we determined that the Town, did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(l)(h)6.b.), we determined that the annual financial report for Town of Cutler Bay for the period ended September 30, 2006, filed with the Florida Department of Financial Services pursuant to Section 218.32(l)(a), Florida Statutes, is in agreement with the annual financial audit report for the period from November 9, 2005 (date of incorporation) to September 30, 2006.

As required by the Rules of the Auditor General (Sections 10.554(h)6.c. and 10.556(7), 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. The assessment was done as of the fiscal year end. There were no findings that identified deteriorating financial conditions.

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

Rachlin Cohen & Holtz LLP

Miami, Florida
April 11, 2007

CURRENT YEAR COMMENT AND RECOMMENDATION

Other Matter

06-1 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.

View of Responsible Officials and Planned Corrective Action

The Town of Cutler Bay's operations were extremely limited in fiscal year 2006 and were essentially administrative in nature with only a few employees. The Town operated primarily with contracted staff, including the staff for the finance function. While there was some revenue and expenditure processing by the Town in fiscal 2006, virtually all of the Town's revenues and expenses for the period were allocations from Miami-Dade County. The Town of Cutler Bay did not perform its own municipal operations until fiscal 2007, when the substantial majority of employees of the Town were hired.

CURRENT YEAR COMMENT AND RECOMMENDATION (Continued)

Notwithstanding, compensating controls were in place to safeguard the Town's finances and assets during the interim first fiscal year. Specifically, financial oversight over the Town's affairs was provided by the Town Council and the Town Manager. All significant transactions, contracts, agreements, etc. were authorized by Council and executed by the Town Manager based on their direction or by authority granted to the Town Manager by the Town Charter. Further, expenditures were controlled by an approved/adopted budget and all disbursements processed require two signatures from a group limited to the Town Council members and the Town Manager. As a result of these controls, all expenditures were expressly reviewed, approved and authorized.

As noted, permanent Town staff was hired in fiscal 2007. The Town prepared procedural flowcharts to document, and control, the transaction processing for each key area within the Town. While these procedural flowcharts were not applicable to the period under audit (i.e. since the Town did not have municipal operations in fiscal 2006), they were nonetheless provided to the audit staff for their review and to enhance their understanding of changes implemented by the Town. These procedural flowcharts will be supplemented with written policies and procedures during fiscal 2007 to further clarify and enhance the understanding of responsibilities and duties.

NEW PRONOUNCEMENT

Governmental Accounting Standards Board Statement No. 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions

As part of the total compensation offered to attract and retain the services of qualified employees, many state and local governmental employers, in addition to pensions, provide other post-employment benefits (OPEB). OPEB includes post-employment healthcare, as well as other forms of post-employment benefits when provided separately from a pension plan. The Governmental Accounting Standards Board has issued Statement No. 45 which establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Post-employment benefits (OPEB) are part of an exchange of salaries and benefits for employee services rendered, and are taken after the employee's services have ended. From an accrual accounting perspective, the cost of OPEB should be associated with the periods in which the exchange occurs, rather than with the periods, often many years later, when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to recognize the cost of the benefits in periods when the related services are received by the employer, provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded and provide information useful in assessing potential demands on the employer's future cash flows. This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual basis measurement and recognition of OPEB expense over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

NEW PRONOUNCEMENT (Continued)

OPEB expenditures for governmental funds should be recognized on the modified accrual basis. The amount recognized should be equal to the amount contributed to the plan or expected to be liquidated with expendable available resources. Essentially, there is no change from current practice for governmental funds. However, for government-wide financial statements, the accrual basis must be used.

The accrual method will require the calculations to be made using actuarial computations and will result in the recognition of a present value liability which measures the value of OPEB benefits earned by employees during their tenure with the government and likely to be paid upon retirement. This calculation will result in substantial amounts, due to the current cost of such benefits and their escalating costs. It should also be emphasized that there is no requirement to fund these benefits with current resources. The Statement merely requires the reporting of the value of the benefit primarily in the government-wide financial statements. The computations can be extremely complex and the use of an actuary will invariably be required.

An alternative method exists for a sole employer in a plan with fewer than one hundred total plan members (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retirees and beneficiaries currently receiving benefits). The employer has the option to apply a simplified *alternative measurement method* instead of obtaining actuarial valuations.

This alternative method includes the same broad measurement steps as an actuarial valuation (projecting future cash outlays for benefits, discounting projected benefits to present value, and allocating the present value of benefits to periods using an actuarial cost method). However, it permits simplification of certain assumptions to make the method potentially usable to nonspecialists.

The Statement would permit prospective implementation, that is, employers would be permitted to set the beginning net OPEB obligation at zero as of the beginning of the initial year. Implementation would occur in three phases based on the government's total annual revenues in the first fiscal year ending after June 15, 1999. The definitions and cutoff points for that purpose otherwise would be the same as in GASB's Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. For the Town, based on the revenues earned in its first year, this Statement may be effective for the fiscal year ended September 30, 2009.

Recommendation

The contents of this statement are highly complex and will require significant lead time to implement on the respective implementation date. We would suggest that the Town obtain a thorough understanding of the requirements and initiate planning for implementation in a prudent manner.

NEW PRONOUNCEMENT (Continued)

Management's Response

The Town does not provide OPEB in the traditional sense. Since the Town provides group health care benefits to its current employees, and since Florida Statutes require the Town to offer retirees the option of continuing participation in the group plan after retiring, the Town would be subject to the "implicit rate subsidy" provisions of GASB Statement No. 45 even though any premiums for retiree health care coverage would be borne entirely by the retiree, not the Town. GASB Statement No. 45 provides for this implicit rate subsidy which amounts to the Town's current group health care premiums subsidizing the future rates for retirees even though the Town has no plan to fund any portion of the retirees' coverage. While the exact impact of GASB Statement No. 45 on the Town is not yet known, it appears that the impact may simply be that of disclosure rather than the recording of a financial obligation.