

City of Gulf Breeze Florida



Comprehensive Annual Financial Report

Fiscal Year Ending September 30, 2006

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CITY OF GULF BREEZE, FLORIDA
CITY OFFICIALS

City Council

MAYOR LANE GILCHRIST

BEVERLY ZIMMERN
CARL HOFFMAN

RICK OUTZEN
CLAY FORD



CITY MANAGER
EDWIN EDDY

CITY CLERK
MARITA RHODES

FINANCE DIRECTOR
NANCY MILLAY

CITY ATTORNEY
MATT DANNHEISSER

City of Gulf Breeze, Florida
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2006

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December 5, 2006

To the Honorable Mayor, City Council Members,
and the Citizens of Gulf Breeze
City of Gulf Breeze, Florida
1070 Shoreline Drive
Gulf Breeze, Florida 32562-0640

The Comprehensive Annual Financial Report of the City of Gulf Breeze, Florida, for fiscal year ended September 30, 2006, is submitted herewith, pursuant to Florida Statutes Chapter 218.32.

This report consists of management's representations concerning the finances of the City of Gulf Breeze. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free of material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

O'Sullivan Creel, LLP, a firm of certified public accountants, has audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2006, are free of material misstatement. The independent audit involved 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; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Gulf Breeze financial statements for the fiscal year ended September 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented in Section II - Financial Section, as the first component of the Financial Section of this report.

Generally accepted accounting principals require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's

Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Gulf Breeze's MD&A can be found immediately following the report of the independent auditor.

HISTORY AND PROFILE OF THE GOVERNMENT

History

The City of Gulf Breeze, located in Florida's Panhandle, is a small, beautiful community, surrounded on three sides by water. The City of Gulf Breeze was incorporated on August 10, 1961. The area now known as Navy Cove was used in the 1600's to careen wooden ships and make repairs. The first recorded land owner in Gulf Breeze was George Gauld, shown on a map dated 1766-1768. The Confederates maintained a camp, lookout tower and a hospital here from 1862-1865. James Duncan came to Florida along with his three brothers from Kentucky and was granted land by the United States Government on November 22, 1888. The house built by Nelson Duncan between 1875 and 1882, is still standing and is the oldest house in Gulf Breeze.

The Gulf Breeze peninsula was first connected to the City of Pensacola by a three-mile bridge completed in 1931. The bridge increased interest in the area and the beginnings of a tourist attraction developed. A second, larger bridge was completed on August 10, 1962, and the original bridge was used as a fishing pier until severely damaged in 2004 by Hurricane Ivan.

An Act of Congress established the Gulf Islands National Seashore that is located within the City limits of Gulf Breeze, in 1971. The National Seashore covers approximately 1,329 acres and includes nature trails, picnic facilities, park ranger facilities and beach access.

Profile

Although Gulf Breeze covers only a five square mile area and has approximately 6,100 residents, the City has 18 miles of waterfront and three protected bayous, where residents enjoy all sorts of water activities.

The First Mayor, Dr. C.J. Heinberg, and City Council member's requested and received from Santa Rosa County, the ownership of land (more than 255 acres) that is now Shoreline Park. An outstanding range of recreational facilities is provided by the City, which includes nine ball fields, five children's parks, ten tennis courts, several picnic areas, two public boat launches, various nature trails and bicycle paths.

Within the City you will find a full-service hospital, a public library, a recreation center that includes a theater along with a large gymnasium, a large fishing pier that extends into Pensacola Bay and three public schools, elementary, middle and high school, each of which continue to receive "A" ratings.

The City provides public services, which include streets and roads in addition to enterprise operations consisting of water, sewer and natural gas. The City contracts with a private firm to provide solid waste collection services. Public Safety is provided by twenty-four hour police protection by the first fully accredited police department in the region along with a fully-trained volunteer fire department.

The City of Gulf Breeze has a stable, full-service, innovative, government recognized as a leader in financial programs. The City includes all the funds and account groups of the primary government as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City has a discretely reported component unit, Capital Trust Agency (CTA), along with blended component units, Gulf Breeze Financial Services (GBFS) and the Community Redevelopment Agency (CRA).

The annual budget serves as the foundation of the City's financial planning and control. Development of the annual budget is the beginning of the financial transaction process. A town meeting is held, generally the first Monday of May, and is the starting point for developing the budget. All departments of the City submit requests for appropriation to the City Manager, to be finalized by mid June. The City Manager then reviews the proposed budget, and when a balanced budget is achieved, it is ready for presentation to the City Council. Beginning in July, several public workshops are held, during which time the proposed budget is presented to the Mayor and City Council. A determination regarding the City millage rate is made and all public notices regarding the proposed budget and millage rate are made. The final budget is adopted no later than September 30, the close of the City's fiscal year.

Budgetary control is maintained by the City Manager, Finance Director and Department Directors through a continual review process. Expenditures are made within the budgetary guidelines. While Department heads may make transfers of appropriations within a department, they must receive approval by the City Manager. Unbudgeted purchases may be considered provided there are sufficient funds to cover the cost and proper approval for a budget adjustment has been made by the City Manager and / or the City Council.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Gulf Breeze operates.

Local Economy

The economic base of the City of Gulf Breeze is 79.07% residential with commercial area's accounting for 20.93% of the City. The City of Gulf Breeze consists of 4.5 square miles and has limited potential for expansion. Redevelopment continues to be the most viable alternative for economic improvements. Hurricane Ivan, which came ashore in Northwest Florida, September 2004, Hurricanes Arlene, Dennis, and Katrina which affected our community in 2005, continue to fuel residential and commercial improvements. Renovations and construction to houses and commercial structures is expected to continue through 2007.

The City has two major commercial projects underway, the development of a large scale retail center at the intersection of Highway 98 and Daniel Drive and a world renown orthopedic/sports medicine center.

The Sports Medicine Center expected to be completed and in use in 2007 is the Andrews Institute. This health sciences venture will be a world class institute for orthopedics and sports medicine in

Gulf Breeze, with the leadership and reputation of nationally and internationally renowned orthopedic surgeon James Andrews, MD. Five or more corporations are proposed as components of the Institute: Multi-specialty Ambulatory Surgery Center, Outpatient Rehabilitation, Diagnostic Imaging Center, Athletic Performance Enhancement Center and a Research and Education Foundation. The Institute will create an estimated 126 new jobs with nearly \$10 million in wages. The combined impact of the patient clientele and employment opportunities related to the Institute will further enhance Northwest Florida's ability to create an environment for positive growth while creating a reputation for world class medical care.

Some of the redevelopment will result in a greater demand for the services provided by the City. Growth in the residential population and commercial expansion along with the capital improvement costs are being met by revenues received from the Communication Service Tax, Local Option Gas Tax, ½ Cent Sales Tax and funds received from the Gulf Breeze Loan Pools.

Gulf Breeze sponsored its first loan pool in 1985. Since that time the loan pools have generated approximately \$14.3 million in fees, allowing the City to make significant improvements. The loan pools have also allowed the City to maintain a low millage rate and approve a rollback rate of 1.628 for tax year 2006.

Long-term Financial Planning

Loan Pool sponsorship fees have been used to fund a variety of Gulf Breeze projects over the years. While it is difficult to predict how the economy will change in the future, the City of Gulf Breeze believes it has developed a sound financial base to ensure a positive future financial position in the years to come.

The City of Gulf Breeze, by the direction of the Mayor and City Council, is committed to capital improvement projects that will continue to distinguish Gulf Breeze as a model community.

Major capital projects, this year and over the next five years, consist of:

- Continued re-paving of the more than 45 miles of streets within the City of Gulf Breeze. The City is in the sixth year of a fifteen-year program to re-pave all 45 miles of streets. Local Option gas tax revenues are used to fund part of this project.
- The City of Gulf Breeze completed the project to extend its natural gas line and tie-in to a neighboring county gas company line. This project will give the City an additional source of natural gas to assure stability of supply for our gas customers.
- Improvements to storm water management systems resulting from Federal and State mandates. Funding through grants and service fees will be used to fund these projects.
- Construction of new sidewalks is a part of the City's annual capital improvement plan.
- Restoration of the waterside parks was begun in fiscal year 2006 and will be completed in early 2007 at an estimated cost of \$4 million dollars.
- The Gulf Breeze Fishing Bridge, a popular source of public recreation, suffered severe hurricane damage. It is still to be determined whether the remaining portion of the bridge will be salvageable and to what extent the City will be responsible for demolition and removal.
- Phase II of the Shoreline Park North, Renovation Plan project, at an estimated \$3.4 million

will commence December 2006 and includes softball field renovations, park sidewalks, lighting, fencing, concession facilities, outdoor restrooms.

- Renovation of the boat ramps at Shoreline Park South was completed during 2006.

Cash Management Policies and Practices

All City monies are placed in compliance with Section 218.415, Florida Statutes as well as Chapter 517 and Chapter 280, Florida Statutes. The City strictly adheres to the provisions of those cited statutes. The City maintains its deposits only with “Qualified Public Depositories” as defined in Chapter 280, Florida Statutes. Daily deposits are made into a pooled cash account. These funds are rolled nightly into an investment account, which pays an interest rate tied to the Federal Funds rate.

At fiscal year end, the City’s investments were slightly less than \$2.5 million. Approximately \$365,000 was invested with the Florida State Board of Administration Investment Pool; \$1,340,000 at the Bank of Pensacola in an investment account, \$530,000 with The Florida Municipal Investment Trust, and \$300,000 in a Certificate of Deposit. Investments have continued to grow as FEMA reimbursements continue to be received.

The Florida State Board of Administration Investment Pool had average earnings of 4.73% throughout the year, with a rate of 5.39% in September. The Bank of Pensacola investments accounts earned an average of 4.77% throughout the year, ending with a rate of 5.43% in September. The City invested \$500,000 with Florida Municipal Investment Trust in May 2004, the total return at September 30, 2006, is \$34,959.

City staff will continue to periodically review its options regarding the distribution of investments. The City’s conservative investment philosophy, along with the requirement that invested funds be readily available, played a significant role in the ability of the City to provide emergency services to its citizens, particularly during the aftermath of a disaster.

Risk Management

The City of Gulf Breeze maintains a fully funded insurance program for property, casualty and automobile insurance. All general and automobile liability and property insurance is obtained through the Florida League of Cities Municipal Insurance Trust. General liability and auto liability has a \$10,000 deductible, per claim. Other insurance coverage has deductibles varying from \$1,000 to \$10,000. The City is self insured for workers’ compensation and the program is administered through the Finance Department. Life insurance is provided through the City’s health insurance carrier. Additional information on the City’s risk management can be found in Note 9 in the notes to the financial statements.

The City Risk Management program takes a sure approach to eliminating any potential impacts to public safety and welfare and has an in house safety program, which includes employee orientation, safety training exercises and monitoring for exposures.

Pensions

The City currently has three (3) separate plans. One of which applies to employees hired prior to January 1, 1996, and two of which apply to employees hired January 1, 1996, and after. All permanent employees hired prior to January 1, 1996, participate in a defined benefit pension plan,

Florida Retirement System, administered by the State of Florida Division of Retirement, Department of Management Services. Contribution requirements of the plan are established in Florida Statutes Chapters 121, 122, and 123 and may be amended only by legislative action. Compliance with the State Constitution and Florida Statutes require any increase in retirement benefits to be funded concurrently on an actuarially sound basis. Active plan members do not contribute to the plan.

All full-time police officers hired after January 1, 1996, participate in the Florida Municipal Pension Trust Fund. This is a cost-sharing, single-employer defined benefit pension plan, administered by a Police Pension Board. Florida Statute 185 provides the authority under which benefit provisions are established and may only be amended by legislative action.

All full-time general employees hired after January 1, 1996, participate in the Florida Municipal Trust Fund, a defined contribution pension plan, administered by the Florida League of Cities. The City is required to make contributions equal to 8% of the compensation for each eligible employee. Full time, general employees become eligible after completing one year of service with the City.

The City also provides post-employment health insurance benefits for certain retirees and their dependents. These benefits are financed 100% by payment from retirees. Generally accepted accounting principles (GAAP) do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. At the end of the fiscal year, there were no retired employees receiving these benefits.

Additional information regarding the City of Gulf Breeze's pension plans may be found in Notes 6 and 7 in the notes to the financial statements.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Gulf Breeze for its comprehensive annual financial report for the fiscal year ended September 30, 2005. This was the fourth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.


We would like to express our appreciation to the Mayor and the City Council for their interest and support in conducting the financial operations of the City in a responsible and progressive manner and maintaining the financial integrity of the City of Gulf Breeze. The preparation of this comprehensive annual financial report could not have been accomplished without the dedicated services of the entire staff of the Finance Department.

Other City departments, while not extensively involved in the year-end audit activities, contribute significantly, ensuring the accuracy and integrity of accounting information throughout the year.

Their diligence was essential in assisting the Finance Department in providing the Citizens of Gulf Breeze with an outstanding, comprehensive report.

We would also like to acknowledge the accounting firm of O'Sullivan Creel, LLP for their continued, professional assistance. Their suggestions and attention to detail continue to greatly enhance the quality of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Edwin A. Eddy".

Edwin A. Eddy
City Manager

A handwritten signature in cursive script that reads "Nancy L. Millay".

Nancy L. Millay
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Gulf Breeze
Florida

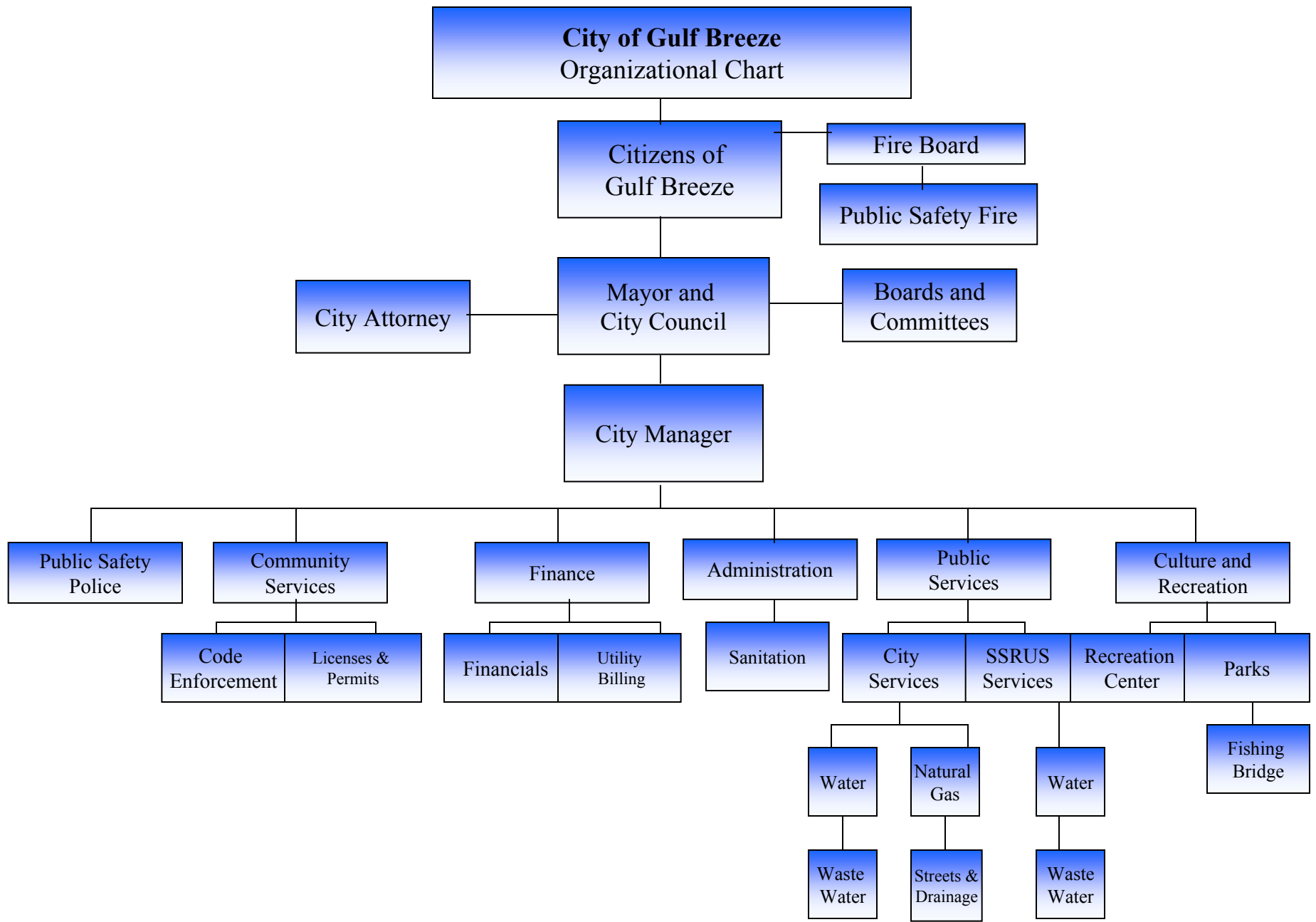
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



II. Financial Section

- **Independent Auditor's Report**
- **Management's Discussion and Analysis**
- **Basic Financial Statements**
 - **Government Wide Financial Statements**
 - **Fund Financial Statements**
 - **Notes to the Financial Statements**
- **Required Supplementary Information**
- **Combining and Individual Fund Statements**

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor, Members of
the City Council and Citizens of
Gulf Breeze, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gulf Breeze, Florida, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gulf Breeze, Florida's management. Our responsibility is to express opinions on these basic 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 City of Gulf Breeze, Florida'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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gulf Breeze, Florida, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary information for the General and Urban Core Redevelopment funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated December 5, 2006, on our consideration of the City of Gulf Breeze, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14 and the Schedule of Contributions from the Employer and other Contributing Entities on page 55 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gulf Breeze, Florida's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and other schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for the purpose of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, and Schedule of Expenditures of Federal Awards, have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

O'Sullivan Greel, LLP

December 5, 2006

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

As management of the City of Gulf Breeze, Florida, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages v-xi of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Gulf Breeze exceeded its liabilities by \$29,833,017 (net assets). Of this amount \$6,640,623 (unrestricted net assets) may be used to meet the City's ongoing obligations to its citizens and creditors.
- The City's total net assets decreased by \$53,520 or 0.17%. The governmental net assets decreased by \$1,192,276 or 10.2% and the business-type net assets increased by \$1,138,756 or 6.3%.
- The City's governmental funds reported combined ending fund balances of \$2,958,043, a decrease of \$2,057,350. Of the total ending fund balance, \$793,873 is available for spending at the City's discretion (unreserved and undesignated fund balance). The primary portion of the decrease is due to an increase in Accounts Payable, Contracts Payable, and accrued liabilities (101.4%) which is primarily the result of continuing projects and improvements resulting from hurricane and flood damages. At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,095,959 or 12% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City of Gulf Breeze's basic financial statements are comprised of three 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 City's government-wide financial statements are designed to provide its readers with a broad overview, similar to a private sector business.

The Statement of Net Assets provides information on the entire City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the City of Gulf Breeze's financial position is improving or deteriorating.

The Statement of Activities provides information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

activities). The government activities of the City include general government, public works, police, fire, parks and recreation, and community services. The business-type activities of the City include water and sewer, natural gas, and solid waste.

The government-wide financial statements include not only the City of Gulf Breeze itself (the primary government, but also blended component units, Gulf Breeze Financial Services (GBFS) and the Community Redevelopment Agency (CRA). Blended component units, although legally separate entities, are, in substance, part of the primary government's operations. The government-wide financial statements are found on pages 15-16 of this report.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City of Gulf Breeze, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

FUNDS

Governmental Funds

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

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

The City maintains four individual governmental funds (General Fund, Urban Core Redevelopment Special Revenue Fund, Traffic Citation Special Revenue Fund, and Police Special Revenue Fund). 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 and Urban Core Redevelopment Special Revenue Fund, which are presented as major funds, and the Traffic Citation Special Revenue Fund and the Police Special Revenue Fund which are presented as non-major funds.

The City of Gulf Breeze adopts an annual appropriated budget for its General Fund. A budgetary comparison statement is provided for the General Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 17-22 of this report.

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

Proprietary Funds

All proprietary funds of the City are maintained as enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Gulf Breeze uses enterprise funds to account for its utilities operations (water operations and distribution, sewer collection and treatment, and natural gas operations and distribution), solid waste control, and fishing bridge operations and to account for the activities of the Gulf Breeze Local Government Loan Program.

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 the City Water & Sewer Fund, SSRUS Water & Sewer Fund, Natural Gas Fund, Solid Waste Fund, the Fishing Bridge Fund, and Gulf Breeze Financial Services. The City Water & Sewer Fund, SSRUS Water & Sewer Fund, and the Natural Gas Fund are considered to be major funds of the City. The Solid Waste Fund, Fishing Bridge Fund, and Gulf Breeze Financial Services are combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 23-27 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City's fiduciary funds include the Police Pension Trust Fund and the Health Insurance and D.A.R.E. escrow agency funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 28-29 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-54 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons and the City's progress in funding its obligation to provide pension benefits to its employees. Required supplemental information can be found on page 55 of this report.

The combining statements referred to earlier in connection with non-major governmental and proprietary funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 56-65 of this report.

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

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 City of Gulf Breeze, assets exceeded liabilities by \$29,833,017 at the close of the most recent fiscal year, as reported below in Table 1.

The largest portion of the City's net assets \$20,482,060 (68.8%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Gulf Breeze uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (9.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$6,562,239 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets, both in the separate governmental and business-type activities and the City as a whole.

Table 1
Statement of Net Assets as September 30

| | Governmental Activities | | Business-Type Activities | | Totals | |
|--|--------------------------------|-------------------|---------------------------------|-------------------|-------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current and other assets | 4,100,081 | 5,495,479 | 8,097,743 | 5,629,346 | 12,197,824 | 14,124,825 |
| Capital assets | 11,767,158 | 11,039,926 | 27,655,572 | 29,590,645 | 39,422,730 | 37,630,571 |
| Total assets | 15,867,239 | 16,535,405 | 35,753,315 | 35,219,991 | 51,620,554 | 51,755,396 |
| Long term liabilities outstanding | 4,239,071 | 4,442,392 | 15,649,756 | 16,384,272 | 19,888,827 | 20,826,665 |
| Other liabilities | 1,120,170 | 444,729 | 778,540 | 649,456 | 1,898,710 | 1,094,185 |
| Total liabilities | 5,359,241 | 4,887,122 | 16,428,296 | 17,033,728 | 21,787,537 | 21,920,850 |
| Net assets: | | | | | | |
| Invested in capital assets net of related debt | 7,722,314 | 6,802,620 | 12,759,746 | 10,918,455 | 20,482,060 | 17,721,075 |
| Restricted | 2,017,516 | 783,626 | 771,202 | 640,827 | 2,788,718 | 1,424,093 |
| Unrestricted | 768,168 | 4,062,397 | 5,794,071 | 6,626,981 | 6,562,239 | 10,689,378 |
| Total net assets | 10,507,998 | 11,648,283 | 19,325,019 | 18,186,263 | 29,833,017 | 29,834,546 |

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

Governmental Activities

Governmental activities increased the City of Gulf Breeze's net assets by \$1,140,285. The key elements of this change are reported below in Table 2.

Charges for services were down this year (3.5%) due to a 13.4% decrease in Police revenues, due to a reduction in fines and forfeiture revenues, a decrease in transportation due to \$0 revenue for Highway lighting maintenance, and an 18.7% increase in culture and recreation revenues.

Capital Grants and contributions were \$3.5 million this year, a decrease of 42.2%. The City received \$3.2 million in reimbursement funds from FEMA, due to Hurricanes Ivan, Dennis, and Katrina. Additional FEMA funds are expected during fiscal year 2007.

Investment earnings are up 118% due mainly to an increase in interest rates, along with an increase in funds invested. Funds have been invested in Certificates of Deposit, Florida League of Cities Investment Funds, the Florida State Investment Pool and Investment accounts with the Bank of Pensacola.

Table 2

Change in Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------|--------------------------------|------------------|---------------------------------|-------------------|-------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| REVENUES | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | 451,773 | 468,344 | 8,481,901 | 7,944,876 | 8,933,674 | 8,413,220 |
| Operating grants & contributions | 3,630,268 | 6,110,676 | 0 | 0 | 3,630,268 | 6,110,676 |
| Capital grants & contributions | 129,238 | 350,510 | 2,912,708 | 1,539,970 | 3,041,946 | 1,890,480 |
| General Revenues; | | | | | | |
| Property taxes | 1,522,994 | 1,398,308 | 0 | 0 | 1,522,994 | 1,398,308 |
| Intergovernmental revenues | 986,227 | 985,267 | 0 | 0 | 986,227 | 985,267 |
| Utility taxes | 96,201 | 96,760 | 0 | 0 | 96,201 | 96,760 |
| Investment earnings | 176,998 | 81,153 | 191,820 | 83,337 | 368,818 | 164,490 |
| Other | 634,908 | 460,142 | 112,181 | 705,214 | 747,089 | 1,165,356 |
| Total revenues | 7,628,607 | 9,951,160 | 11,698,610 | 10,273,397 | 19,327,217 | 20,224,557 |

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

Table 2 -- (Continued)

Change in Net Assets - (Continued)

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|--------------------------------|-------------------|---------------------------------|------------------|-------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| EXPENSES | | | | | | |
| Primary Government: | | | | | | |
| General Government | 4,974,062 | 6,677,903 | | | 4,974,062 | 6,677,903 |
| Public Safety | 2,200,265 | 2,151,503 | | | 2,200,265 | 2,151,503 |
| Transportation | 520,691 | 507,045 | | | 520,691 | 507,045 |
| Economic Environment | 209,664 | 191,815 | | | 209,664 | 191,815 |
| Culture & Recreation | 1,089,459 | 987,333 | | | 1,089,459 | 987,333 |
| Debt Service Interest | 167,473 | 97,215 | | | 167,473 | 97,215 |
| Business-Type Activities: | | | | | | |
| Water & Sewer | | | 1,308,246 | 1,643,605 | 1,308,246 | 1,643,605 |
| Natural Gas | | | 2,031,273 | 1,482,273 | 2,031,273 | 1,482,273 |
| SSRUS Utilities | | | 5,269,482 | 4,963,407 | 5,269,482 | 4,963,407 |
| Fishing Bridge | | | 10,682 | 17,105 | 10,682 | 17,105 |
| Solid Waste Control | | | 880,301 | 869,522 | 880,301 | 869,522 |
| Gulf Breeze Financial Services | | | 189,021 | 445,598 | 189,021 | 445,598 |
| Total expenses | 9,161,614 | 10,612,814 | 9,689,005 | 9,421,510 | 18,850,619 | 20,034,324 |
| Increase (decrease) in net assets before transfers | (1,533,007) | (661,654) | 2,009,605 | 851,887 | 476,598 | 190,233 |
| Transfers | 870,849 | 840,508 | (870,849) | (840,508) | 0 | 0 |
| Increase (decrease) in net assets | (662,158) | 178,854 | 1,138,756 | 11,379 | 476,598 | 190,233 |
| Net assets - 10/1 | 11,648,283 | 11,469,429 | 18,186,263 | 17,090,060 | 29,834,546 | 28,559,489 |
| Prior period adjustment | (478,127) | 0 | 0 | 1,084,824 | (478,127) | 1,084,824 |
| Net assets - 9/30 | 10,507,998 | 11,648,283 | 19,325,019 | 18,186,263 | 29,833,017 | 29,834,546 |

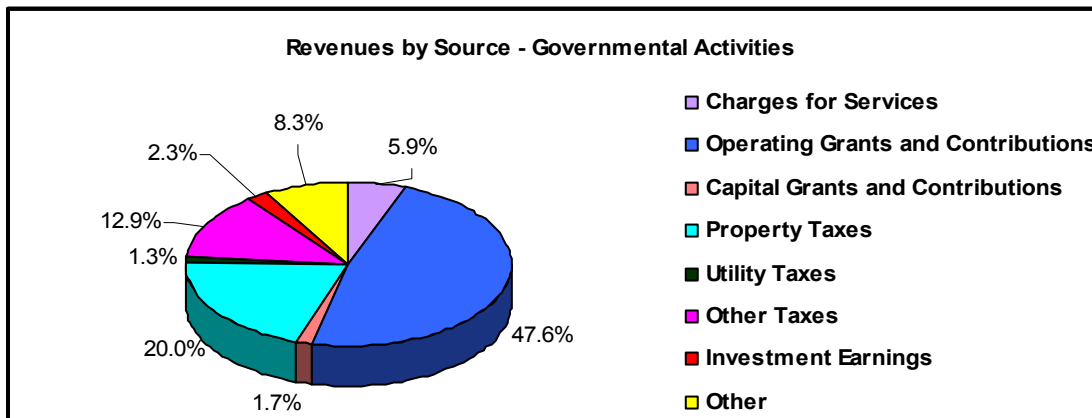
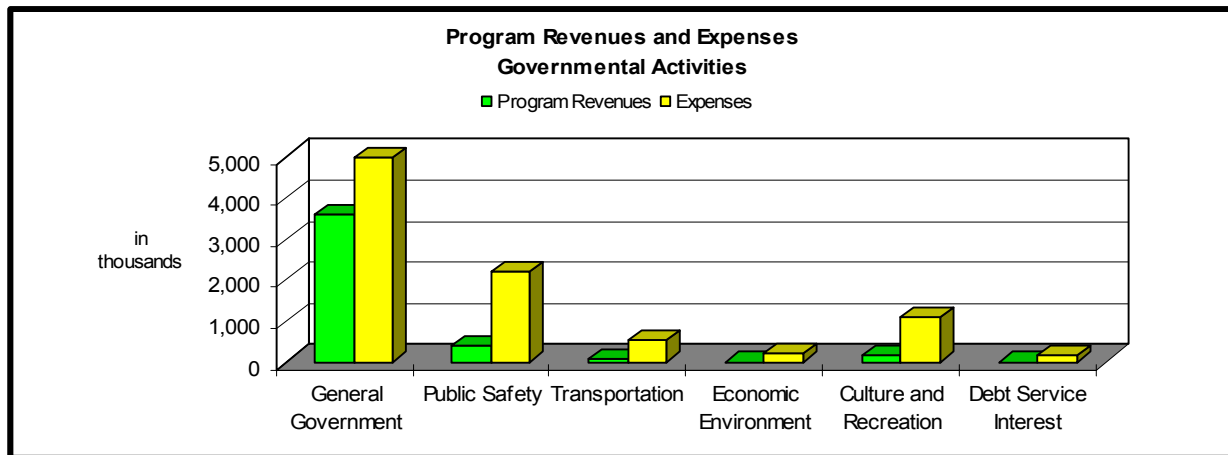
Property tax revenue has increased by 8.9%. This is due primarily to the increased value of properties within the City.

General Government expenses have decreased by a total of 25.5% primarily due to expenses incurred for hurricane damage decreasing.

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

Culture and recreation shows an increase of 10.3% reflective of an increase in the cost of personal services and park improvements.

Debt Service interest increased \$70,258 due to an increase in interest rates and the borrowing of \$1,000,000 on an available \$3,000,000 line of credit.



Business-Type Activities

Business-type activities increased the City's net assets by \$1,138,756 (6.3%).

The change in the number of water & sewer customers inside City limits has increased slightly bringing us close to 2004 pre-storm numbers while the number of water customers outside the City limits not yet reached its pre-storm count. The number of sewer customers outside City limits has increased significantly due to the ongoing construction of new subdivisions in that area.

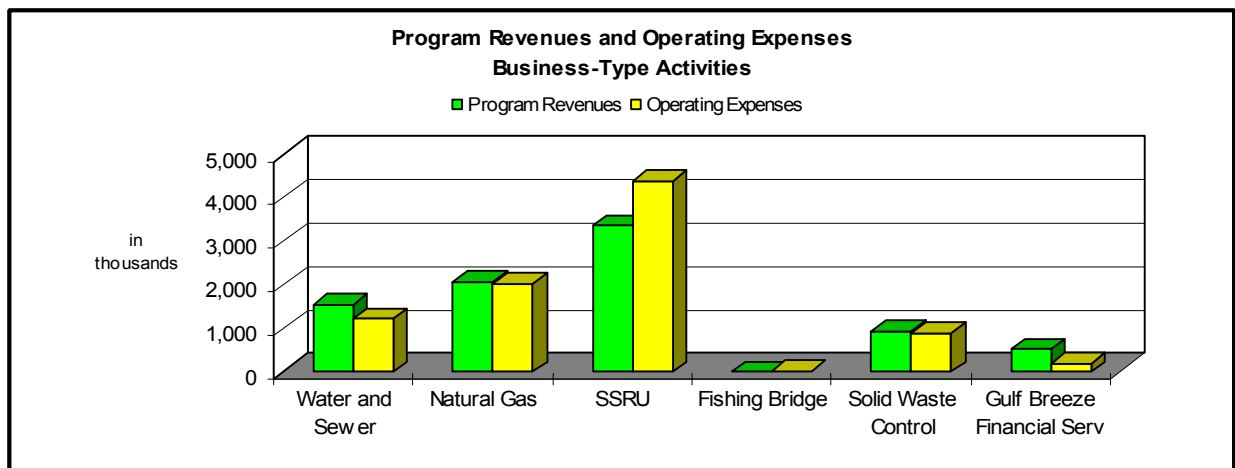
City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Contributions of \$950,460 from developers this year continues to reflect the growth in the area serviced by South Santa Rosa Utilities Service (SSRUS). This area is located outside of the City limits and it is expected to continue to be developed over the next several years. As these new developments become complete, the utility infrastructure must meet the standards set by SSRUS prior to acceptance by the Utility.

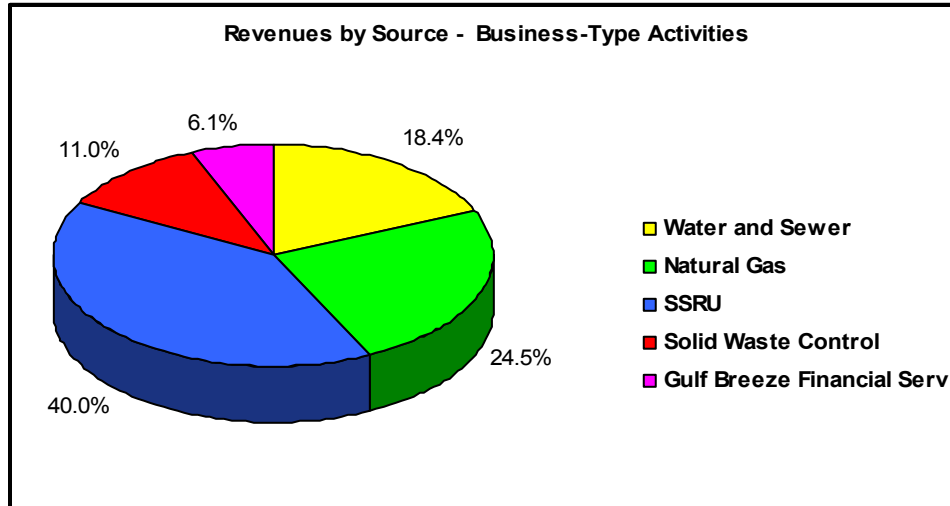
Investment earnings show an increase of 130% as a result of changing market conditions and distribution of investments.

The Natural Gas Utility shows an increase in expenses of \$549,000 (37%). This increase is seen primarily in the cost of natural gas, which is in turn sold to customers of the City of Gulf Breeze. The decrease in consumption this year (7.0%) is due the warm weather encountered through the winter months. Natural Gas revenues have increased according to the rates based on the cost of natural gas.

The Fishing Bridge continues to show no activity as the damage received in September, 2004 was significant. Whether repairs will be made to the bridge and the fund continues to operate, is yet to be determined.



City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of the end of the current fiscal year, the City of Gulf Breeze's governmental funds reported combined ending fund balances of \$2,958,043 a decrease of \$2,057,350 in comparison with the prior year. Of this total amount, \$793,873 constitutes unreserved/undesignated fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved and/or designated to indicate that it is not available for new spending because it has already been committed 1) for certain capital improvements, 2) to liquidate contracts and purchase orders of the prior period of \$1,600,668, 3) to pay debt service of \$8,000, or 4) for several other designated purposes which include self- insurance escrow of \$250,000, disaster recovery of \$100,000, beautification of \$91,359, park subdivisions of \$78,596, and other restricted purposes of \$10,697.

The General Fund is the primary operating fund of the City. At the end of the current fiscal year, unreserved / undesignated fund balance of the General Fund was \$575,567, while total fund balance reached \$2,714,887. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to the fund's total operational expenditures. Unreserved / undesignated fund balance represents 6.3% of the total General Fund expenditures, while total fund balance represents 29.8% of that same amount.

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

The General Fund's fund balance decreased by \$1,233,510 during the current fiscal year. The key factor in this change is the continuing Hurricane repair expenditures and the outstanding revenues due from FEMA.

Proprietary Funds

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

Unrestricted net assets of the proprietary funds totaled \$5,794,071 at the end of the year. Of this total, the Water and Sewer Fund amounted to \$1,989,719, the Natural Gas Fund totaled \$382,145, South Santa Rosa Utility Fund was \$2,974,109, and the other proprietary funds totaled \$448,098. Net assets of the proprietary funds increased by \$1,138,756.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund Budget was increased from the original budget by \$2,160,775 (31.2%), most of which was attributable to additional expenses incurred by Hurricane's Ivan, Dennis and Katrina.

The highlights of the budgetary increases are as follows:

- \$12,600 increase in insurance premiums fiscal year 2006.
- \$1,615,600 increase in expenditures made due to Hurricanes Ivan, Dennis, and Katrina.
- \$45,800 increase of interest expense due to additional borrowings and increase in interest rates.
- \$425,100 increase in capital projects for Storm Water Drainage, Street Resurfacing projects and park renovations.
- \$34,500 increase in fuel costs .
- \$13,600 increase in telephone expenses due to new system and expansion of system.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Gulf Breeze's investments in capital assets for its governmental and business-type activities as of September 30, 2006, amounts to \$39,422,730 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, infrastructure, and machinery and equipment. The total increase in the City of Gulf Breeze's investment in capital assets for the current fiscal year was \$1,792,159 or 4.76% overall (6.58% increase for governmental activities and a 4.0% increase for business-type activities). The major changes are summarized below:

- New Telephone system for City Hall.
- Storm Drainage Improvements – beginning of new project
- Woodland Bayou Dredging project
- On going streets resurfacing project
- Parks & Recreation – Shoreline North Park renovations in the amount of \$250,000.

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

Projects included in the Construction in Progress category are:

- Fire Hydrant Upgrades Phase II
- Field Ops Master Plan
- Hwy 98 Reuse Main Extention
- Centrifuge Project
- GIS Project
- Lift stations – Poly Isle #1, Whisper Bay #7
- Bay Street water main/force main extention
- Florida Forever Grant – Phase 1
- CDBG - Sewer

Long-Term Debt

At the end of the current fiscal year, the City of Gulf Breeze had total bonded debt and outstanding loans of \$18,940,670. Governmental Debt is to be repaid from General Government revenues. Business-type obligations are secured by specified revenue sources.

| Outstanding Debt General Obligations and Revenue Bonds | | | | | | |
|---|--------------------------------|---------------------|---------------------------------|----------------------|----------------------|----------------------|
| | Governmental Activities | | Business-type Activities | | Total | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Notes Payable | \$ 4,044,844 | \$ 4,237,306 | \$ 7,641,487 | \$ 8,178,970 | \$ 11,686,331 | \$ 12,416,276 |
| Revenue Bonds | 0 | 0 | 7,254,339 | 7,493,220 | 7,254,339 | 7,493,220 |
| Total | \$ 4,044,844 | \$ 4,237,306 | \$ 14,895,826 | \$ 15,672,190 | \$ 18,940,670 | \$ 19,909,496 |

There are no limitations placed upon the amount of debt the City may issue either by the City's charter, code of ordinances or by Florida Statutes.

Additional information on the City of Gulf Breeze's long-term obligations can be found in Note 11 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Gulf Breeze's elected officials considered many factors when adopting the fiscal year 2007 budget. Interest rates on investments have begun to slowly rise. Expenses such as fuel, health insurance, and storm water control have increased. The City continues to include street paving in the overall budget without assessment to residents, and, through an inter-local agreement, continues to receive the same amount in local option gas taxes as received in 1996. The City implemented a 2% utility tax on electricity, natural gas, and water as of January 1, 2007, and levied a 3% franchise fee on electricity service charges. The City of Gulf Breeze has very limited growth potential and places great emphasis on redevelopment.

The budget for fiscal year 2007 is quite conservative. It is approximately 8.12% more than the budget for

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

fiscal year 2006.

The fiscal year 2007 budget includes General Fund continued street resurfacing for \$200,000, two marked police cars at \$71,000, a Fire Crew Cab Truck for \$28,000, and an alphanumeric paging terminal at \$20,000. Water & Sewer will provide lift station upgrades for approximately \$80,000, water main/fire hydrant replacement program for \$70,000, and a truck for \$25,000. Natural Gas will continue the gas main extension for approximately \$155,000 and a truck for \$25,000. SSRUS will provide water, sewer, and reuse system improvements for \$370,000, a Vac truck for \$78,000, and generator and maintenance machinery for \$70,000.

The City CRA fund will provide a new Service Road on the north side of Highway 98 for approximately \$500,000. City staff will continue to provide a growing number of utility customers improved billing and service delivery activities with the same staff. The City has provided funding for wages and salaries paid to staff to increase an average of 4%. The City will host more visitors to the parks each year and respond to more police and fire calls with this budget through innovation, automation and increased productivity.

Due to Hurricane Ivan, (September 14, 2004) and severe flooding due to a 100-year storm, followed by two tropical storms and two more hurricanes, Dennis and Katrina in 2005, the City received severe damage to infrastructure and its wetlands and was required to provide extraordinary services to its citizens. Millions of dollars have been spent in the aftermath of these storms, and the City will continue to spend additional funds to return the City to pre-storm existence and make additional renovations extending into fiscal year 2007. The City of Gulf Breeze has been reimbursed for a large portion of these expenses; however the ongoing costs and reimbursement from FEMA will continue into fiscal year 2007. The City purchased a Line of Credit in the amount of \$3,000,000 to ensure a stable cash flow, and at September 30, 2006 had requested \$1,000,000 of the monies available. An additional \$2,000,000 is expected to be used in fiscal year 2007. The diligence provided by the governing body has ensured the City will continue to maintain the high level of service desired by this community.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Gulf Breeze's finances for all of those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 1070 Shoreline Drive, Gulf Breeze, Florida 32561. The City of Gulf Breeze's website address is www.cityofgulfbreeze.com.

BASIC FINANCIAL STATEMENTS

City of Gulf Breeze, Florida
STATEMENT OF NET ASSETS
September 30, 2006

| | Primary Government | | | Component Unit |
|---|-------------------------|--------------------------|----------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total | Capital Trust Agency |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,096,582 | \$ 3,749,806 | \$ 4,846,388 | \$ 1,296,455 |
| Receivables | 73,958 | 883,720 | 957,678 | 13,727 |
| Investments | 300,000 | 645,788 | 945,788 | 111,504 |
| Internal balances | 705,656 | (705,656) | -- | -- |
| Due from other governments | 1,497,216 | 3,935 | 1,501,151 | (628) |
| Inventory, at cost | 10,260 | 132,393 | 142,653 | -- |
| Restricted assets | | | | |
| Cash and cash equivalents | 383,998 | 1,404,019 | 1,788,017 | 275,000 |
| Capital assets | | | | |
| Nondepreciable | 1,692,510 | 3,346,168 | 5,038,678 | -- |
| Depreciable | 10,074,648 | 24,309,404 | 34,384,052 | -- |
| Other assets | | | | |
| Bond issue costs, net | 32,411 | 375,765 | 408,176 | -- |
| Investment in joint venture | -- | 1,116,555 | 1,116,555 | -- |
| Other | -- | 491,418 | 491,418 | -- |
| Total assets | 15,867,239 | 35,753,315 | 51,620,554 | 1,696,058 |
| LIABILITIES | | | | |
| Accounts payable | 816,657 | 461,013 | 1,277,670 | 18,600 |
| Contracts payable | 185,168 | 41,472 | 226,640 | -- |
| Retainage payable | 45,946 | 28,585 | 74,531 | -- |
| Accrued liabilities | 60,940 | 35,099 | 96,039 | -- |
| Other current liabilities | 916 | 26,675 | 27,591 | -- |
| Payable from restricted assets | | | | |
| Accrued interest | 10,543 | 185,696 | 196,239 | -- |
| Customer deposits | -- | 632,867 | 632,867 | -- |
| Non-current liabilities | | | | |
| Due within one year | | | | |
| Revenue bonds payable | -- | 505,000 | 505,000 | -- |
| Notes payable | 1,183,554 | 565,848 | 1,749,402 | -- |
| Due in more than one year | | | | |
| Compensated absences | 194,227 | 121,063 | 315,290 | -- |
| Revenue bonds payable | -- | 6,749,339 | 6,749,339 | -- |
| Notes payable | 2,861,290 | 7,075,639 | 9,936,929 | -- |
| Total liabilities | 5,359,241 | 16,428,296 | 21,787,537 | 18,600 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 7,722,314 | 12,759,746 | 20,482,060 | -- |
| Restricted for: | | | | |
| Debt service | 8,000 | 771,202 | 779,202 | -- |
| Capital projects | 383,998 | -- | 383,998 | -- |
| Public safety | 24,850 | -- | 24,850 | -- |
| Encumbrances | 1,600,668 | -- | 1,600,668 | -- |
| Unrestricted | 768,168 | 5,794,071 | 6,562,239 | 1,677,458 |
| Total net assets | \$ 10,507,998 | \$ 19,325,019 | \$ 29,833,017 | \$ 1,677,458 |

City of Gulf Breeze, Florida
STATEMENT OF ACTIVITIES
Year Ended September 30, 2006

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-----------------------|----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | Component Unit |
| | | | | | Governmental Activities | Business-Type Activities | Total | Capital Trust Agency |
| Function/Program Activities | | | | | | | | |
| Governmental Activities | | | | | | | | |
| General government | \$ 4,974,062 | \$ 26,040 | \$ 3,446,928 | \$ 129,238 | \$ (1,371,856) | \$ -- | \$ (1,371,856) | \$ -- |
| Public safety | 2,200,265 | 197,998 | 183,340 | -- | (1,818,927) | -- | (1,818,927) | -- |
| Transportation | 520,691 | 72,496 | -- | -- | (448,195) | -- | (448,195) | -- |
| Economic environment | 209,664 | -- | -- | -- | (209,664) | -- | (209,664) | -- |
| Culture and recreation | 1,089,459 | 155,239 | -- | -- | (934,220) | -- | (934,220) | -- |
| Debt service interest | 167,473 | -- | -- | -- | (167,473) | -- | (167,473) | -- |
| Total governmental activities | 9,161,614 | 451,773 | 3,630,268 | 129,238 | (4,950,335) | -- | (4,950,335) | -- |
| Business-Type activities | | | | | | | | |
| Water and sewer | 1,308,246 | 1,542,876 | -- | 159,957 | -- | 394,587 | 394,587 | -- |
| Natural gas | 2,031,273 | 2,060,168 | -- | -- | -- | 28,895 | 28,895 | -- |
| South Santa Rosa Utility | 5,269,482 | 3,440,755 | -- | 2,752,751 | -- | 924,024 | 924,024 | -- |
| Fishing Bridge | 10,682 | -- | -- | -- | -- | (10,682) | (10,682) | -- |
| Solid Waste Control | 880,301 | 927,550 | -- | -- | -- | 47,249 | 47,249 | -- |
| Gulf Breeze Financial Services | 189,021 | 510,552 | -- | -- | -- | 321,531 | 321,531 | -- |
| Total business type activities | 9,689,005 | 8,481,901 | -- | 2,912,708 | -- | 1,705,604 | 1,705,604 | -- |
| Total primary government | \$ 18,850,619 | \$ 8,933,674 | \$ 3,630,268 | \$ 3,041,946 | \$ (4,950,335) | \$ 1,705,604 | \$ (3,244,731) | \$ -- |
| Capital Trust Agency | \$ 1,179,706 | \$ 1,337,288 | \$ 500,000 | \$ -- | \$ -- | \$ -- | \$ -- | \$ 657,582 |
| General Revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Property taxes | | | | | 1,522,994 | -- | 1,522,994 | -- |
| Intergovernmental, unrestricted | | | | | 473,362 | -- | 473,362 | -- |
| Sales taxes | | | | | 512,865 | -- | 512,865 | -- |
| Utility service taxes | | | | | 96,201 | -- | 96,201 | -- |
| Miscellaneous | | | | | 634,908 | 112,181 | 747,089 | -- |
| Investment earnings | | | | | 176,998 | 191,820 | 368,818 | 45,085 |
| Transfers | | | | | 870,849 | (870,849) | -- | -- |
| Total general revenues and transfers: | | | | | 4,288,177 | (566,848) | 3,721,329 | 45,085 |
| Change in net assets | | | | | (662,158) | 1,138,756 | 476,598 | 702,667 |
| Net assets - beginning of year - as previously reported | | | | | 11,648,283 | 18,186,263 | 29,834,546 | 974,791 |
| Prior period adjustment - See Note 15 | | | | | (478,127) | -- | (478,127) | -- |
| Net assets - beginning of year - as restated | | | | | 11,170,156 | 18,186,263 | 29,356,419 | 974,791 |
| Net assets - end of year | | | | | \$ 10,507,998 | \$ 19,325,019 | \$ 29,833,017 | \$ 1,677,458 |

City of Gulf Breeze, Florida
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2006

| ASSETS | General | Urban Core Redevelopment | Non-Major Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------------------------|---|---|
| Cash and cash equivalents | \$ 293,430 | \$ 766,560 | \$ 36,592 | \$ 1,096,582 |
| Receivables | 73,958 | -- | -- | 73,958 |
| Investments | 300,000 | -- | -- | 300,000 |
| Due from other governments | 1,497,216 | -- | -- | 1,497,216 |
| Inventory, at cost | 10,260 | -- | -- | 10,260 |
| Due from other funds | 1,105,656 | -- | -- | 1,105,656 |
| Restricted assets | | | | |
| Cash and cash equivalents | 383,998 | -- | -- | 383,998 |
| Total assets | \$ 3,664,518 | \$ 766,560 | \$ 36,592 | \$ 4,467,670 |
| LIABILITIES | | | | |
| Accounts payable | \$ 350,134 | \$ 459,411 | \$ 7,112 | \$ 816,657 |
| Contracts payable | 137,641 | 47,527 | -- | 185,168 |
| Retainage payable | -- | 45,946 | -- | 45,946 |
| Due to other funds | 400,000 | -- | -- | 400,000 |
| Accrued liabilities | 60,940 | -- | -- | 60,940 |
| Other current liabilities | 916 | -- | -- | 916 |
| Total liabilities | 949,631 | 552,884 | 7,112 | 1,509,627 |
| FUND BALANCES | | | | |
| Reserved | | | | |
| Encumbrances | 1,600,668 | -- | -- | 1,600,668 |
| Inventory | 10,260 | -- | -- | 10,260 |
| Debt service | 8,000 | -- | -- | 8,000 |
| Police trust | -- | -- | 24,850 | 24,850 |
| Unreserved | | | | |
| Designated | | | | |
| Community fund | 437 | -- | -- | 437 |
| Park subdivision | 78,596 | -- | -- | 78,596 |
| Self-insurance escrow | 250,000 | -- | -- | 250,000 |
| Beautification | 91,359 | -- | -- | 91,359 |
| Disaster recovery | 100,000 | -- | -- | 100,000 |
| Undesignated general fund | 575,567 | -- | -- | 575,567 |
| Undesignated special revenue | -- | 213,676 | 4,630 | 218,306 |
| Total fund balances | 2,714,887 | 213,676 | 29,480 | 2,958,043 |
| Total liabilities and fund balances | \$ 3,664,518 | \$ 766,560 | \$ 36,592 | \$ 4,467,670 |

City of Gulf Breeze, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
September 30, 2006

| | |
|--|--------------|
| Fund balances - total governmental funds (page 17) | \$ 2,958,043 |
|--|--------------|

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

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

| | | |
|-------------------------------------|--------------------|------------|
| Governmental non-depreciable assets | \$ 1,692,510 | |
| Governmental depreciable assets | 17,972,141 | |
| Less accumulated depreciation | <u>(7,897,493)</u> | 11,767,158 |

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

| | | |
|-------------------------------|----------------|--------|
| Bond issue costs | \$ 41,250 | |
| Less accumulated amortization | <u>(8,839)</u> | 32,411 |

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

| | | |
|----------------------|------------------|--------------------|
| Notes payable | \$ (4,044,844) | |
| Accrued interest | (10,543) | |
| Compensated absences | <u>(194,227)</u> | <u>(4,249,614)</u> |

| | |
|---|-----------------------------|
| Net assets of governmental activities (page 15) | <u><u>\$ 10,507,998</u></u> |
|---|-----------------------------|

City of Gulf Breeze, Florida
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year ended September 30, 2006

| | General | Urban Core Redevelopment | Non-Major Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------------|------------------------------------|--------------------------------|
| Revenues | | | | |
| Taxes | \$ 1,602,973 | \$ 464,900 | \$ -- | \$ 2,067,873 |
| Licenses and permits | 64,187 | -- | -- | 64,187 |
| Intergovernmental | 4,231,538 | -- | -- | 4,231,538 |
| Charges for services | 155,239 | -- | -- | 155,239 |
| Fines and forfeitures | 188,751 | -- | 9,247 | 197,998 |
| Investment earnings | 176,998 | -- | -- | 176,998 |
| Miscellaneous | 660,898 | -- | 50 | 660,948 |
| Total revenues | <u>7,080,584</u> | <u>464,900</u> | <u>9,297</u> | <u>7,554,781</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 4,783,554 | 98,125 | 1,008 | 4,882,687 |
| Public safety | 1,845,336 | -- | 14,019 | 1,859,355 |
| Transportation | 241,410 | -- | -- | 241,410 |
| Economic environment | 123,298 | -- | -- | 123,298 |
| Culture and recreation | 831,588 | -- | -- | 831,588 |
| Capital outlay | 950,710 | 723,326 | -- | 1,674,036 |
| Debt service | | | | |
| Principal | 192,462 | -- | -- | 192,462 |
| Interest | 156,930 | -- | -- | 156,930 |
| Total expenditures | <u>9,125,288</u> | <u>821,451</u> | <u>15,027</u> | <u>9,961,766</u> |
| Excess (deficiency) of revenues over expenditures | (2,044,704) | (356,551) | (5,730) | (2,406,985) |
| Other financing sources (uses) | | | | |
| Insurance proceeds | 73,826 | -- | -- | 73,826 |
| Transfers in | 870,849 | 133,481 | -- | 1,004,330 |
| Transfers out | (133,481) | -- | -- | (133,481) |
| Total other financing sources (uses) | <u>811,194</u> | <u>133,481</u> | <u>--</u> | <u>944,675</u> |
| Net change in fund balances | (1,233,510) | (223,070) | (5,730) | (1,462,310) |
| Fund balances, beginning of year - as previously reported | 4,426,524 | 553,659 | 35,210 | 5,015,393 |
| Prior period adjustments - see Note 15 | (478,127) | (116,913) | -- | (595,040) |
| Fund balances, beginning of year - as restated | <u>3,948,397</u> | <u>436,746</u> | <u>35,210</u> | <u>4,420,353</u> |
| Fund balances, end of year | <u>\$ 2,714,887</u> | <u>\$ 213,676</u> | <u>\$ 29,480</u> | <u>\$ 2,958,043</u> |

City of Gulf Breeze, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2006

Net change in fund balances - total governmental funds (page 19) \$ (1,462,310)

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

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

| | | |
|---------------------------------|--------------------|---------|
| Expenditures for capital assets | \$ 1,674,036 | |
| Less current year depreciation | <u>(1,063,717)</u> | 610,319 |

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

| | | |
|--------------------|--|---------|
| Principal payments | | 192,462 |
|--------------------|--|---------|

Expenses and revenues related to the issuance of debt is amortized over the life of the debt.

| | | |
|----------------------------------|--|---------|
| Amortization of debt issue costs | | (2,946) |
|----------------------------------|--|---------|

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

| | | |
|--|---------------|------------|
| Change in accrued interest on long-term debt | (10,543) | |
| Change in long-term compensated absences | <u>10,860</u> | <u>317</u> |

| | | |
|---|--|----------------------------|
| Change in net assets of governmental activities (page 16) | | <u><u>\$ (662,158)</u></u> |
|---|--|----------------------------|

City of Gulf Breeze, Florida
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year ended September 30, 2006

| | Budgeted Amounts | | | Variance with Final Budget - Positive (Negative) |
|--|--------------------|-----------------------|---------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Taxes | \$ 1,559,986 | \$ 1,600,994 | \$ 1,602,973 | \$ 1,979 |
| Licenses and permits | 75,500 | 64,600 | 64,187 | (413) |
| Intergovernmental | 973,700 | 2,253,500 | 4,231,538 | 1,978,038 |
| Charges for services | 159,000 | 158,100 | 155,239 | (2,861) |
| Fines and forfeitures | 189,000 | 172,800 | 188,751 | 15,951 |
| Investment earnings | 70,000 | 165,500 | 176,998 | 11,498 |
| Miscellaneous | 163,100 | 272,000 | 660,898 | 388,898 |
| Total revenues | <u>3,190,286</u> | <u>4,687,494</u> | <u>7,080,584</u> | <u>2,393,090</u> |
| Expenditures | | | | |
| General government services | 1,003,680 | 4,700,100 | 4,783,554 | (83,454) |
| Public safety | 1,797,995 | 1,844,995 | 1,845,336 | (341) |
| Transportation | 164,800 | 229,500 | 241,410 | (11,910) |
| Economic environment | 109,080 | 116,380 | 123,298 | (6,918) |
| Culture / recreation | 803,050 | 820,700 | 831,588 | (10,888) |
| Capital outlay | 357,900 | 887,800 | 950,710 | (62,910) |
| Debt service | 259,900 | 348,000 | 349,392 | (1,392) |
| Total expenditures | <u>4,496,405</u> | <u>8,947,475</u> | <u>9,125,288</u> | <u>(177,813)</u> |
| Excess (deficiency) of revenues over expenditures | (1,306,119) | (4,259,981) | (2,044,704) | 2,215,277 |
| Other financing sources (uses) | | | | |
| Issuance of debt | -- | -- | -- | -- |
| Insurance proceeds | -- | -- | 73,826 | 73,826 |
| Transfers in | 1,341,000 | 1,341,000 | 870,849 | (470,151) |
| Transfers out | (132,500) | (134,000) | (133,481) | 519 |
| Total other financing sources (uses) | <u>1,208,500</u> | <u>1,207,000</u> | <u>811,194</u> | <u>(395,806)</u> |
| Net change in fund balances | (97,619) | (3,052,981) | (1,233,510) | 1,819,471 |
| Fund balances, beginning of year - as previously reported | -- | -- | 4,426,524 | 4,426,524 |
| Prior period adjustments - see Note 15 | -- | -- | (478,127) | (478,127) |
| Fund balances, beginning of year - as restated | -- | -- | 3,948,397 | 3,948,397 |
| Fund balance, end of year | <u>\$ (97,619)</u> | <u>\$ (3,052,981)</u> | <u>\$ 2,714,887</u> | <u>\$ 5,767,868</u> |

City of Gulf Breeze, Florida
URBAN CORE REDEVELOPMENT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year ended September 30, 2006

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|------------|------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 593,600 | \$ 598,381 | \$ 464,900 | \$ (133,481) |
| Total revenues | 593,600 | 598,381 | 464,900 | (133,481) |
| Expenditures | | | | |
| Current | | | | |
| General government services | 51,000 | 112,000 | 98,125 | 13,875 |
| Capital outlay | 542,600 | 335,200 | 723,326 | (388,126) |
| Total expenditures | 593,600 | 447,200 | 821,451 | (374,251) |
| Excess (deficiency) of revenues over expenditures | -- | 151,181 | (356,551) | (507,732) |
| Other financing sources (uses) | | | | |
| Transfers in | -- | -- | 133,481 | 133,481 |
| Total other financing sources (uses) | -- | -- | 133,481 | 133,481 |
| Net change in fund balances | -- | 151,181 | (223,070) | (374,251) |
| Fund balances, beginning of year - as previously reported | -- | -- | 553,659 | 553,659 |
| Prior period adjustments - see Note 15 | -- | -- | (116,913) | (116,913) |
| Fund balances, beginning of year - as restated | -- | -- | 436,746 | 436,746 |
| Fund balance, end of year | \$ -- | \$ 151,181 | \$ 213,676 | \$ 62,495 |

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2006

| | Water and Sewer | Natural Gas | South Santa Rosa Utility | Nonmajor Proprietary Funds | Total |
|----------------------------------|--------------------|------------------|-----------------------------|----------------------------------|-------------------|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 721,717 | \$ 325,952 | \$ 1,329,199 | \$ 1,372,938 | \$ 3,749,806 |
| Receivables | 200,740 | 158,073 | 417,399 | 107,508 | 883,720 |
| Investments | -- | -- | 534,959 | 110,829 | 645,788 |
| Due from other governments | -- | -- | -- | 3,935 | 3,935 |
| Due from other funds | 400,000 | -- | -- | -- | 400,000 |
| Inventory, at cost | 42,876 | 29,987 | 59,530 | -- | 132,393 |
| Restricted assets | | | | | |
| Cash and cash equivalents | 147,563 | 171,159 | 1,080,242 | 5,055 | 1,404,019 |
| Total current assets | 1,512,896 | 685,171 | 3,421,329 | 1,600,265 | 7,219,661 |
| Noncurrent assets | | | | | |
| Capital assets, net | | | | | |
| Land | -- | -- | 2,663,828 | -- | 2,663,828 |
| Buildings | -- | -- | 287,500 | -- | 287,500 |
| Improvements other than building | 415,811 | 700 | 6,330,567 | 552,968 | 7,300,046 |
| Infrastructure | 1,715,009 | 1,001,797 | 13,053,263 | -- | 15,770,069 |
| Machinery and equipment | 153,859 | 93,356 | 671,843 | 32,731 | 951,789 |
| Construction in progress | -- | -- | 682,340 | -- | 682,340 |
| Total capital assets | 2,284,679 | 1,095,853 | 23,689,341 | 585,699 | 27,655,572 |
| Other assets | | | | | |
| Bond issue costs, net | 12,833 | 976 | 361,956 | -- | 375,765 |
| Investment in joint venture | 565,691 | -- | 550,864 | -- | 1,116,555 |
| Other | 122,855 | -- | 368,563 | -- | 491,418 |
| Total other assets | 701,379 | 976 | 1,281,383 | -- | 1,983,738 |
| Total non-current assets | 2,986,058 | 1,096,829 | 24,970,724 | 585,699 | 29,639,310 |
| Total assets | 4,498,954 | 1,782,000 | 28,392,053 | 2,185,964 | 36,858,971 |

Continued...

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2006

| | Water and Sewer | Natural Gas | South Santa Rosa Utility | Nonmajor Proprietary Funds | Total |
|---|---------------------|---------------------|-----------------------------|----------------------------------|----------------------|
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ 73,845 | \$ 90,465 | \$ 230,111 | \$ 66,592 | \$ 461,013 |
| Contracts payable | -- | -- | 41,472 | -- | 41,472 |
| Retainage payable | -- | -- | 28,585 | -- | 28,585 |
| Accrued liabilities | -- | 9,816 | 24,379 | 904 | 35,099 |
| Other current liabilities | 887 | -- | 25,788 | -- | 26,675 |
| Due to other funds | -- | -- | 26,040 | 1,079,616 | 1,105,656 |
| Payable from restricted assets | | | | | |
| Accrued interest | -- | -- | 185,696 | -- | 185,696 |
| Customer deposits | 147,563 | 171,209 | 309,040 | 5,055 | 632,867 |
| Revenue bonds payable | -- | -- | 505,000 | -- | 505,000 |
| Notes payable | 94,079 | 48,318 | 423,451 | -- | 565,848 |
| Total current liabilities | <u>316,374</u> | <u>319,808</u> | <u>1,799,562</u> | <u>1,152,167</u> | <u>3,587,911</u> |
| Non-current liabilities | | | | | |
| Accrued liabilities | | | | | |
| Compensated absences | 2,261 | 32,512 | 86,290 | -- | 121,063 |
| Revenue bonds payable | -- | -- | 6,749,339 | -- | 6,749,339 |
| Notes payable | 983,744 | 193,179 | 5,898,716 | -- | 7,075,639 |
| Total non-current liabilities | <u>986,005</u> | <u>225,691</u> | <u>12,734,345</u> | <u>--</u> | <u>13,946,041</u> |
| Total liabilities | <u>1,302,379</u> | <u>545,499</u> | <u>14,533,907</u> | <u>1,152,167</u> | <u>17,533,952</u> |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 1,206,856 | 854,356 | 10,112,835 | 585,699 | 12,759,746 |
| Restricted | | | | | |
| Debt service | -- | -- | 771,202 | -- | 771,202 |
| Unrestricted | 1,989,719 | 382,145 | 2,974,109 | 448,098 | 5,794,071 |
| Total net assets | <u>\$ 3,196,575</u> | <u>\$ 1,236,501</u> | <u>\$ 13,858,146</u> | <u>\$ 1,033,797</u> | <u>\$ 19,325,019</u> |

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year ended September 30, 2006

| | Water and Sewer | Natural Gas | South Santa Rosa Utility | Nonmajor Proprietary Funds | Total |
|---|---------------------|---------------------|-----------------------------|----------------------------------|----------------------|
| Operating revenues | | | | | |
| Charges for services | \$ 1,542,876 | \$ 2,060,168 | \$ 3,362,140 | \$ 1,438,102 | \$ 8,403,286 |
| Total operating revenues | <u>1,542,876</u> | <u>2,060,168</u> | <u>3,362,140</u> | <u>1,438,102</u> | <u>8,403,286</u> |
| Operating expenses | | | | | |
| Personal services | 99,533 | 398,876 | 1,290,600 | 189,213 | 1,978,222 |
| Contractual services | 604,676 | 1,266,689 | 775,537 | 800,859 | 3,447,761 |
| Supplies | 150,508 | 156,762 | 318,691 | 1,366 | 627,327 |
| Professional services | 21,047 | 7,410 | 123,141 | 25,962 | 177,560 |
| Repairs and maintenance | 89,774 | 32,994 | 283,714 | 4,972 | 411,454 |
| Office and utilities | 51,826 | 50,265 | 342,070 | 19,179 | 463,340 |
| Depreciation | 193,205 | 105,023 | 1,248,202 | 37,547 | 1,583,977 |
| Total operating expenses | <u>1,210,569</u> | <u>2,018,019</u> | <u>4,381,955</u> | <u>1,079,098</u> | <u>8,689,641</u> |
| Operating income (loss) | 332,307 | 42,149 | (1,019,815) | 359,004 | (286,355) |
| Non-operating revenues (expenses) | | | | | |
| Impact fees | 102,771 | -- | 1,674,431 | -- | 1,777,202 |
| Intergovernmental revenues | 57,186 | -- | 127,860 | -- | 185,046 |
| Interest earnings | 35,294 | -- | 107,926 | 48,600 | 191,820 |
| Rents and royalties | -- | -- | 78,615 | -- | 78,615 |
| Interest expense | (39,417) | (10,378) | (618,579) | -- | (668,374) |
| Other debt service costs | (2,093) | (2,876) | (217,219) | -- | (222,188) |
| Gain (loss) on sale of assets | -- | -- | 4,438 | (906) | 3,532 |
| Loss from joint venture | (56,167) | -- | (56,167) | -- | (112,334) |
| Miscellaneous | 19,091 | 33,977 | 59,113 | -- | 112,181 |
| Total non-operating revenues (expenses) | <u>116,665</u> | <u>20,723</u> | <u>1,160,418</u> | <u>47,694</u> | <u>1,345,500</u> |
| Income (loss) before operating transfers and capital contributions | 448,972 | 62,872 | 140,603 | 406,698 | 1,059,145 |
| Transfers and capital contributions | | | | | |
| Transfers in | -- | -- | 241,296 | -- | 241,296 |
| Transfers out | (421,709) | (175,140) | (124,236) | (391,060) | (1,112,145) |
| Developer capital contributions | -- | -- | 950,460 | -- | 950,460 |
| Total transfers and capital contributions | <u>(421,709)</u> | <u>(175,140)</u> | <u>1,067,520</u> | <u>(391,060)</u> | <u>79,611</u> |
| Changes in net assets | 27,263 | (112,268) | 1,208,123 | 15,638 | 1,138,756 |
| Net assets, beginning of year | <u>3,169,312</u> | <u>1,348,769</u> | <u>12,650,023</u> | <u>1,018,159</u> | <u>18,186,263</u> |
| Net assets, end of year | <u>\$ 3,196,575</u> | <u>\$ 1,236,501</u> | <u>\$ 13,858,146</u> | <u>\$ 1,033,797</u> | <u>\$ 19,325,019</u> |

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year ended September 30, 2006

| | Water and Sewer | Natural Gas | South Santa Rosa Utility | Nonmajor Proprietary Funds | Total |
|---|--------------------|-------------------|-----------------------------|----------------------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers and users | \$ 1,576,374 | \$ 2,111,475 | \$ 3,418,738 | \$ 1,445,398 | \$ 8,551,985 |
| Payments to suppliers | (918,010) | (1,508,046) | (1,686,583) | (874,176) | (4,986,815) |
| Payments to employees | (127,834) | (390,019) | (1,262,295) | (187,437) | (1,967,585) |
| Net cash provided by operating activities | <u>530,530</u> | <u>213,410</u> | <u>469,860</u> | <u>383,785</u> | <u>1,597,585</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | | | | |
| Borrowings (repayments) | | | | | |
| Advances to other funds | (400,000) | - | - | - | (400,000) |
| Advances from other funds | - | - | 26,040 | 27,799 | 53,839 |
| Transfers in | - | - | 241,296 | - | 241,296 |
| Transfers out | (421,709) | (175,140) | (124,236) | (391,060) | (1,112,145) |
| Net cash provided (used) by non-capital financing activities | <u>(821,709)</u> | <u>(175,140)</u> | <u>143,100</u> | <u>(363,261)</u> | <u>(1,217,010)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Acquisition and construction of capital assets | (134,119) | (206,554) | (1,339,221) | (3,189) | (1,683,083) |
| Impact fees | 102,771 | - | 1,674,431 | - | 1,777,202 |
| Proceeds from sale of assets | - | - | 79,949 | 93,268 | 173,217 |
| Principal paid on bonds payable | - | - | (238,881) | - | (238,881) |
| Principal paid on notes payable | (89,375) | (45,900) | (402,208) | - | (537,483) |
| Interest paid on bonds and notes payable | (39,417) | (10,378) | (618,579) | - | (668,374) |
| Other debt service costs paid on bonds and notes payable | (631) | (2,521) | (187,470) | - | (190,622) |
| Net cash used by capital and related financing activities | <u>(160,771)</u> | <u>(265,353)</u> | <u>(1,031,979)</u> | <u>90,079</u> | <u>(1,368,024)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Proceeds from sale of investments | - | - | (19,676) | (3,908) | (23,584) |
| Rents and royalties | - | - | 78,615 | - | 78,615 |
| Interest income | 35,294 | - | 107,926 | 48,600 | 191,820 |
| Net cash provided by investing activities | <u>35,294</u> | <u>-</u> | <u>166,865</u> | <u>44,692</u> | <u>246,851</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (416,656) | (227,083) | (252,154) | 155,295 | (740,598) |
| CASH AND CASH EQUIVALENTS A1 BEGINNING OF YEAR | <u>1,285,936</u> | <u>724,194</u> | <u>2,661,595</u> | <u>1,222,698</u> | <u>5,894,423</u> |
| CASH AND CASH EQUIVALENTS A1 END OF YEAR | <u>\$ 869,280</u> | <u>\$ 497,111</u> | <u>\$ 2,409,441</u> | <u>\$ 1,377,993</u> | <u>\$ 5,153,825</u> |

Continued...

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year ended September 30, 2006

| | Water and Sewer | Natural Gas | South Santa Rosa Utility | Nonmajor Proprietary Funds | Total |
|--|--------------------|-------------------|-----------------------------|----------------------------------|---------------------|
| CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF | | | | | |
| Current assets | \$ 721,717 | \$ 325,952 | \$ 1,329,199 | \$ 1,372,938 | \$ 3,749,806 |
| Restricted assets | 147,563 | 171,159 | 1,080,242 | 5,055 | 1,404,019 |
| | <u>\$ 869,280</u> | <u>\$ 497,111</u> | <u>\$ 2,409,441</u> | <u>\$ 1,377,993</u> | <u>\$ 5,153,825</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | | |
| Operating income (loss) | \$ 332,307 | \$ 42,149 | \$ (1,019,815) | \$ 359,004 | \$ (286,355) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | | | | |
| Depreciation | 193,205 | 105,023 | 1,248,202 | 37,547 | 1,583,977 |
| Miscellaneous income | 19,091 | 33,977 | 59,113 | - | 112,181 |
| (Increase) decrease in assets | | | | | |
| Receivables | 5,957 | 8,010 | (11,983) | 4,830 | 6,814 |
| Inventory, at cost | 5,207 | (3,213) | 6,576 | - | 8,570 |
| Due from other governments | - | - | - | 1,466 | 1,466 |
| Increase (decrease) in liabilities | | | | | |
| Accounts payable | (5,386) | 9,287 | 115,368 | (21,838) | 97,431 |
| Contracts payable | - | - | 18,758 | - | 18,758 |
| Retainage payable | - | - | 15,868 | - | 15,868 |
| Accrued liabilities | (1,461) | (1,298) | 2,958 | 1,776 | 1,975 |
| Other current liabilities | (151) | - | (4,797) | - | (4,948) |
| Customer deposits | 8,450 | 9,320 | 9,468 | 1,000 | 28,238 |
| Compensated absences payable | (26,689) | 10,155 | 30,144 | - | 13,610 |
| Net cash provided (used) by operating activities | <u>\$ 530,530</u> | <u>\$ 213,410</u> | <u>\$ 469,860</u> | <u>\$ 383,785</u> | <u>\$ 1,597,585</u> |
| SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS | | | | | |
| Amortization of bond issue costs and discounts | \$ 1,462 | \$ 355 | \$ 29,749 | \$ - | \$ 31,566 |
| Capital assets contributed by developers | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 950,460</u> | <u>\$ -</u> | <u>\$ 950,460</u> |

Exhibit X

City of Gulf Breeze, Florida
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2006

| | Police Officer's Retirement Fund | Agency Funds |
|---|---|-----------------|
| | <u>Fund</u> | <u>Funds</u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 21,783 | \$ 10,817 |
| Investments, at market | | |
| U.S. government & other debt securities | 488,632 | -- |
| Equities | 737,535 | -- |
| Total assets | <u>1,247,950</u> | <u>10,817</u> |
| LIABILITIES | | |
| Other | <u>--</u> | <u>10,817</u> |
| Total liabilities | <u>--</u> | <u>10,817</u> |
| NET ASSETS | | |
| Held in trust for pension benefits and other purposes | <u>\$ 1,247,951</u> | <u>\$ -</u> |

Exhibit XI

City of Gulf Breeze, Florida
FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year ended September 30, 2006

| | Police Officer's Retirement Fund |
|--|---|
| Additions | |
| Contributions | |
| Employer | \$ 67,127 |
| Plan members | 6,403 |
| State of Florida | 58,100 |
| Investment income, net | 80,770 |
| Total additions | <u>212,400</u> |
| Deductions | |
| Benefits and refunds paid | 1,225 |
| Administrative expenses | 7,501 |
| Total deductions | <u>8,726</u> |
| Net increase | 203,674 |
| Net assets held in trust for pension benefits | |
| Beginning of year | <u>1,044,277</u> |
| End of year | <u><u>\$ 1,247,951</u></u> |

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Gulf Breeze, Florida (City) was created as a municipality by a Special Act of the Florida Legislature on May 1, 1961, under Chapter 61.2207, Laws of Florida, pursuant to House Bill number 557. As authorized by its charter, the City provides the following services: public safety (police, fire, and inspection), highways and streets, water and sewer, natural gas, sanitation, culture and recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America applicable to governmental units and the Uniform Accounting System mandated by Chapter 218.33, Florida Statutes. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

The following is a summary of the more significant accounting policies of the City.

A. The Reporting Entity

A four Member City Council and a Mayor govern the City, each elected at-large for four-year terms for Council Members and a two-year term for the Mayor. The Council has no powers other than those expressly vested in it by State Statute and the City Charter, and their governmental powers cannot be delegated.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Gulf Breeze (the primary government) and its component units. In evaluating the City as a reporting entity, management has considered all potential component units for which the City may or may not be financially accountable and, as such, be includable within the City's financial statements. Management utilized criteria set forth in GASB Number 14 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB Number 14, the City (primary government) is financially accountable if it appoints a voting majority of the potential component unit's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

As of September 30, 2006, the City of Gulf Breeze had three component units, as defined by GASB 14, which have been presented in the financial statements of the primary government as either "discretely presented component units" or "blended component units." The component units are: the Urban Core Redevelopment (Community Redevelopment Agency), Gulf Breeze Financial Services, Inc., and Capital Trust Agency, Inc.

The City established the Gulf Breeze Community Redevelopment Agency (CRA) on December 18, 1989 in accordance with Florida Statute 163.330 and City Resolution 18-89. The CRA is considered a dependent special district with substantively the same governing board as the City and as such has been combined with the City for financial statement reporting purposes. The financial activity of the CRA is being recorded and reported within a Special Revenue fund entitled Urban Core Redevelopment.

Gulf Breeze Financial Services, Inc. (GBFS) was incorporated as of March 6, 1997. The members of the City Council, including the Mayor, serve as directors of the Corporation. The Corporation was formed exclusively for the purposes of assisting the City of Gulf Breeze in administration, operation, marketing,

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. The Reporting Entity (Continued)

organizing, and servicing of various financing programs such as the Gulf Breeze Local Government Loan Program through which the City is either a participant or a sponsor of such financing programs, usually involving the issuance of bonds. Gulf Breeze Financial Services, Inc. is being reported as an Enterprise fund. GBFS issues separate financial statements which may be obtained by writing to Gulf Breeze Financial Services, Inc., 10 Camelia Street, Gulf Breeze, FL 32561 or calling (850) 916-5420.

Capital Trust Agency, Inc. (CTA) was established by the City on May 19, 1999 with Resolution 14-99 and incorporated on June 30, 1999, with the directors appointed by the City Council. CTA was formed for the purposes of assisting in the financing, acquisition, construction, development, equipping, maintenance, operation, and/or promotion of certain facilities, intangibles, and capital projects. The City of Gulf Breeze, Florida, exclusively benefits from the activity of CTA and received \$475,000 in miscellaneous revenues during fiscal year ending September 30, 2006. CTA is being reported as a "discretely presented" Enterprise fund. CTA issues separate financial statements which may be obtained by writing to Capital Trust Agency, Inc., 10 Camelia Street, Gulf Breeze, FL 32561 or calling (850) 916-5420.

Conduit Debt

The City has sponsored the following financing programs involving the issuance, by the City of Gulf Breeze, Florida, of the following bonds:

- \$500,000,000 Floating Rate Demand Revenue Bonds, Series 1985
\$262,380,000 outstanding
- \$100,000,000 Variable Rate Demand Revenue Bonds, Series 1995A
\$11,014,326 outstanding
- \$81,500,000 Variable Rate Demand Revenue Bonds, Series 1997A
\$41,206,110 outstanding
- \$90,055,000 4.5% Revenue Bonds, Series 1997B,
\$90,055,000 outstanding
- \$8,964,157 Floating Rate Demand Revenue Bonds, Series 1998C
\$8,059,157 outstanding
- \$230,000,000 Variable Rate Demand Revenue Bonds, Series 1999
\$20,500,000 outstanding

These bonds were issued pursuant to a Trust Indenture by and between the City of Gulf Breeze, Florida, and SunTrust Bank, as Trustee, for the purpose of funding the Gulf Breeze Local Government Loan Pool Program, which makes loans to local government and not-for-profit entities. The bonds are payable solely from the Trust and the proceeds generated from loans to the borrowing entities. The City is not liable for repayment of the bonds under the terms of the Trust Agreement, and the sole remedy for any bondholder as set forth in the Trust Agreement is limited to the assets of the Trust. Accordingly, the activity of the trust is not included in these financial statements.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on charges and fees for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

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

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

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund (agency funds do not have a measurement focus) financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Pension plans recognize revenue when contributions are due, as there is a statutory requirement to make the contribution. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds do not have a measurement focus, as they only report assets and liabilities; however, agency funds do use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for certain grant revenues which are recognized as revenues in the same period in which the grant expenditures occurred. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Sales taxes, gasoline taxes, and other intergovernmental revenues collected and held by the state at year-end on behalf of the City, are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Santa Rosa County Tax Collector bills and collects property taxes for the City in accordance with the laws of the State of Florida. Property taxes attach as an enforceable lien on property as of the date of assessment and remain in effect until discharge by payment. Taxes are payable when levied (on November 1, or as soon thereafter as the assessment roll becomes available to the Tax Collector).

The following is the current property tax calendar.

| | |
|-----------------|------------------|
| Lien Date | January 1, 2006 |
| Levy Date | November 1, 2006 |
| Due Date | November 1, 2006 |
| Delinquent Date | April 1, 2007 |

Discounts of 1% for each month taxes are paid prior to March 2007 are granted.

Revenue recognition criteria for property taxes under the GASB requires that property taxes expected to be collected within 60 days of the current period be accrued. No accrual has been made for 2006 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year. Current year taxes, which are uncollected as of the end of the fiscal year, are generally immaterial in amount and highly susceptible to uncollectibility and, therefore, are not recorded as a receivable on the balance sheet date.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected to follow subsequent private-sector guidance.

D. Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's utility function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

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

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

The following three broad classifications are used to categorize the fund types used by the City.

Governmental

Governmental funds focus on the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) and not net income. The City has the following major governmental funds.

General Fund - This is the City's primary operating fund and is used to account for all financial resources except those required to be accounted for in another fund.

Urban Core Redevelopment Fund - This fund is used to account for the activities of the Gulf Breeze Community Redevelopment Agency.

Proprietary

Proprietary funds focus on the determination of net income, changes in net assets, financial position, and cash flows. All of the City's proprietary funds are enterprise funds, as fees are charged to external users for services. The following is a description of the major proprietary funds of the City.

Water and Sewer Fund - Used to account for the provision of water and sewer services to the residents of the City and some residents of the County. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

Natural Gas Fund - Used to account for the activity associated with providing gas service to the citizens of the City.

South Santa Rosa Utility Fund - Used to account for the operations of the water and sewer system for residents east of Gulf Breeze to Midway and sewage disposal for the residents of the City.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

Fiduciary

Fiduciary funds are used to account for the assets held on behalf of outside parties, including other governments. The City has two types of fiduciary funds.

Pension Trust Fund - Used to report the resources that are required to be held in trust for the members and beneficiaries of the one defined benefit pension plan administered by the City; the Police Officers' Retirement Pension Fund.

Agency Funds - Used to account for assets held by the City on behalf of others. The City's agency funds include the Health Insurance Fund, which accounts for employee contributions used to offset the cost of health insurance premiums, and the D.A.R.E. fund, used to account for assets contributed to the Police Department for special projects.

E. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with a maturity of ninety days or less when purchased and investments with the State Board of Administration (SBA) to be cash equivalents. Additionally, each fund's equity in the City's investment pool (see Note 3) is considered to be a cash equivalent since the City can deposit or effectively withdraw cash at any time without prior notice or penalty.

Deposits and Investments

Section 218.415, Florida Statutes, requires the investment of surplus public funds and prescribes the instruments in which those investments are authorized, specifically the State of Florida Local Government Surplus Funds Trust Fund; direct obligations of the United States Government or other obligations unconditionally guaranteed by the United States Government; collateralized interest-bearing time deposits or savings accounts in state or Federal banks or savings and loan associations; debt securities of the Federal Farm Credit Banks, the Federal Home Loan Mortgages Corporation, the Federal Home Loan Bank, the Government National Mortgage Association, and the Federal National Mortgage Association; and securities of or other interest in certain investment companies or investment trusts, the portfolio of which is limited to United States Government obligations or repurchase agreements fully collateralized by such obligations. The City adheres strictly to the provisions of those cited Statutes, as well as with Chapter 517, Florida Statutes, which established registration procedures for securities and dealers and Chapter 280, Florida Statutes, which requires the City to maintain deposits only with "Qualified Public Depositories." The City maintains a cash and investment pool available for use by all funds. Earnings from such investments are allocated to the respective funds based on applicable cash participation by each fund. In addition, restricted cash accounts, certificates of deposit, and other investments are separately maintained by a few City funds in accordance with bond ordinances, retirement fund plan documents, and other contractual agreements. Investments are stated at fair value.

The City's cash and investment pool and certain individual funds participate in the Local Government Surplus Funds Trust Fund, operated by Florida's State Board of Administration (SBA). The SBA is governed by Chapter 19-3 of the Florida Administrative Code (FAC). The FAC provides guidance and establishes the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Florida Auditor General performs an operational audit of activities and investments of the SBA. In accordance with GASB Number 31, Local Government Surplus Funds Trust Fund is a "2A-7 like" pool, and thus, SBA investments are valued using the pooled share price. City

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deposits and Investments (Continued)

investments with the SBA may be made or liquidated by wire on a same day basis. The City's investments with the SBA are considered to be cash equivalents for reporting purposes.

Pension Trust Funds may invest in direct obligations of the United States Government or other obligations unconditionally guaranteed by the United States government, collateralized interest-bearing time deposits or savings accounts in state or Federal banks or savings and loan associations, bonds or indebtedness of United States corporations rated BAA or better, stocks of U.S. corporations which are listed on the national stock exchanges (limited to 50% of the assets of the fund), and investment accounts maintained by major national banks and insurance companies given the top rating by Best.

Receivables and Payables

Interfund transactions are reflected as loans, services provided, reimbursements, or transfers. Loans between funds outstanding at the end of the fiscal year are referred to as either "due to other funds" or "due from other funds" (i.e., the current portion of interfund loans) or "advances" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Services provided, deemed to be at market, or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

Based on the collection history of the City, proprietary fund receivables are shown net of any allowance for uncollectible amounts. Amounts deemed uncollectible are written off to bad debt expense.

Inventory

Inventory is valued at cost (first-in, first-out). The consumption method is used to account for the inventory. Under the consumption method, inventory items are recorded as expenditures during the period inventory is used. A portion of the General Fund balance equal to the inventory amount has been reserved in the fund financial statements to indicate that it is not available for appropriation.

Restricted Assets

Certain resources in the City's General Fund and proprietary funds have been set aside for repayment of debt, certain projects, and customer deposits and are classified as restricted assets because their use is limited by applicable bond covenants and project requirements.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial cost more than the following:

| | | |
|-----------------------------------|----|--------|
| Land | | All |
| Building and improvement | \$ | 10,000 |
| Infrastructure | \$ | 10,000 |
| Improvements - other | \$ | 10,000 |
| Equipment, vehicles and computers | \$ | 1,000 |

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until the completion of the project with interest earned on invested proceeds over the same period.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|-----------------------------------|---------|
| Buildings | 39 |
| Improvements other than buildings | 15 - 20 |
| System infrastructure | 20 - 40 |
| Machinery and equipment | 3 - 10 |

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay based on the length of service to the City. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Long-Term Obligations -- (Continued)

discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The difference between the re-acquisition price (new debt) and the net carrying value of the old debt creates a deferred gain or loss from advance refunding of debt. This difference is deferred and amortized as a component of interest expense using the bonds outstanding method over the shorter of the remaining life of the old debt or the life of the new debt. The deferred account is offset against the new liability.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, gains or losses from refunding, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and gains from refundings received on debt issuances are reported as other financing sources while discounts and losses from refundings on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

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

F. Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted by ordinance for all governmental and proprietary funds. However, budgets for proprietary funds are not legally required to be reported on and are not included in these financial statements. All appropriations lapse at fiscal year-end except for appropriations related to multi-year capital projects.

Budgetary data reflected in the financial statements are established by the following procedures.

Prior to September 1 of each year, proposed budgets are received by the City Council from the City Manager. These proposed expenditures, along with all estimated receipts, taxes to be levied, and balances expected to be brought forward are considered by the City Council. The City Council requires such changes as deemed necessary, sets proposed millages, and establishes dates for tentative and final public budget hearings as prescribed by Florida Statutes.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgets (Continued)

Proposed budgets are advertised in a newspaper of general circulation in the City. Public hearings are conducted for the purposes of receiving input, responding to complaints, and providing reasons and explanations for intended actions to all citizens participating.

Prior to October 1, the budget for all governmental (except for the Police fund, which prepares no budget due to the uncertainty of annual revenues) and proprietary funds of the City is legally enacted through passage of an ordinance. Budget amendments are periodically passed through resolutions during the fiscal year. Appropriations lapse at year-end except for appropriations related to multi-year capital projects. Budgeted beginning fund balance in the accompanying financial statements reflects planned utilization of prior years unreserved/undesignated fund balance to the level required to accomplish current year objectives.

The level of budgetary control (that is the level at which expenditures cannot legally exceed appropriations) has been established at the fund level. The City Manager and Finance Director are authorized to transfer budgeted amounts within departments of a fund and between departments of a fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Budget amounts reflected in the financial statements are originally adopted amounts as amended by action of the City Council by revision of fund totals.

B. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 3 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment management pool in which each fund (except the Pension Trust Fund) participates on a dollar equivalent and daily transaction basis. The City's cash and investment management pool includes pooled cash maintained in interest-bearing demand deposit accounts, certificates of deposit, and pooled investments of the Local Government Surplus Funds Trust Fund. Interest income (which includes unrealized gains and losses) is distributed monthly based on average daily balances.

The City's cash and investment management pool is considered to be a cash equivalent for reporting purposes because it is an internally managed fund, which allows individual funds to, at any time, deposit additional cash or make withdrawals without prior notice or penalty.

Deposits

Deposits may be exposed to custodial credit risk, which is the risk that in the event of a bank failure, the government's deposits may not be returned. The City maintains its deposits only with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. The provisions of this statute allow "Qualified Public Depositories" to participate in a multiple financial institution collateral pool to ensure the security for

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

public deposits. All Qualified Public Depositories must place with the Treasurer of the State of Florida, securities which have a market value equal to 50% of all public funds on deposit at the end of each month in excess of any applicable deposit insurance. In the event of default by a qualified public institution, the State Treasurer will pay public depositors all losses. Losses in excess of insurance and collateral will be paid through assessments between all Qualified Public Depositories. Under this method, City deposits, including certificates of deposit, are fully insured or collateralized with securities held by the State Treasurer in the City's name.

The City's deposits at September 30, 2006 were entirely covered by federal depository insurance or pooled collateral held by the State Treasurer and therefore have no custodial credit risk. At September 30, 2006, the value of the City's, including all component units, deposits before outstanding checks was \$8,982,153, consisting entirely of deposits with financial institutions in checking and certificate of deposit accounts. At September 30, 2006, the book value of these same deposits totaled \$6,179,313.

Investments

The types of investments, which can be made by the City of Gulf Breeze, are restricted by state statutes, bond ordinances, retirement fund plan documents, and other contractual agreements. A description of the requirements and the types of investments allowed can be found in Note 1-E.

The City invests in the Local Government Surplus Funds Trust Fund Investment Pool (LGSFTF), administered by the Florida State Board of Administration, and the Florida Municipal Investment Trust 1-3 Year High Quality Bond Fund (FMIT), administered by the Florida League of Cities. In accordance with the regulations of "2a7-like" pools, the method used to determine the participants' shares sold and redeemed is the amortized cost method. As of September 30, 2006, the LGSTF portfolio's average days to maturity was 32. The LGSFTF was not rated by a nationally recognized statistical rating agency. As of September 30, 2006, the FMIT average maturity was 1.89 years, and was rated AAA by Fitch Credit Rating. At September 30, 2006, the City's LGSFTF and FMIT balances, including all component units, were \$377,525 and \$534,959, respectively.

NOTE 4 - RECEIVABLES

Receivables at September 30, 2006, were as follows:

| | Governmental Activities | | Business Type Activities | | | | |
|-------------------|----------------------------|-----------------------|-----------------------------|-----------------------------------|----------------------------------|--------------------------------|--|
| | General | Water and Sewer | Natural Gas | South Santa Rosa Utility | Nonmajor Proprietary Funds | Total Primary Government | |
| Accounts | \$ 73,758 | \$ - | \$ - | \$ - | \$ - | \$ 73,758 | |
| Utilities | 200 | 200,556 | 157,072 | 399,970 | 99,332 | 857,130 | |
| Other | - | 184 | 1,001 | 17,429 | 8,176 | 26,790 | |
| Total receivables | <u>\$ 73,958</u> | <u>\$ 200,740</u> | <u>\$ 158,073</u> | <u>\$ 417,399</u> | <u>\$ 107,508</u> | <u>\$ 957,678</u> | |

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 5 - CHANGES IN CAPITAL ASSETS

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

Primary Government

| | Beginning Balance | Increases | Decreases/ Transfers | Ending Balance |
|---|-----------------------------|--------------------------|-------------------------|-----------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 1,187,339 | \$ - | \$ - | \$ 1,187,339 |
| Construction in progress | - | 505,171 | - | 505,171 |
| Total capital assets not being depreciated | <u>1,187,339</u> | <u>505,171</u> | <u>-</u> | <u>1,692,510</u> |
| Capital assets being depreciated | | | | |
| Buildings | 4,210,591 | 22,388 | - | 4,232,979 |
| Improvements other than buildings | 8,882,677 | 948,907 | - | 9,831,584 |
| Infrastructure | 119,992 | - | - | 119,992 |
| Machinery and equipment | 3,613,559 | 197,570 | (23,543) | 3,787,586 |
| Total capital assets being depreciated | <u>16,826,819</u> | <u>1,168,865</u> | <u>(23,543)</u> | <u>17,972,141</u> |
| Less accumulated depreciation | | | | |
| Buildings | (814,371) | (109,346) | - | (923,717) |
| Improvements other than buildings | (3,304,794) | (608,577) | - | (3,913,371) |
| Infrastructure | (50,374) | (3,955) | - | (54,329) |
| Machinery and equipment | (2,687,780) | (341,839) | 23,543 | (3,006,076) |
| Total accumulated depreciation | <u>(6,857,319)</u> | <u>(1,063,717)</u> | <u>23,543</u> | <u>(7,897,493)</u> |
| Total capital assets being depreciated, net | <u>9,969,500</u> | <u>105,148</u> | <u>-</u> | <u>10,074,648</u> |
| Governmental activities, net | <u><u>\$ 11,156,839</u></u> | <u><u>\$ 610,319</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 11,767,158</u></u> |

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

| | Beginning Balance | Increases | Decreases/ Transfers | Ending Balance |
|---|----------------------|---------------------|-------------------------|----------------------|
| Business Type Activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 2,669,510 | \$ 69,829 | \$ (75,511) | \$ 2,663,828 |
| Construction in progress | 246,219 | 630,028 | (193,907) | 682,340 |
| Total capital assets not being depreciated | <u>2,915,729</u> | <u>699,857</u> | <u>(269,418)</u> | <u>3,346,168</u> |
| Capital assets being depreciated | | | | |
| Buildings | 332,102 | 8,560 | - | 340,662 |
| Improvements other than buildings | 9,291,399 | 165,840 | 15,645 | 9,472,884 |
| Infrastructure | 26,432,553 | 1,403,833 | 178,262 | 28,014,648 |
| Machinery and equipment | 2,173,452 | 540,501 | (183,917) | 2,530,036 |
| Total capital assets being depreciated | <u>38,229,506</u> | <u>2,118,734</u> | <u>9,990</u> | <u>40,358,230</u> |
| Less accumulated depreciation | | | | |
| Buildings | (44,557) | (8,605) | - | (53,162) |
| Improvements other than buildings | (1,817,623) | (355,215) | - | (2,172,838) |
| Infrastructure | (11,218,262) | (1,026,317) | - | (12,244,579) |
| Machinery and equipment | (1,474,148) | (193,840) | 89,741 | (1,578,247) |
| Total accumulated depreciation | <u>(14,554,590)</u> | <u>(1,583,977)</u> | <u>89,741</u> | <u>(16,048,826)</u> |
| Total capital assets being depreciated, net | <u>23,674,916</u> | <u>534,757</u> | <u>99,731</u> | <u>24,309,404</u> |
| Business type activities, net | <u>\$ 26,590,645</u> | <u>\$ 1,234,614</u> | <u>\$ (169,687)</u> | <u>\$ 27,655,572</u> |

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

Governmental Activities

| | |
|--|---------------------|
| General government | \$ 90,768 |
| Public safety | 346,921 |
| Transportation | 279,457 |
| Economic environment | 86,744 |
| Culture and recreation | 259,827 |
| Total depreciation expense - governmental activities | <u>\$ 1,063,717</u> |

Business Type Activities

| | |
|---|---------------------|
| Water and Sewer | \$ 193,205 |
| Natural Gas | 105,023 |
| South Santa Rosa Utility | 1,248,202 |
| Other Proprietary Funds | 37,547 |
| Total depreciation expense - business-type activities | <u>\$ 1,583,977</u> |

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

Construction Commitments

The City's South Santa Rosa Utility Fund has active construction projects as of September 30, 2006. At year-end, the City's commitments with contractors for these projects and for any projects for which a contract has been signed as of September 30, 2006 are as follows.

| Project | Spent-to-Date * | Remaining Commitment |
|---|-----------------|----------------------|
| Fire Protection System upgrade - Phase II | \$ 346,373 | \$ 326,394 |
| Polynesian Isle Lift Station | 500 | 173,878 |
| Bay Street force main extension | 25,269 | 5,590 |
| Centrifuge Project | 1,764 | 286,916 |
| East Wastewater Treatment Plant | 308,433 | 320,394 |
| Florida Forever Grant - Phase I | - | 1,574,004 |
| Totals | \$ 682,339 | \$ 2,687,176 |

*From project inception through September 30, 2006.

NOTE 6 - DEFINED BENEFIT PENSION PLANS

Florida Retirement System - General Employees

A. Plan Description

The City contributes to the Florida Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the State of Florida Division of Retirement, Department of Management Services. The Florida Retirement System provides retirement, disability, or death benefits to plan members or their designated beneficiaries. Florida Statutes Chapters 121, 122, and 123 provide the authority under which benefit provisions are established. The provisions may only be amended by legislative action.

All permanent employees hired prior to January 1, 1996, participate in this plan. The Florida Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Florida Division of Retirement, 2639-C North Monroe Street, Tallahassee, FL 32399-1560 or by calling (850) 488-5706.

B. Contribution and Funding Policy

Contribution requirements of the plan are established in Florida Statutes Chapters 121, 122, and 123 and may only be amended by legislative action. All retirement legislation must comply with Article X, Section 14 of the State Constitution and with Part VII, Chapter 112, Florida Statutes. Both of these provisions require that any increase in retirement benefits must be funded concurrently on an actuarially sound basis. Active plan members do not contribute to the plan. All required contributions are made by monthly employer contributions at actuarially determined rates, which are currently 9.85% for general employees and 20.92% for special risk employees. The City's contributions to the plan for the years ended September 30, 2006, 2005, and 2004 listed below were equal to the required contributions for the year.

| | Years Ended September 30, | | |
|------------------------|---------------------------|------------|-----------|
| | 2006 | 2005 | 2004 |
| General employees | \$ 47,695 | \$ 45,303 | \$ 41,527 |
| Special risk employees | 64,318 | 61,672 | 58,217 |
| Total contributions | \$ 112,013 | \$ 106,975 | \$ 99,744 |

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Florida League of Cities - Police Officers

A. Plan Description

The City's Police Department, for police officers hired after January 1, 1996, participates in the Florida Municipal Pension Trust Fund, a single-employer defined benefit pension plan administered by a Police Pension Board. This plan provides retirement, disability, and death benefits to plan members or their designated beneficiaries. Florida Statute 185 provides the authority under which benefit provisions are established. These provisions may only be amended by legislative action.

B. Contributions, Funding Policy, and Annual Pension Costs

Contribution requirements of the plan are established in the actuarial cost study, which must comply with Article X, Section 14 of the State Constitution and with Part IV, Chapter 112, Florida Statutes. Both of these provisions require that any increase in retirement benefits must be funded concurrently on an actuarially sound basis. Active plan members are required to contribute 1% to the plan. All required employer contributions are made monthly at actuarially determined rates. The current actuarially determined contribution rate expressed as a percentage of covered payroll for special risk employees is 29.16%.

Under the aggregate cost valuation method, funding amounts are determined by computing future plan costs. The City is responsible for the non-employee actuarially determined annual required contribution; however, State contributions can be used when determining the City's actual contribution. As a result, State contributions are included when computing percentage contributions.

The City's contributions to the Police Pension Plan for the years ended September 30, 2006, 2005, and 2004 listed below were equal to the required contributions for the year.

| | Years Ended September 30, | | |
|--|---------------------------|------------------|------------------|
| | 2006 | 2005 | 2004 |
| City Police Pension Plan contributions | <u>\$ 67,127</u> | <u>\$ 70,297</u> | <u>\$ 63,941</u> |

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Florida League of Cities - Police Officers (Continued)

B. Contributions, Funding Policy, and Annual Pension Costs (Continued)

The City's annual pension cost for the current year and related plan information is as follows.

| | |
|---------------------------------|--------------------------------------|
| | Police Officer Retirement Fund |
| Contributions rates | |
| (percentage of covered payroll) | 29.16% |
| City | 1.00% |
| Plan Members | |
| Annual pension cost | \$ 141,614 |
| Contributions made | |
| Plan Members | \$ 6,403 |
| Employer | \$ 67,127 |
| Other sources | \$ 58,100 |
| Net pension obligation (asset) | \$ - |
| Actuarial valuation date | 10/1/2005 |
| Actuarial cost method (1) | Aggregate |
| Amortization method | Not applicable |
| Remaining amortization period | Not applicable |
| Asset valuation method | Market Value |
| Actuarial assumptions | |
| Invested rate of return | 7.50% |
| Projected salary increases * | 6.00% |
| * Includes inflation at | 3.75% |
| Cost of living adjustments | 3% (starting at age 58) |

- (1) The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.
- (2) In years when the State and City contributions are more than the actuarially determined annual required contribution, excess contributions are placed in a surplus contribution account. When State and City contributions are less than the actuarially determined annual contribution, deficit contribution amounts are taken from the surplus contribution account. As a result, the actuarial report provided to the City reports 100% percent contributed on the Schedule of Employer Contributions and a NPO or NPA is not reported.

| Three-Year Trend Information | | | | |
|------------------------------|-------------|------------------------------|---------------------------|-----------------------------------|
| | Year Ending | Annual Pension Cost (APC) | Percentage Contributed | Net Pension Obligation (Asset) |
| FMPT | 9/30/2004 | \$ 106,334 | 100% | - |
| | 9/30/2005 | \$ 111,652 | 100% | - |
| | 9/30/2006 | \$ 141,614 | 100% | - |

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Florida League of Cities - Police Officers (Continued)

B. Contributions, Funding Policy, and Annual Pension Costs (Continued)

The Florida Municipal Trust Fund (FMPT) issues a publicly available financial report that includes financial statements and required supplementary information of the defined benefit pension plan of the City's police employees. That report may be obtained by writing to the Florida League of Cities, Inc., 301 South Bronough Street, Tallahassee, FL 32302-1757 or by calling (850) 222-9684.

Membership in the plan consisted of the following at October 1, 2006:

| | |
|---|-----------|
| Retirees and beneficiaries receiving benefits | 0 |
| Active plan members | <u>11</u> |
| Total | <u>11</u> |

NOTE 7 - DEFINED CONTRIBUTION PENSION PLANS

Florida Municipal Trust Fund - General Employees

The City, for general employees hired after January 1, 1996, participates in the Florida Municipal Trust Fund, a defined contribution pension plan administered by the Florida League of Cities. This plan provides benefits at retirement to general employees of the City. Florida Statute 185 provides the authority under which benefit provisions are established. These provisions may only be amended by legislative action. Eligible employees must have completed one year of service before the City begins making contributions on their behalf. The City is required to make contributions equal to 8% of compensation for each eligible employee. Employees are not allowed to contribute to the plan. Contribution requirements are established and may be amended by City Council action.

Florida League of Cities financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized in the period that the contributions are due. Annual valuations are required for all defined contribution plans. The Florida League of Cities, as administrator, will provide these valuations. The valuations provide allocation of employer contributions, earnings and losses, distributions, and forfeitures. The Florida League of Cities issues a publicly available financial report that includes financial statements and required supplementary information. That report can be obtained by writing to Florida League of Cities, Inc., 201 West Park Avenue, Tallahassee, FL 32302-1757, or by calling (850) 222-9684.

The City's contributions to the plan for the years ended September 30, 2006, 2005, and 2004 listed below were equal to the required contributions for the year.

| | Years Ended September 30, | | |
|-------------------|---------------------------|-------------|-------------|
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| General employees | \$ 68,908 | \$ 66,370 | \$ 70,377 |

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 8 - DEFERRED COMPENSATION PLAN

The City offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is a tax-deferred supplemental retirement program that allows City employees to contribute a portion of their salary before federal income taxes to a retirement account. The assets are held in trust for the employee's benefit. The plan participants, individually, select and make changes in funding options made available by the independent plan administrator. Since plan participants select the investment fund or funds in which their deferred compensation accounts are invested, the City has no liability for investment losses. The City's fiduciary responsibility is to administer the plan properly and to assure the investment alternatives made available are reasonable.

In accordance with GASB Statement Number 32, the assets and liabilities of the plan are not reflected in the City's financial statements since the City has no fiduciary responsibilities, other than administrative, in connection with the Plan.

Assets of the plan had a fair value of \$1,013,750 at September 30, 2006. Contributions made by plan members during the year ended September 30, 2006, were \$120,835.

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; employee medical benefits; and natural disasters. The City of Gulf Breeze is insured for liability and casualty losses through the Florida League of Cities' Florida Municipal Insurance Program. Under this program the League assumes the full risk of loss on claims over \$10,000 for which insurance is purchased. There has been no significant reduction in insurance coverage from the prior year. The City retains some risk of loss in the form of deductibles and has designated a portion of fund equity/retained earnings as a reserve for these possible losses. Based on prior claims experience, management believes this reserve to be adequate. A self-insurance escrow account has been set up in the General Fund for \$250,000, Water & Sewer Fund for \$75,000, and the Natural Gas Fund for \$50,000.

Incurred but not reported claims have not been determined by actuarial evaluation and are not reported in the accompanying financial statements. It is the opinion of management that such claims that may presently exist would not have a material effect on the City's financial position.

During the fiscal year ending September 30, 2006, the City remained self-insured for its dental and vision reimbursement program, which is made available to full-time employees. These activities are recorded in the General Fund. Reimbursements for the year ended September 30, 2006 were \$30,328 and \$6,933 for dental and vision, respectively.

NOTE 10 - OPERATING LEASES

The City receives rental income from leasing space on water towers under cancelable operating agreements. Lease periods vary from one to three years. Income for the year ended September 30, 2006, was \$26,040 in the General Fund and \$78,615 in the South Santa Rosa Utility Fund. Capitalized investments in assets associated with these leases is \$2,558,157. Accumulated depreciation of \$2,131,594 has been recorded as of September 30, 2006.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 10 - OPERATING LEASES (CONTINUED)

| Year Ending September 30, | Governmental Activities | Business-Type Activities South Santa Rosa Utility |
|------------------------------|----------------------------|--|
| 2007 | \$ 22,220 | \$ 62,820 |
| 2008 | - | 36,000 |
| 2009 | - | 3,000 |
| Total minimum lease payments | \$ 22,220 | \$ 101,820 |

NOTE 11 - LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

The following is a summary of changes in long-term debt liabilities of the City for the year ended September 30, 2006:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------------|---------------------|---------------------|---------------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Loan payable | \$ 105,000 | \$ - | \$ (60,000) | \$ 45,000 | \$ 45,000 |
| Capital Improvement Note, Series 2004 | 1,000,000 | - | - | 1,000,000 | 1,000,000 |
| Local government loan program, 1997A | 3,132,306 | - | (132,462) | 2,999,844 | 138,554 |
| Compensated absences | 205,087 | 153,815 | (164,675) | 194,227 | - |
| Total governmental activities, long-term liabilities | <u>\$ 4,442,393</u> | <u>\$ 153,815</u> | <u>\$ (357,137)</u> | <u>\$ 4,239,071</u> | <u>\$ 1,183,554</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| SSRUS Refunding Revenue Bonds, Series 2004 | \$ 9,460,000 | \$ - | \$ (370,000) | \$ 9,090,000 | \$ 505,000 |
| Less deferred amounts | | | | | |
| For issuance premium | 357,558 | - | (23,837) | 333,721 | - |
| For loss on refunding | (2,324,338) | - | 154,956 | (2,169,382) | - |
| Local government loan program, 1995A | 4,909,979 | - | (109,736) | 4,800,243 | 115,573 |
| Local government loan program, 1996 | 2,166,691 | - | (349,847) | 1,816,844 | 368,275 |
| Local government loan program, 1997A | 1,102,300 | - | (77,900) | 1,024,400 | 82,000 |
| Compensated absences | 107,453 | 80,590 | (66,980) | 121,063 | - |
| Total business-type activities, long-term liabilities | <u>\$15,779,643</u> | <u>\$ 80,590</u> | <u>\$ (843,344)</u> | <u>\$15,016,889</u> | <u>\$1,070,848</u> |

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 11 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding

| | <u>Current</u> | <u>Long-Term</u> | <u>Total</u> |
|---|---------------------|---------------------|---------------------|
| GOVERNMENTAL ACTIVITIES | | | |
| <i>Notes Payable</i> | | | |
| \$700,000 loan payable, 1987, due in quarterly installments ranging from \$10,000 to \$15,000, through 2007; no interest. Available local option ½ cent gas tax revenues are pledged for payment of the loan. | \$ 45,000 | \$ -- | \$ 45,000 |
| Line of credit, not to exceed \$3,000,000, with variable interest (4.48% at September 30, 2006). Advances from the line through September 30, 2006 of \$1,000,000. An additional \$2 million has been drawn on the line subsequent to fiscal year end. Originally due December 23, 2005, line has been extended through November 30, 2007. | 1,000,000 | -- | 1,000,000 |
| \$330,000, 1999, variable rate loan (Trust Bond Market Association (TBMA) plus .0034%) from 1997A Gulf Breeze Local Government Loan Program, due in annual installments ranging from \$16,200 to \$27,900 through 2015. Effective rate of interest as of September 30, 2006, was 3.873%. Proceeds used for certain capital improvements. | 18,000 | 207,600 | 225,600 |
| \$3,000,000, 2003, variable rate loan (TBMA plus .0034%) from 1997A Gulf Breeze Local Government Loan Program, due in annual installments ranging from \$105,641 to \$187,216 through 2018 and a balloon payment of \$1,000,000 due in 2019. Effective rate of interest as of September 30, 2006, was 3.873%. Proceeds used for certain capital improvements. | <u>120,554</u> | <u>2,653,690</u> | <u>2,774,244</u> |
| Total Notes | <u>1,183,554</u> | <u>2,861,290</u> | <u>4,044,844</u> |
| <i>Accrued Compensated Absences</i> | | | |
| Total long-term portion of accumulated, vested annual and sick leave for governmental fund types. | <u>-</u> | <u>194,227</u> | <u>194,227</u> |
| TOTAL GOVERNMENTAL ACTIVITIES | <u>\$ 1,183,554</u> | <u>\$ 3,055,517</u> | <u>\$ 4,239,071</u> |

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 11 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

| | <u>Current</u> | <u>Long-Term</u> | <u>Total</u> |
|---|----------------|------------------|------------------|
| BUSINESS-TYPE ACTIVITIES | | | |
| <i>Revenue Bonds</i> | | | |
| \$9,460,000, 2004 City of Gulf Breeze, Florida, South Santa Rosa Utility System Refunding Revenue Bonds, Series 2004, due in annual installments of \$370,000 to \$815,000 through 2021; interest rate at 2.5% to 5.5%. Secured by pledged revenues of the City's utility systems. Proceeds used to refund all of the City's Series 1994 South Santa Rosa Utility System Revenue Bonds. | \$ 505,000 | \$ 8,585,000 | \$ 9,090,000 |
| Less unamortized bond premium | - | 333,721 | 333,721 |
| Less unamortized deferred loss on refunding | - | (2,169,382) | (2,169,382) |
| Total Revenue Bonds | <u>505,000</u> | <u>6,749,339</u> | <u>7,254,339</u> |
| <i>Notes Payable</i> | | | |
| \$4,730,000, 1996, variable rate loan (TBMA plus .0034%) from 1995A Gulf Breeze Local Government Loan Program, due in semi-annual installments ranging from \$151,880 to \$223,209 through 2011; effective rate of interest as of September 30, 2006, was 3.873%. Available net utility revenues are pledged for payment. Proceeds used for utility system improvements. | 368,275 | 1,448,569 | 1,816,844 |
| \$5,500,000, 1998, variable rate loan (TBMA plus .0034%) from 1995A Gulf Breeze Local Government Loan Program, due in semi-annual installments ranging from \$48,825 to \$114,815 through 2020 with a balloon payment of \$2,484,391 in 2021; effective rate of interest as of September 30, 2006, was 3.873%. Available net utility revenues are pledged for payment. Proceeds used for utility system improvements. | 115,573 | 4,684,670 | 4,800,243 |
| \$1,500,000, 1999, variable rate loan (TBMA plus .0034%) from 1997A Gulf Breeze Local Government Loan Program, due in annual installments ranging from \$73,800 to \$127,100, effective rate of interest as of September 30, 2006, was 3.873%. Available net utility revenues are pledged for payment. Proceeds used for utility system improvements. | <u>82,000</u> | <u>942,400</u> | <u>1,024,400</u> |
| Total Notes | <u>565,848</u> | <u>7,075,639</u> | <u>7,641,487</u> |

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 11 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

Accrued Compensated Absences

Accumulated, vested annual accrued compensation for Enterprise Funds.

| | | | |
|---------------------------------------|---------------------|----------------------|----------------------|
| | - | 121,063 | 121,063 |
| TOTAL BUSINESS-TYPE ACTIVITIES | <u>\$ 1,070,848</u> | <u>\$ 13,946,041</u> | <u>\$ 15,016,889</u> |
| GRAND TOTAL ALL LONG-TERM DEBT | | | <u>\$ 19,255,960</u> |

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding except accrued annual leave and advances from other funds as of September 30, 2006, are as follows:

Governmental Activities

| Year Ending September 30 | Notes Payable | |
|-----------------------------|---------------------|---------------------|
| | Principal | Interest |
| 2007 | \$ 1,183,554 | \$ 127,385 |
| 2008 | 144,878 | 110,817 |
| 2009 | 151,447 | 105,206 |
| 2010 | 158,272 | 99,341 |
| 2011 | 165,362 | 93,211 |
| 2012-2016 | 948,474 | 363,901 |
| 2017-2021 | 1,292,857 | 131,623 |
| Total | <u>\$ 4,044,844</u> | <u>\$ 1,031,484</u> |

Business-Type Activities

| Year Ending September 30 | Revenue Bonds | | Notes | |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2007 | \$ 505,000 | 355,830 | 565,848 | 295,954 |
| 2008 | 515,000 | 343,080 | 595,494 | 274,039 |
| 2009 | 525,000 | 330,080 | 626,489 | 250,975 |
| 2010 | 540,000 | 314,068 | 658,905 | 226,712 |
| 2011 | 555,000 | 294,905 | 463,802 | 201,193 |
| 2012-2016 | 3,100,000 | 1,165,010 | 1,406,192 | 812,741 |
| 2017-2021 | 3,350,000 | 384,500 | 3,324,757 | 564,578 |
| Total | <u>\$ 9,090,000</u> | <u>\$ 3,187,473</u> | <u>\$ 7,641,487</u> | <u>\$ 2,626,192</u> |

Compensated Absences

For the governmental activities, claims and judgments and compensated absences were generally liquidated by the General Fund.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 12 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

Due To/From Other Funds

| Receivable fund | Payable Fund | Amount |
|----------------------------|----------------------------|---------------------|
| General | Nonmajor Proprietary Funds | \$ 1,079,616 |
| General | South Santa Rosa Utility | 26,040 |
| Water and Sewer | General | 400,000 |
| Nonmajor Proprietary Funds | Capital Trust Agency | 3,935 |
| | | <u>\$ 1,509,591</u> |

General Fund receivable from the Nonmajor Proprietary Funds is for settlement income received in the fiscal year 2003, cash flow assistance, and accrued payroll expenses. General Fund receivable from the South Santa Rosa Utility Fund is for revenues collected by the South Santa Rosa Utility Fund on behalf of the General Fund. Other proprietary interfund balances are the result of program income not yet transferred before year-end.

Interfund Transfers

| | Transfers In | | | |
|----------------------------|-------------------|--------------------------------|--------------------------------|---------------------|
| | General Fund | Urban Core Redevelopment | South Santa Rosa Utility | Total |
| Transfers out | | | | |
| General | \$ - | \$ 133,481 | \$ - | \$ 133,481 |
| Water and Sewer | 180,413 | - | 241,296 | 421,709 |
| Natural Gas | 175,140 | - | - | 175,140 |
| South Santa Rosa Utility | 124,236 | - | - | 124,236 |
| Nonmajor Proprietary Funds | 391,060 | - | - | 391,060 |
| | <u>\$ 870,849</u> | <u>\$ 133,481</u> | <u>\$ 241,296</u> | <u>\$ 1,245,626</u> |

All transfers occur on a routine basis and are consistent with the activities of the Fund making the transfer, contingent upon the availability of funds.

NOTE 13 - JOINT VENTURE

The City of Gulf Breeze, Florida, Holley-Navarre Water System, Inc., and Mid-Way Water System, Inc. agreed to work together and pursue collective solutions to future water supply needs to residents of Santa Rosa County and the surrounding areas. The resulting organization is the Fairpoint Regional Utility System (FRUS). The City of Gulf Breeze, Florida, Holley-Navarre Water System, Inc., and Mid-Way Water System, Inc. each own a one-third share in FRUS. The investment is accounted for under the equity method of accounting and included with other assets on the Statement of Net Assets. A copy of the financial statements for FRUS is available by writing to 8574 Turkey Bluff Road, Navarre, Florida 32569.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grant Receipts

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

Examination of Bond Pool Activities

Certain governmental entities have initiated examinations of various bond issuances in which the City of Gulf Breeze has had direct or indirect involvement. These examinations include the following:

Securities and Exchange Commission - The Southeastern Regional Office of the United States Securities and Exchange Commission notified the City in November 2003 that it would conduct a confidential, non-public investigation in the matter of State of Florida pooled bonds. Certain bond transactions issued by the City or other sponsored agencies of the City may fall into the category of pooled bonds. Since that notification, the City has cooperated fully with the investigation. The City has retained special counsel to represent its interest in this matter. The City has no information to believe this investigation is anything other than routine. No adverse communication or determination has been received concerning this matter.

Seminole Indian Tribe Bond Issuance - The Internal Revenue Services has initiated an examination of the Capital Trust Agency's Seminole Tribe of Florida Convention and Resort Hotel Facilities Bonds, Series 2002A, 2002B, 2002C, 2003A, and 2004A. In conjunction with its examination, the Internal Revenue Service, in a Preliminary Adverse Determination letter dated December 2, 2004, asserted that Capital Trust Agency did not have the authority to loan funds to the Seminole Tribe pursuant to an interlocal agreement. The Capital Trust Agency disagrees with the IRS position and believes that the 2002 bonds were properly issued under Florida law. In accordance with the bond indenture, the Seminole Tribe is responsible for all legal costs associated with the bond issuance; however, Capital Trust Agency has retained special counsel to represent its interest in this matter.

Hurricane Ivan, Hurricane Dennis, and Hurricane Katrina

In September 2004, the City along with most of Northwest Florida, sustained damage due to Hurricane Ivan. In July 2005 and August 2005, the City sustained damage from Hurricane Dennis and Hurricane Katrina, respectively. As of September 30, 2006, the City has recorded revenues and expenses attributable to hurricane activities incurred through those dates. There was significant damage to the City's facilities and infrastructure as a result of these three hurricanes. Expenses incurred for storm preparation, emergency assistance, debris removal, and damage repair through September 30, 2006, were \$8,276,384, \$1,190,786, and \$119,251 for Hurricane Ivan, Hurricane Dennis, and Hurricane Katrina, respectively. Of these amounts, the City has recorded revenues to date and receivables as of September 30, 2006, from the Federal Emergency Management Agency (FEMA) and the State Department of Community Affairs, in the amount of \$9,649,386 and \$1,358,145, respectively. The following table summarizes the City's estimates of total disaster related expenditures:

| | |
|---|-------------------|
| Estimated disaster expenditures | \$ 17,904,000 |
| Estimated expenditures eligible for reimbursement | <u>17,105,000</u> |
| Net obligation to City | <u>\$ 799,000</u> |

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 15 - PRIOR PERIOD ADJUSTMENTS

During the year ended September 30, 2006, the City identified several items which should have been recorded in a prior year:

It is the City's policy that grant revenues are recorded in the same period in which the related grant expenditures occurred. In the General Fund, grant expenditures under the Law Enforcement Terrorism Prevention Grant totaling \$99,850 were incurred and recorded during the year ended September 30, 2005, however, the related grant revenues were not recorded. This resulted in an understatement of fund balance for the year ending September 30, 2005 of \$99,850.

In the General Fund, FEMA grant revenues related to certain large projects were recorded based on estimates of expenditures incurred. The actual expenditures incurred were significantly less than the estimate. This resulted in an overstatement of the fund balance for the year ended September 30, 2005 of \$577,977.

In the Urban Core Redevelopment Fund, capital expenditures were incurred related to the Daniel Drive extension project but were not recorded. This resulted in an overstatement of the fund balance for the year ending September 30, 2005 of \$116,913.

REQUIRED SUPPLEMENTARY INFORMATION

PENSION FUNDING

Plans that use the aggregate actuarial cost method are not required to present a schedule of funding progress but should disclose that the aggregate method is used. The Police Pension Plan of the City of Gulf Breeze uses the aggregate cost method.

City of Gulf Breeze, Florida
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER
CONTRIBUTING ENTITIES
Unaudited

Police Retirement Fund

| | Annual (1) Required Contribution | Employer Contribution | Other Contributing Entity Contribution | Percentage Contributed |
|-----------|--|--------------------------|---|---------------------------|
| 9/30/2006 | \$ 141,614 | \$ 67,127 | \$ 58,100 | 100% |
| 9/30/2005 | \$ 111,652 | \$ 70,297 | \$ 56,351 | 100% |
| 9/30/2004 | \$ 106,334 | \$ 63,942 | \$ 61,164 | 100% |
| 9/30/2003 | \$ 101,271 | \$ 62,917 | \$ 69,889 | 100% |
| 9/30/2002 | \$ 87,888 | \$ 58,152 | \$ 59,879 | 100% |
| 9/30/2001 | \$ 66,282 | \$ 49,270 | \$ 55,787 | 100% |
| 9/30/2000 | \$ 57,159 | \$ 32,816 | \$ -- | 100% |
| 9/30/1999 | \$ 22,840 | \$ 25,642 | \$ 59,929 | 100% |
| 9/30/1998 | \$ 19,236 | \$ 1,544 | \$ -- | 100% |
| 9/30/1997 | \$ 18,527 | \$ 18,527 | \$ -- | 100% |

(1) Annual required contribution represents the City's actuarially determined employer contribution. In the Police Pension Plan, the City is authorized (plan provisions) to include State contributions when determining actual amounts to contribute. Under the Police Plan, when contributions exceed the annual required contribution, excess amounts are placed in a surplus contribution account. When contributions are less than the annual contribution, amounts are drawn from the surplus contribution account. As a result, the actuarial report provided to the City presents percent contributed as 100%. At October 1, 2005, the surplus contribution account total \$205,138.

Additional information as of the latest actuarial valuation can be found in Note 6 to the Financial Statements.

CITY OF GULF BREEZE, FLORIDA

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

These financial statements provide a more detailed view of the “Basic Financial Statements” presented in the preceding subsection.

Combining statements are presented when there is more than one fund of given fund type.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

Traffic Citation Special Revenue Fund

To account for funds received for traffic red-light citations.

Police Special Revenue Fund

To account for funds received for certain fines as well as other police related revenues.

City of Gulf Breeze, Florida
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2006

| ASSETS | Traffic Citation | Police | Total |
|--|---------------------|------------------|------------------|
| Cash and cash equivalents | \$ 11,742 | \$ 24,850 | \$ 36,592 |
| Total assets | <u>\$ 11,742</u> | <u>\$ 24,850</u> | <u>\$ 36,592</u> |
| LIABILITIES | | | |
| Accounts payable | \$ 7,112 | \$ -- | \$ 7,112 |
| Total liabilities | <u>7,112</u> | <u>--</u> | <u>7,112</u> |
| FUND BALANCES | | | |
| Reserved | | | |
| Police trust | -- | 24,850 | 24,850 |
| Unreserved | | | |
| Undesignated special revenue | 4,630 | -- | 4,630 |
| Total fund balances | <u>4,630</u> | <u>24,850</u> | <u>29,480</u> |
| Total liabilities and fund balances | <u>\$ 11,742</u> | <u>\$ 24,850</u> | <u>\$ 36,592</u> |

City of Gulf Breeze, Florida
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year ended September 30, 2006

| | Traffic Citation | Police | Total |
|--|------------------------|-------------------------|-------------------------|
| Revenues | | | |
| Fines and forfeitures | \$ 5,588 | \$ 3,659 | \$ 9,247 |
| Miscellaneous | 50 | -- | 50 |
| Total revenues | <u>5,638</u> | <u>3,659</u> | <u>9,297</u> |
| Expenditures | | | |
| Current | | | |
| General government | 1,008 | -- | 1,008 |
| Public safety | -- | 14,019 | 14,019 |
| Total expenditures | <u>1,008</u> | <u>14,019</u> | <u>15,027</u> |
| Excess (deficiency) of revenues over expenditures | 4,630 | (10,360) | (5,730) |
| Fund balances, beginning of year | <u>--</u> | <u>35,210</u> | <u>35,210</u> |
| Fund balances, end of year | <u><u>\$ 4,630</u></u> | <u><u>\$ 24,850</u></u> | <u><u>\$ 29,480</u></u> |

City of Gulf Breeze, Florida
TRAFFIC CITATION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year ended September 30, 2006

| | Budget Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|--------------------|-----------------|----------|---|
| | Original Budget | Final Budget | | |
| Revenues | | | | |
| Fines and forfeitures | \$ -- | \$ -- | \$ 5,588 | \$ -- |
| Miscellaneous | -- | -- | 50 | -- |
| Total revenues | -- | -- | 5,638 | -- |
| Expenditures | | | | |
| Current | | | | |
| General government | -- | -- | 1,008 | -- |
| Total expenditures | -- | -- | 1,008 | -- |
| Excess (deficiency) of revenues over expenditures | -- | -- | 4,630 | -- |
| Fund balance, beginning of year | -- | -- | -- | -- |
| Fund balance, end of year | \$ -- | \$ -- | \$ 4,630 | \$ -- |

City of Gulf Breeze, Florida
POLICE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year ended September 30, 2006

| | Budget Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|--------------------|-----------------|-----------|---|
| | Original Budget | Final Budget | | |
| Revenues | | | | |
| Fines and forfeitures | \$ -- | \$ -- | \$ 3,659 | \$ -- |
| Total revenues | -- | -- | 3,659 | -- |
| Expenditures | | | | |
| Current | | | | |
| Public safety | -- | -- | 14,019 | -- |
| Total expenditures | -- | -- | 14,019 | -- |
| Excess (deficiency) of revenues over expenditures | -- | -- | (10,360) | -- |
| Fund balance, beginning of year | -- | -- | 35,210 | -- |
| Fund balance, end of year | \$ -- | \$ -- | \$ 24,850 | \$ -- |

NONMAJOR PROPRIETARY FUNDS

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the government’s council is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government’s council has decided that periodic determination of net income is appropriate for accountability purposes.

Fishing Bridge

To account for revenues and expenses associated with the fishing pier alongside the Bay Bridge.

Solid Waste Control

To account for all of the solid waste activities associated with the City, primarily garbage pick-up and dumping.

Gulf Breeze Financial Services

To account for the activities relating to the administration, operation, marketing, organizing, and servicing of various financing programs, such as the Gulf Breeze Local Government Loan Pool.

City of Gulf Breeze, Florida
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
September 30, 2006

| | Fishing Bridge | Solid Waste Control | Gulf Breeze Financial Services | Total |
|---|-------------------|------------------------|--------------------------------------|---------------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 48,533 | \$ -- | \$ 1,324,405 | \$ 1,372,938 |
| Receivables | 1,900 | 105,608 | -- | 107,508 |
| Investments | -- | -- | 110,829 | 110,829 |
| Due from other governments | -- | -- | 3,935 | 3,935 |
| Restricted assets | | | | |
| Cash and cash equivalents | -- | 5,055 | -- | 5,055 |
| Total current assets | <u>50,433</u> | <u>110,663</u> | <u>1,439,169</u> | <u>1,600,265</u> |
| Noncurrent assets | | | | |
| Capital assets, net | | | | |
| Improvements other than building | 459,158 | -- | 93,810 | 552,968 |
| Machinery and equipment | -- | -- | 32,731 | 32,731 |
| Total noncurrent assets | <u>459,158</u> | <u>--</u> | <u>126,541</u> | <u>585,699</u> |
| Total assets | <u>509,591</u> | <u>110,663</u> | <u>1,565,710</u> | <u>2,185,964</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | -- | 66,592 | -- | 66,592 |
| Accrued liabilities | -- | 904 | -- | 904 |
| Due to other funds | -- | 76,414 | 1,003,202 | 1,079,616 |
| Payable from restricted assets | | | | |
| Customer deposits | -- | 5,055 | -- | 5,055 |
| Total current liabilities | <u>--</u> | <u>148,965</u> | <u>1,003,202</u> | <u>1,152,167</u> |
| Total liabilities | <u>--</u> | <u>148,965</u> | <u>1,003,202</u> | <u>1,152,167</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 459,158 | -- | 126,541 | 585,699 |
| Restricted | | | | |
| Unrestricted | 50,433 | (38,302) | 435,967 | 448,098 |
| Total net assets | <u>\$ 509,591</u> | <u>\$ (38,302)</u> | <u>\$ 562,508</u> | <u>\$ 1,033,797</u> |

City of Gulf Breeze, Florida
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended September 30, 2006

| | Fishing Bridge | Solid Waste Control | Gulf Breeze Financial Services | Total |
|---|-------------------|------------------------|--------------------------------------|--------------|
| Operating revenues | | | | |
| Charges for services | \$ -- | \$ 927,550 | \$ 510,552 | \$ 1,438,102 |
| Total operating revenues | -- | 927,550 | 510,552 | 1,438,102 |
| Operating expenses | | | | |
| Personal services | -- | 73,104 | 116,109 | 189,213 |
| Contractual services | -- | 800,859 | -- | 800,859 |
| Supplies | -- | 1,366 | -- | 1,366 |
| Professional services | -- | -- | 25,962 | 25,962 |
| Repairs and maintenance | -- | 4,972 | -- | 4,972 |
| Office and utilities | -- | -- | 19,179 | 19,179 |
| Depreciation and amortization | 10,682 | -- | 26,865 | 37,547 |
| Total operating expenses | 10,682 | 880,301 | 188,115 | 1,079,098 |
| Operating income (loss) | (10,682) | 47,249 | 322,437 | 359,004 |
| Non-operating revenues (expenses) | | | | |
| Interest earnings | -- | -- | 48,600 | 48,600 |
| Loss on sale of assets | -- | -- | (906) | (906) |
| Total non-operating revenues (expenses) | -- | -- | 47,694 | 47,694 |
| Income (loss) before transfers and capital contributions | (10,682) | 47,249 | 370,131 | 406,698 |
| Transfers and capital contributions | | | | |
| Transfers out | -- | (66,060) | (325,000) | (391,060) |
| Total transfers and capital contributions | -- | (66,060) | (325,000) | (391,060) |
| Changes in net assets | (10,682) | (18,811) | 45,131 | 15,638 |
| Net assets, beginning of year | 520,273 | (19,491) | 517,377 | 1,018,159 |
| Net assets, end of year | \$ 509,591 | \$ (38,302) | \$ 562,508 | \$ 1,033,797 |

City of Gulf Breeze, Florida
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year ended September 30, 2006

| | Fishing Bridge | Solid Waste Control | Gulf Breeze Financial Services | Total |
|---|-------------------|---------------------------|--------------------------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers and users | \$ (1,900) | \$ 935,280 | \$ 512,018 | \$ 1,445,398 |
| Payments to suppliers | (14) | (826,946) | (47,216) | (874,176) |
| Payments to employees | 1,900 | (73,228) | (116,109) | (187,437) |
| Net cash provided (used) by operating activities | <u>(14)</u> | <u>35,106</u> | <u>348,693</u> | <u>383,785</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | | | |
| Borrowings (repayments): | | | | |
| Advances from other funds | - | 26,414 | 1,385 | 27,799 |
| Transfers out | - | (66,060) | (325,000) | (391,060) |
| Net cash used by non-capital financing activities | <u>-</u> | <u>(39,646)</u> | <u>(323,615)</u> | <u>(363,261)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Acquisitions of fixed assets | - | - | (3,189) | (3,189) |
| Proceeds from sale of assets | - | - | 93,268 | 93,268 |
| Net cash provided (used) by capital and related financing activities | <u>-</u> | <u>-</u> | <u>90,079</u> | <u>90,079</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from sale of investments | - | - | (3,908) | (3,908) |
| Interest income | - | - | 48,600 | 48,600 |
| Net cash provided (used) by investing activities | <u>-</u> | <u>-</u> | <u>44,692</u> | <u>44,692</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (14) | (4,540) | 159,849 | 155,295 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>48,547</u> | <u>9,595</u> | <u>1,164,556</u> | <u>1,222,698</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 48,533</u> | <u>\$ 5,055</u> | <u>\$ 1,324,405</u> | <u>\$ 1,377,993</u> |

Continued...

City of Gulf Breeze, Florida
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year ended September 30, 2006

| | Fishing Bridge | Solid Waste Control | Gulf Breeze Financial Services | Total |
|--|-------------------|---------------------------|--------------------------------------|---------------------|
| CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF | | | | |
| Current assets | \$ 48,533 | \$ - | \$ 1,324,405 | \$ 1,372,938 |
| Restricted assets | - | 5,055 | - | 5,055 |
| | <u>\$ 48,533</u> | <u>\$ 5,055</u> | <u>\$ 1,324,405</u> | <u>\$ 1,377,993</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | |
| Operating income (loss) | \$ (10,682) | \$ 47,249 | \$ 322,437 | \$ 359,004 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | | | |
| Depreciation | 10,682 | - | 26,865 | 37,547 |
| Miscellaneous income | - | - | - | - |
| Decrease (increase) in assets | | | | |
| Accounts receivable | (1,900) | 6,730 | - | 4,830 |
| Due from other governments | - | - | 1,466 | 1,466 |
| Increase (decrease) in liabilities | | | | |
| Accounts payable | (14) | (19,749) | (2,075) | (21,838) |
| Accrued liabilities | 1,900 | (124) | - | 1,776 |
| Customer deposits | - | 1,000 | - | 1,000 |
| Net cash provided (used) by operating activities | <u>\$ (14)</u> | <u>\$ 35,106</u> | <u>\$ 348,693</u> | <u>\$ 383,785</u> |

FIDUCIARY FUNDS

AGENCY FUNDS

Agency funds are used to account for assets held by the government unit in a trustee capacity or as an agent for individuals of other entities.

AGENCY FUNDS

Health Insurance Agency Fund

The Health Insurance Agency Fund is used to account for assets contributed by employees on behalf of employees to offset the costs of employee medical premiums.

D.A.R.E Agency Fund

The D.A.R.E Agency Fund is used to account for assets contributed on behalf of the Police Department to be used for special projects.

City of Gulf Breeze, Florida
AGENCY FUNDS
COMBINING BALANCE SHEET
September 30, 2006

| | Health Insurance | D.A.R.E | Total |
|--------------------------|---------------------|-------------|-------------|
| ASSETS | | | |
| Cash | \$ 10,119 | \$ 698 | \$ 10,817 |
| Total assets | 10,119 | 698 | 10,817 |
| LIABILITIES | | | |
| Other | 10,119 | 698 | 10,817 |
| Total liabilities | 10,119 | 698 | 10,817 |
| NET ASSETS | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

City of Gulf Breeze, Florida
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended September 30, 2006

| | Balance 9/30/2005 | Additions | Deductions | Balance 9/30/2006 |
|--|----------------------|-----------|------------|----------------------|
| HEALTH INSURANCE ASSETS | | | | |
| Cash | \$ 8,983 | \$ 1,136 | \$ - | \$ 10,119 |
| LIABILITIES | | | | |
| Other | 8,983 | 1,136 | - | 10,119 |
| NET ASSETS | \$ - | \$ - | \$ - | \$ - |
| D.A.R.E ASSETS | | | | |
| Cash | \$ 346 | \$ 352 | \$ - | \$ 698 |
| LIABILITIES | | | | |
| Other | 346 | 352 | - | 698 |
| NET ASSETS | \$ - | \$ - | \$ - | \$ - |
| TOTAL - ALL AGENCY FUNDS ASSETS | | | | |
| Cash | \$ 9,329 | \$ 1,488 | \$ - | \$ 10,817 |
| LIABILITIES | | | | |
| Other | 9,329 | 1,488 | - | 10,817 |
| NET ASSETS | \$ - | \$ - | \$ - | \$ - |

III. STATISTICAL SECTION

Statistical tables differ from financial statements as they usually cover more than one fiscal year and may present non-accounting data, financial trends, and the fiscal capacity of the government. These tables have been included as a part of this report for information purposes only, and therefore, have not been subjected to audit by the City's independent certified public accountants.

There are no limitations placed upon the amount of debt the City of Gulf Breeze may issue by either the City's Code of Ordinances or by Florida Statute.

City of Gulf Breeze, Florida
TABLE I
COMPONENTS OF NET ASSETS⁽¹⁾
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Invested in Capital Assets, Net of Related Debt | | | Restricted Net Assets | | | Unrestricted Net Assets | | | Total Net Assets | | |
|-------------|---|--------------------------|--------------------|-------------------------|--------------------------|--------------------|-------------------------|--------------------------|--------------------|-------------------------|--------------------------|--------------------|
| | Governmental Activities | Business-Type Activities | Total Primary Govt | Governmental Activities | Business-Type Activities | Total Primary Govt | Governmental Activities | Business-Type Activities | Total Primary Govt | Governmental Activities | Business-Type Activities | Total Primary Govt |
| 2006 | \$ 7,722,314 | \$ 12,759,746 | \$ 20,482,060 | \$ 2,017,516 | \$ 771,202 | \$ 2,788,718 | \$ 768,168 | \$ 5,794,071 | \$ 6,562,239 | \$ 10,507,998 | \$ 19,325,019 | \$ 29,833,017 |
| 2005 | 6,802,620 | 10,918,455 | 17,721,075 | 783,266 | 640,827 | 1,424,093 | 4,062,697 | 6,626,981 | 10,689,678 | 11,648,583 | 18,186,263 | 29,834,846 |
| 2004 | 7,007,577 | 9,606,570 | 16,614,147 | 1,354,090 | 1,863,500 | 3,217,590 | 3,107,762 | 5,619,990 | 8,727,752 | 11,469,429 | 17,090,060 | 28,559,489 |
| 2003 | 5,964,365 | 8,704,729 | 14,669,094 | 1,556,892 | 1,835,048 | 3,391,940 | 3,873,152 | 5,781,486 | 9,654,638 | 11,394,409 | 16,321,263 | 27,715,672 |
| 2002 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2001 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2000 | - | - | - | - | - | - | - | - | - | - | - | - |
| 1999 | - | - | - | - | - | - | - | - | - | - | - | - |
| 1998 | - | - | - | - | - | - | - | - | - | - | - | - |
| 1997 | - | - | - | - | - | - | - | - | - | - | - | - |

(1) GASB Statement No. 34 was first implemented for the year ended September 30, 2003. Net Assets are not applicable to years prior to this date.

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
TABLE II
GOVERNMENTAL ACTIVITIES - CHANGES IN NET ASSETS⁽¹⁾
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Expenses by Function | | | | | | | Program Revenues | | | | Net (Expense) Revenue | General Revenues | | | | | Change in Net Assets |
|-------------|----------------------|---------------|----------------|----------------------|----------------------|-----------------------|----------------------|----------------------|----------------------------------|--------------------------------|------------------------|-----------------------|------------------|------------|---------------------|------------------------|------------|----------------------|
| | General Government | Public Safety | Transportation | Economic Environment | Culture & Recreation | Debt Service Interest | Total Gov't Expenses | Charges for Services | Operating Grants & Contributions | Capital Grants & Contributions | Total Program Revenues | | Taxes | Misc | Investment Earnings | Total General Revenues | Transfers | |
| 2006 | \$ 4,974,062 | \$ 2,200,265 | \$ 520,691 | \$ 209,664 | \$ 1,089,459 | \$ 167,473 | \$ 9,161,614 | \$ 451,773 | \$ 3,630,268 | \$ 129,238 | \$ 4,211,279 | \$ (4,950,335) | \$ 2,605,422 | \$ 634,908 | \$ 176,998 | \$ 3,417,328 | \$ 870,849 | \$ (662,158) |
| 2005 | 6,677,903 | 2,151,503 | 507,045 | 191,815 | 987,333 | 97,215 | 10,612,814 | 468,344 | 6,110,676 | 350,510 | 6,929,530 | (3,683,284) | 2,480,335 | 460,142 | 81,153 | 3,021,630 | 840,508 | 178,854 |
| 2004 | 1,951,555 | 1,955,658 | 484,196 | 168,023 | 954,933 | 170,161 | 5,684,526 | 664,849 | 927,774 | 671,424 | 2,264,047 | (3,420,479) | 1,950,090 | 569,583 | 129,222 | 2,648,895 | 846,604 | 75,020 |
| 2003 | 1,054,369 | 1,984,781 | 405,322 | 318,298 | 858,384 | 134,571 | 4,755,725 | 656,918 | 628,643 | 330,931 | 1,616,492 | (3,139,233) | 1,830,490 | 1,172,280 | 61,973 | 3,064,743 | 1,496,100 | 1,421,610 |
| 2002 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2001 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2000 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1999 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1998 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1997 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

(1) GASB Statement No. 34 was first implemented for the year ended September 30, 2003. Net Assets are not applicable to years prior to this date.

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
TABLE III
BUSINESS-TYPE ACTIVITIES - CHANGES IN NET ASSETS⁽¹⁾
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Expenses by Program | | | | | | | Program Revenues | | | Net (Expense) Revenue | General Revenues | | | Transfers | Change in Net Assets |
|-------------|---------------------|-------------|--------------------------|----------------|-------------|--------------------------------|------------------------------|----------------------|--------------------------------|------------------------|-----------------------|------------------|---------------------|------------------------|--------------|----------------------|
| | Water & Sewer | Natural Gas | South Santa Rosa Utility | Fishing Bridge | Solid Waste | Gulf Breeze Financial Services | Total Business-Type Expenses | Charges for Services | Capital Grants & Contributions | Total Program Revenues | | Misc | Investment Earnings | Total General Revenues | | |
| 2006 | \$1,308,246 | \$2,031,273 | \$ 5,269,482 | \$ 10,682 | ##### | \$ 189,021 | \$ 9,689,005 | \$ 8,481,901 | \$ 2,912,708 | ##### | \$1,705,604 | \$112,181 | \$ 191,820 | \$ 304,001 | \$ (870,849) | \$1,138,756 |
| 2005 | 1,643,605 | 1,482,273 | 4,963,407 | 17,105 | 869,522 | 445,598 | 9,421,510 | 7,944,876 | 1,539,970 | 9,484,846 | 63,336 | 705,214 | 83,337 | 788,551 | (840,508) | 11,379 |
| 2004 | 1,281,717 | 1,352,419 | 4,503,775 | 104,308 | 774,328 | 214,227 | 8,230,774 | 7,744,378 | 2,868,146 | 10,612,524 | 2,381,750 | 49,142 | 58,832 | 107,974 | (846,604) | 1,643,120 |
| 2003 | 1,218,267 | 1,257,860 | 4,323,126 | 104,636 | 738,716 | 225,320 | 7,867,925 | 7,620,441 | 2,383,069 | 10,003,510 | 2,135,585 | 49,513 | 68,845 | 118,358 | (1,496,100) | 757,843 |
| 2002 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2001 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2000 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1999 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1998 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1997 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

(1) GASB Statement No. 34 was first implemented for the year ended September 30, 2003. Net Assets are not applicable to years prior to this date.

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
TABLE IV
CHARGES FOR SERVICES BY FUNCTION AND PROGRAM⁽¹⁾
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Governmental Activities | | | | | | Business-Type Activities | | | | | | | |
|-------------|-------------------------|---------------|----------------|----------------------|----------------------|-----------------------|--------------------------|--------------|--------------------------|----------------|-------------|--------------------------------|---------------------|--------------------|
| | General Government | Public Safety | Transportation | Economic Environment | Culture & Recreation | Total Govt'l Expenses | Water & Sewer | Natural Gas | South Santa Rosa Utility | Fishing Bridge | Solid Waste | Gulf Breeze Financial Services | Total Business-Type | Total Primary Govt |
| 2006 | \$ 26,040 | \$ 197,998 | \$ 72,496 | \$ - | \$ 155,239 | \$ 451,773 | \$ 1,542,876 | \$ 2,060,168 | \$ 3,440,755 | \$ - | \$ 927,550 | \$ 510,552 | \$ 8,481,901 | \$ 8,933,674 |
| 2005 | 26,040 | 224,688 | 86,840 | - | 130,776 | 468,344 | 1,423,554 | 1,681,768 | 3,173,648 | - | 902,379 | 763,527 | 7,944,876 | 8,413,220 |
| 2004 | 316,116 | 180,391 | 45,219 | - | 123,123 | 664,849 | 1,368,238 | 1,676,024 | 3,241,172 | 147,147 | 817,628 | 494,169 | 7,744,378 | 8,409,227 |
| 2003 | 328,883 | 191,449 | 19,145 | - | 117,441 | 656,918 | 1,363,053 | 1,509,490 | 3,275,513 | 154,812 | 769,831 | 547,742 | 7,620,441 | 8,277,359 |
| 2002 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2001 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2000 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1999 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1998 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1997 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

(1) GASB Statement No. 34 was first implemented for the year ended September 30, 2003. Charges for Services by Function or Program are not applicable to years prior to this date.

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
TABLE V
COMPONENTS OF FUND BALANCE
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Reserved Fund Balance | | | Unreserved, Designated Fund Balance | | | Unreserved, Undesignated Fund Balance | | | Total Fund Balance | | |
|---------------------|-----------------------|---------------------------------|--------------|-------------------------------------|---------------------------------|------------|---------------------------------------|---------------------------------|------------|--------------------|---------------------------------|--------------|
| | General Fund | Aggregate Special Revenue Funds | Total | General Fund | Aggregate Special Revenue Funds | Total | General Fund | Aggregate Special Revenue Funds | Total | General Fund | Aggregate Special Revenue Funds | Total |
| 2006 | \$ 1,618,928 | \$ 24,850 | \$ 1,643,778 | \$ 520,392 | \$ - | \$ 520,392 | \$ 575,567 | \$ 218,306 | \$ 793,873 | \$ 2,714,887 | \$ 243,156 | \$ 2,958,043 |
| 2005 | 226,043 | 35,210 | 261,253 | 520,392 | - | 520,392 | 3,680,089 | 553,659 | 4,233,748 | 4,426,524 | 588,869 | 5,015,393 |
| 2004 | 25,258 | 37,671 | 62,929 | 511,809 | - | 511,809 | 3,595,720 | 562,556 | 4,158,276 | 4,132,787 | 600,227 | 4,733,014 |
| 2003 | 1,525,195 | 37,503 | 1,562,698 | 506,409 | - | 506,409 | 3,027,011 | 589,828 | 3,616,839 | 5,058,615 | 627,331 | 5,685,946 |
| 2002 ⁽¹⁾ | - | - | - | - | - | - | - | - | - | - | - | - |
| 2001 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2000 | - | - | - | - | - | - | - | - | - | - | - | - |
| 1999 | - | - | - | - | - | - | - | - | - | - | - | - |
| 1998 | - | - | - | - | - | - | - | - | - | - | - | - |
| 1997 | - | - | - | - | - | - | - | - | - | - | - | - |

(1) GASB Statement No. 34 was first implemented for the year ended September 30, 2003. This table was not required until such time.

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
TABLE VI
GENERAL GOVERNMENT EXPENDITURES AND OTHER USES BY FUNCTION ⁽¹⁾
Last Ten Fiscal Years
Unaudited

| Fiscal Year | General Government Services | Public Safety | Transportation | Economic Environment | Community Service | Culture/ Recreation | Capital Outlay | (2) Debt Service Principal | Debt Service Interest | Other Financing Uses | Total | (3) Debt Service to Noncapital Expenditures |
|--------------------|------------------------------------|----------------------|-----------------------|-----------------------------|--------------------------|----------------------------|-----------------------|---------------------------------------|------------------------------|-----------------------------|--------------|--|
| 2006 | \$ 4,882,687 | \$1,859,355 | \$ 241,410 | \$ 123,298 | \$ - | \$ 831,588 | \$1,674,036 | \$ 192,462 | \$ 156,930 | \$ 133,481 | \$10,095,247 | 4% |
| 2005 | 6,708,807 | 1,813,964 | 243,260 | 109,397 | - | 739,305 | 1,610,747 | 186,594 | 97,215 | 123,764 | 11,633,053 | 3% |
| 2004 | 1,765,047 | 1,647,056 | 172,810 | 95,252 | - | 727,324 | 2,206,017 | 55,300 | 46,672 | 84,908 | 6,800,386 | 2% |
| 2003 | 977,379 | 1,698,658 | 181,397 | 248,140 | - | 647,466 | 2,374,337 | 106,471 | - | 76,820 | 6,310,668 | 3% |
| 2002 | 963,450 | 1,421,983 | 201,269 | - | 158,888 | 632,877 | 1,506,488 | 69,899 | - | 72,949 | 5,027,803 | 2% |
| 2001 | 903,313 | 1,364,641 | 179,703 | - | 70,857 | 599,318 | 900,755 | 80,122 | - | 68,589 | 4,167,298 | 3% |
| 2000 | 918,603 | 1,305,296 | 182,719 | 39,707 | - | 537,960 | 1,152,494 | 80,853 | - | 930,741 | 5,148,373 | 3% |
| 1999 | 979,114 | 1,240,622 | 143,001 | 27,529 | - | 451,952 | 917,651 | 55,046 | - | 551,213 | 4,366,128 | 2% |
| 1998 | 942,857 | 1,179,259 | 147,662 | 8,900 | - | 459,964 | 244,715 | 58,564 | - | 804,521 | 3,846,442 | 2% |
| 1997 | 861,931 | 1,066,485 | 156,598 | 11,725 | - | 444,313 | 1,236,812 | 61,343 | - | 367,266 | 4,206,473 | 2% |

(1) Includes General Fund and Special Revenue Funds.

(2) Debt Service division between principal and interest not available for 2003 and prior years.

(3) Noncapital Expenditures includes all of the above except Capital Outlay and Other Financing Uses.

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
Table VII
GENERAL GOVERNMENT REVENUES AND OTHER FINANCING SOURCES BY SOURCE⁽¹⁾
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Taxes | Licenses & Permits | Inter- Governmental Revenues | Charges for Services | Fines & Forfeitures | Miscellaneous Revenues | Other Financing Sources | Total Revenue & Other Sources | (2) Total Expenditures & Other Uses | Total Change in Fund Balance |
|------------------------|--------------|-----------------------------------|---|---------------------------------|------------------------------------|-----------------------------------|--|--|--|---|
| 2006 | \$ 2,067,873 | \$ 64,187 | \$ 4,231,538 | \$ 155,239 | \$ 197,998 | \$ 837,946 | \$ 1,078,156 | \$ 8,632,937 | \$ 133,481 | \$ 8,499,456 |
| 2005 | 1,951,893 | 61,788 | 6,841,071 | 130,776 | 224,688 | 567,335 | 2,137,881 | 11,915,432 | 123,764 | 11,791,668 |
| 2004 | 1,712,442 | 69,085 | 2,078,960 | 147,218 | 180,391 | 724,846 | 846,604 | 5,759,546 | 84,908 | 5,674,638 |
| 2003 | 1,616,583 | 86,060 | 1,383,234 | 143,466 | 191,450 | 1,315,343 | 4,572,920 | 9,309,056 | 76,820 | 9,232,236 |
| 2002 | 1,617,221 | 84,750 | 747,045 | 136,840 | 256,989 | 421,468 | 1,538,505 | 4,802,818 | 72,949 | 4,729,869 |
| 2001 | 1,437,157 | 79,747 | 724,530 | 115,211 | 170,066 | 508,553 | 1,086,197 | 4,121,461 | 68,589 | 4,052,872 |
| 2000 | 1,287,439 | 72,774 | 778,446 | 93,213 | 251,484 | 1,638,801 | 1,436,937 | 5,559,094 | 930,741 | 4,628,353 |
| 1999 | 1,163,000 | 56,712 | 908,327 | 104,049 | 221,727 | 1,312,600 | 1,359,617 | 5,126,032 | 551,213 | 4,574,819 |
| 1998 | 1,145,269 | 72,921 | 542,179 | 86,658 | 209,730 | 1,200,078 | 956,448 | 4,213,283 | 804,521 | 3,408,762 |
| 1997 | 1,072,130 | 66,205 | 647,880 | 83,405 | 245,686 | 853,390 | 834,850 | 3,803,546 | 367,266 | 3,436,280 |

(1) Includes General Fund and Special Revenue Funds.

(2) From Table VI.

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
TABLE VIII
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Total Tax Levy⁽¹⁾ | Amount of Current Taxes Collected | Percent of Current Taxes Collected | Amount of Delinquent Taxes Collected | Total Collected for the Year | Ratio of Total Taxes Collected To Current Levy | Delinquent Taxes | Ratio of Delinquent Taxes to Current Levy |
|--------------------|--|--|---|---|-------------------------------------|---|-------------------------|--|
| 2006 | This levy will be collected during Fiscal Year 2007 | | | | | | | |
| 2005 | \$1,075,841 | \$1,039,183 | 96.6% | \$ 3,245 | \$1,042,428 | 96.9% | \$ 1,347 | 0.1% |
| 2004 | 999,824 | 967,773 | 96.8% | 2,754 | 970,527 | 97.1% | 8,495 | 0.8% |
| 2003 | 913,208 | 879,300 | 96.3% | 2,354 | 881,654 | 96.5% | 2,202 | 0.2% |
| 2002 | 822,024 | 793,816 | 96.6% | 1,081 | 794,897 | 96.7% | 972 | 0.1% |
| 2001 | 782,978 | 752,087 | 96.1% | 3,421 | 755,508 | 96.5% | 2,563 | 0.3% |
| 2000 | 739,760 | 711,831 | 96.2% | 2,003 | 713,834 | 96.5% | 3,804 | 0.5% |
| 1999 | 673,869 | 650,432 | 96.5% | 2,231 | 652,663 | 96.9% | 1,637 | 0.2% |
| 1998 | 633,828 | 612,651 | 96.7% | 1,221 | 613,872 | 96.9% | 946 | 0.1% |
| 1997 | 596,442 | 575,947 | 96.6% | 1,077 | 577,024 | 96.7% | 1,257 | 0.2% |

(1) Includes discount taken for early payment of taxes (maximum 4%).

SOURCE: Santa Rosa County Tax Collector Office

City of Gulf Breeze, Florida
TABLE IX
ASSESSED VALUE OF TAXABLE PROPERTY⁽¹⁾
Last Ten Fiscal Years
Unaudited

| Year ⁽²⁾ | Real Property | Personal Property | Total Assessed Value | Exemptions | Assessed Value for Operations |
|----------------------------|--------------------------|------------------------------|-------------------------------------|-------------------|--|
| 2006 | \$ 1,133,658,192 | \$ 33,232,222 | \$ 1,166,890,414 | \$499,240,156 | \$ 667,650,258 |
| 2005 | \$ 960,727,282 | \$ 28,162,900 | \$ 988,890,182 | \$423,084,878 | \$ 565,805,304 |
| 2004 | \$ 819,535,885 | \$ 31,872,976 | \$ 851,408,861 | \$339,659,012 | \$ 511,749,849 |
| 2003 | \$ 756,517,941 | \$ 29,781,148 | \$ 786,299,089 | \$306,137,010 | \$ 480,162,079 |
| 2002 | \$ 693,497,553 | \$ 27,689,218 | \$ 721,186,771 | \$272,613,514 | \$ 448,573,257 |
| 2001 | \$ 655,231,301 | \$ 23,521,500 | \$ 678,752,801 | \$254,746,230 | \$ 424,006,571 |
| 2000 | \$ 639,135,302 | \$ 23,666,792 | \$ 662,802,094 | \$259,131,479 | \$ 403,670,615 |
| 1999 | \$ 601,290,829 | \$ 23,624,562 | \$ 624,915,391 | \$256,681,253 | \$ 368,234,138 |
| 1998 | \$ 524,746,936 | \$ 22,578,356 | \$ 547,325,292 | \$200,957,339 | \$ 346,367,953 |
| 1997 | \$ 488,746,701 | \$ 22,261,187 | \$ 511,007,888 | \$185,083,768 | \$ 325,924,120 |

(1) Florida State Law requires all property to be assessed at current fair market value.

(2) As of January 1 of each year listed.

SOURCE: Santa Rosa County Property Appraiser

City of Gulf Breeze
TABLE X
PROPERTY TAX RATES PER \$1,000 OF TAXABLE VALUE
ALL DIRECT AND OVERLAPPING GOVERNMENTS
Last Ten Fiscal Years
Unaudited

| <u>Year</u> | <u>Millage</u> |
|-------------|----------------|
| 2006 | 1.9000 |
| 2005 | 1.9000 |
| 2004 | 1.9000 |
| 2003 | 1.8300 |
| 2002 | 1.8300 |
| 2001 | 1.8300 |
| 2000 | 1.8300 |
| 1999 | 1.8300 |
| 1998 | 1.8300 |
| 1997 | 1.8300 |
| 1996 | 1.8300 |

SOURCE: Santa Rosa County Property Appraiser

City of Gulf Breeze, Florida
TABLE XI
PRINCIPAL TAXPAYERS
Unaudited

| Taxpayer | Total Assessed Valuation | Percentage |
|--|---|-------------------|
| <u>FY 2005-06</u> | | |
| Jenkins, Robert Berryman | \$ 10,381,044 | 1.55% |
| Bell South Communications | 10,300,090 | 1.54% |
| Gulf Power Company | 7,938,637 | 1.19% |
| Bay Beach Hotel, LLC | 5,940,453 | 0.89% |
| Exposition Properties, LLC | 5,462,953 | 0.82% |
| Villas at Gulf Breeze, Inc. | 5,211,549 | 0.78% |
| Quietwater Limited Partnership | 5,057,059 | 0.76% |
| Belleau, George A & F | 4,868,112 | 0.73% |
| Mullet, Willis | 3,960,166 | 0.59% |
| Levin, Fredrick G. | 3,946,744 | 0.59% |
| Total Taxable Assessed Value Principle Taxpayers | \$ 63,066,807 | 9.45% |
| Total Taxable Assessed Value Other Taxpayers | \$ 604,583,451 | 90.55% |
| Total Taxable Value | \$ 667,650,258 | 100.00% |

SOURCE: Santa Rosa County Property Appraiser

Information for 9 years prior (FY 1995-1996) not available.

City of Gulf Breeze, Florida
TABLE XII
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
Last Ten Fiscal Years
Unaudited

| <u>Fiscal Year</u> | <u>Assessments</u> | <u>Assessments Collected</u> | <u>Ratio of Collections to Amount Assessed</u> | <u>Total Outstanding Current and Delinquent Assessment</u> |
|------------------------|--------------------|----------------------------------|--|--|
| 2006 | \$ - | \$ - | 0.00% | \$ - |
| 2005 | - | - | 0.00% | - |
| 2004 | - | - | 0.00% | - |
| 2003 | - | 1,512 | 0.00% | - |
| 2002 | - | - | 0.00% | 1,512 |
| 2001 | - | 10,589 | 0.00% | 1,512 |
| 2000 | - | 33,535 | 0.00% | 12,101 |
| 1999 | 154,292 | 108,912 | 70.59% | 45,636 |
| 1998 | - | 539 | 0.00% | 256 |
| 1997 | - | 21,850 | 0.00% | 794 |

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
TABLE XIII
OUTSTANDING DEBT⁽¹⁾
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Revenue Bonds Payable | | | Notes Payable | | | Compensated Absences | | | Total Debt | | |
|-------------|-------------------------|--------------------------|--------------------|-------------------------|--------------------------|--------------------|-------------------------|--------------------------|--------------------|-------------------------|--------------------------|--------------------|
| | Governmental Activities | Business-Type Activities | Total Primary Govt | Governmental Activities | Business-Type Activities | Total Primary Govt | Governmental Activities | Business-Type Activities | Total Primary Govt | Governmental Activities | Business-Type Activities | Total Primary Govt |
| 2006 | \$ - | \$ 7,254,339 | \$ 7,254,339 | \$ 4,044,844 | \$ 7,641,487 | \$ 11,686,331 | \$ 194,227 | \$ 121,063 | \$ 315,290 | \$ 4,239,071 | \$ 15,016,889 | \$ 19,255,960 |
| 2005 | - | 7,493,220 | 7,493,220 | 4,237,306 | 8,178,970 | 12,416,276 | 208,087 | 107,453 | 315,540 | 4,445,393 | 15,779,643 | 20,225,036 |
| 2004 | - | 8,688,333 | 8,688,333 | 3,423,900 | 8,689,304 | 12,113,204 | 185,715 | 98,025 | 283,740 | 3,609,615 | 17,475,662 | 21,085,277 |
| 2003 | - | 8,949,412 | 8,949,412 | 3,479,200 | 9,173,646 | 12,652,846 | 173,402 | 118,263 | 291,665 | 3,652,602 | 18,241,321 | 21,893,923 |
| 2002 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2001 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2000 | - | - | - | - | - | - | - | - | - | - | - | - |
| 1999 | - | - | - | - | - | - | - | - | - | - | - | - |
| 1998 | - | - | - | - | - | - | - | - | - | - | - | - |
| 1997 | - | - | - | - | - | - | - | - | - | - | - | - |

(1) GASB Statement No. 34 was first implemented for the year ended September 30, 2003. Debt has not been shown for years prior to this date.

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
TABLE XIV
RATIO OF TOTAL DEBT TO ASSESSED VALUE
AND TOTAL DEBT PER CAPITA⁽¹⁾
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Estimated Population ⁽³⁾ | Assessed Value for Operations ⁽²⁾ | Total Outstanding Debt | Ratio of Total Outstanding Debt to Assessed Value | Amount of Total Outstanding Debt Per Capita |
|--------------------|--|---|-------------------------------|--|--|
| 2006 | 5,774 | \$ 667,650,258 | \$ 19,255,960 | 3% | \$ 3,335 |
| 2005 | 5,765 | 565,805,304 | 20,225,036 | 4% | 3,508 |
| 2004 | 5,790 | 511,749,849 | 21,085,277 | 4% | 3,642 |
| 2003 | 5,764 | 480,162,079 | 21,893,923 | 5% | 3,798 |
| 2002 | 5,736 | 448,573,257 | - | 0% | - |
| 2001 | 5,736 | 424,006,571 | - | 0% | - |
| 2000 | 5,665 | 403,670,615 | - | 0% | - |
| 1999 | 6,189 | 368,234,138 | - | 0% | - |
| 1998 | 6,154 | 346,367,953 | - | 0% | - |
| 1997 | 5,987 | 325,924,120 | - | 0% | - |

(1) GASB Statement No. 34 was first implemented for the year ended September 30, 2003.
Debt has not been shown for years prior to this date.

(2) From Table IX

(3) SOURCE: US Bureau of the Census, Bureau of Economic and Business Research, University of Florida

City of Gulf Breeze, Florida
TABLE XV
COMPUTATION OF LEGAL DEBT MARGIN

Unaudited

**The Constitution of the State of Florida, Florida Statute 200.181, and the Charter
of the City of Gulf Breeze Florida set no legal debt margin.**

City of Gulf Breeze, Florida
TABLE XVI
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE
AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Estimated Population ⁽²⁾ | Assessed Value for Operations ⁽¹⁾ | Gross Bonded Debt | Debt Service Monies Available | Net Bonded Debt | Ratio of Net Bonded Debt to Assessed Value | Net Gross Bonded Debt |
|--------------------|--|---|--------------------------|--------------------------------------|------------------------|---|------------------------------|
| 2006 | 5,774 | \$ 667,650,258 | \$ - | \$ - | \$ - | - | \$ - |
| 2005 | 5,765 | 565,805,304 | - | - | - | - | - |
| 2004 | 5,790 | 511,749,849 | - | - | - | - | - |
| 2003 | 5,764 | 480,162,079 | - | - | - | - | - |
| 2002 | 5,736 | 448,573,257 | - | - | - | - | - |
| 2001 | 5,736 | 424,006,571 | - | - | - | - | - |
| 2000 | 5,665 | 403,670,615 | - | - | - | - | - |
| 1999 | 6,189 | 368,234,138 | - | - | - | - | - |
| 1998 | 6,154 | 346,367,953 | - | - | - | - | - |
| 1997 | 5,987 | 325,924,120 | - | - | - | - | - |

(1) From Table IX

(2) SOURCE: US Bureau of the Census, Bureau of Economic and Business Research, University of Florida

City of Gulf Breeze, Florida
TABLE XVII
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
GENERAL OBLIGATIONS
Unaudited

The City of Gulf Breeze, Florida, does not have any overlapping debt.

City of Gulf Breeze, Florida
TABLE XVIII
REVENUE BOND COVERAGE
SOUTH SANTA ROSA UTILITY CERTIFICATES
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Operating Revenue | Tap and Impact Fees | Direct Operating Expenses | Net Revenue Available for Debt Service | Debt Service Requirements | | | |
|----------------|----------------------|---------------------------|---------------------------------|---|---------------------------|------------|------------|----------|
| | | | | | Principal | Interest | Total | Coverage |
| 2006 | \$ 3,362,140 | \$ 1,674,431 | \$ 4,381,955 | \$ 654,616 | \$ 505,000 | \$ 355,830 | \$ 860,830 | 0.76 |
| 2005 | 3,076,688 | 1,238,896 | 4,093,085 | 222,499 | 370,000 | 366,767 | 736,767 | 0.30 |
| 2004 | 3,170,682 | 2,260,893 | 3,593,623 | 1,837,952 | 405,000 | 555,996 | 960,996 | 1.91 |
| 2003 | 3,231,897 | 1,921,567 | 3,286,402 | 1,867,062 | 375,000 | 590,706 | 965,706 | 1.93 |
| 2002 | 3,082,596 | 1,225,392 | 3,178,377 | 1,129,611 | 355,000 | 614,222 | 969,222 | 1.17 |
| 2001 | 3,178,055 | 843,570 | 3,193,761 | 827,864 | 340,000 | 628,164 | 968,164 | 0.86 |
| 2000 | 2,854,903 | 1,275,764 | 2,399,470 | 1,731,197 | 330,000 | 641,198 | 971,198 | 1.78 |
| 1999 | 2,970,308 | 1,911,753 | 2,254,612 | 2,627,449 | 320,000 | 653,358 | 973,358 | 2.70 |
| 1998 | 2,723,271 | 939,678 | 2,211,882 | 1,451,067 | 305,000 | 664,338 | 969,338 | 1.50 |
| 1997 | 2,253,731 | 20,300 | 2,030,725 | 243,306 | 295,000 | 674,222 | 969,222 | 0.25 |

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
TABLE XIX
MISCELLANEOUS DEMOGRAPHICAL STATISTICS
Last Ten Fiscal Years
Unaudited

Section One - Population

| <u>Fiscal Year</u> | <u>Gulf Breeze Population</u> | <u>Santa Rosa County Population</u> | <u>GB as a % of the County</u> |
|------------------------|-----------------------------------|---|------------------------------------|
| 2006 | 5,774 | 141,428 | 4.08% |
| 2005 | 5,765 | 141,750 | 4.07% |
| 2004 | 5,790 | 133,721 | 4.33% |
| 2003 | 5,764 | 128,889 | 4.47% |
| 2002 | 5,736 | 124,956 | 4.59% |
| 2001 | 5,736 | 121,370 | 4.73% |
| 2000 | 5,665 | 117,743 | 4.81% |
| 1999 | 6,189 | 112,631 | 5.49% |
| 1998 | 6,154 | 107,814 | 5.71% |
| 1997 | 5,987 | 102,338 | 5.85% |

Section Two - Age Distribution

| <u>Date of Census</u> | <u>Under 20</u> | <u>20-44</u> | <u>45-59</u> | <u>60-74</u> | <u>Over 75</u> |
|---------------------------|-----------------|--------------|--------------|--------------|----------------|
| 2000 | 1,381 | 1,418 | 1,361 | 973 | 532 |

Section Three - Miscellaneous

| | | | |
|-------------------------|-----------|----------------------|--------------|
| <u>Incomes:</u> | | <u>Unemployment:</u> | |
| Per Capita Income | \$ 47,650 | 2.56% | |
| Median Household Income | \$ 65,750 | | |
| Less than \$15,000 | 8.50% | | |
| \$15,000 - \$50,000 | 31.38% | | |
| Over \$50,000 | 60.12% | | |
| <u>Race:</u> | | <u>Labor Force:</u> | |
| White | 97.4% | Male | 1,485 |
| Black | 0.04% | Female | 1,178 |
| Other | 2.56% | Total | <u>2,663</u> |

SOURCES: US Bureau of the Census, Bureau of Economic and Business Research, UF

City of Gulf Breeze, Florida
TABLE XX
SCHEDULE OF PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS
Last Ten Fiscal Years
Unaudited

| Fiscal Year | Total Assessed Value ⁽²⁾ | Commercial Construction | | Residential Construction | |
|------------------------|--|----------------------------------|--------------|----------------------------------|--------------|
| | | # of Units ⁽¹⁾ | Value | # of Units ⁽¹⁾ | Value |
| 2006 | \$ 667,650,258 | 12 | \$ 9,046,301 | 11 | \$ 9,022,840 |
| 2005 | 565,805,304 | 8 | 7,814,249 | 18 | 4,545,760 |
| 2004 | 511,749,849 | 6 | 2,634,482 | 14 | 5,542,241 |
| 2003 | 480,162,079 | 4 | 3,200,044 | 22 | 10,988,027 |
| 2002 | 448,573,257 | 2 | 2,250,000 | 20 | 12,772,925 |
| 2001 | 424,006,571 | 1 | - | 22 | 5,274,500 |
| 2000 | 403,670,615 | 5 | 18,498 | 24 | 9,297,957 |
| 1999 | 368,234,138 | 6 | 487,620 | 23 | 4,544,840 |
| 1998 | 346,367,953 | 5 | 2,831,000 | 32 | 7,378,587 |
| 1997 | 325,924,120 | 3 | 320,000 | 26 | 5,295,065 |

SOURCE:

(1) Santa Rosa County Inspection Department

(2) Santa Rosa County County Property Appraiser from Table IX

(3) Florida Banker's Association, FDIC Website - Summary of Deposits as of June 30, 2006

City of Gulf Breeze, Florida
TABLE XXI
PRINCIPAL EMPLOYERS
Unaudited

| <u>Employer</u> | <u>Number of Employees</u> | <u>Percentage of Total Employment</u> |
|-------------------------------|--------------------------------|---|
| <u>FY 2005-06</u> | | |
| Gulf Breeze Hospital | 345 | 12.96% |
| GB High School | 116 | 4.36% |
| City of Gulf Breeze | 82 | 3.08% |
| Gulf Breeze Middle School | 65 | 2.44% |
| Gulf Breeze Elementary School | 52 | 1.95% |
| Listener Group | 48 | 1.80% |
| Studer Group | 37 | 1.39% |
| Bruno's Grocery Store | 35 | 1.31% |
| AppRiver | 24 | 0.90% |
| Coastal Courier | 19 | 0.71% |
| Total Labor Force (Table XIX) | 2,663 | |

Information for 9 years prior (FY 1995-1996) not available.

City of Gulf Breeze, Florida
TABLE XXII
MISCELLANEOUS STATISTICAL DATA
Unaudited

| | | <u>SANTA ROSA COUNTY</u> |
|-------------------------------------|--|--------------------------|
| EDUCATION: | | <u>FY 05-06</u> |
| Schools: | Pre K | 1 |
| | Primary K-2 | 2 |
| | Intermediate 3-5 | 2 |
| | Grades K - 5 | 11 |
| | Grades 6 - 8 | 7 |
| | Grades 9 - 12 | 6 |
| | Santa Rosa Community | 1 |
| | Vocational Technical | 1 |
| | Santa Rosa Adult | 1 |
| | Department of Juvenile Justice | 3 |
| | ESE Centers, Alternative Education, etc. | 3 |
| Students: | Pre K | 554 |
| | Primary K-2 | 1,685 |
| | Intermediate 3-5 | 2,522 |
| | Grades K - 5 | 6,320 |
| | Grades 6 - 8 | 5,999 |
| | Grades 9 - 12 | 7,355 |
| | Santa Rosa Community | N/A |
| | Vocational Technical/Santa Rosa Adult | 575 |
| | Rader (Charter) | 90 |
| Instructional (Classroom) Personnel | | 1,512 |
| Non-Instructional Personnel | | 760 |

| <u>CITY OF GULF BREEZE</u> | | | |
|---|------------------------------|-----------------|-----------------|
| | <u>FY 05-06</u> | <u>FY 04-05</u> | <u>FY 03-04</u> |
| Police Protection - number of sworn officers FT | 18 | 18 | 19 |
| Police Protection - number of sworn officers PT | 5 | 5 | 3 |
| Fire Protection -Volunteers | 28 | 28 | 28 |
| City Employees | 82 full time | 82 full time | 78 full time |
| | 30 part time | 30 part time | 22 part time |
| Water Lines (Miles) | 45 | 45 | 45 |
| Sewer Lines (Miles) | 21 | 21 | 21 |
| Paved Streets (Miles) | 44.70 | 44.70 | 44.70 |
| Unpaved Streets (Miles) | 0 | 0 | 0 |
| Design pumping capacity of water wells | 900,000 gallons per day | | |
| Area of City | 4.5 sq. miles | 4.5 sq. miles | 4.5 sq. miles |
| Storage Capacity of Elevated Tanks | 2 tanks 100,000 gallons each | | |
| Storage Capacity of Ground Storage | 1 tank 1,000,000 gal | | |
| | 1 tank 1,500,000 gal | | |

SOURCE: Santa Rosa County School Board, City of Gulf Breeze Departments

City of Gulf Breeze, Florida
TABLE XXIII
PERMITS
Unaudited

| <u>Year</u> | <u>Residential Additions/ Renovations</u> | <u>Residential New Construction</u> | <u>Residential Pool Permits</u> | <u>Miscellaneous Residential Permits</u> | <u>Commercial Additions/ Renovations</u> | <u>Commercial New Construction</u> | <u>Commercial Sign Permits</u> | <u>Miscellaneous Commercial Permits</u> |
|-------------|---|---|---|--|--|--|--|---|
| 2006 | 30 | 25 | 18 | 1 | 7 | 2 | 8 | 0 |
| 2005 | 144 | 36 | 36 | 11 | 22 | 14 | 38 | 5 |
| 2004 | 53 | 17 | 20 | 10 | 16 | 9 | 28 | 4 |
| 2003 | 21 | 11 | 7 | 21 | 5 | 4 | 36 | 7 |
| 2002 | 31 | 21 | 18 | 6 | 6 | 0 | 52 | 3 |
| 2001 | 23 | 19 | 13 | 7 | 1 | 2 | 15 | 0 |
| 2000 | 26 | 25 | 11 | 4 | 15 | 1 | 16 | 6 |
| 1999 | 24 | 14 | 17 | 19 | 4 | 0 | 23 | 7 |

NOTE : Information dating back ten years is unable to be accurately presented

SOURCE: City of Gulf Breeze Departments

City of Gulf Breeze, Florida
TABLE XXIV
WATER SERVICE RATES
Unaudited

Inside City Limits - Residential and Commercial
Outside City Limits - Residential Only

| <u>Meter size</u> | <u>Minimum Monthly Charge</u> |
|-------------------|---------------------------------------|
| 3/4" | \$ 6.24 |
| 1" | \$ 15.15 |
| 1 1/2" | \$ 30.31 |
| 2" | \$ 49.36 |
| 3" | \$ 100.45 |
| 4" | \$ 151.54 |
| 6" | \$ 302.00 |

Per 1,000 gallons monthly - \$2.04

Outside City Limits - Commercial Only

| <u>Meter size</u> | <u>Minimum Monthly Charge</u> |
|-------------------|---------------------------------------|
| 3/4" | \$ 15.09 |
| 1" | \$ 24.23 |
| 1 1/2" | \$ 42.33 |
| 2" | \$ 62.62 |
| 3" | \$ 118.61 |
| 4" | \$ 179.62 |
| 6" | \$ 353.00 |

Minimum rates include the first 3,000 gallons. For usage above 3,000 gallons, the charge is \$2.04 per 1,000 gallons

SOURCE: City Water Customer Service Division

City of Gulf Breeze, Florida
TABLE XXV
SEWER SERVICE RATES
Unaudited

Inside City Limits - Residential and Commercial
Outside City Limits - Residential Only

| <u>Meter size</u> | <u>Minimum Monthly Charge</u> |
|-------------------|---------------------------------------|
| 3/4" | \$ 6.42 |
| 1" | \$ 15.59 |
| 1 1/2" | \$ 31.18 |
| 2" | \$ 50.80 |
| 3" | \$ 103.40 |
| 4" | \$ 156.00 |
| 6" | \$ 310.00 |

Per 1,000 gallons monthly - \$3.06

Outside City Limits - Commercial Only

| <u>Meter size</u> | <u>Minimum Monthly Charge</u> |
|-------------------|---------------------------------------|
| 3/4" | \$ 21.71 |
| 1" | \$ 31.05 |
| 1 1/2" | \$ 52.89 |
| 2" | \$ 76.97 |
| 3" | \$ 143.74 |
| 4" | \$ 217.29 |
| 6" | \$ 425.36 |

Minimum rates include the first 3,000 gallons. For usage above 3,000 gallons, the charge is \$3.06 per 1,000 gallons

SOURCE: City Water Customer Service Division

City of Gulf Breeze, Florida
TABLE XXVI
GARBAGE AND TRASH RATES
Unaudited

Residential

| | |
|-------------------|----------|
| Regular curbside | \$ 17.68 |
| Regular Side Door | \$ 22.85 |
| Regular Disabled | \$ 17.68 |
| Senior Curbside | \$ 15.93 |
| Senior Side Door | \$ 20.56 |
| Senior Disabled | \$ 15.93 |

Commercial

| Container Size | <i>Frequency Per Week</i> | | | | | |
|----------------|---------------------------|-----------|-----------|-----------|-----------|-----------|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 2 Cubic Yards | \$ 59.09 | \$ 103.42 | \$ 147.76 | \$ 188.09 | \$ 235.10 | |
| 4 Cubic Yards | \$ 91.35 | \$ 165.28 | \$ 237.88 | \$ 305.13 | \$ 380.40 | |
| 6 Cubic Yards | \$ 128.99 | \$ 232.53 | \$ 330.70 | \$ 428.89 | \$ 531.06 | |
| 8 Cubic Yards | \$ 161.26 | \$ 291.70 | \$ 420.83 | \$ 545.90 | \$ 676.36 | \$ 816.28 |

Miscellaneous Services

6 Yard Compactor - weekly service - Total cost \$127.80
30 Yard Compactor - on call - Total cost, variable
40 Gallon Hand Pickup- weekly service - Total cost \$22.04
30 Yard Roll Off - on call - Total cost, variable

SOURCE: City Water Customer Service Division

City of Gulf Breeze, Florida
TABLE XXVII
NATURAL GAS SERVICE RATES
Unaudited

Inside City Limits - Residential and Commercial

Minimum monthly service charge \$6.00

Monthly rate for consumption up to 50,000 cubic feet : the cost of gas as determined by the City monthly per 1,000 cubic feet, plus \$3.00 per 1,000 cubic feet (overhead), plus 4% surcharge

Monthly rate for consumption over 50,000 cubic feet : the cost of gas as determined by the City monthly per 1,000 cubic feet, plus \$2.60 per 1,000 cubic feet (overhead), plus 4% surcharge

Outside City Limits - Residential and Commercial

Minimum monthly service charge \$7.00

Monthly rate for consumption up to 50,000 cubic feet : the cost of gas as determined by the City monthly per 1,000 cubic feet, plus \$3.00 per 1,000 cubic feet (overhead), plus 4% surcharge, plus 20%

Monthly rate for consumption over 50,000 cubic feet : the cost of gas as determined by the City monthly per 1,000 cubic feet, plus \$2.60 per 1,000 cubic feet (overhead), plus 4% surcharge, plus 20%

Gross Receipts Tax - All residential and commercial accounts - .025% of total minimum monthly service charge and consumption charge

Florida State Sales Tax - Commercial accounts only - .075% of total minimum monthly service charge, consumption charge and gross receipts tax

SOURCE: City of Gulf Breeze Departments

City of Gulf Breeze, Florida
TABLE XXVIII
INSURANCE COVERAGE
September 30, 2006
Unaudited

| Effective Dates | Company | Policy Number | Type | Amount |
|------------------------|-------------------------------------|----------------------|-----------------------------------|---------------|
| 10/01/06 to 9/30/07 | Florida Municipal Insurance Trust | FMIT # 0224 | Auto (Person) | \$ 100,000 |
| | | | Auto (Occurrence) | \$ 200,000 |
| 10/01/06 to 9/30/07 | Florida Municipal Insurance Trust | FMIT # 0224 | General Liability | \$ 500,000 |
| | | | Extra Contractual Legal Liability | \$ 25,000 |
| | | | Fire Legal Liability | \$ 250,000 |
| | | | Medical Malpractice Liability | \$ 500,000 |
| | | | Errors & Omissions Liability | \$ 500,000 |
| | | | Law Enforcement Liability | \$ 500,000 |
| 10/01/06 to 9/30/07 | Florida Municipal Insurance Trust | FMIT # 0224 | Real Property | \$ 16,910,848 |
| 10/01/06 to 9/30/07 | Florida Municipal Insurance Trust | FMIT # 0224 | Personal Property | \$ 973,802 |
| 10/01/06 to 9/30/07 | Florida Municipal Insurance Trust | FMIT # 0224 | Island Marine | \$ 210,280 |
| 10/01/06 to 9/30/07 | Citizens Property Insurance Company | 728652 | Wind Storm | \$ 4,528,000 |
| 10/01/06 to 9/30/07 | City of Gulf Breeze | N/A | Worker's Compensation | \$ 250,000 |
| 10/01/06 to 9/30/07 | Policy Managers | 7509065 | Petroleum Storage Tank | \$ 1,000,000 |
| | | | | \$ 2,000,000 |

SOURCE: City of Gulf Breeze Departments

IV. Compliance section

- **Compliance Matters**
- **Management Letter**
- **Responses to the Management Letter**

City of Gulf Breeze, Florida
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2006

| Federal Agency Pass-Through Entity | CFDA Number | Contract/ Grant Number | Expenditure: |
|---|------------------------|---------------------------------------|----------------------------|
| FEDERAL AWARDS | | | |
| <i>U.S. Department of Justice</i> | | | |
| Indirect Programs | | | |
| Pass-Through From: | | | |
| State Office of Attorney General | | | |
| Victims of Crime Act | 16.575 | V5135 | \$ 32,724 |
| <i>Total U.S. Department of Justice</i> | | | <u>32,724</u> |
| <i>U.S. Department of Housing and Urban Development</i> | | | |
| Indirect Programs | | | |
| Pass-Through From: | | | |
| Florida Department of Community Affairs | | | |
| Pass-Through From: | | | |
| Santa Rosa County, Florida | | | |
| Small Cities CDBG Program | 14.228 | 06DB-3C-01-67-01-W 30 | 240,458 |
| <i>Total U.S. Department of Housing and Urban Development</i> | | | <u>240,458</u> |
| <i>U.S. Department of Transportation</i> | | | |
| Indirect Programs | | | |
| Pass-Through From: | | | |
| National Highway Traffic Safety Administration | | | |
| Florida Department of Transportation | | | |
| Highway Safety Grant - Aggressive Driving Program | 20.600 | FS-05-27-10 | 32,755 |
| <i>Total U.S. Department of Transportation</i> | | | <u>32,755</u> |
| <i>U.S. Federal Emergency Management Agency</i> | | | |
| Indirect Programs | | | |
| Pass-Through From: | | | |
| State Department of Community Affairs | | | |
| Public Assistance Grant - Disaster Relief Funding - Hurricane Ivan | 97.036 | 05-PA-G=-01-67-02-621 | 3,109,618 |
| Public Assistance Grant - Disaster Relief Funding - Hurricane Dennis | 97.036 | 06-DN-@G-01-67-02-501 | 119,198 |
| Public Assistance Grant - Disaster Relief Funding - Hurricane Katrina | 97.036 | 06-KF-B&-01-67-02-572 | 7,597 |
| <i>Total U.S. Federal Emergency Management Agency</i> | | | <u>3,236,413</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ <u>3,542,350</u> |

The accompanying notes are an
integral part of this schedule.

City of Gulf Breeze, Florida
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2006

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Gulf Breeze, Florida, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**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 Honorable Mayor, Members of
the City Council and Citizens
of Gulf Breeze, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gulf Breeze, Florida, as of and for the year ended September 30, 2006, which collectively comprise the City of Gulf Breeze, Florida's basic financial statements and have issued our report thereon dated December 5, 2006. 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 City of Gulf Breeze, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Gulf Breeze, Florida's ability to record, process, summarize and report and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

However, we believe the reportable conditions described in the accompanying schedule of findings and questioned costs as 2006-1 is not a material weakness. We also noted other matters that we have reported to management of the City of Gulf Breeze, Florida in a separate letter dated December 5, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gulf Breeze, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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*.

As required by the provisions of Chapter 10.550, Rules of the Auditor General, we have issued a separate management letter dated December 5, 2006, which should be considered in assessing the results of our audit.

This report is intended for the information and use of the Audit Committee, Management, others within the organization, City Council, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

O'Sullivan Greel, LLP

December 5, 2006



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor, Members of
the City Council and Citizens
of Gulf Breeze, Florida

Compliance

We have audited the compliance of the City of Gulf Breeze (the City) with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal awards programs for the year ended September 30, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2006-2.

Internal Control Over Compliance

The management of the City of Gulf Breeze, Florida, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

O'Sullivan Greel, LLP

December 5, 2006

City of Gulf Breeze, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2006

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? _____ Yes x No
- Reportable condition(s) identified that are not considered to be material weaknesses? x Yes _____ No
- Noncompliance material to financial statements noted? _____ Yes x No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? _____ Yes x No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes x No

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? x Yes _____ No

Identification of major programs:

CFDA Number
97.036

Name of Federal Program or Cluster
Disaster Grants – Public Assistance
(Presidentially Declared Disasters)

Dollar threshold used to distinguish
Between type A and type B programs \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

II. FINANCIAL STATEMENT FINDINGS

Current Year Reportable Conditions:

2006-1 – Tap Fee Receipts

During testing of water and sewer tap fee receipts, we noted numerous instances during which large checks from customers were accepted by a City employee but were not recorded or deposited in a timely manner. We also noted several instances where the duplicate receipts for water and sewer tap fees recorded could not be located.

Recommendation: We recommend that the City implement procedures to ensure that water and sewer tap fees received are recorded immediately and deposited in a timely manner. Receipts should be given to every customer and the receipt book should be reconciled to the amounts deposited to ensure that no checks are lost or misappropriated.

Management's Response: We agree with the finding and plan to implement the recommendation.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

2006-2 - Allowable Costs

Grant # 05-PA-G-01-67-02-621

Public Assistance Grant - Disaster Relief Funding – CFDA # 97.036

U.S. Federal Emergency Management Agency passed through the Florida State Department of Community Affairs

Criteria: Costs charged to the grant should be for allowable costs under the program.

Condition: We noted an invoice submitted to FEMA for construction costs of a multipurpose boardwalk that did not exist prior to Hurricane Ivan, is considered ineligible for reimbursement.

Cause: Invoices are identified as FEMA reimbursable expenditures by the appropriate department head by documenting the project worksheet number on the related purchase order and invoice. The approved invoice is then paid by the accounting department, and reimbursement from FEMA is requested. In this instance, the department head erroneously documented a project worksheet number on the invoice, and the ineligible expenditure was submitted to and paid by FEMA.

Questioned Costs: The ineligible amount totaled \$40,930.

Context: Significant current year expenditures were incurred by the City totaling approximately \$3,000,000. No other questioned costs were noted.

Effect: The invoice was submitted against project worksheet GB11A. This is a large project for which all supporting invoices will be reviewed by FEMA upon project closeout. Any overpayments or underpayments will be adjusted at that time.

Recommendation: We recommend that invoices be carefully reviewed prior to submitting to FEMA to avoid requesting reimbursement for ineligible items.

Management's Response: We agree with the finding and plan to implement the recommendation.

MANAGEMENT LETTER

The Honorable Mayor, Members of
the City Council and Citizens
of Gulf Breeze, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gulf Breeze, Florida, as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated December 5, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. We have issued our Independent Auditor's 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*, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in that report and schedules, which are dated December 5, 2006, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(h)1.) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. The recommendation made in the preceding annual financial audit report has not been corrected as noted below under the heading Prior Year Findings and Recommendations.

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.) the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Gulf Breeze, Florida, complied with the provisions of Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(h)(3.)) require that we address in the management letter any findings and recommendations to improve the local government entity's financial management, accounting procedures, and internal controls. These recommendations are included in this letter under Current Year Findings and Recommendations.

The Rules of the Auditor General (Sections 10.554(1)(h)(4.)), require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal control or schedule of findings and questioned costs and are clearly not inconsequential: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Such matters are described in the accompanying schedule of findings and questioned costs as items 2006-1 and 2006-2.

The Rules of the Auditor General (Section 10.554(1)(h)(5.)), also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The information can be found in Note 1 of the financial statements.

As required by the Rules of the Auditor General (Section 10.554(1)(h)(6.a.)), a statement must be included as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the City of Gulf Breeze, Florida did not meet any conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(h)(6.b.)), we determined that the annual financial report for the City of Gulf Breeze, Florida, for the fiscal year ended September 30, 2006, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2006.

As required by the Rules of the Auditor General (Sections 10.554(h)(6.c.), and 10.556(7)), we applied financial assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

1. *SEGREGATION OF DUTIES*

Observation

A fundamental concept in an adequate system of internal control is the segregation of duties. Our audit procedures revealed that the City has employees within the accounting process that have incompatible duties, in that the same employee performs several functions within the same accounting cycle. The incompatible duties include:

- For the non-utility receipts cycle, the same person opens mail, enters receipts into the accounting system, and posts batches to the general ledger.
- For the disbursements cycle, the same employee has the ability to add vendors, change vendor information in the master file, access check stock, and print checks.
- For the payroll cycle, the same employee has the ability to add and remove employees, change employee information such as pay rate and hours worked, access check stock, and print payroll checks.

Recommendation

We recommend that the City review and evaluate these incompatible duties and consider implementing procedures to mitigate any potential risk.

Status

The recommendation has not been implemented by the City.

Management Response

The City believes that while an employee may have what may be considered “incompatible duties,” the number of staff in the Finance Department does not allow for complete segregation of duties. However, the City believes there are enough mitigating controls in place to ensure that any potential risk is minimal, including cross-training of accounting employees.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

1. RECORDING OF GRANT REVENUES

Observation

The City's revenue recognition policy requires that grant revenues be recorded in the same period in which the grant expenditure occurred. We noted during our audit that the City currently records grant revenues upon receipt of cash (the cash basis of accounting). By matching in the same accounting period the recording of grant revenue and grant expenditure, the City will have more meaningful financial information throughout the year and will ensure that large audit adjustments are not necessary at year-end.

Recommendation

We recommend the City record grant revenues in the same period in which grant expenditures occurred.

Management Response

The City agrees with the comment and plans to implement the recommendation.

2. CAPITAL ASSETS

Observation

We noted the following issues related to the City's capital assets:

- Capital outlay (for governmental funds) and additions to capital assets (for proprietary funds) are not always reconciled to the final capital asset reports and are not always categorized consistently on the capital asset reports.
- Construction in progress and on-going projects have not been reconciled to the capital asset reports. Additionally, certain project expenditures are not always properly classified as capital outlay (for governmental funds) or as an addition to fixed assets (for proprietary funds).
- Disposed assets are not always disposed in the capital asset system.
- Contributed assets have not been recorded in the general ledger or on the capital asset reports.

Recommendation

We recommend that the City reconcile all of its capital asset accounts, including construction in progress, and all capital outlay accounts to its capital asset reports and to project expenditure details in order to maintain proper records. Additionally, we recommend that any contributed assets be properly recorded in the general ledger and in the capital asset system and any disposed asset be properly disposed in the capital asset system.

Management Response

The City will work to improve recording of Capital Assets per the recommendation, particularly communication regarding this information.

3. NEW AUDITING STANDARDS

Observation

The AICPA's Auditing Standards Board (ASB) has recently issued eight Statements on Auditing Standards (SAS), Statements No. 104 through No. 111, relating to the assessment of risk in an audit of financial statements. They will be effective for the audit of the September 30, 2008, fiscal year.

These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks.

Additionally, the Statements establish standards and provide guidance on planning and supervision, the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit.

The primary objective of these Statements is to enhance auditors' application of the audit risk model in practice by specifying, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
- More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.
- Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks.

The Statements represent part of the ASB's ongoing effort to develop stronger and more definitive auditing standards that are intended to enhance auditor performance and thereby improve audit effectiveness.

Recommendation

O'Sullivan Creel, LLP is well prepared to help you assess the impact of these new standards on your audit, both in procedures and costs. We continue to invest in training and technology solutions to re-engineer our approaches and mitigate the impact on audit costs while increasing value. We will be contacting you in the future to address your concerns and design procedures that will provide the highest value to you.

Management Response

The City will work in conjunction with its auditors to ensure that any necessary assistance for adopting the new standard is provided.

This management letter is intended solely for the information of the City of Gulf Breeze, Florida and management, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

We greatly appreciate the assistance and cooperation extended us during our audit.

O'Sullivan Greel, LLP

December 5, 2006