

CITY OF FORT LAUDERDALE, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED SEPTEMBER 30, 2007

This section is intended to provide readers of this report with a general overview of the financial activities of the City during FY2007. The information in this section should be considered only in the context of the Transmittal Letter at the beginning of this report, as well as the financial statements and notes to financial statements which follow.

Financial Highlights

- The City's total assets exceeded its liabilities at September 30, 2007 by \$911 million (net assets). Of this amount, \$347 million was from governmental activities and \$564 million was from business-type activities.
- The City's revenues for governmental activities, excluding transfers, totaled \$336 million, an 8% decrease from FY2006. Expenses for governmental activities also decreased by 12% to \$275 million. These decreases are attributed to the significantly higher revenues and expenses in FY2006 associated with the cleanup and repairs related Hurricanes Katrina and Wilma. Those storms damaged several City structures and destroyed 30% of the City's mature trees.
- Revenues related to business-type activities increased by \$9 million to \$137 million while expenses decreased by \$1 million to \$102 million.
- The General Fund's balance increased by \$29.7 million to \$79.5 million due primarily to higher than anticipated revenues. The unreserved undesignated balance of \$68.2 million represents a significant increase over the \$42.6 million balance at the end of FY2006.
- The City's long-term debt increased by \$109 million net of retirements to \$333 million. This includes \$100 million in Water and Sewer Revenue bonds and \$27 million in draws on Florida State Revolving Fund loans for water and wastewater system improvements.
- The total fair market value of the City's investments at September 30, 2007 was \$1.2 billion. Interest rates remained steady throughout the fiscal year, and were approximately 40 basis points over the previous year.

Overview of Financial Statements

The basic financial statements are comprised of government-wide statements that offer a summary of financial activity and more specific fund statements that present more detailed information.

Government-Wide Statements (pages 11 through 13) include the statement of net assets and statement of activities. They provide a broad overview of the City as a whole similar to private sector financial statements. The *statement of net assets* shows the total assets and liabilities for the City with the difference being net assets. The *statement of activities* provides a breakdown of revenues and expenditures by function. Functions generally supported by taxes and intergovernmental revenues such as police, fire-rescue, parks and recreation, and public works are considered governmental activities. Those functions that are primarily funded through user fees and charges are identified as business-type activities. In Fort Lauderdale, the latter activities include Water and Sewer, Sanitation, the Parking System, the Executive Airport, and Stormwater.

The government-wide statements include component units such as the City's Community Redevelopment Agency (CRA) and the Sunrise Key Safe Neighborhood District even though they are technically not part of the primary City government. The City Commission acts as the Board of Directors of the CRA and the City Commission is required to adopt the millage rate for the Sunrise Key District when it adopts the property tax levies for City operations and debt service. These financial statements do not include fiduciary funds such as the employee pension plans because those resources cannot be used for the City's activities. Details of the fiduciary funds are provided in the fund statements.

The **Fund Financial Statements** are found on pages 14 through 27. The City of Fort Lauderdale uses fund accounting to track the sources and uses of resources for specific purposes. The City categorizes funds into three basic fund types: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds (beginning on page 14) are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the previous 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.

Since the focus of governmental funds is more narrow 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. This comparison highlights the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances offer a reconciliation to assist with this comparison.

The City of Fort Lauderdale maintains 20 individual governmental funds. Of this number, the General Fund and the Intergovernmental Revenue Fund are considered major funds and thus are reflected separately in the fund financial statements. All the other governmental funds are combined for presentation purposes as nonmajor funds.

Proprietary Funds (beginning on page 21) are comprised of two different categories. Enterprise funds include business-type activities such as Water and Sewer, Sanitation, the Parking System, the Executive Airport, and Stormwater. Internal service funds include vehicle rental, central services (telecommunications and printing services), and insurance services. The latter functions provide support to internal City departments rather than services to the public. These funds are also reported as either major or nonmajor funds depending upon the significance of their financial activity.

Fiduciary Funds (beginning on page 26), which are not included in the government-wide statements, are presented in this section and include the City's Police and Fire Pension Plan and the General Employee Retirement System as well as the financial activity of the Arts and Science District Garage.

Notes to Financial Statements (beginning on page 28) are integral to a complete understanding of both the government-wide and fund financial statements. They provide additional explanation of the amounts shown in the various statements.

Other Information

This report also includes supplementary information related to the City's employee pension obligations. The combining statements in connection with non-major governmental and enterprise funds, internal service funds, fiduciary funds and non-major component units are presented following the required supplementary information.

Additional statistical information is presented to give report users a better historical perspective and assist in assessing current financial status and trends of the governmental unit. Economic data is presented to allow a broader understanding of the economic and social environment in which the City government operates.

Government-wide Financial Analysis

The table below summarizes Fort Lauderdale's net assets for the 2007 and 2006 fiscal years.

City of Fort Lauderdale, Florida Net Assets (in thousands of \$)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 272,421	253,239	197,064	173,924	469,485	427,163
Capital assets	244,290	228,070	676,687	528,460	920,977	756,530
Total assets	516,711	481,309	873,751	702,384	1,390,462	1,183,693
Long-term liabilities outstanding	138,191	148,315	252,510	129,655	390,701	277,970
Other liabilities	31,103	48,318	57,072	42,720	88,175	91,038
Total liabilities	169,294	196,633	309,582	172,375	478,876	369,008
Net Assets:						
Invested in capital assets						
net of related debt	192,895	170,956	434,102	405,589	626,997	576,545
Restricted	17,776	16,094	20,147	11,951	37,923	28,045
Unrestricted	136,746	97,626	109,920	112,469	246,666	210,095
Total net assets	\$ 347,417	284,676	564,169	530,009	911,586	814,685

The City's investment in capital assets (land, buildings, improvements, infrastructure and equipment) net of the related debt outstanding used to acquire those assets represents 69% of its net assets. These capital assets are used to provide services to the citizens and are not available for future spending. The resources needed to repay the debt incurred to acquire these assets will come from future revenues.

The balance of net assets includes resources subject to external restrictions (\$38 million) and unrestricted net assets (\$247 million) that may be used to meet the City's ongoing obligations. The unrestricted amount is \$37 million higher than at the end of fiscal year 2006.

Total net assets increased by \$97 million, a 12% gain over the prior year. The following table summarizes changes in net assets for governmental and business-type activities for the past two fiscal years.

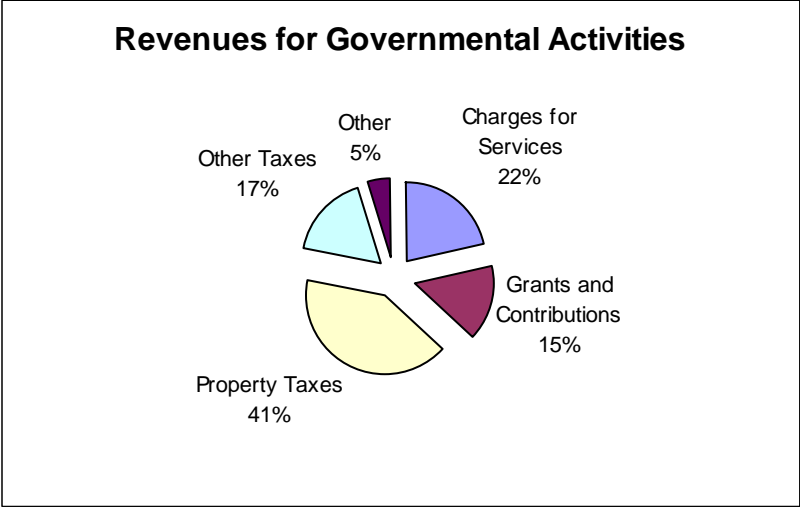
City of Fort Lauderdale, Florida
Changes in Net Assets
(in thousands of \$)

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:	\$					
Charges for services	72,728	70,953	122,496	119,239	195,224	190,192
Operating grants/contributions	28,738	68,625	324	41	29,062	68,666
Capital grants/contributions	6,088	18,780	5,417	2,476	11,505	21,256
General revenues:						
Property taxes	138,198	124,380	-	-	138,198	124,380
Other taxes	57,463	56,035	-	-	57,463	56,035
Grants and Contributions	17,032	15,538	-	-	17,032	15,538
Investment earnings	14,961	10,257	8,746	6,475	23,707	16,732
Other	1,243	1,739	-	-	1,243	1,739
Total revenues	336,451	366,307	136,983	128,231	473,434	494,538
Expenses:						
General Government	45,029	86,484	-	-	45,029	86,484
Public Safety	154,936	152,861	-	-	154,936	152,861
Physical Environment	8,179	8,176	85,616	88,587	93,795	96,763
Transportation	6,677	8,507	16,163	14,590	22,840	23,097
Economic Environment	17,984	15,628	-	-	17,984	15,628
Culture and Recreation	37,651	36,251	-	-	37,651	36,251
Interest on Long-term Debt	4,298	4,588	-	-	4,298	4,588
Total expenses	274,754	312,495	101,779	103,177	376,533	415,672
Increase (decrease) in net assets before transfers	61,697	53,812	35,204	25,054	96,901	78,866
Transfers	1,044	3,636	(1,044)	(3,636)	-	-
Increase (decrease) in net assets	62,741	57,448	34,160	21,418	96,901	78,866
Net assets beginning of year	284,676	227,228	530,009	508,591	814,685	735,819
Net assets end of year	<u>\$ 347,417</u>	<u>284,676</u>	<u>564,169</u>	<u>530,009</u>	<u>911,586</u>	<u>814,685</u>

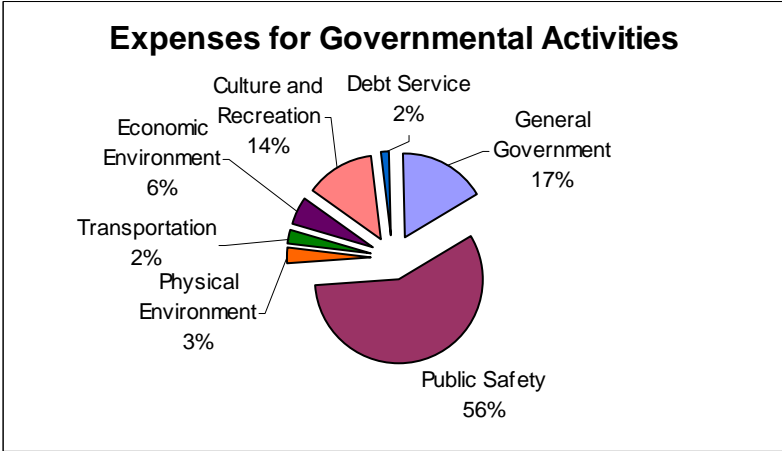
Revenues from governmental activities decreased by \$30 million or 8.2% compared to 2006, which included over \$47 million in grant reimbursements for cleanup and repairs associated with hurricanes Katrina and Wilma. Most of the major revenue sources showed favorable results, including a 46% increase in investment earnings and an 11% increase in property tax collections, including voted debt levies. The latter increase is attributed to a 19.4% increase in taxable assessed values.

Expenses for governmental activities declined by \$38 million, reflecting the hurricane related expenses incurred in the prior year. Other expenses in total remained essentially unchanged.

As the following chart of revenues from governmental activities (by source) shows, property and other taxes provided 58% of the revenues used to fund governmental functions. Charges for services, such as parks and recreation programs and emergency medical transport, comprised 22% of total revenues.



Expenses for governmental activities (by function) are guided by City priorities as seen in the following chart. Public Safety, comprised of Police, Fire-Rescue, and Building department services, is clearly the highest priority, consuming 56% of all resources. General government and culture and recreation expenses accounted for 17% and 14%, respectively.



For the business-type activities, net assets showed an increase of \$34 million. Total revenues for these activities increased by \$9 million with investment earnings accounting for \$2.3 million and capital grants \$2.9 million. Charges for services increased by 2.7%.

Expenses for business-type activities were slightly lower (\$1.4 million) than the prior year. Transportation costs (parking and airport) increased by \$1.6 million. Of that amount, \$707,000 was used to evaluate and make repairs to the downtown heliport and \$200,000 went towards improved security at the executive airport.

Financial Analysis of the Government’s Funds

The fund financial statements for *governmental funds* provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Fort Lauderdale’s financing requirements. In particular, the unreserved fund balance is a useful indicator of the City’s net resources available for spending at the end of the fiscal year.

The General Fund balance at September 30, 2007 was \$79.5 million, an increase of \$29.7 million over the prior year balance of \$49.8 million. Unreserved and undesignated fund balance grew to \$68 million.

General fund revenues for fiscal year 2007 totaled \$292 million, a \$19 million increase over 2006. Property taxes accounted for most (\$13.7 million) of the increase, resulting from a 19.4% increase in property values. Insurance premium taxes received from the State of Florida to fund Police and Fire employee pensions increased by \$1.6 million. Charges for services rose by \$1.1 million, with \$610,000 being attributed to fire services and fees and \$594,000 to culture and recreation. Other revenues increased \$3.6 million of which \$2.1 in interest earnings resulted from the General fund balance increase and \$1 million from increased interfund service charges. Intergovernmental revenues showed a decline of \$2.6 million, however, nearly \$1.6 million received in 2006 was for one-time grants. In the current year, approximately \$700,000 in lower state shared revenues can be attributed to the weakened economy.

Total expenditures increased \$10 million in 2007 from \$233 million to \$243 million. The more significant increases include \$3.2 million for salaries and wages due in part to the addition of 18 full-time equivalent positions, \$2.7 million in higher pension contributions (including \$1.6 million in pass-through state contributions), and \$1.6 million increased vehicle maintenance and replacement costs paid to the Vehicle Rental internal service fund.

The Intergovernmental Revenue fund balance increased by \$1 million resulting from transfers from the General fund to support hurricane repair efforts. These funds remain designated for this purpose.

The combined fund balances of the non-major governmental funds decreased by \$2.4 million attributed to the utilization of over \$7 million general obligation bond funds for construction of fire stations. The governmental funds ended the year with \$191 million in fund balance including \$81 million unreserved and undesignated.

The City's *proprietary funds* are presented in more detail in the fund statements but represent the same activities reflected in the business-type activities. Proprietary funds include both the enterprise and internal service funds. Net assets of the Water and Sewer fund grew by \$20 million with total enterprise net assets growing by \$32 million. In FY2007 enterprise funds showed a total increase in operating income of \$2.7 million overall. Capital contributions increased \$4.4 million of which \$2.4 million funded improvements at the executive airport.

At September 30, 2007, the City's insurance fund had a net assets balance of \$10.4 million, up from \$4 million in 2006. Favorable claims experience in the health insurance area accounted for \$2.2 million of the increase. On the casualty side the improvement of \$4.2 million was derived from increased charges to other City funds to cover property insurance premium increases of the prior year and workers' compensation claim increases in 2006 and 2007.

General Fund Budgetary Highlights

Actual General Fund revenues for fiscal year 2007 were greater than the final FY2007 budget by \$13 million. Utility and franchise taxes accounted for \$5.5 million of the favorable results. Another \$3.6 million was gained from additional interest earned on the increased General fund balance. Alarm fees were \$800,000 higher than anticipated and fire service and EMS transport fees exceeded budget by over \$750,000. The half-cent sales tax and state revenue sharing brought in an additional \$900,000.

Total expenditures of \$252 million (including encumbrances of \$8.9 million) were \$12 million below the final FY2007 Budget. This is mainly attributed to personal services cost savings of \$6.3 million due to a position vacancy rate of 6.75% during the year. Services and materials costs were also \$3.9 million lower than anticipated.

Capital Assets and Debt Administration

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities is shown in the following table. Additions for the year included acquisitions of park land totaling \$2.6 million, completion of the cemeteries administration building (\$1.4 million) and construction work on new fire stations of \$7.9 million.

Capital asset balances of the business-type activities increased by \$148 million, reflecting major ongoing capital improvements in the water and sewer and stormwater systems. Among completed projects were \$4.8 million for the wastewater collection system, force mains and pumping stations and \$8.6 million for water mains. An additional \$132 million was added to construction in progress during the year. Additional information about the City's capital assets can be found in note 7 to the financial statements.

City of Fort Lauderdale, Florida Capital Assets (net of depreciation) (in thousands of \$)

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Land	\$ 53,550	49,532	25,937	25,937	79,487	75,469
Buildings	82,094	82,580	91,235	94,054	173,329	176,634
Improvements other than buildings	38,917	41,683	243,723	233,483	282,640	275,166
Machinery and equipment	35,598	33,761	6,567	6,939	42,165	40,700
Infrastructure	10,007	10,309	-	-	10,007	10,309
Construction in progress	24,124	10,205	309,225	168,047	333,349	178,252
Total	\$ 244,290	228,070	676,687	528,460	920,977	756,530

The City issued no new governmental activity debt during the year. Principal retirements amounted to \$13 million. In the business-type activities, \$100 million water and sewer revenue bonds were issued and \$27 million was drawn on Florida state revolving fund loans authorized for a total of \$82.1 million. Principal retirements for business-type activities totaled \$5.3 million. Additional information about the City's long-term debt can be found in notes 10 and 11 to the financial statements.

City of Fort Lauderdale, Florida Outstanding Debt * (in thousands of \$)

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 41,620	47,405	-	-	41,620	47,405
Excise tax bonds	6,900	9,240	-	-	6,900	9,240
Revenue bonds	-	-	183,970	87,150	183,970	87,150
Tax Increment revenue bonds	18,691	19,803	-	-	18,691	19,803
Capital leases	3,657	5,339	-	-	3,657	5,339
Loans payable and other						
Obligations	17,075	19,145	61,236	36,038	78,311	55,183
Total Debt Outstanding	\$ 87,943	100,932	245,206	123,188	333,149	224,120

* Excludes unamortized bond premiums, discounts, gains/losses on advance refundings and other liabilities such as estimated insurance claims and compensated absences.

Economic Factors and Next Year's Budget and Rates

The State of Florida, by constitution, does not have a state personal income tax and therefore the State operates primarily using sales, gasoline and corporate income taxes. Local governments (cities, counties and school boards) rely on property and a limited array of permitted other taxes (sales, gasoline, and utilities) and fees (franchise, occupational license) for their governmental activities. For the business-type and certain governmental activities (construction services and recreational programs), the user pays a related fee or charge associated with the service.

The adopted operating budget for FY2008 is \$536.2 million or 7.4% higher than the FY2007 adopted budget. The General Fund budget for FY2008 is \$320.1 million or 5% higher than FY2007. Included in this amount is a carryforward fund balance of \$50 million. The millage rate was decreased 16.4% from 5.0826 to 4.2482. Water and sewer rates were increased 3% and stormwater rates were increased 5%.

The adopted General Fund budget in FY2008 conforms to the requirements of the tax reform bill passed by the State Legislature in 2007 which required a rollback of the millage rate to the FY2006 level and an additional reduction of General Fund property tax revenues of 7%. This resulted in an \$11 million reduction in the total General Fund budget. The philosophies underlying the budget include minimizing impacts of the state mandated property tax cuts, continued focus on quality of life issues, development of plans for the City's future and neighborhood and City infrastructure improvements.

Requests for Information

This financial report is designed to provide a general overview of the City of Fort Lauderdale's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Fort Lauderdale, 100 North Andrews Avenue, Fort Lauderdale, Florida 33301.