KPMG

MIAMI BEACH REDEVELOPMENT AGENCY

(A Component Unit of the City of Miami Beach, Florida)

Financial Statements

September 30, 2005

(With Independent Auditors' Report Thereon)

MIAMI BEACH REDEVELOPMENT AGENCY
(A Component Unit of the City of Miami Beach, Florida)

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KPMG LLP
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Independent Auditors' Report

The Board Members
Miami Beach Redevelopment Agency:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Miami Beach Redevelopment Agency (the Agency), a component unit of the City of Miami Beach, Florida (the City), as of and for the year ended September 30, 2005, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Agency'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, the business-type activities, and each major fund of the Agency, a component unit of the City, as of September 30, 2005, and the respective changes in financial position, and, where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in note 2, the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risks Disclosures.*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 14, and the budgetary comparison schedule on pages 41 and 42 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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.

KPMG LLP

March 24, 2006
Certified Public Accountants

Management's Discussion & Analysis (MD&A) of the Miami Beach Redevelopment Agency (the Agency) is intended to provide an overview of the Agency's position and results of operations for the fiscal year ended September 30, 2005. MD&A is an element of the reporting model required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. MD&A should be read in conjunction with the Agency's financial statements, including the accompanying notes, to enhance the understanding of the Agency's financial performance.

Financial Highlights

- The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by $52.6 million.
- The Agency's net assets decreased by $19.5 million. This decrease is mostly the result of selling, at a net loss, for government-wide reporting purpose, the land on which the Loews Hotel and the Royal Palm Hotel are located.
- At the end of the current fiscal year, the unreserved fund balance for the general fund was $69.8 million.
- The Agency's total long-term liabilities increased $5.3 million (5.8%) during the current year. This was a result of the Agency issuing new bonds of approximately $80.8 million to refund approximately $75 million of the old City Center bonds.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

The statement of activities presents information showing how the Agency's net assets changed during the 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 the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements listed above distinguish functions of the Agency that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their cost through user fees and charges. The governmental activities of the Agency include general government, economic environment, and public safety. The business-type activities of the Agency include the parking and leasing operations of the Anchor Garage and Anchor Shops, respectively.

(Continued)

The government-wide financial statements include only the financial activities of the Agency. However, the Agency is considered a component unit of the City of Miami Beach, Florida (the City), and as such, the financial information of the Agency is included in the City's Comprehensive Annual Financial Report for the current fiscal year.

The government-wide financial statements can be found on pages 15 – 16 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 Agency uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements. All of the funds of the Agency can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

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

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

The Agency maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, South Pointe debt service fund, City Center debt service fund, South Pointe capital projects fund, and City Center capital projects fund which are considered to be major funds. For the current fiscal year, the Agency does not have any nonmajor governmental funds.

Proprietary Funds

The Agency maintains two different types of proprietary funds or enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Agency uses enterprise funds to account for the parking and leasing operations of the Anchor Garage and Anchor Shops, respectively.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for parking and leasing of the Anchor Garage and Anchor Shops which are considered to be major funds of the Agency. For the current fiscal year, the Agency does not have any nonmajor proprietary funds.

The basic proprietary fund financial statements can be found on pages 21 – 23 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 – 39 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 Agency, assets exceeded liabilities by $52.6 million at the close of the most recent fiscal year, a decrease of $19.5 million from September 30, 2004.

The basic financial statements include a reconciliation between the fiscal year 2005 governmental funds statement of revenues, expenditures, and changes in fund balance, which reports an increase of $38.9 million in fund balances, and the reported decrease in the excess of assets over liabilities reported in the government-wide statement of activities of $20.5 million, a difference of $59.4 million.

Key elements of the reconciliation of these two statements are that the government-wide statement of activities report the issuance of debt as a liability, the purchase of capital assets as assets which are then charged to expense over their useful lives (depreciated) and changes in long-term liabilities as adjustments of expenses. Conversely the governmental fund statements report the issuance of debt as an other financing source of funds, the repayment of debt as an expenditure, the purchase of capital assets as an expenditure, and do not reflect changes in long-term liabilities.

(Continued)

A large portion of the Agency's net assets ($63.7 million) reflects its investment in capital assets (e.g., land, building, and construction in progress), less any related debt used to acquire those assets that are still outstanding. The Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Assets

September 30, 2005 and 2004

(In thousands)

	Governmental activities		Business-type activities		Total	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Current and other assets	$ 88,438	66,649	6,325	4,895	94,763	71,544
Capital assets	50,538	108,182	13,123	13,555	63,661	121,737
Total assets	138,976	174,831	19,448	18,450	158,424	193,281
Long-term liabilities	96,943	91,605	63	59	97,006	91,664
Other liabilities	8,775	29,506	82	84	8,857	29,590
Total liabilities	105,718	121,111	145	143	105,863	121,254
Net assets:						
Invested in capital assets, net of related debt	50,538	15,214	13,123	13,555	63,661	28,769
Restricted	2,895	6,886	—	—	2,895	6,886
Unrestricted	(20,175)	31,620	6,180	4,752	(13,995)	36,372
	$ 33,258	53,720	19,303	18,307	52,561	72,027

An additional portion of the Agency's net assets ($2.9 million) represents resources that are subject to external restrictions on how they may be used.

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

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

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

The decrease in other liabilities is directly attributable to the sale of the Loews Hotel where a deposit of $19.9 million was received in fiscal year 2004.

Governmental Activities

- Governmental activities decreased the Agency's net assets by $20.5 million. Key elements of these changes are as follows:

Summary of Changes in Net Assets

Years ended September 30, 2005 and 2004

(In thousands)

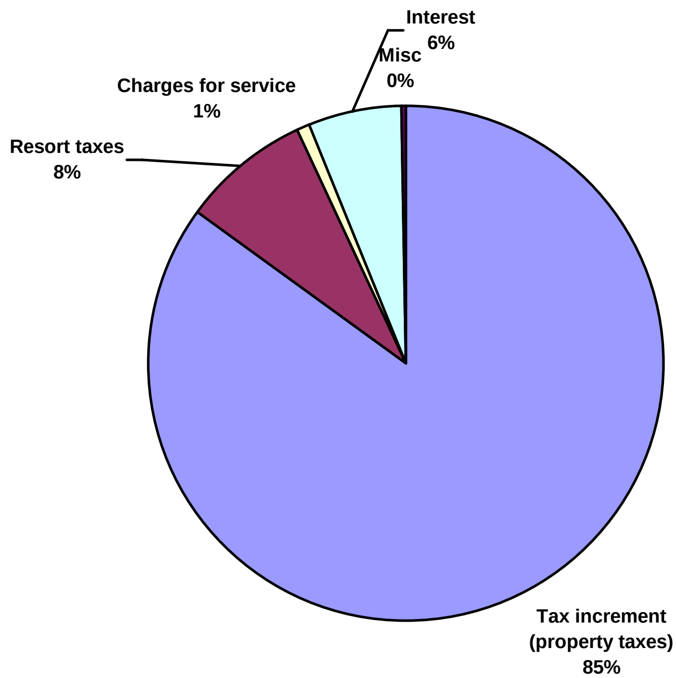
	Governmental activities		Business-type activities		Totals	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Revenues:						
Program revenues:						
Charges for services	$ 275	3,113	2,542	2,408	2,817	5,521
General revenues:						
Taxes:						
Property taxes	29,815	31,352	—	—	29,815	31,352
Resort taxes	2,817	2,407	—	—	2,817	2,407
Investment earnings	2,010	503	135	27	2,145	530
Miscellaneous	108	10	3	2	111	12
Total revenues	35,025	37,385	2,680	2,437	37,705	39,822
Expenses:						
General government	4,187	3,465	—	—	4,187	3,465
Economic environment	6,753	5,761	—	—	6,753	5,761
Public safety	3,174	1,454	—	—	3,174	1,454
Parking-Anchor Garage	—	—	1,565	1,692	1,565	1,692
Leasing-Anchor Shops	—	—	119	110	119	110
Interest on long-term debt	15,534	7,162	—	—	15,534	7,162
Total expenses and transfers	29,648	17,842	1,684	1,802	31,332	19,644
Loss on sale of capital assets	(25,839)	—	—	—	(25,839)	—
Change in net assets	(20,462)	19,543	996	635	(19,466)	20,178
Net assets – beginning	53,720	34,177	18,307	17,672	72,027	51,849
Net assets – ending	$ 33,258	53,720	19,303	18,307	52,561	72,027

- During fiscal year 2005, the Agency sold the land on which two of its rental tenants were located. One of the land sales resulted in a gain of approximately $2 million; however, the second land sale resulted in a loss, for government-wide reporting purpose, of approximately $27.8 million. The net effect of both land sales resulted in a loss of approximately $25.8 million.
- Due to the sale of the land on which one of the Agency's rental tenants was located, the annual percentage rent that normally was collected from this tenant will no longer be collected.

The following chart shows the amounts of program and general revenues for fiscal year 2005:

Revenues by Source – Governmental Activities

Year ended September 30, 2005



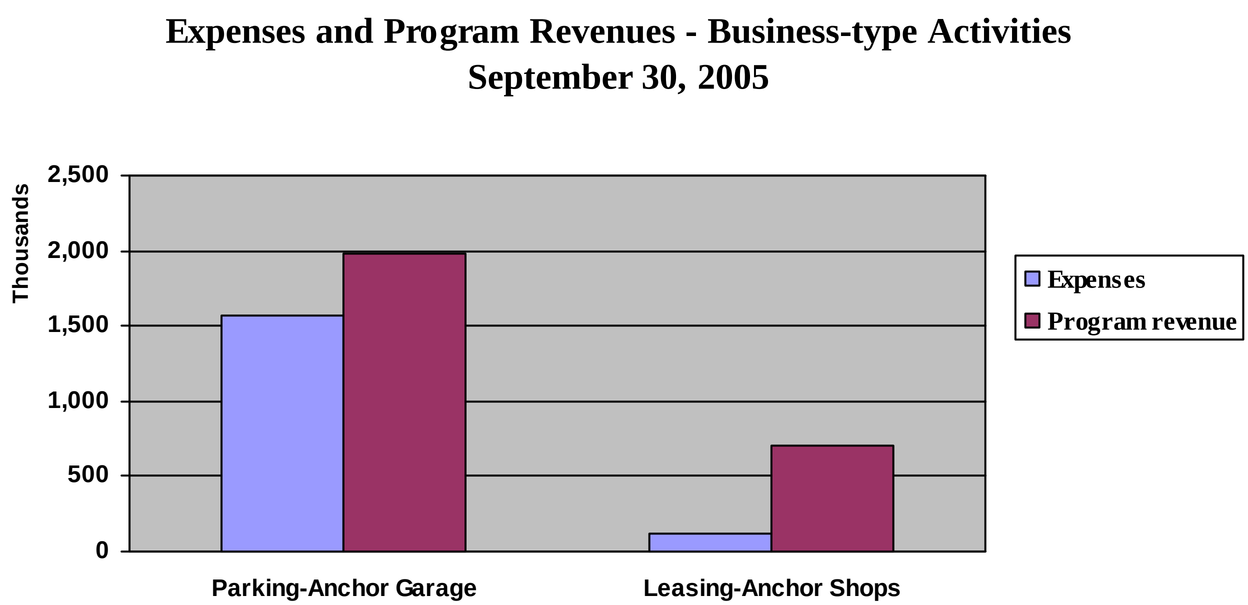
Business-Type Activities

Business-type activities increased the Agency's net assets by approximately $995,000.

Key elements of this increase are as follows:

- The Anchor Garage net assets increased by approximately $411,000 as a result of maintaining operating expenses that are lower in relation to the revenue generated.
- The Anchor Shops net assets increased by approximately $584,000 as a result of maintaining operating expenses that are lower in relation to the revenue generated.

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



Financial Analysis of the Governmental Funds

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

		Governmental Funds					
		General	Debt Service South Pointe	Debt Service City Center	Capital Projects South Pointe	Capital Projects City Center	Total Governmental Funds
				(In thousands)			
Fund balances, September 30, 2004	$	27,749	1,550	7,657	1,895	3,989	42,840
Revenues		31,946	16	165	35	45	32,207
Expenditures		(13,605)	(836)	(9,076)	(3,568)	(4,738)	(31,823)
Other financing sources (uses)		(15,478)	(728)	4,967	4,173	5,718	(1,348)
Proceeds from sale of capital assets		39,898	—	—	—	—	39,898
Fund balances, September 30, 2005	$	70,510	2	3,713	2,535	5,014	81,774

Governmental Funds

The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency'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.

The general fund is the chief operating fund of the Agency. At the end of the current fiscal year, unreserved fund balance of the general fund was $69.8 million, while total fund balance reached $70.5 million.

The fund balance of the Agency's general fund increased by $42.8 million during the current fiscal year. This increase is mostly attributed to the revenue generated from the sale of the land on which the Loews and Royal Palm Hotels are located. The revenue generated from this sale was approximately $39.9 million.

The Agency's General Fund is required to adopt an annual budget prepared on a basis consistent with generally accepted accounting principles.

The Agency's Capital Projects Funds account for the financing of the Agency's capital programs. The primary resources are obtained from the receipt of tax increment revenue from Miami-Dade County (the County) and the City, and also from the issuance of Agency debt.

Proprietary Funds

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

The total growth in net assets for both enterprise funds was approximately $995,000. Other factors concerning the finances of these funds have already been addressed in the discussion of the Agency's business-type activities.

Budgetary Highlights

The following information is presented to assist the reader in comparing the original/final budget (Adopted Budget) and the actual results.

General Fund Revenues

The major variances between the adopted/final budget and actual are in tax increment (property taxes) and in interest income. The variance of $9.8 million in the tax increment revenue is attributed to the fact that the County decreased its payment for the South Pointe tax increment by approximately $9 million to $422,982. Since the Agency's South Pointe district terminates as a redevelopment district on September 30, 2005, the County's payment of tax increment revenue is only one half of the final debt service payment. The variance of approximately $1.6 million in interest income is due to an increase in interest rates from 1.78% to 3.63%, in addition to receiving approximately $40 million from the sale of the capital assets, which was immediately invested.

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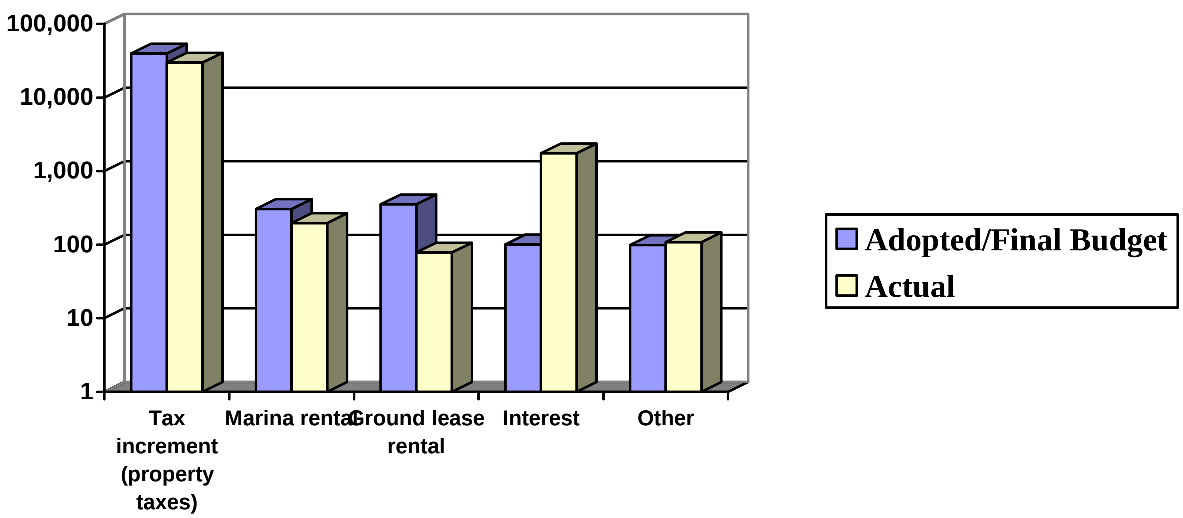
The following chart and table summarize actual revenues by category for fiscal year 2005 and compares actual revenues with the Adopted/Final Budget.

General Fund Revenues
Fiscal Year 2005
(in thousands)



General Fund Revenues

Fiscal Year 2005

(In thousands)

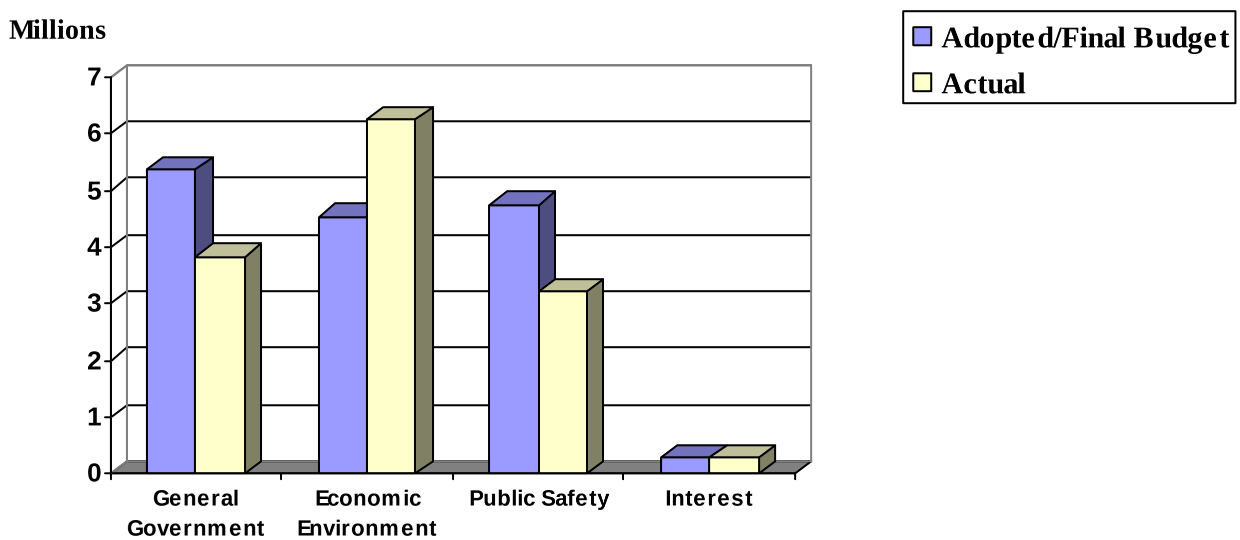
		Adopted/final budget	Actual
Revenues:			
Tax increment (property taxes)	$	39,601	29,815
Marina rental		306	197
Ground lease rental		353	78
Interest income		101	1,748
Other		99	108
Total revenues	$	40,460	31,946

General Fund Expenditures

The variance of $1.4 million relates to payments made to the City for the Agency's portion of loans to fund capital projects located within the Agency's City Center district.

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

General Fund Expenditures
Fiscal Year 2005



General Fund Expenditures

Fiscal Year 2005

(In thousands)

		Adopted/final budget	Actual
Expenditures:			
General government	$	5,372	3,830
Economic environment		4,544	6,248
Public safety		4,756	3,229
Interest		299	299
Total expenditures	$	14,971	13,606

Capital Assets and Debt Administration

Capital Assets

The Agency's investment in capital assets for its governmental and business-type activities as of September 30, 2005 amounts to $63.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, vehicles, machinery and equipment, streetscape improvements, restorations and renovations, and construction work-in-progress, which are detailed as follows (net of accumulated depreciation):

	Capital assets					
	Governmental		Business-type		Total	
	2005	2004	2005	2004	2005	2004
			(In thousands)			
Land and land improvements	$ 17,900	52,327	3,003	3,003	20,903	55,330
Buildings and structures	—	31,647	10,117	10,540	10,117	42,187
Vehicles	371	322	—	—	371	322
Machinery and equipment	249	153	3	12	252	165
Furniture and fixtures	10	12	—	—	10	12
Streetscape improvements	451	—	—	—	451	—
Restorations and renovations	765	—	—	—	765	—
Construction work-in-progress	30,792	23,721	—	—	30,792	23,721
Total	$ 50,538	108,182	13,123	13,555	63,661	121,737

The Agency has developed various capital improvement programs to improve the quality of life for the residents of the City. Major projects include streetscape improvements, restoration of the Colony Theater, Collins Park Cultural Center, Beachwalk, and the Baywalk. Additional information on the Agency's capital assets can be found in the notes to the financial statements. Major capital asset events in progress during the current fiscal year include the following:

- Renovations to Lummus Park located in South Beach. The overall Lummus Park Facilities Project was comprised of the widening of the existing 5-foot wide sidewalks to 10-foot wide along Ocean Drive from 5^{th} Street to 14^{th} Lane, concrete and paved plazas, curb and gutter replacement, irrigation, landscaping, utility relocation and adjustment, installation of Master Meter slabs, bike racks, trash receptacles, and benches, demolition of the existing restroom facility located at 1401 Ocean Drive, and construction of a new restroom at the same site.

- Construction of the South Pointe Streetscape, a five-phase improvement that is the first substantial upgrade to the area's water, sewer, roadway, signalization, street lighting, irrigation, and landscaping. It will advance the quality of residential life by refurbishing the sewer and drainage systems, promoting safe pedestrian travel, increasing the urban tree canopy, and mitigating vehicle congestion.

- Construction of the Washington Avenue Master Plan to include streetscape improvements along Washington Avenue. Improvements include sidewalks, curb and gutter, sidewalk lighting, landscaping, median planting, irrigation and median design elements, water line replacements and upgrades, and drainage upgrades.

Outstanding Debt

At the end of the current fiscal year, the Agency had total debt outstanding in the governmental activities of $98.9 million. This debt was increased by approximately $4 million during the year. This increase was due to the issuance of new bonds, Series 2005, which were used to refund/defease approximately $75 million of the old City Center bonds.

Outstanding Debt Tax Increment Revenue Bonds and Due to Developer

(In thousands)

		Governmental activities	
		2005	2004
Tax increment revenue bonds	$	98,865	94,890
Due to developer		312	186
Total	$	99,177	95,076

Economic Factors and Future Developments

The Agency has an original adopted budget of approximately $31.5 million for fiscal year 2006 for the City Center district. As mentioned below, the South Pointe district ceased to be a redevelopment district under the jurisdiction of the Agency on September 30, 2005. This represents an increase of approximately $6.9 million, or 27.8%, for the City Center district from the fiscal year 2005 original budget. The Agency's budget increased as a result of an increase in the budgeted tax increment revenue received from the County and the City. The original budgeted tax increment revenue were approximately $17 million in fiscal year 2005 for the City Center district, and $24.7 million in fiscal year 2006.

Fiscal year 2005 was the final year that the Agency's South Pointe district was in existence as a redevelopment district. The termination date of the South Pointe district was on September 30, 2005. After this date, the City will be taking over the responsibilities for this area of Miami Beach. As of that date, the Agency will be left with only one redevelopment district which is the City Center/Historic Convention Village.

Requests for Information

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

MIAMI BEACH REDEVELOPMENT AGENCY
(A Component Unit of the City of Miami Beach, Florida)

Statement of Net Assets

September 30, 2005

Assets		**Governmental activities**	**Business-type activities**	**Total**
Current assets:				
Cash and investments	$	85,749,002	5,745,265	91,494,267
Receivables (net):				
Rent		—	359,548	359,548
Accounts receivables		—	17,432	17,432
Interest		332,889	—	332,889
Due from primary government		314,208	—	314,208
Prepaid expenses		601,254	139,492	740,746
Total current assets		86,997,353	6,261,737	93,259,090
Noncurrent assets:				
Restricted cash and investments		—	63,254	63,254
Deferred charges		1,440,867	—	1,440,867
Capital assets not being depreciated:				
Land		17,900,482	3,003,281	20,903,763
Construction in progress		30,791,522	—	30,791,522
Capital assets being depreciated:				
Vehicles		499,146	—	499,146
Machinery and equipment		372,498	11,825	384,323
Furniture and fixtures		14,148	—	14,148
Buildings and structures		—	12,855,648	12,855,648
Streetscape improvements		458,627	—	458,627
Restorations and renovations		776,690	—	776,690
Total capital assets		50,813,113	15,870,754	66,683,867
Less accumulated depreciation		(275,506)	(2,747,662)	(3,023,168)
Total capital assets, net of accumulated depreciation		50,537,607	13,123,092	63,660,699
Total noncurrent assets		51,978,474	13,186,346	65,164,820
Total assets		138,975,827	19,448,083	158,423,910
Liabilities				
Current liabilities:				
Accounts payable		1,967,875	56,210	2,024,085
Accrued expenses		1,483,358	25,004	1,508,362
Due to primary government		3,000,524	944	3,001,468
Portion due or payable within one year:				
Accrued compensated absences		11,696	—	11,696
Due to developer		311,814	—	311,814
Bonds payable		2,000,000	—	2,000,000
Total current liabilities		8,775,267	82,158	8,857,425
Long-term liabilities:				
Liabilities payable from restricted assets:				
Deposits		—	63,254	63,254
Portion due or payable after one year:				
Accrued compensated absences		77,458	—	77,458
Bonds payable		96,865,245	—	96,865,245
Total long-term liabilities		96,942,703	63,254	97,005,957
Total liabilities		105,717,970	145,412	105,863,382
Net Assets				
Invested in capital assets, net of related debt		50,537,607	13,123,092	63,660,699
Restricted for:				
Debt Service		2,895,409	—	2,895,409
Unrestricted		(20,175,159)	6,179,579	(13,995,580)
Total net assets	$	33,257,857	19,302,671	52,560,528

See accompanying notes to financial statements.

MIAMI BEACH REDEVELOPMENT AGENCY
(A Component Unit of the City of Miami Beach, Florida)

Statement of Activities

Year ended September 30, 2005

	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	Net (expense) revenue and changes in net assets: Business-type activities	Total
Activities:							
Governmental:							
General government	$ 4,186,441	275,086	—	—	(3,911,355)	—	(3,911,355)
Economic environment	6,752,892	—	—	—	(6,752,892)	—	(6,752,892)
Public safety	3,174,467	—	—	—	(3,174,467)	—	(3,174,467)
Interest on long-term debt	15,534,116	—	—	—	(15,534,116)	—	(15,534,116)
Total governmental activities	29,647,916	275,086	—	—	(29,372,830)	—	(29,372,830)
Business-type:							
Parking – Anchor Garage	1,564,726	1,898,534	—	—	—	333,808	333,808
Leasing – Anchor Shops	119,421	643,213	—	—	—	523,792	523,792
Total business-type activities	1,684,147	2,541,747	—	—	—	857,600	857,600
Totals	$ 31,332,063	2,816,833	—	—	(29,372,830)	857,600	(28,515,230)

	Governmental activities	Business-type activities	Total
General revenues:			
Taxes:			
Tax increment for redevelopment districts	29,814,708	—	29,814,708
Resort taxes	2,817,396	—	2,817,396
Interest	2,009,716	134,695	2,144,411
Miscellaneous	108,309	3,090	111,399
Loss on sale of capital assets	(25,839,322)	—	(25,839,322)
Total general revenues	8,910,807	137,785	9,048,592
Changes in net assets	(20,462,023)	995,385	(19,466,638)
Net assets – beginning	53,719,880	18,307,286	72,027,166
Net assets – ending	$ 33,257,857	19,302,671	52,560,528

See accompanying notes to financial statements.

MIAMI BEACH REDEVELOPMENT AGENCY
(A Component Unit of the City of Miami Beach, Florida)

Balance Sheet

Governmental Funds

September 30, 2005

Assets		**General Fund**	**Debt Service South Pointe**	**Debt Service City Center**	**Capital Projects South Pointe**	**Capital Projects City Center**	**Total governmental funds**
Cash and investments	$	72,009,601	—	3,797,575	4,109,722	5,832,104	85,749,002
Receivables:							
Interest		312,207	1,690	16,399	—	2,593	332,889
Due from primary government		314,208	—	—	—	—	314,208
Prepaid expenses		601,254	—	—	—	—	601,254
Total assets	$	73,237,270	1,690	3,813,974	4,109,722	5,834,697	86,997,353
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	$	156,006	—	24,750	1,225,323	561,796	1,967,875
Accrued expenses		229,116	—	25,500	—	—	254,616
Due to primary government		2,342,772	—	50,664	348,740	258,348	3,000,524
Total liabilities		2,727,894	—	100,914	1,574,063	820,144	5,223,015
Fund balances:							
Reserved for:							
Prepaid expenses		601,254	—	—	—	—	601,254
Debt service		—	1,690	3,713,060	—	—	3,714,750
Encumbrances		121,425	—	—	2,535,659	5,014,553	7,671,637
Unreserved		69,786,697	—	—	—	—	69,786,697
Total fund balances		70,509,376	1,690	3,713,060	2,535,659	5,014,553	81,774,338
Total liabilities and fund balances	$	73,237,270	1,690	3,813,974	4,109,722	5,834,697	86,997,353

See accompanying notes to financial statements.

MIAMI BEACH REDEVELOPMENT AGENCY
(A Component Unit of the City of Miami Beach, Florida)

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets

September 30, 2005

Total fund balance for governmental funds		$	81,774,338
Total net assets reported for governmental activities in the statement of net assets is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Total capital assets			50,537,607
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at September 30, 2005 are:			
Accrued interest on bonds	(1,228,742)		
Bonds payable	(97,300,000)		
Premium on bonds payable	(1,565,245)		
Deferred charges for bond issuance costs	1,440,867		
Due to developer	(311,814)		
Accrued compensated absences	(89,154)		
Total long-term liabilities			(99,054,088)
Total net assets of governmental activities		$	33,257,857

See accompanying notes to financial statements.

MIAMI BEACH REDEVELOPMENT AGENCY
(A Component Unit of the City of Miami Beach, Florida)

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year ended September 30, 2005

	General Fund	Debt Service South Pointe	Debt Service City Center	Capital Projects South Pointe	Capital Projects City Center	Total governmental funds
Revenues:						
Tax increment	$ 29,814,708	—	—	—	—	29,814,708
Rent	275,086	—	—	—	—	275,086
Interest	1,748,260	16,428	164,774	35,404	44,850	2,009,716
Other	108,309	—	—	—	—	108,309
Total revenues	31,946,363	16,428	164,774	35,404	44,850	32,207,819
Expenditures:						
Current:						
General government	3,829,676	—	—	—	—	3,829,676
Economic environment	6,247,601	—	—	—	—	6,247,601
Public safety	3,228,808	—	—	—	—	3,228,808
Debt Service:						
Principal	—	800,000	2,485,000	—	—	3,285,000
Interest	299,394	36,500	6,590,162	—	—	6,926,056
Capital outlay	—	—	—	3,567,718	4,738,486	8,306,204
Total expenditures	13,605,479	836,500	9,075,162	3,567,718	4,738,486	31,823,345
Excess of revenues over (under) expenditures	18,340,884	(820,072)	(8,910,388)	(3,532,314)	(4,693,636)	384,474
Other financing sources (uses):						
Refunding bonds issued	—	—	80,770,000	—	—	80,770,000
Bond premium	—	—	1,567,153	—	—	1,567,153
Bond issuance costs	—	—	(1,820,203)	—	—	(1,820,203)
Payment to refunded bond escrow agent	—	—	(84,682,609)	—	—	(84,682,609)
Contribution from primary government	2,817,396	—	—	—	—	2,817,396
Transfers in	2,400,466	—	9,132,149	4,172,940	7,391,051	23,096,606
Transfers out	(20,696,140)	(727,889)	—	—	(1,672,577)	(23,096,606)
Proceeds from sales of capital assets	39,898,102	—	—	—	—	39,898,102
Total other financing sources (uses)	24,419,824	(727,889)	4,966,490	4,172,940	5,718,474	38,549,839
Net change in fund balances	42,760,708	(1,547,961)	(3,943,898)	640,626	1,024,838	38,934,313
Fund balances at beginning of year	27,748,668	1,549,651	7,656,958	1,895,033	3,989,715	42,840,025
Fund balances at end of year	$ 70,509,376	1,690	3,713,060	2,535,659	5,014,553	81,774,338

See accompanying notes to financial statements.

MIAMI BEACH REDEVELOPMENT AGENCY
(A Component Unit of the City of Miami Beach, Florida)

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Year ended September 30, 2005

Net change in fund balances – total governmental funds	$	38,934,313
The change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlay 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 outlay $(8,634,796) exceeds depreciation $(541,862) in the current period.		8,092,934
The net effect of various transactions involving capital assets (i.e., sales) is to decrease net assets.		(65,737,424)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations is an expenditure in the governmental funds. Neither transaction however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The statement of net assets has been adjusted for transactions as follows:		
Repayments:		
Principal – debt service		3,285,000
Principal – debt service refunded/defeased		75,075,000
Principal – due to developer		10,045
Increase in due to developer liability		(136,000)
Issuance of new bonds		(80,770,000)
Premium on bonds		(1,567,153)
Cost of issuance		1,440,867
Accrued compensated absences		(89,154)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental activities section of the statement of net assets:		
Reduction in accrued interests on bonds		999,549
Change in net assets of governmental activities	$	(20,462,023)

See accompanying notes to financial statements.

MIAMI BEACH REDEVELOPMENT AGENCY
(A Component Unit of the City of Miami Beach, Florida)

Statement of Net Assets

Enterprise Funds

September 30, 2005

		Business-type activities Enterprise Funds	
Assets	**Parking Fund**	**Leasing Fund**	**Total**
Current assets:			
Cash and investments	$ 3,288,550	2,456,715	5,745,265
Receivables:			
Rent, net of allowance	—	359,548	359,548
Accounts receivable	17,432	—	17,432
Prepaid expenses	7,000	132,492	139,492
Total current assets	3,312,982	2,948,755	6,261,737
Noncurrent assets:			
Restricted cash and investments	3,720	59,534	63,254
Capital assets:			
Land	2,793,051	210,230	3,003,281
Buildings and structures	11,955,752	899,896	12,855,648
Machinery and equipment	11,825	—	11,825
Less accumulated depreciation	(2,555,689)	(191,973)	(2,747,662)
Total capital assets (net of accumulated depreciation)	12,204,939	918,153	13,123,092
Total noncurrent assets	12,208,659	977,687	13,186,346
Total assets	15,521,641	3,926,442	19,448,083
Liabilities			
Current liabilities:			
Accounts payable	50,159	6,051	56,210
Accrued expenses	20,932	4,072	25,004
Due to primary government	944	—	944
Total current liabilities	72,035	10,123	82,158
Noncurrent liabilities:			
Liabilities payable from restricted assets:			
Deposits	3,720	59,534	63,254
Total noncurrent liabilities	3,720	59,534	63,254
Total liabilities	75,755	69,657	145,412
Net Assets			
Invested in capital assets, net of related debt	12,204,939	918,153	13,123,092
Unrestricted	3,240,947	2,938,632	6,179,579
Total net assets	$ 15,445,886	3,856,785	19,302,671

See accompanying notes to financial statements.

MIAMI BEACH REDEVELOPMENT AGENCY
(A Component Unit of the City of Miami Beach, Florida)

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Enterprise Funds

Year ended September 30, 2005

	Business-type activities Enterprise Funds		
	Parking Fund	**Leasing Fund**	**Total**
Operating revenues:			
Charges for services	$ 1,898,534	643,213	2,541,747
Interest	75,430	59,265	134,695
Other	1,945	1,145	3,090
Total operating revenues	1,975,909	703,623	2,679,532
Operating expenses:			
Contractual services	748,090	78,652	826,742
Depreciation	401,984	29,997	431,981
Other operating	414,652	10,772	425,424
Total operating expenses	1,564,726	119,421	1,684,147
Operating income	411,183	584,202	995,385
Changes in net assets	411,183	584,202	995,385
Total net assets – beginning	15,034,703	3,272,583	18,307,286
Total net assets – ending	$ 15,445,886	3,856,785	19,302,671

See accompanying notes to financial statements.

MIAMI BEACH REDEVELOPMENT AGENCY
(A Component Unit of the City of Miami Beach, Florida)

Statement of Cash Flows

Enterprise Funds

Year ended September 30, 2005

	Business-type activities Enterprise Funds		
	Parking Fund	Leasing Fund	Total
Cash flows from operating activities:			
Cash received from customers	$ 1,984,857	697,892	2,682,749
Cash paid to suppliers	(1,164,819)	(69,054)	(1,233,873)
Net cash provided by operating activities	820,038	628,838	1,448,876
Net increase in cash and investments	820,038	628,838	1,448,876
Cash and investments – beginning of year	2,472,232	1,887,411	4,359,643
Cash and investments – end of year	$ 3,292,270	2,516,249	5,808,519
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 411,183	584,202	995,385
Adjustments to reconcile operating income to cash provided by operating activities:			
Depreciation	401,984	29,997	431,981
Provision for uncollectible accounts	—	(17,002)	(17,002)
Changes in assets and liabilities:			
Decrease in receivables	12,298	3,966	16,264
Decrease in prepaid expenses	606	19,352	19,958
Increase (decrease) in accounts payable	19,196	(443)	18,753
Increase (decrease) in accrued expenses	(22,462)	1,462	(21,000)
Increase (decrease) in deposits	(3,350)	7,304	3,954
Increase in due to primary government	583	—	583
Total adjustments	408,855	44,636	453,491
Net cash provided by operating activities	$ 820,038	628,838	1,448,876

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

In February 1976, the Miami Beach Redevelopment Agency (the Agency) was formed by the City of Miami Beach, Florida (the City) under the provisions of Chapter 163 of the Florida Statutes.

The Agency's stated purpose is to spur development and redevelopment in the South Shore area of the City, an area which includes approximately 250 acres at the southern tip of the City, and a redevelopment area called the City Center/Historic Convention Village Redevelopment and Revitalization Area. Subsequent to its inception in March 1977, the City adopted the Agency's redevelopment plan which provided for the construction of residential housing, hotels, a marina, and commercial, recreational, and entertainment facilities.

Because of the desire of the City Commission to revise the concept for redevelopment of the South Shore area, on December 17, 1982, the City Commission declared itself to be, and constituted the Agency. This action resulted in the City Commissioners becoming the Agency's Board Members and the City Manager becoming the executive director of the Agency. The Agency's budget is adopted by its directors. The Agency meets the criteria for inclusion in the City's reporting entity as a component unit and therefore has been reported in the basic financial statements of the City.

The City Center/Historic Convention Village Redevelopment and Revitalization Area was formed in the same manner as the South Shore Area. In March 1993, the City adopted the Agency's redevelopment plan for the City Center/Historic Convention Village Redevelopment and Revitalization Area, which called for the revitalization of the blighted area surrounding the Miami Beach Convention Center and Lincoln Road.

The City has expended certain of its funds prior to and subsequent to the inception of the Agency for various projects, which have benefited the redevelopment area. These expenditures have been recorded in the accounting records of the City, and accordingly, are not reflected in the accompanying financial statements of the Agency.

Effective October 1, 1998, the Agency established the use of proprietary funds to account for its business-type activities; accordingly, the operations of the Agency's parking and leasing activities are accounted for in separate enterprise funds.

(b) Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given functional category are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific functional category. The Agency's program revenue consists of charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given functional category. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

(i) Governmental Funds

Governmental funds are accounted for on a financial-flow measurement basis. Only current assets and current liabilities are generally included on their balance sheet. Their operating statements present sources (revenue and other financing sources) and uses (expenditures and other financing uses) of available spendable resources during the period.

The modified accrual basis of accounting is used for all governmental fund types. Under this method, revenue amounts are recorded when they are both measurable and available. "Measurable" means that the amount of a transaction can be determined, and "available" means that the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when goods or services are received and actual liabilities are incurred.

The Agency reports the following major governmental funds:

- The general fund is the general operating fund of the Agency. All financial resources, except those required to be accounted for in another fund, are accounted for in the general fund.
- The South Pointe debt service fund is used to account for the accumulation of resources for the payment of general long-term debt, principal, interest, and related costs associated with the South Pointe District but does not include the amount due to the developer.
- The City Center debt service fund is used to account for the accumulation of resources for the payment of general long-term debt, principal, interest, and related costs associated with the City Center District.
- The South Pointe capital projects fund accounts for financial resources to be used for the acquisition or construction of major capital facilities within the South Pointe District.
- The City Center capital projects fund accounts for financial resources to be used for the acquisition or construction of major capital facilities within the City Center District.

(ii) Proprietary Funds

Proprietary funds are accounted for on an economic resources measurement focus. Revenue is recognized as earned, and expenses are recorded as incurred. The government applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting and reporting its proprietary operations. In accordance with the Governmental Accounting Standards Board (GASB), the Agency has elected not to apply FASB pronouncements issued after that date to its proprietary operations. All assets and all liabilities (whether current or noncurrent) associated with their activity are included in their balance sheets.

The Agency reports the following major proprietary funds:

- The Parking Fund accounts for the parking operations of the Anchor Garage, which is located within the City Center District.
- The Leasing Fund accounts for the leasing operations of the Anchor Shops, which included seven tenants during the current fiscal year. The Anchor Shops are also located within the City Center District.

(d) Capital Assets

Capital assets, which include property, vehicles, machinery, furniture and fixtures, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of $500 or more, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or at valuations if donated, which approximate cost.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. During the construction phase of capital assets, interest of business-type activities is included as part of the capitalized value of the assets constructed.

Property and furniture and fixtures of the Agency are depreciated over the estimated useful lives using the straight-line method. The estimated useful lives are as follows.

Buildings	30 – 60 years
Improvements	10 – 60 years
Vehicles, machinery, and furniture	3 – 5 years

(e) Cash and Investments

Cash is composed of deposits with financial institutions. Investments are composed of U.S. treasury obligations, corporate bonds, state or municipal obligations, commercial paper, money market funds, and repurchase agreements. For the purpose of the statement of cash flows for the proprietary fund types, cash and investments are short-term, highly liquid investments with an original maturity of three months or less.

Investments are recorded at fair value, except for those investments with remaining maturities of one year or less, which are recorded at amortized cost, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

(f) Estimates

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

(2) Cash and Investments

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

(a) Pooled Portfolio Investments

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

Investments are made based on prevailing market conditions at the time of the transaction with the intent to hold the instrument until maturity. If the yield of the portfolio can be improved by the sale of an investment, prior to maturity, with the reinvestment of the proceeds, then this provision is allowed. As a means of limiting its exposure to fair value losses, the Agency's investment policy limits maturity of its investments to seven years or less. At September 30, 2005, all the Agency's investments had a maturity of less than one year.

As of September 30, 2005, the Agency had the following investments and maturities:

		Investment maturities (in years)	
Investment type	**Fair value**	**Less than 1**	**1 – 5**
U.S. treasuries	$ 46,270,250	46,270,250	—
Corporate bonds	1,506,000	1,506,000	—
Money market	4,235,784	4,235,784	—
Repurchase agreements	20,613,763	20,613,763	—
	$ 72,625,797	72,625,797	—

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

Corporate bonds	Moody's	Standard & Poor's
Citigroup	Aa1	AA-

Concentration of Credit Risk – The Agency's investment plan limits the amount that can be invested in any one issuer as well as maximum portfolio allocation percentages. The Agency's cash management investments held at September 30, 2005 are shown below:

		Carrying Amount
Demand deposits – interest bearing	$	19,225,776
Money market funds		4,235,784
Repurchase agreements		20,613,763
Corporate bonds		1,542,690
Treasury securities		45,939,508
	$	91,557,521

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All the Agency's investments are held by a counterparty in the Agency's name.

(b) Deposits

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

(c) Investments

The Agency's investment policy requires that securities be registered in the name of the Agency. All safekeeping receipts for investment instruments are held in accounts in the Agency's name and all securities are registered in the Agency's name. The Agency adopted the City's ordinance designating the investments which are allowable for its cash management activities. The policy specifies the types and limits by instrument and establishes a diversified investment objective that takes into consideration the safety, return, and liquidity of capital. The authorized investments include direct U.S. treasury obligations, U.S. government agencies, corporate bonds, commercial paper, state or municipal obligations, and repurchase agreements. These investments are insured, or registered, or the securities are held by the Agency or its agent in the Agency's name.

(3) Capital Assets

Capital asset activities for the year ended September 30, 2005 were as follows:

(a) Governmental Activities

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 49,850,853	—	31,950,371	17,900,482
Construction in progress	23,720,635	8,306,204	1,235,317	30,791,522
Total capital assets, not being depreciated	73,571,488	8,306,204	33,185,688	48,692,004
Capital assets, being depreciated:				
Building	34,840,724	—	34,840,724	—
Land improvements	2,742,552	—	2,742,552	—
Streetscape improvements	—	458,627	—	458,627
Restorations/renovations	—	776,690	—	776,690
Vehicles	359,189	139,957	—	499,146
Machinery and equipment	183,863	188,635	—	372,498
Furniture and fixtures	14,148	—	—	14,148
Total capital assets being depreciated	38,140,476	1,563,909	37,583,276	2,121,109
Less accumulated depreciation for:				
Building	3,193,734	290,340	3,484,074	—
Land improvements	266,439	45,709	312,148	—
Streetscape improvements	—	7,644	—	7,644
Restorations/renovations	—	11,788	—	11,788
Vehicles	37,635	90,824	—	128,459
Machinery and equipment	30,644	92,727	—	123,371
Furniture and fixtures	1,414	2,830	—	4,244
Total accumulated depreciation	3,529,866	541,862	3,796,222	275,506
Total capital assets, being depreciated, net	34,610,610	1,022,047	33,787,054	1,845,603
Governmental activities capital assets, net	$ 108,182,098	9,328,251	66,972,742	50,537,607

Loss on Sale of Lands and Buildings

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

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

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

The Agency had the following construction commitments in the Capital Projects Funds as of September 30, 2005:

South Pointe Capital Projects	$ 2,535,659
City Center Capital Projects	5,014,553
Total	$ 7,550,212

(b) Business-Type Activities

	Beginning balance	Increases	Decreases	Ending balance
Land	$ 3,003,281	—	—	3,003,281
Equipment	11,825	—	—	11,825
Buildings and structures	12,855,648	—	—	12,855,648
	15,870,754	—	—	15,870,754
Less accumulated depreciation	2,315,681	431,981	—	2,747,662
Business-type activities capital assets, net	$ 13,555,073	(431,981)	—	13,123,092

There were no construction commitments in the Agency's enterprise funds.

(4) Due to Developer

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

a. Provide an additional 485 parking spaces for both the south and north parcels of the property. In addition, provide for laundry and bathroom facilities on the north parcel of the property;

b. Provide valet service for the Marina during construction on the north parcel of the property;

c. Responsible for the seawall along the property;

d. Release a utility easement in favor of the City across the "Diamond C Parcel";

e. Responsible for improving the "Alaska Parcel" for temporary parking for the construction on the north parcel of the property;

f. Provide for use of sidewalk and the westernmost lane of Alton Road to be used as staging areas for construction on the north parcel of the property; and

g. Remove a pump station on the north parcel of the property.

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

(5) Tenant Leases

(a) The Agency serves as the lessor for the tenants leasing various retail facilities. The tenant leases are considered operating leases, which expire at various dates through fiscal year 2015. For leases that contain predetermined fixed escalations of the minimum rentals, the Agency recognizes the related rental revenue on the straight-line basis over the initial lease term. Future minimum lease payments to be received under the operating leases at September 30, 2005 are as follows:

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

(b) The Agency was the lessor in an agreement with a development company in which the Agency leased the land on which the Loews Hotel is located. The lease was an operating lease which commenced on December 24, 1998, and expired on December 2, 2004. The lessee exercised the "buyout" option as stated in the lease agreement and bought the land from the Agency on December 2, 2004. There will be no future minimum lease payments to be received under this operating lease at September 30, 2005.

(c) The Agency served as the lessor of the land on which the Royal Palm Hotel is located. The lease required the payment of Base Rent of $18,333 (plus sales tax) each month. The lessee bought the land from the Agency on February 16, 2005. There will be no future minimum lease payments to be received under this operating lease at September 30, 2005.

(6) Operating Leases

(a) Submerged Land Lease

The State of Florida Department of Natural Resources (the State) issued a 25-year submerged land lease to the City on January 21, 1986, covering Biscayne Bay underlying the Miami Beach Marina Project. The annual lease fee is determined annually by the State and is based on 1,648,911 square feet.

Lease expense for the year September 30, 2005 was $149,830.

(b) Miami Beach Marina Lease

On June 24, 1983, the City and the Agency entered into a 30-year net operating lease (the Lease) expiring on December 31, 2014, with Carner-Mason Associates, Ltd. (Carner-Mason) to construct, develop, and operate the Miami Beach Marina (the Marina). The Lease provides for three 10-year renewal options at the same lease terms. Rent under the Lease equals the minimum annual guaranteed rent, as defined in the Lease. The Lease further requires the lessee to pay all operating and maintenance expenses of the Marina. As provided by the third amendment to the Lease, dated May 27, 1997, the operating lease is now held by Miami Beach Marina Associates, Ltd. The lease with the Marina will be taken over by the City upon the termination of the Agency's South Pointe District as of September 30, 2005.

The following summarizes the approximate minimum annual guaranteed rent payments to be received under the Marina Lease:

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

(7) Tax Increment Revenue Bonds

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

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

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

(Continued)

The combined annual debt service costs are presented below:

		Principal	Interest	Total
Years ending September 30:				
2006	$	2,000,000	3,686,227	5,686,227
2007		3,655,000	4,704,013	8,359,013
2008		3,860,000	4,515,554	8,375,554
2009		4,045,000	4,329,697	8,374,697
2010		4,255,000	4,138,267	8,393,267
2011 – 2015		24,495,000	17,507,678	42,002,678
2016 – 2020		31,485,000	10,554,547	42,039,547
2021 – 2023		23,505,000	1,858,370	25,363,370
		97,300,000	51,294,353	148,594,353
Add unamortized bond premium		1,565,245	—	1,565,245
Total	$	98,865,245	51,294,353	150,159,598

Advance Refunding

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

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

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

(8) Changes in Long-Term Liabilities

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

	Beginning balance	Increases	Decreases	Ending balance	Due within one year
Governmental activities:					
Bonds payable:					
Tax increment revenue bonds	$ 94,890,000	82,337,153	78,361,908	98,865,245	2,000,000
Total bonds payable	94,890,000	82,337,153	78,361,908	98,865,245	2,000,000
Due to developer	185,859	136,000	10,045	311,814	311,814
Compensated absences	—	89,154	—	89,154	11,696
Governmental activity long-term liabilities	95,075,859	82,562,307	78,371,953	99,266,213	2,323,510
Business-type activities:					
Tenant deposits	59,300	21,724	17,770	63,254	—
Business-type activity long-term liabilities	$ 59,300	21,724	17,770	63,254	—

(9) Tax Increment Revenue

The Agency is primarily funded through tax-increment revenue. This revenue is computed by applying the operating tax rate for the City and Miami-Dade County, Florida, (the County) multiplied by the increased value of property in the district over the base property value minus 5%. Both the City and the County are required to fund this amount annually without regard to tax collections or other obligations.

(10) Commitments

City Center/Historic Convention Village Redevelopment District

The Agency is committed to provide the developers of the two hotels, the Loews Miami Beach Hotel (the Loews) and the Royal Palm Crowne Plaza Resort Hotel (the Royal Palm), certain monetary incentives. As of September 30, 2005, the Agency has an outstanding commitment of approximately $564,000, which will be used as follows:

- To construct a boardwalk for the two hotels;
- To provide sidewalk and streetscape improvements; and
- To develop and construct the cultural center facility.

(Continued)

(11) Related-Party Transactions

The Agency obtains certain managerial and administrative services from the City in accordance with a management agreement. The Agency incurred $1,128,876 of management-fee expense under this agreement for the year ended September 30, 2005.

(12) Interfund Balances and Transfers

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

Governmental funds:		
Due from the primary government to:		
General fund	$	314,208
Due to the primary government from:		
General fund	$	2,342,772
Debt service South Pointe		50,664
Capital projects South Pointe		348,740
Capital projects City Center		258,348
Total due to the primary government	$	3,000,524
Business-type activities:		
Due to the primary government from:		
Enterprise funds- Parking fund	$	944

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

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

Governmental funds:		
Transfers from the general fund to:		
Debt service City Center	$	9,132,149
Capital projects South Pointe		4,172,940
Capital projects City Center		7,391,051
Total transfers from the general fund	$	20,696,140
Transfers to the general fund from:		
Debt service South Pointe	$	727,889
Capital projects City Center		1,672,577
Total transfers to the general fund	$	2,400,466

Transfers are used to (1) move revenues from the fund that budget requires to collect them to the fund that budget requires to expend them, and (2) move receipts restricted for debt services from the funds collecting

(Continued)

the receipts to the debt service fund. In addition, the Agency receives transfers from the primary government, as stipulated in the Agency's bond covenants, for a portion of the resort tax collected by the primary government.

(13) Receivables

Receivables at September 30, 2005 for the Agency's governmental and enterprise funds, including the applicable allowance for uncollectible accounts, are as follows:

		Governmental activities				
		General	Debt Service South Pointe	Debt Service City Center	Capital Projects City Center	Total
Receivables:						
Interest	$	312,207	1,690	16,399	2,593	332,889

		Business-type activities		
		Parking Fund	Leasing Fund	Total
Receivables:				
Rent	$	—	480,496	480,496
Accounts		17,432	—	17,432
Gross receivables		17,432	480,496	497,928
Less allowance for uncollectible		—	120,948	120,948
Net receivables	$	17,432	359,548	376,980

(14) Excess of Expenditures over Appropriations

For the year ended September 30, 2005, expenditures exceeded appropriations in the economic environment category by $1,703,461. This amount is mostly attributed to loan payments made to the City. This expenditure was incurred in the Agency's General Fund, but budgeted for in the Agency's Debt Service Fund.

(15) Other Information

Fiscal year 2005 is the final year that the Agency's South Pointe district will be in existence as a redevelopment district. The termination date was September 30, 2005. After this date, the Agency will be left with only one redevelopment district which is the City Center/Historic Convention Village.

(16) Subsequent Events

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

REQUIRED SUPPLEMENTARY INFORMATION

MIAMI BEACH REDEVELOPMENT AGENCY
(A Component Unit of the City of Miami Beach, Florida)

Budgetary Comparison Schedule

General Fund

Year ended September 30, 2005

(Unaudited)

	Original and final budgeted amounts	Actual amounts	Variance with final budget – positive (negative)
Revenues:			
Tax increment	$ 39,600,614	29,814,708	(9,785,906)
Rent	658,882	275,086	(383,796)
Interest	100,969	1,748,260	1,647,291
Other	99,000	108,309	9,309
Total revenues	40,459,465	31,946,363	(8,513,102)
Expenditures:			
General government	5,371,604	3,829,676	1,541,928
Economic environment	4,544,140	6,247,601	(1,703,461)
Public safety	4,755,848	3,228,808	1,527,040
Interest	299,394	299,394	—
Total expenditures	14,970,986	13,605,479	1,365,507
Excess of revenues over expenditures	25,488,479	18,340,884	(7,147,595)
Other financing sources (uses):			
Proceeds from sale of capital assets	—	39,898,102	39,898,102
Operating transfers in	2,519,500	5,217,862	2,698,362
Operating transfers out	(28,007,979)	(20,696,140)	7,311,839
Total other financing sources (uses)	(25,488,479)	24,419,824	49,908,303
Net change in fund balance	—	42,760,708	42,760,708
Fund balance at beginning of year	27,748,668	27,748,668	—
Fund balance at end of year	$ 27,748,668	70,509,376	42,760,708

See accompanying notes to required supplementary information.

(1) Budgetary Policy

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The Agency uses appropriations in the capital budget to authorize the expenditures of funds for various capital projects. Capital appropriations, unless modified or rescinded, remain in effect until the completion of each project.

At least 65 days prior to the beginning of the fiscal year, the City Commission, which also serves as the Agency's Board of Directors, is presented with a proposed budget. The proposed budget includes anticipated expenditures and the means of financing them. After Commission review and public hearings, the budget is adopted prior to October 1st. The budget is approved by district and fund: South Pointe District and City Center District. Management may transfer amounts between line items within a fund as long as the transfer does not result in an increase in the fund's budget. Increases to fund budgets require Commission approval.

Budgets are considered a management control and planning tool and as such are incorporated in the accounting system of the Agency. Budgets are adopted on the modified accrual basis of accounting with the inclusion of encumbrances as reductions in the budgetary amount available. Appropriations not encumbered lapse at year-end. Outstanding encumbrances at year-end are reported as a reservation of fund equity.

Encumbrance accounting, under which purchase order commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances, since they do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

OTHER REPORTS

KPMG LLP
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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*

The Board Members
Miami Beach Redevelopment Agency:

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Miami Beach Redevelopment Agency (the Agency), a component unit of the City of Miami Beach, Florida as of and for the year ended September 30, 2005, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 24, 2006, which was modified to refer to the adoption of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risks Disclosures*. 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 Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more 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 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 Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have 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*.

This report is intended solely for the information and use of the board of directors, the City Commission, and management of the Agency and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 24, 2006
Certified Public Accountants