

City of Gulf Breeze Florida



Comprehensive Annual Financial Report

Fiscal Year Ending September 30, 2004

Comprehensive Annual Financial Report



**The City of Gulf Breeze, Florida
Year Ended September 30, 2004**

Prepared by the Finance Department

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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
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City of Gulf Breeze

February 18, 2005

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, 2004, 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, 2004, 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, 2004, 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 principles 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 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 is now used as a fishing pier.

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 9 ball fields, 5 children's parks, 10 tennis courts, several picnic areas, 2 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 Urban Core Redevelopment (UCR).

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 Northwest Florida, September 16, 2004, is currently fueling residential and commercial improvements. Houses and commercial structures are being renovated or completely rebuilt.

The City has a number of potential commercial projects building momentum; a development at the western entrance of the City with a marina, park and new hotel and a large scale retail center at the intersection of Highway 98 and Daniel Drive are the projects with the most potential.

One project that will break ground in the spring of 2005 is the Andrews Institute. This economic 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 would further enhance Northwest Florida's ability to create an environment for positive growth while creating a reputation for world class medical care. The Institute is scheduled for completion mid 2006.

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 \$12.3 million in fees, allowing the City to make significant improvements. The loan pools have also allowed the City to maintain a low millage rate of 1.90 mills per thousand dollars of property value. The City of Gulf Breeze made its first millage increase since 1996 last year of only .07 mills

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.

The devastation caused by Hurricane Ivan may delay some previously identified major capital projects at the same time, creating others. The full affect of this Hurricane will be determined during fiscal year 2005

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

- \$1.5 million dollar highway improvements, which include the Daniel Drive project, which will result in diverting traffic from a busy state road. A Florida Department of Transportation County Incentive Grant and funds from the City of Gulf Breeze Community Redevelopment Agency will fund this project. This project was expected to be completed by fall, 2004, however, due in part to Hurricane Ivan, will be completed in spring, 2005.
- Continued re-paving of the more than 45 miles of streets within the City of Gulf Breeze. The City is in the fifth 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.
- Construction of a new Fire Station began in late spring 2004 and is expected to be completed in late spring of 2005. This new Fire Station will meet the needs of the community for many years to come. This project is being financed by borrowings from the Gulf Breeze Financial Services 1997A loan program.

- The City of Gulf Breeze began the project to extend its natural gas line and tie-in to a neighboring county gas company line. Installation of approximately one mile of 6" pipe will be completed by mid 2005. This project will give the City an additional source of natural gas to assure stability of supply for our gas customers. An estimated cost of \$300,000 will be funded from the Natural Gas Fund reserves.
- The City plans to start construction on a new advanced Waste Water Treatment Plant in 2006, to continue to meet the expanding peninsula needs in our franchise area. This project will cost about \$3 million and will be financed by collected sewer tap fees and borrowings from the Gulf Breeze local government loan program.
- Recreation facilities were severely damaged due to Hurricane Ivan. Repairs and renovations to the Recreation Center will be completed in fiscal year 2005 for approximately \$300,000. Restoration of the waterside parks is estimated at \$1.5 million and four softball fields at approximately \$500,000. These restorations may extend into fiscal year 2006.
- A multi-purpose, 30,000 sq ft recreation building, which will include a 17,000 sq ft roller hockey rink, along with parking facilities, is being considered with funding provided from outside sources
- The Gulf Breeze Fishing Bridge, a popular source of public recreation, suffered severe damage from Hurricane Ivan. It has not yet been determined whether the remaining portion of the bridge will be salvageable and what those costs would be
- Wetlands within the City Limits have been profoundly damaged and removal of man-made debris will be a multi-million dollar project.
- Phase II of the Shoreline Park North, Renovation Plan includes softball field renovation, park sidewalks, lighting, addition of gazebos, tennis court shelters, new picnic pavilion and outdoor restrooms and the renovation of the boat ramps at Shoreline Park South will be started in 2006 or 2007.
- Wireless network expansion to be funded with \$100,000 Homeland Security Grant.
- Improvements to storm water and management systems resulting from Federal and State mandates. Funding options have not yet been identified.
- Construction of new sidewalks is a part of the City's annual capital improvement plan.

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 more than \$3.9 million. Approximately \$350,000 was invested with the Florida State Board of Administration Investment Pool; \$1.8 million at the Bank of Pensacola in an investment account, \$500,000 invested with The Florida Municipal Investment Trust and \$1.3 million are in Certificates of Deposits.

The Florida State Board of Administration Investment Pool had average earnings of 1.33% throughout the year, with a rate of 1.70% in September. The Bank of Pensacola investments accounts earned an average of 1.43% throughout the year, ending with a rate of 1.82% in September. The City invested \$500,000 with Florida Municipal Investment Trust in May, 2004 and the return at September 30th was slightly more than \$5,000.

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 during the aftermath of Hurricane Ivan.

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, 2003. 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.

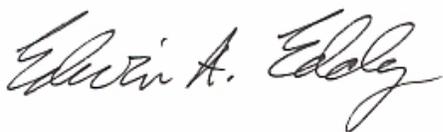
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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. The significant amount of year-end procedures, particularly in the aftermath of an extremely destructive hurricane, could not have been accomplished without much hard work and personal sacrifice.

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,



Edwin A. Eddy
City Manager



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, 2003

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.

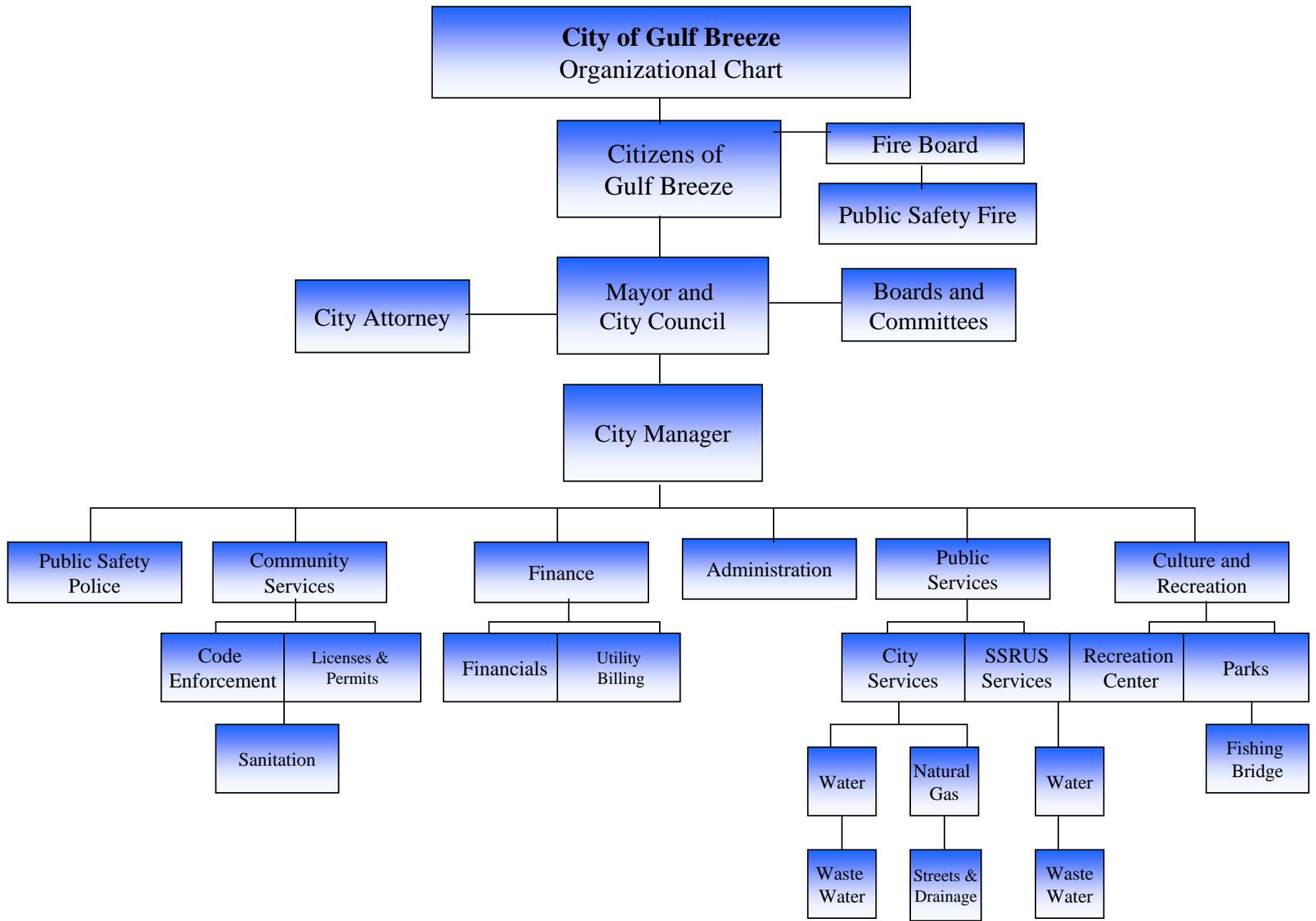


Nancy L. Zjelle

President

Jeffrey R. Emer

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**



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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate 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, 2004, 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'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 examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gulf Breeze, Florida, as of September 30, 2004, 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.

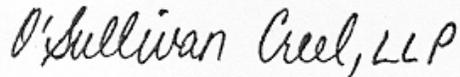
In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2005, on our consideration of the City of Gulf Breeze's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 and the Schedule of Contributions From the Employer and other Contributing Entities on page 58 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.

The Honorable Mayor, Members of
the City Council and Citizens
of Gulf Breeze, Florida
Independent Auditor's Report (Continued)

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 combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, 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 and State Financial Assistance is presented for purposes 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. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements; and, in our opinion, the information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has 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 CREEL, LLP
Certified Public Accountants & Consultants

January 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2004. 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 \$28,559,489 (net assets). Of this amount \$8,727,752 (unrestricted net assets) may be used to meet the City's ongoing obligations to its citizens and creditors.
- The City's total net assets increased by \$1,501,841 or (6.0%). The governmental net assets increased by \$75,020 (or 0.65%) and the business-type net assets increased by \$1,426,820 (8.3%).
- The City's governmental funds reported combined ending fund balances of \$4,733,014, a decrease of \$952,932. Of the total ending fund balance, \$4,158,276 is available for spending at the City's discretion (unreserved and undesignated fund balance). The primary portion of the decrease is due to the increase in Accounts Payable and Contracts Payable (358.6%) due to Hurricane Ivan expenses paid and incurred during the current fiscal year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,107,529 or 73% 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 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, solid waste and the City's fishing pier.

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 Urban Core Redevelopment (UCR). 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 14-15 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 three individual governmental funds (General Fund, Urban Core Redevelopment Special Revenue Fund, and Police Special Revenue Fund). Information is presented 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 Police Special Revenue Fund which is presented as a non-major fund.

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 14-15 of this report.

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 22-27 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 30-57 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 58 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 59-64 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the City of Gulf Breeze, assets exceeded liabilities by \$28,559,489 at the close of the most recent fiscal year, as reported below in Table 1.

The largest portion of the City's net assets \$16,614,147 (58.2%) 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 (11.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$8,727,752 may be used to meet the government'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.

Governmental Activities

Table 1

Statement of Net Assets at September 30						
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and Other Assets	\$ 6,033,645	\$ 6,048,711	\$ 9,127,879	\$ 8,100,223	\$ 15,161,524	\$ 14,148,934
Capital Assets	10,431,477	9,443,566	26,984,206	27,200,008	37,415,683	36,643,574
Total assets	<u>16,465,122</u>	<u>15,492,277</u>	<u>36,112,085</u>	<u>35,300,231</u>	<u>52,577,207</u>	<u>50,792,508</u>
Long-term Liabilities Outstanding	3,609,615	3,652,602	17,475,662	18,241,321	21,085,277	21,893,923
Other Liabilities	1,386,078	445,266	1,546,363	1,395,671	2,932,441	1,840,937
Total liabilities	<u>4,995,693</u>	<u>4,097,868</u>	<u>19,022,025</u>	<u>19,636,992</u>	<u>24,017,718</u>	<u>23,734,860</u>
Net assets:						
Invested in Capital Assets net of Related Debt	7,007,577	5,964,365	9,606,570	8,704,729	16,614,147	14,669,094
Restricted	1,354,090	1,556,892	1,863,500	1,835,048	3,217,590	3,391,940
Unrestricted	3,107,762	3,873,152	5,619,990	5,123,462	8,727,752	8,996,614
Total net assets	<u>\$ 11,469,429</u>	<u>\$ 11,394,409</u>	<u>\$ 17,090,060</u>	<u>\$ 15,663,239</u>	<u>\$ 28,559,489</u>	<u>\$ 27,057,648</u>

Governmental activities increased the City of Gulf Breeze's net assets by \$75,020. The key elements of this change are reported below in table 2.

Charges for services were slightly higher (1.2%) this year due to an increase in Recreation Programs and Landscape reimbursements. There was a decrease in Public Safety revenue due to a reduction in fines and forfeiture revenues. Capital Grants and contributions were \$671,424 this year. The City received Capital Grant contributions in the prior fiscal year of slightly over \$300,000. This year, the City received over \$600,000 in funds from FEMA, due to Hurricane Ivan. Additional funds are expected during fiscal year 2005.

Investment earnings are up 108.5% due to changes in market conditions and distribution of investments. Funds have been invested in Certificates of Deposit and the Florida League of Cities Investment Funds along with the Florida State Investment Pool.

Property Tax revenue has increased by 10.3%. This is due primarily to the increased value of properties within the City.

Table 2
Change in Net Assets

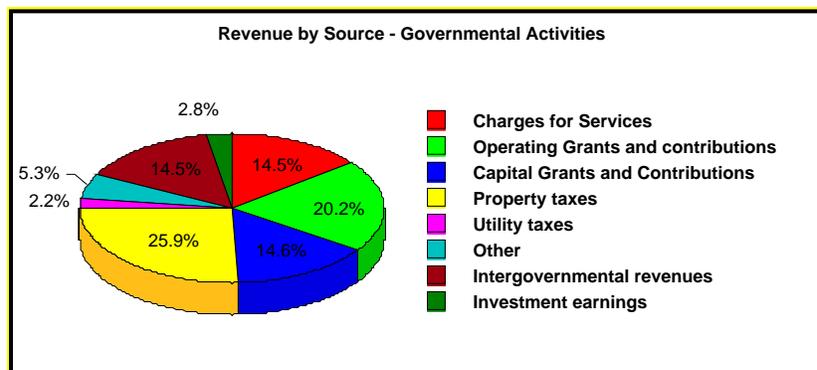
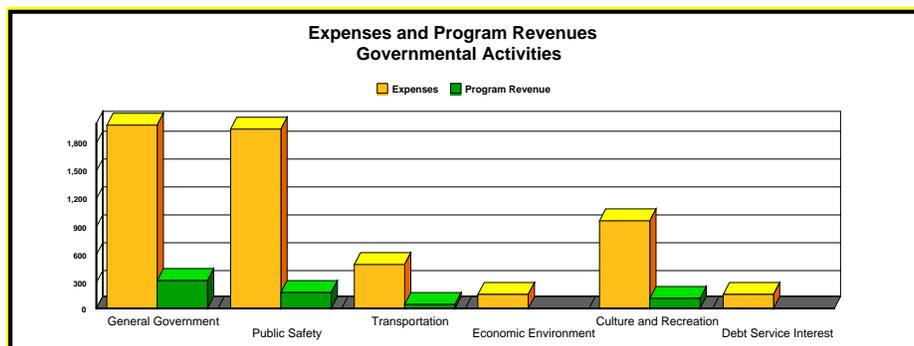
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
REVENUES:						
Program Revenues:						
Charges for Services	\$ 664,849	\$ 656,918	\$ 7,744,378	\$ 7,620,441	\$ 8,409,227	\$ 8,277,359
Operating Grants & Contributions	927,774	628,643	0	0	927,774	628,643
Capital Grants & Contributions	671,424	330,931	2,868,146	2,383,069	3,539,570	2,714,000
General Revenues:						
Property Taxes	1,186,725	1,076,244	0	0	1,186,725	1,076,244
Intergovernmental revenues	664,154	635,043	0	0	635,043	635,043
Utility Taxes	99,211	119,203	0	0	99,211	119,203
Investment Earnings	129,222	61,973	58,832	48,322	188,054	110,295
Other	244,583	1,172,280	49,142	49,513	293,725	1,221,793
Total Revenues	4,587,942	4,681,235	10,720,498	10,101,345	15,308,440	14,782,580
EXPENSES:						
Primary Government						
General Government	1,951,555	1,054,369	0	0	1,951,555	1,054,369
Public Safety	1,955,658	1,984,781	0	0	1,955,658	1,984,781
Transportation	484,196	405,322	0	0	484,196	405,322
Economic Environment	168,023	318,298	0	0	168,023	318,298
Culture and Recreation	954,933	858,384	0	0	954,933	858,384
Debt Service Interest	170,161	134,571	0	0	170,161	134,571
Business-Type Activities						
Water and Sewer	0	0	1,281,717	1,218,267	1,281,717	1,218,267
Natural Gas	0	0	1,352,419	1,257,860	1,352,419	1,257,860
SSRUS Utilities	0	0	4,503,775	4,323,126	4,503,775	4,323,126
Fishing Bridge	0	0	104,309	104,636	104,309	104,636
Solid Waste Control	0	0	774,328	738,716	774,328	738,716
Gulf Breeze Financial Services	0	0	214,227	225,320	214,227	225,320
Capital Trust Agency	0	0	0	0	0	0
Total Expenses	5,684,526	4,755,725	8,230,775	7,867,925	13,915,301	12,623,650
Increase (decrease) in Net Assets before Transfers	(1,096,584)	(74,490)	2,489,723	2,233,420	1,393,139	2,158,930
Transfers	1,171,604	1,496,100	(846,604)	(1,121,100)	325,001	375,000
Increase (Decrease) in Net Assets	75,020	1,421,610	1,643,120	1,112,320	1,718,140	2,533,930
Net Assets - 10/1	11,394,409	9,972,799	15,663,246	14,550,919	27,057,655	24,523,718
Prior period adjustment	0	0	(216,306)	0	(216,306)	0
Net Assets - 9/30	\$ 11,469,429	\$ 11,394,409	\$ 17,090,060	\$ 15,663,239	\$ 28,559,489	\$ 27,057,648

General Government expenses have increased by a total of 85.1% due primarily to the expenses incurred when Hurricane Ivan hit the City on September 16th.

Economic Environment shows a decrease of \$150,275 this is due to non-recurring professional services incurred in the prior year.

Culture and Recreation has shown an increase in expenses of 11.2%, primarily due to an ongoing expanded Summer Camp program. Additional, seasonal, staff and increased camp supplies were necessary to provide this growing program. This expanded program serves the citizens of our community by providing a safe, fun, learning environment for children at a reasonable cost. The Summer Camp was funded in full by charges for services. Additional funds were provided toward the maintenance of the ball fields lawn service to maintain the quality of the grounds improvements.

Debt Service interest increased \$35,590 due to the slight increase in interest rates this year.



Business-Type Activities

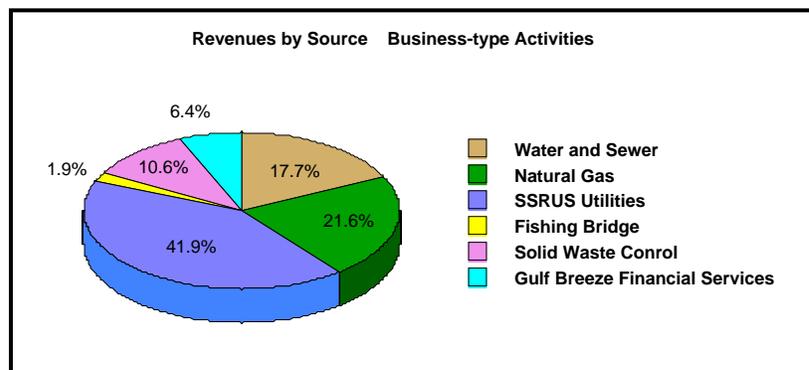
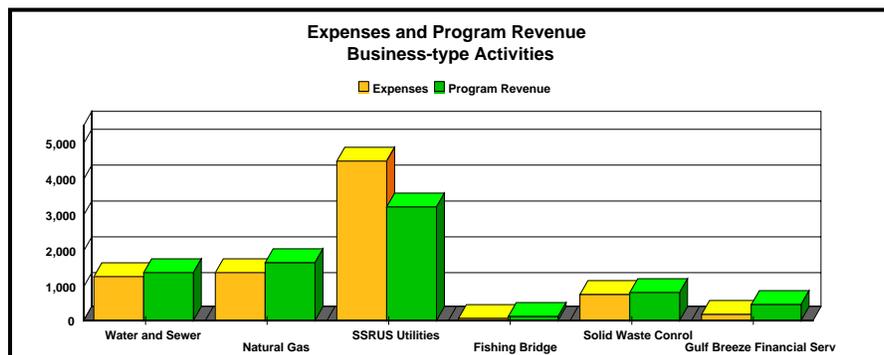
Business-type activities increased the City's net assets by \$1,643,119 (10.4%). This is due, primarily, to an increase in water & sewer customers of 3.6%. Natural Gas usage is affected, in part, by the weather, and this fiscal year saw a slight increase in the number of cold weather days, along with a 4.0% increase in the number of Natural Gas customers.

Contributions from developers increased by 25.3% this year. Continued growth in the area serviced by South Santa Rosa Utilities Service (SSRUS) accounts for this increase. 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 21.8% as a result of changing market conditions and distribution of investments.

The Natural Gas Utility shows an increase in expenses of \$94,559 (7.5%). This increase is seen primarily in the purchase of natural gas, which is in turn sold to customers of the City of Gulf Breeze. The increase in consumption this year (2.7%) is due both to the growth in customers (4.0) and in the number of cold temperature days this fiscal year. Natural Gas revenues have increased accordingly.

The Fishing Bridge shows a decrease of (5%) in revenues this year, due to the damage the bridge received from Hurricane Ivan. This year reflects the loss of two weeks of normally high revenue.



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 \$4,733,014, a decrease of \$952,932 in comparison with the prior year. Of this total amount, \$4,158,276 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 \$9,229, 3) to pay debt service of \$8,000 or 4) for several other designated purposes which include self-insurance escrow \$250,000, disaster recovery \$100,000, beautification \$86,376, park subdivisions \$74,996 and 5) other restricted purposes of \$8,466.

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 \$3,595,720, while total fund balance reached \$4,132,787. 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 64% of the total General Fund expenditures, while total fund balance represents 73% of that same amount.

The General Fund's fund balance decreased by \$925,828 during the current fiscal year. The key factor in this change is the expenses incurred at the end of the fiscal year due to Hurricane Ivan, over \$700,000 paid and contracts and accounts payable of approximately \$600,000. The City's reserves were such they were able to sustain this unexpected disaster until Federal and State reimbursements were received.

The Urban Core Redevelopment Fund's (UCR) fund balance had a slight decrease this year as the major Street Project was begun during the year. The project was expected to be complete within this year; however, due to unexpected interruptions the project will not be completed until the first quarter of the next fiscal year.

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 \$5,619,990 at the end of the year, of that the Water and Sewer Fund amounted to \$1,238,330, the Natural Gas Fund totaled \$859,276, South Santa Rosa Utility Fund was \$3,148,910, and the other proprietary funds totaled \$373,474. The net assets of the proprietary funds increased by \$1,426,921.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund Budget was increased from the original budget by \$2,604,000, most of which was attributable to additional personnel costs and other expenses incurred by Hurricane Ivan.

The highlights of the budgetary increases are as follows:

- \$51,500 increase in General Government payroll expenses due to Hurricane Ivan requirements
- \$672,500 in Disaster expenses paid and due at September 30th, caused by Hurricane Ivan paid out of reserves.
- \$37,600 increase due to unexpected repairs which included the removal of asbestos at the J.C. building, re-lamping of Vista Park, and emergency repairs to the boat ramp.

- \$240,600 increase in Capital improvements to Vista Park and Shoreline Park, North.
- \$448,200 increase in construction of new Fire Station which will be complete in fiscal year 2005.

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, 2004, amounts to \$37,415,683 (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 \$772,108 or 3% overall (9% increase for governmental activities and a .8% decrease for business-type activities). The major changes are summarized below:

- Fire Department (\$496,000) construction of new Fire Station which will be completed in fiscal year 2005
- Street Resurfacing (\$342,800) is the fifth (5th) year of a fifteen year plan.
- Vista Park (\$140,000) improvements and parking lot repaving.
- Shoreline Park North (\$109,000) renovations including the demolition of the old "JC" building and the construction of a skate board park and disk golf park.
- Daniel Drive Extension (\$998,000) was a major improvement to the main thoroughfare of the City. A new road was constructed connecting Shoreline Drive and Highway 98 along with improving the ingress and egress to the public schools located on Highway 98.
- Bucket Truck 750 Purchased (\$10,000)
- One new Police Cruiser (\$20,700) Ford Crown Victoria along with (\$11,000) accessories.
- Continue to add to the utility infrastructure with additional service lines, lift stations, fire hydrants and acceptance of new sub-division lines.

Projects included in the Construction in Progress category are:

- Gulf Breeze Fire Station which will be completed by the third quarter of fiscal year 2005 and is funded by Capital Improvement Revenue Bonds.
- Daniel Drive Extension – was completed during the first quarter of fiscal year 2005 and is being funded by State Grants and Urban Core Redevelopment Funds.
- SSRUS Fire Protection System Upgrade
- SSRUS Waste Water Treatment Plant

Capital Assets						
	Governmental		Business		Total	
	FY2004	FY2003	FY2004	FY2003	FY2004	FY2003
Land	\$ 1,187,339	\$ 1,280,239	\$ 2,670,010	\$ 2,670,010	\$ 3,857,349	\$ 3,950,249
Buildings	2,350,274	2,703,446	296,131	304,718	2,646,405	3,008,164
Improvements other than buildings	4,437,821	4,307,060	8,616,060	7,912,037	13,053,881	12,219,097
Infrastructure	73,693	40,575	14,641,246	15,308,120	14,714,939	15,348,695
Machinery and equipment	887,872	1,112,246	701,967	450,837	1,589,839	1,563,083
Construction in Progress	1,494,478	0	58,790	554,287	1,553,268	554,287
Total	\$ 10,431,477	\$ 9,443,566	\$ 26,984,206	\$ 27,200,009	\$ 37,415,683	\$ 36,643,575

Long-term Debt

At the end of the current fiscal year, the City of Gulf Breeze had total bonded debt and outstanding loans of \$22,908,203. 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	
	2004	2003	2004	2003	2004	2003
Notes Payable	\$ 3,423,900	\$ 3,479,200	\$ 8,689,304	\$ 9,173,646	\$ 12,113,204	\$ 12,652,846
Revenue Bonds	-	-	10,795,000	8,949,412	10,795,000	8,949,412
Total	\$ 3,423,900	\$ 3,479,200	\$ 19,484,304	\$ 18,123,058	\$ 22,908,204	\$ 21,602,258

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 notes 11 and 12 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 2005 budget. Interest rates on investments although still historically low, have begun to slowly raise, 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 has no utility tax and levies 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 2005 is quite conservative. It is approximately \$300,000 less than the budget for fiscal year 2004. This reflects the fact that some of the projects being implemented in fiscal year 2004 will continue into fiscal year 2005 and that revenue sources have not grown in keeping with the overall economy.

The fiscal year 2005 budget includes no new full-time positions. 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.

On September 16, 2004, the City of Gulf Breeze was struck by a powerful storm, Hurricane Ivan. The City has suffered severe damage to its infrastructure and wetlands and was required to provide extraordinary services to serve its citizens. Millions of dollars were spent in the wake of this storm and it will require millions more to return the City to its pre-storm existence. While The City of Gulf Breeze expects to be reimbursed for a portion of these expenses, the amount and length of required time to receive these reimbursements is unknown.

The diligence provided by its governing body in maintaining sufficient reserves placed the City at an advantage in being able to maintain the level of service necessary during the immediate weeks following the storm. The City also purchased a Letter of Credit in the amount of \$3,000,000 to be assured it is able to maintain that level of service.

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, 2004

	Primary Government			Component
	Governmental Activities	Business - Type Activities	Total	Unit Capital Trust Agency
ASSETS				
Cash and cash equivalents	\$ 632,326	\$ 3,326,537	\$ 3,958,863	\$ 385,689
Receivables	92,033	867,236	959,269	52,058
Investments	1,400,268	2,310,239	3,710,507	398,994
Internal balances	1,098,280	(1,098,280)	-	-
Due from other governments	1,464,263	(24,771)	1,439,492	24,771
Inventory, at cost	8,029	107,320	115,349	-
Restricted assets				
Cash and cash equivalents	1,300,142	2,468,568	3,768,710	-
Capital assets				
Non-depreciable	2,681,817	2,728,800	5,410,617	-
Depreciable	7,749,660	24,255,406	32,005,066	-
Other assets				
Bond issue costs, net	38,304	300,977	339,281	-
Investment in joint venture	-	226,272	226,272	-
Other	-	643,781	643,781	-
TOTAL ASSETS	16,465,122	36,112,085	52,577,207	861,512
LIABILITIES				
Accounts payable	595,228	409,862	1,005,090	4,771
Contracts payable	438,340	-	438,340	-
Retainage payable	93,327	-	93,327	-
Accrued liabilities	134,516	54,347	188,863	-
Other current liabilities	917	194,380	195,297	-
Payable from restricted assets				
Accrued interest	123,750	282,656	406,406	-
Customer deposits	-	605,118	605,118	-
Non-current liabilities				
Due within one year				
Revenue bonds payable	-	405,000	405,000	-
Notes payable	176,841	510,334	687,175	-
Due in more than one year				
Compensated absences	185,715	98,025	283,740	-
Revenue bonds payable	-	8,283,333	8,283,333	-
Notes payable	3,247,059	8,178,970	11,426,029	-
TOTAL LIABILITIES	4,995,693	19,022,025	24,017,718	4,771
NET ASSETS				
Invested in capital assets, net of related debt	7,007,577	9,606,570	16,614,147	-
Restricted				
Debt service	8,000	1,863,500	1,871,500	-
Capital projects	1,300,142	-	1,300,142	-
Public safety	36,719	-	36,719	-
Other purposes	9,229	-	9,229	-
Unrestricted	3,107,762	5,619,990	8,727,752	856,741
TOTAL NET ASSETS	\$ 11,469,429	\$ 17,090,060	\$ 28,559,489	\$ 856,741

The accompanying notes are an intergral
part of these financial statements.

City of Gulf Breeze, Florida
STATEMENT OF ACTIVITIES
Year Ended September 30, 2004

Exhibit II

Function/Program Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Capital Trust Agency	
					Governmental Activities	Business- Type Activities	Total		
Governmental Activities									
General government	\$ 1,951,555	\$ 316,116	\$ 820,007	\$ -	\$ (815,432)	\$ -	\$ (815,432)	\$ -	-
Public safety	1,955,658	180,391	107,767	-	(1,667,500)	-	(1,667,500)	-	-
Physical environment	-	-	-	-	-	-	-	-	-
Transportation	484,196	45,219	-	671,424	232,447	-	232,447	-	-
Economic environment	168,023	-	-	-	(168,023)	-	(168,023)	-	-
Culture and recreation	954,933	123,123	-	-	(831,810)	-	(831,810)	-	-
Debt service interest	170,161	-	-	-	(170,161)	-	(170,161)	-	-
Total governmental activities	<u>5,684,526</u>	<u>664,849</u>	<u>927,774</u>	<u>671,424</u>	<u>(3,420,479)</u>	<u>-</u>	<u>(3,420,479)</u>	<u>-</u>	<u>-</u>
Business-Type activities									
Water and sewer	1,281,717	1,368,238	-	33,534	-	120,055	120,055	-	-
Natural gas	1,352,419	1,676,024	-	-	-	323,605	323,605	-	-
South Santa Rosa Utility	4,503,775	3,241,172	-	2,834,612	-	1,572,009	1,572,009	-	-
Fishing Bridge	104,308	147,147	-	-	-	42,839	42,839	-	-
Solid Waste Control	774,328	817,628	-	-	-	43,300	43,300	-	-
Gulf Breeze Financial Services	214,227	494,169	-	-	-	279,942	279,942	-	-
Total business type activities	<u>8,230,774</u>	<u>7,744,378</u>	<u>-</u>	<u>2,868,146</u>	<u>-</u>	<u>2,381,750</u>	<u>2,381,750</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 13,915,300</u>	<u>\$ 8,409,227</u>	<u>\$ 927,774</u>	<u>\$ 3,539,570</u>	<u>\$ (3,420,479)</u>	<u>\$ 2,381,750</u>	<u>\$ (1,038,729)</u>	<u>\$ -</u>	<u>-</u>
Capital Trust Agency	<u>\$ 830,921</u>	<u>\$ 1,016,831</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,910</u>	<u>-</u>
General Revenues:									
Taxes:									
Property taxes					1,186,725	-	1,186,725	-	-
Municipal revenue sharing					168,649	-	168,649	-	-
Sales taxes					495,505	-	495,505	-	-
Utility service taxes					99,211	-	99,211	-	-
Settlement income					-	-	-	-	-
Miscellaneous					569,583	49,142	618,725	-	-
Investment earnings					129,222	58,832	188,054	12,807	12,807
Transfers					846,604	(846,604)	-	-	-
Total general revenues and transfers					<u>3,495,499</u>	<u>(738,630)</u>	<u>2,756,869</u>	<u>12,807</u>	<u>12,807</u>
Change in net assets					75,020	1,643,120	1,718,140	198,717	198,717
Net assets - beginning of year					11,394,409	15,663,246	27,057,655	658,024	658,024
Prior period adjustment - See Note 16					-	(216,306)	(216,306)	-	-
Net assets - end of year					<u>\$ 11,469,429</u>	<u>\$ 17,090,060</u>	<u>\$ 28,559,489</u>	<u>\$ 856,741</u>	<u>-</u>

The accompanying notes are an integral part of these financial statements.

**City of Gulf Breeze, Florida
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2004**

	General	Urban Core Redevelopment	Non-Major Police	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 255,336	\$ 338,909	\$ 38,082	\$ 632,327
Investments	1,400,268	-	-	1,400,268
Receivables	92,033	-	-	92,033
Due from other governments	792,839	671,424	-	1,464,263
Inventory at cost	8,029	-	-	8,029
Due from other funds	1,098,280	-	-	1,098,280
Restricted assets				
Cash and cash equivalents	1,300,142	-	-	1,300,142
TOTAL ASSETS	\$ 4,946,927	\$ 1,010,333	\$ 38,082	\$ 5,995,342
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 589,545	\$ 5,272	\$ 411	\$ 595,228
Contracts payable	89,162	349,178	-	438,340
Retainage payable	-	93,327	-	93,327
Accrued liabilities	134,516	-	-	134,516
Other current liabilities	917	-	-	917
Total liabilities	814,140	447,777	411	1,262,328
Fund balances				
Reserved				
Encumbrances	9,229	-	-	9,229
Inventory	8,029	-	-	8,029
Debt service	8,000	-	-	8,000
Police trust	-	-	37,671	37,671
Unreserved				
Designated				
Community fund	437	-	-	437
Park subdivision	74,996	-	-	74,996
Self-insurance escrow	250,000	-	-	250,000
Beautification	86,376	-	-	86,376
Disaster recovery	100,000	-	-	100,000
Undesignated general fund	3,595,720	-	-	3,595,720
Undesignated special revenue	-	562,556	-	562,556
Total fund balance	4,132,787	562,556	37,671	4,733,014
TOTAL LIABILITIES AND FUND BALANCE	\$ 4,946,927	\$ 1,010,333	\$ 38,082	\$ 5,995,342

The accompanying notes are an integral part of these financial statements.

City of Gulf Breeze, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
September 30, 2004

Fund balances - total governmental funds (page 16)	\$	4,733,014
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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	\$	2,681,817	
Governmental depreciable assets		13,622,189	
Less accumulated depreciation		<u>(5,872,529)</u>	10,431,477

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

Bond issuance costs	\$	41,250	
Less current year amortization		<u>(2,946)</u>	38,304

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

Notes payable	\$	(3,423,900)	
Accrued interest		(123,750)	
Compensated absences		<u>(185,715)</u>	<u>(3,733,365)</u>

Net assets of governmental activities (page 14)	\$	<u><u>11,469,429</u></u>
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The accompanying notes are an integral
part of these financial statements.

City of Gulf Breeze, Florida
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
Year Ended September 30, 2004

	General	Urban Core Redevelopment	Non-Major Police	Total
REVENUES				
Taxes	\$ 1,416,715	\$ 295,727	\$ -	\$ 1,712,442
Licenses and permits	69,085	-	-	69,085
Intergovernmental	1,407,536	671,424	-	2,078,960
Charges for services	147,218	-	-	147,218
Fines and forfeits	171,542	-	8,849	180,391
Miscellaneous	724,846	-	-	724,846
TOTAL REVENUES	3,936,942	967,151	8,849	4,912,942
EXPENDITURES				
Current				
General government	1,687,238	77,809	-	1,765,047
Public safety	1,638,375	-	8,681	1,647,056
Transportation	172,810	-	-	172,810
Economic environment	92,252	-	-	92,252
Culture/recreation	727,324	-	-	727,324
Capital outlay	1,204,495	1,001,522	-	2,206,017
Debt service				
Principal	55,300	-	-	55,300
Interest	46,672	-	-	46,672
TOTAL EXPENDITURES	5,624,466	1,079,331	8,681	6,712,478
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,687,524)	(112,180)	168	(1,799,536)
OTHER FINANCING SOURCES (USES)				
Transfers in	846,604	84,908	-	931,512
Transfers out	(84,908)	-	-	(84,908)
TOTAL OTHER FINANCING SOURCES (USES)	761,696	84,908	-	846,604
NET CHANGE IN FUND BALANCE	(925,828)	(27,272)	168	(952,932)
FUND BALANCE - BEGINNING OF YEAR	5,058,615	589,828	37,503	5,685,946
FUND BALANCE - END OF YEAR	\$ 4,132,787	\$ 562,556	\$ 37,671	\$ 4,733,014

The accompanying notes are an integral part
of these financial statements.

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, 2004

Net change in fund balances - total governmental funds (page 18) \$ (952,932)

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	\$ 2,206,018	
Less current year depreciation	<u>(92,392)</u>	
		1,213,625

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	\$ 55,300	
Accrued interest on long-term debt	<u>(123,750)</u>	
		(68,450)

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 long-term compensated absences		(12,313)
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The net effect of various miscellaneous transactions involving sale of capital assets is to decrease net assets		<u>(104,910)</u>
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Change in net assets of governmental activities (page 15)		<u><u>\$ 75,020</u></u>
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The accompanying notes are an integral part of these financial statements.

City of Gulf Breeze, Florida
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year Ended September 30, 2004

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,395,792	\$ 1,412,613	\$ 1,416,715	\$ 4,102
Licenses and permits	79,500	69,600	69,085	(515)
Intergovernmental	833,800	853,000	1,407,536	554,536
Charges for services	154,500	145,700	147,218	1,518
Fines and forfeits	229,900	169,500	171,542	2,042
Miscellaneous	564,600	659,500	724,846	65,346
TOTAL REVENUES	3,258,092	3,309,913	3,936,942	627,029
EXPENDITURES				
General government services	926,600	1,619,200	1,687,238	(68,038)
Public safety	1,618,200	2,838,400	1,638,375	1,200,025
Transportation	188,100	173,800	172,810	990
Economic environment	100,000	94,638	92,252	2,386
Culture/recreation	684,400	729,200	727,324	1,876
Capital outlay	430,900	1,102,400	1,204,495	(102,095)
Debt service	67,400	62,200	101,972	(39,772)
TOTAL EXPENDITURES	4,015,600	6,619,838	5,624,466	995,372
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(757,508)	(3,309,925)	(1,687,524)	1,622,401
OTHER FINANCING SOURCES (USES)				
Transfers in	846,400	846,400	846,604	204
Transfers out	(81,600)	(85,000)	(84,908)	92
TOTAL OTHER FINANCING SOURCES (USES)	764,800	761,400	761,696	296
NET CHANGE IN FUND BALANCE	7,292	(2,548,525)	(925,828)	1,622,697
FUND BALANCE - BEGINNING OF YEAR	-	-	5,058,615	5,058,615
FUND BALANCE - END OF YEAR	\$ 7,292	\$ (2,548,525)	\$ 4,132,787	\$ 6,681,312

The accompanying notes are an integral part
of these financial statements.

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, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 294,500	\$ 2,995,700	\$ 295,727	\$ (2,699,973)
Intergovernmental	-	-	671,424	671,424
TOTAL REVENUES	<u>294,500</u>	<u>2,995,700</u>	<u>967,151</u>	<u>(2,028,549)</u>
EXPENDITURES				
Current				
General government services	150,000	77,800	77,809	9
Capital outlay	223,100	908,200	1,001,522	(93,322)
TOTAL EXPENDITURES	<u>373,100</u>	<u>986,000</u>	<u>1,079,331</u>	<u>(93,331)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(78,600)</u>	<u>2,009,700</u>	<u>(112,180)</u>	<u>(2,121,880)</u>
OTHER FINANCING SOURCES				
Transfers in	81,600	84,900	84,908	8
TOTAL OTHER FINANCING SOURCES (USES)	<u>(81,600)</u>	<u>(84,900)</u>	<u>(84,908)</u>	<u>(8)</u>
NET CHANGE IN FUND BALANCE	3,000	2,094,600	(27,272)	(2,121,872)
FUND BALANCE - BEGINNING OF YEAR	-	-	589,828	(589,828)
FUND BALANCE - END OF YEAR	<u>\$ 3,000</u>	<u>\$ 2,094,600</u>	<u>\$ 562,556</u>	<u>\$ (1,532,044)</u>

The accompanying notes are an integral part
of these financial statements.

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2004

	Water and Sewer	Natural Gas	South Santa Rosa Utility	Other Proprietary Funds	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 558,889	\$ 347,157	\$ 1,058,877	\$ 1,361,614	\$ 3,326,537
Receivables	196,106	160,790	425,372	84,968	867,236
Investments	323,676	471,391	1,410,577	104,595	2,310,239
Due from other funds	-	-	5,495	-	5,495
Inventory, at cost	34,270	20,098	52,951	1	107,320
Restricted assets					
Cash and cash equivalents	136,758	161,329	2,167,291	3,190	2,468,568
Total current assets	1,265,455	1,162,451	5,404,098	1,554,368	9,386,372
Non-current assets					
Capital assets, net					
Land	-	-	2,670,010	-	2,670,010
Buildings	-	-	296,132	-	296,132
Improvements other than building	494,002	1,053	7,538,642	582,363	8,616,060
Infrastructure	1,828,761	685,849	12,126,636	-	14,641,246
Machinery and equipment	127,291	83,289	394,703	96,685	701,968
Construction in progress	-	-	58,790	-	58,790
Total capital assets	2,450,054	770,191	23,084,913	679,048	26,984,206
Other assets					
Bond issue costs, net	15,756	1,686	283,535	-	300,977
Investment in joint venture	120,550	-	105,722	-	226,272
Other	160,946	-	482,835	-	643,781
Total other assets	281,496	-	588,557	-	870,053
Total non-current assets	2,731,550	770,191	23,673,470	679,048	27,854,259
TOTAL ASSETS	\$ 3,997,005	\$ 1,932,642	\$ 29,077,568	\$ 2,233,416	\$ 37,240,631

The accompanying notes are an integral
part of these financial statements.

Continued...

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2004

	Water and Sewer	Natural Gas	South Santa Rosa Utility	Other Proprietary Funds	Total
LIABILITIES					
Current liabilities					
Accounts payable	\$ 94,570	\$ 109,773	\$ 151,262	\$ 54,257	\$ 409,862
Accrued liabilities	6,740	10,489	36,722	396	54,347
Other current liabilities	38,368	-	156,012	-	194,380
Due to other funds	5,495	-	-	1,098,280	1,103,775
Due to other governments	-	-	-	24,771	24,771
Payable from restricted assets					
Accrued interest	-	-	282,656	-	282,656
Customer deposits	136,758	161,379	303,791	3,190	605,118
Revenue bonds payable	-	-	405,000	-	405,000
Notes payable	84,701	43,603	382,030	-	510,334
Total current liabilities	366,632	325,244	1,717,473	1,180,894	3,590,243
Non-current liabilities					
Accrued liabilities					
Compensated absences	26,689	21,536	49,800	-	98,025
Revenue bonds payable	-	-	8,283,333	-	8,283,333
Notes payable	1,167,198	287,397	6,724,375	-	8,178,970
Total non-current liabilities	1,193,887	308,933	15,057,508	-	16,560,328
TOTAL LIABILITIES	1,560,519	634,177	16,774,981	1,180,894	20,150,571
NET ASSETS					
Invested in capital assets, net of related debt	1,198,156	439,189	7,290,177	679,048	9,606,570
Restricted					
Debt service	-	-	1,863,500	-	1,863,500
Unrestricted	1,238,330	859,276	3,148,910	373,474	5,619,990
TOTAL NET ASSETS	\$ 2,436,486	\$ 1,298,465	\$ 12,302,587	\$ 1,052,522	\$ 17,090,060

The accompanying notes are an integral
part of these financial statements.

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended September 30, 2004

	Water and Sewer	Natural Gas	South Santa Rosa Utility	Other Proprietary Funds	Total
OPERATING REVENUES					
Charges for services	\$ 1,368,238	\$ 1,676,024	\$ 3,170,682	\$ 1,458,944	\$ 7,673,888
TOTAL OPERATING REVENUES	1,368,238	1,676,024	3,170,682	1,458,944	7,673,888
OPERATING EXPENSES					
Personal services	222,036	266,706	904,751	263,148	1,656,641
Contractual services	623,725	886,709	643,874	720,200	2,874,508
Supplies	98,388	42,581	198,773	2,883	342,625
Professional services	47,088	900	177,572	33,740	259,300
Repairs and maintenance	38,274	13,388	220,705	5,746	278,113
Office and utilities	39,041	47,631	249,358	51,206	387,236
Depreciation	193,438	85,942	1,198,590	15,940	1,493,910
TOTAL OPERATING EXPENSES	1,261,990	1,343,857	3,593,623	1,092,863	7,292,333
OPERATING INCOME (LOSS)	106,248	332,167	(422,941)	366,081	381,555
NON-OPERATING REVENUES (EXPENSES)					
Impact fees	33,534	-	2,260,893	-	2,294,427
Interest earnings	-	-	33,628	25,204	58,832
Rents and royalties	-	-	70,490	-	70,490
Interest expense	(17,506)	(4,781)	(700,876)	-	(723,163)
Other debt service costs	(2,221)	(3,781)	(209,276)	-	(215,278)
Miscellaneous	17,821	2,885	28,436	-	49,142
TOTAL NON-OPERATING REVENUES (EXPENSES)	31,628	(5,677)	1,483,295	25,204	1,534,450

The accompanying notes are an integral
part of these financial statements.

Continued...

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended September 30, 2004

	Water and Sewer	Natural Gas	South Santa Rosa Utility	Other Proprietary Funds	Total
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	137,876	326,490	1,060,354	391,285	1,916,005
Transfers in	14,712	-	217,318	-	232,030
Transfers out	(376,426)	(158,796)	(127,512)	(415,900)	(1,078,634)
Developer capital contributions	-	-	573,719	-	573,719
TOTAL TRANSFERS AND CAPITAL CONTRIBUTIONS	(361,714)	(158,796)	663,525	(415,900)	(272,885)
CHANGE IN NET ASSETS	(223,838)	167,694	1,723,879	(24,615)	1,643,120
NET ASSETS - BEGINNING OF YEAR - AS PREVIOUSLY REPORTED	2,876,630	1,130,771	10,578,708	1,077,137	15,663,246
Prior period adjustment - See Note 16	(216,306)	-	-	-	(216,306)
NET ASSETS - BEGINNING OF YEAR - RESTATED	2,660,324	1,130,771	10,578,708	1,077,137	15,446,940
NET ASSETS - END OF YEAR	\$ 2,436,486	\$ 1,298,465	\$ 12,302,587	\$ 1,052,522	\$ 17,090,060

The accompanying notes are an integral
part of these financial statements.

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended September 30, 2004

	Water and Sewer	Natural Gas	South Santa Rosa Utility	Other Proprietary Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 1,375,633	\$ 1,657,812	\$ 3,174,870	\$ 1,440,925	\$ 7,649,240
Payments to suppliers	(745,766)	(978,591)	(1,422,914)	(803,513)	(3,950,783)
Payments to employees	(222,502)	(283,936)	(916,378)	(263,047)	(1,685,863)
Net cash provided (used) by operating activities	<u>407,365</u>	<u>395,285</u>	<u>835,578</u>	<u>374,365</u>	<u>2,012,593</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Borrowings (repayments)	-	-	1,015	-	-
Advances to other funds	-	-	(5,495)	23,763	18,268
Advances from other funds	5,495	-	-	283	5,778
Operating transfers in	14,712	-	217,318	-	232,030
Operating transfers out	(376,426)	(158,796)	(127,512)	(415,900)	(1,078,634)
Net cash provided (used) by non-capital financing activities	<u>(356,219)</u>	<u>(158,796)</u>	<u>85,326</u>	<u>(391,854)</u>	<u>(822,558)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(135,325)	(46,547)	(611,137)	(101,314)	(894,323)
Impact fees	33,534	-	2,260,893	-	2,294,427
Principal paid on bonds payable	-	-	(261,079)	-	(261,079)
Principal paid on notes payable	(80,154)	(41,421)	(362,767)	-	(484,342)
Interest paid on bonds and notes payable	(17,506)	(4,781)	(700,876)	-	(723,163)
Other debt service costs paid on bonds and notes payable	(2,221)	(3,781)	(209,276)	-	(215,278)
Net cash provided (used) by capital and related financing activities	<u>(201,672)</u>	<u>(96,530)</u>	<u>115,759</u>	<u>(101,314)</u>	<u>(283,757)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(471,386)	(1,410,577)	(3,851)	(1,885,814)
Proceeds from sale of investments	(323,676)	-	-	212,433	(111,243)
Rents and royalties	-	-	70,490	-	70,490
Interest income	-	-	33,628	25,204	58,832
Net cash provided (used) by investing activities	<u>(323,676)</u>	<u>(471,386)</u>	<u>(1,306,459)</u>	<u>233,786</u>	<u>(1,867,735)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	(474,203)	(331,427)	(269,795)	114,983	(960,442)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR					
	<u>1,169,850</u>	<u>839,913</u>	<u>3,495,963</u>	<u>1,249,822</u>	<u>6,755,548</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR					
	<u>\$ 695,647</u>	<u>\$ 508,486</u>	<u>\$ 3,226,168</u>	<u>\$ 1,364,805</u>	<u>\$ 5,795,106</u>

The accompanying notes are an integral
part of these financial statements.

Continued...

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended September 30, 2004

	Water and Sewer	Natural Gas	South Santa Rosa Utility	Other Proprietary Funds	Total
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF					
Current assets	\$ 558,889	\$ 347,157	\$ 1,058,877	\$ 1,361,615	\$ 3,326,538
Restricted assets	136,758	161,329	2,167,291	3,190	2,468,568
	<u>\$ 695,647</u>	<u>\$ 508,486</u>	<u>\$ 3,226,168</u>	<u>\$ 1,364,805</u>	<u>\$ 5,795,106</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 106,248	\$ 332,167	\$ (422,941)	\$ 366,081	\$ 381,555
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation	193,438	85,942	1,198,590	15,940	1,493,910
Miscellaneous income	17,821	2,885	28,436	-	49,142
(Increase) decrease in assets					
Receivables	(13,521)	(29,696)	(50,978)	(17,987)	(112,181)
Inventory, at cost	17,259	589	(11,762)	-	6,086
Prepaid expenses	1,463	355	20,443	-	22,261
Increase (decrease) in liabilities					
Accounts payable	82,029	11,505	71,673	10,263	175,469
Accrued liabilities	646	(7,649)	(10,479)	99	(17,383)
Other current liabilities	(2)	(100)	(4,323)	-	(4,425)
Compensated absences payable	(1,112)	(9,314)	(9,812)	-	(20,237)
Customer deposits	3,096	8,600	26,731	(30)	38,396
Net cash provided (used) by operating activities	<u>\$ 407,365</u>	<u>\$ 395,285</u>	<u>\$ 835,578</u>	<u>\$ 374,365</u>	<u>\$ 2,012,593</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS					
Amortization of bond issue costs and discounts	\$ -	\$ -	\$ 3,146	\$ -	\$ 3,146
Amortization of deferred loss on refunding	\$ -	\$ -	\$ 120,776	\$ -	\$ 120,776
Capital assets contributed by developers	\$ -	\$ -	\$ 573,719	\$ -	\$ 573,719

The accompanying notes are an integral
part of these financial statements.

City of Gulf Breeze, Florida
FIDUCIARY FUNDS
STATEMENT OF FUDUCIARY NET ASSETS
September 30, 2004

	Police Officer's Retirement Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ -	\$ 11,126
Investments, at market	831,785	-
	831,785	11,126
Total assets	831,785	11,126
LIABILITIES		
Liabilities		
Other	-	11,126
	-	11,126
Total liabilities	-	11,126
NET ASSETS		
Held in trust for pension benefits and other purposes	\$ 831,785	\$ -

The accompanying notes are an integral
part of these financial statements.

City of Gulf Breeze, Florida
FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended September 30, 2004

	Police Officer's Retirement Fund
ADDITIONS	
Contributions	
Employer	\$ 63,942
Plan members	3,958
State of Florida	61,164
Total contributions	129,064
Investment income	49,353
Net investment income	49,353
TOTAL ADDITIONS	178,417
DEDUCTIONS	-
Benefits and refunds paid	
Refunds	1,868
Administrative expenses	4,352
TOTAL DEDUCTIONS	6,220
NET INCREASE	172,197
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
BEGINNING OF YEAR	659,588
END OF YEAR	\$ 831,785

The accompanying notes are an integral
part of these financial statements.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

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. 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 No. 14 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB No. 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, 2004, 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: 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 the substantively 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, 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., 315 Fairpoint Drive, Gulf Breeze, FL 32561 or calling (850) 916-5420.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. The Reporting Entity (Continued)

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 \$325,000 in miscellaneous revenues during fiscal year ending September 30, 2004. 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., 315 Fairpoint Drive, 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
\$13,191,705 outstanding
- \$81,500,000 Variable Rate Demand Revenue Bonds, Series 1997A
\$58,020,025 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.

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.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government Wide and Fund Financial Statements (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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. 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.

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.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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, 2004
Levy Date	November 1, 2004
Due Date	November 1, 2004
Delinquent Date	April 1, 2005

Discounts of 1% for each month taxes are paid prior to March 2005, 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 2004 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 Governmental Accounting Standards Board (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.

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.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

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.

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.

Fiduciary

Fiduciary Funds are used to account for the assets held on behalf of outside parties, including other governments, or on behalf of other funds within the City. 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.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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, 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 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 Trust Fund. Additionally, the Florida Auditor General performs an operational audit of activities and investments of the SBA. In accordance with GASB Statement Number 31, Local Government Surplus Trust Fund is a "2A-7 like" pool and thus, SBA investments are valued using the pooled share price. City 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.

Bond and Loan Sinking Fund Investments are limited by bond ordinances to investments in direct obligations of the United States government or other marketable securities eligible as security of trust funds under regulations of the Board of Governors of the Federal Reserve System. The maturity date on sinking fund investments is limited by the individual bond ordinances to correspond to the related debt service payments.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

All proprietary fund receivables are shown without an allowance for uncollectibles. Based on the collection history of the City, it is the opinion of management that any uncollectible amounts would be immaterial. Therefore, no allowance for doubtful accounts has been established.

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.

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. Capital assets are defined by the city as assets with an initial cost more than the following:

Land		All
Building and improvements	\$	10,000
Infrastructure	\$	10,000
Improvements – other	\$	10,000
Equipment, vehicles, 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.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Assets (Continued)

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. Donated capital assets are recorded at estimated fair market value at the date of donation.

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 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/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/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

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgets (Continued)

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 Trust Fund. Interest income (which includes unrealized gains and losses) is distributed monthly based on average daily balances.

The Local Government Surplus Trust Fund is operated by Florida's State Board of Administration (SBA). Although Florida statutes allow a broad range of instruments to administer its varied instrument responsibilities, the investments of the Local Government Surplus Trust Fund investment pool only consist of short-term, high quality instruments.

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

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 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.

At year-end, the value of the City's deposits was \$8,057,257, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 of Gulf Breeze's investments are categorized below to give an indication of the level of risk assumed by the City at year-end.

- *Category 1* includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name.
- *Category 2* includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the City's name.
- *Category 3* includes uninsured and unregistered investments for which the securities are held by the counter party or by its trust department or agent but not in the City's name.
- Certain investments held by the City are not subject to categorization. The risk category of these investments cannot be determined since the City does not own identified securities and are invested as shareholders of the investment pools.

	Category			Fair Value
	1	2	3	
Investments not subject to categorization:				
Investment with Florida's State Board of Administration				\$ 350,441
Investment in pension commingled stock funds				831,785
				\$ 1,182,226

NOTE 4 – RECEIVABLES

Receivables at September 30, 2004, were as follows:

	Governmental Activites		Business Type Activities				Total Primary Government
	General	Water and Sewer	Natural Gas	South Santa Rosa Utility	Other Proprietary Funds		
Accounts	\$ 92,033	\$ -	\$ -	\$ -	\$ 14,792	\$ 106,825	
Utilities	-	193,405	155,376	424,680	67,939	841,400	
Other	-	2,701	5,414	692	2,237	11,044	
Total receivables	\$ 92,033	\$ 196,106	\$ 160,790	\$ 425,372	\$ 84,968	\$ 959,269	

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 5 - CHANGES IN CAPITAL ASSETS

The City is reporting governmental activity capital assets prospectively and will report capital assets (infrastructure) retroactively in accordance with GASB-34 requirements. Capital asset activity for the year ended September 30, 2004, was as follows:

Primary Government

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 1,280,239	\$ -	\$ (92,900)	\$ 1,187,339
Construction in progress	-	1,494,478	-	1,494,478
Total capital assets not being depreciated	<u>1,280,239</u>	<u>-</u>	<u>(92,900)</u>	<u>2,681,817</u>
Capital assets being depreciated				
Buildings	3,351,627	-	(295,941)	3,055,686
Improvements other than buildings	6,378,693	786,069	-	7,164,762
Infrastructure	105,841	14,151	-	119,992
Machinery and equipment	3,207,303	101,681	(27,236)	3,281,748
Total capital assets being depreciated	<u>13,043,464</u>	<u>901,901</u>	<u>(323,177)</u>	<u>13,622,188</u>
Less accumulated depreciation				
Buildings	(648,181)	(57,231)	-	(705,412)
Improvements other than buildings	(2,094,674)	(632,267)	-	(2,726,941)
Infrastructure	(42,225)	(4,074)	-	(46,299)
Machinery and equipment	(2,095,057)	(298,819)	-	(2,393,876)
Total accumulated depreciation	<u>(4,880,137)</u>	<u>(992,391)</u>	<u>-</u>	<u>(5,872,528)</u>
Total capital assets being depreciated, net	<u>8,163,327</u>	<u>(90,490)</u>	<u>(323,177)</u>	<u>7,749,660</u>
Governmental activities, net	<u>\$ 9,443,566</u>	<u>\$ (90,490)</u>	<u>\$ (416,077)</u>	<u>\$ 10,431,477</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Business Type Activities				
Capital assets not being depreciated				
Land	\$ 2,670,010	\$ -	\$ -	\$ 2,670,010
Construction in progress	554,287	-	(495,497)	58,790
Total capital assets not being depreciated	<u>3,224,297</u>	<u>-</u>	<u>(495,497)</u>	<u>2,728,800</u>
Capital assets being depreciated				
Buildings	332,102	-	-	332,102
Improvements other than buildings	9,031,039	1,061,382	(7,871)	10,084,550
Infrastructure	24,329,763	540,627	-	24,870,390
Machinery and equipment	1,564,237	411,883	-	1,976,120
Total capital assets being depreciated	<u>35,257,141</u>	<u>2,013,892</u>	<u>(7,871)</u>	<u>37,263,162</u>
Less accumulated depreciation				
Buildings	(27,384)	(8,587)	-	(35,971)
Improvements other than buildings	(1,119,002)	(357,358)	7,871	(1,468,489)
Infrastructure	(9,021,643)	(1,207,501)	-	(10,229,144)
Machinery and equipment	(1,113,400)	(160,753)	-	(1,274,153)
Total accumulated depreciation	<u>(11,281,429)</u>	<u>(1,734,198)</u>	<u>7,871</u>	<u>(13,007,756)</u>
Total capital assets being depreciated, net	<u>23,975,712</u>	<u>279,694</u>	<u>-</u>	<u>24,255,406</u>
Business type activities, net	<u>\$ 27,200,009</u>	<u>\$ 279,694</u>	<u>\$ (495,497)</u>	<u>\$ 26,984,206</u>

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

Governmental Activities	
General government	\$ 221,954
Public safety	300,952
Transportation	311,100
Economic environment	75,250
Culture and recreation	225,399
Total depreciation expense - governmental activities	<u>\$ 1,134,654</u>
Business Type Activities	
Water and Sewer	\$ 409,743
Natural Gas	85,942
South Santa Rosa Utility	1,198,590
Other Proprietary Funds	15,940
Total depreciation expense - business-type activities	<u>\$ 1,710,215</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

Construction Commitments

The City has active construction projects as of September 30, 2004. These projects include the Gulf Breeze Fire Station, and Daniel Drive Extension. The Gulf Breeze Fire Station is being funded by Capital Improvement Revenue Bonds and the Daniel Drive Extension is being funded by State Grants and current resources of the Community Redevelopment Agency Fund. At year-end, the City's commitments with contractors are as follows.

<u>Project</u>	<u>Spent-to-Date</u> *	<u>Remaining Commitment</u>
Gulf Breeze Fire Station	\$ 434,146	\$ 669,454
Daniel Drive Extension	933,274	495,540
Totals	<u>\$ 1,367,420</u>	<u>\$ 1,164,994</u>

*From project inception through September 30, 2004.

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, Florida 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 7.3% for general employees and 18.44% for special risk employees. The City's contributions to the plan for the years ended September 30, 2004, 2003, and 2002 listed below were equal to the required contributions for the year.

	Years Ended September 30,		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
General employees	\$ 41,527	\$ 35,876	\$ 43,155
Special risk employees	58,217	48,217	49,195
Total contributions	<u>\$ 99,744</u>	<u>\$ 84,093</u>	<u>\$ 92,350</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

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 26.0%.

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, 2004, 2003, and 2002 listed below were equal to the required contributions for the year.

	Years Ended September 30,		
	2004	2003	2002
City Police Pension Plan contributions	\$ <u>63,941</u>	\$ <u>62,917</u>	\$ <u>58,152</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

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
Contribution rates (percentage of covered payroll)	
City	26.0%
Plan Members	1.0%
Annual pension cost	\$ 105,172
Contributions made	
Employer	\$ 63,941
Other sources	\$ 61,164
Net pension obligation (asset)	\$ 0
Actuarial valuation date	10/1/2003
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	7.5%
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 contribution 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.

	Year Ending	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Obligation (Asset)
FMPT	9/30/2002	\$ 96,720	100%	-
	9/30/2003	\$ 103,974	100%	-
	9/30/2004	\$ 105,172	100%	-

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

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 S. Bronough St., Tallahassee, Florida 32302-1757 or by calling (850) 222-9684.

Membership in the plan consisted of the following at October 1, 2002, the date of the latest actuarial valuation.

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. 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, Florida, 32302-1757, or by calling (850) 222-9684.

	Years Ended September 30,		
	2004	2003	2002
General employees	\$ <u>70,377</u>	\$ <u>65,645</u>	\$ <u>53,761</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

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 No. 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 \$285,539 September 30, 2004. Contributions made by plan members during the year ended September 30, 2004, were \$23,147.

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, 2004, The City of Gulf Breeze remained self-insured for its dental and vision reimbursement program which is made available to full time employees. These activities are recorded in each individual fund. Reimbursements for the year ended September 30, 2004, were \$29,189 and \$5,054 for dental and vision respectively.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

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 forty years. Income for the year ended September 30, 2004, was \$26,040 in the General Fund and the \$70,489 in the South Santa Rosa Utility Fund. Capitalized investment in assets associated with these leases is \$2,558,157. Accumulated depreciation of \$2,009,043 has been recorded as of September 30, 2004.

Year Ending September 30,	Governmental Activities	Business-Type Activities South Santa Rosa Utility
2005	\$ 26,561	\$ 71,899
2006	27,092	73,337
2007	27,634	74,804
2008	28,187	76,300
2009	28,750	77,826
Total minimum lease payments	\$ 138,224	\$ 374,166

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, 2004:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Loan payable	\$ 205,000	\$ -	\$ (40,000)	\$ 165,000	\$ 55,000
Local government loan program 1997A	3,274,200	-	(15,300)	3,258,900	121,841
Compensated absences	173,402	144,918	(132,605)	185,715	46,429
Total governmental activities, long-term liabilities	\$ 3,652,602	\$ 144,918	\$ (187,905)	\$ 3,609,615	\$ 223,270
BUSINESS-TYPE ACTIVITIES					
SSRUS revenue bonds series 1994	\$ 11,180,000	\$ -	\$ (385,000)	\$ 10,795,000	\$ 405,000
Less deferred amounts					
For issuance discount	(56,626)	3,146	-	(53,480)	-
For loss on refunding	(2,173,962)	120,775	-	(2,053,187)	-
Local government loan program 1995A	5,113,105	-	(98,931)	5,014,174	104,194
Local government loan program 1996	2,814,741	-	(315,711)	2,499,030	332,340
Local government loan program 1997A	1,245,800	-	(69,700)	1,176,100	73,800
Compensated absences	118,263	81,981	(102,219)	98,025	24,506
Total business-type activities, long term liabilities	\$ 18,241,321	\$ 205,902	\$ (971,561)	\$ 17,475,662	\$ 939,841

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 11 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding

	Current	Long-Term	Total
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.	\$ 55,000	\$ 110,000	\$ 165,000
\$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, 2004, was 1.48%. Proceeds used for certain capital improvements.	16,200	242,700	258,900
\$3,000,000, 2003, variable rate loan (TBMA plus .0034%) from 1997A Gulf Breeze Local Government Loan Program due in 14 annual installments of \$240,641 through 2017 and a balloon payment of \$1,000,000 due in 2018. Effective rate of interest as of September 30, 2004, was 1.48%. Proceeds used for certain capital improvements.	105,641	2,894,359	3,000,000
Total Notes	176,841	3,247,059	3,423,900
<i>Accrued Compensated Absences</i>			
Total long-term portion of accumulated, vested annual and sick leave for governmental fund types.	-	185,715	185,715
TOTAL GOVERNMENTAL ACTIVITIES	\$176,841	\$ 3,432,774	\$ 3,609,615

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 11 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

	Current	Long-Term	Total
BUSINESS-TYPE ACTIVITIES			
<i>Revenue Bonds</i>			
\$14,310,000, 1994, City of Gulf Breeze, Florida, South Santa Rosa Utility System Revenue Bonds, Series 1994, due in semi-annual installments of \$21,366 to \$919,825 through 2021; interest rate at 2.5% to 5.375%. Secured by pledged revenues of the City's utility systems. Proceeds used to purchase water and sewer systems.	\$ 405,000	\$ 10,390,000	\$ 10,795,000
Less unamortized bond discount	-	(53,480)	(53,840)
Less unamortized deferred loss on refunding	-	(2,053,187)	(2,053,187)
Total Revenue Bonds	405,000	8,283,333	8,688,333
<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, 2004, was 1.48%. Available net utility revenues are pledged for payment. Proceeds used for utility system improvements.	332,340	2,166,690	2,499,030
\$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 2020; effective rate of interest as of September 30, 2004, was 1.48%. Available net utility revenues are pledged for payment. Proceeds used for utility system improvements.	104,194	4,909,980	5,014,174

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 11 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

	Current	Long-Term	Total
BUSINESS-TYPE ACTIVITIES (CONTINUED)			
<i>Notes Payable (Continued)</i>			
\$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, 2004, was 1.48%. Available net utility revenues are pledged for payment. Proceeds used for utility system improvements.	73,800	1,102,300	1,176,100
Total Notes	510,334	8,178,970	8,689,304
<i>Accrued Compensated Absences</i>			
Accumulated, vested annual accrued compensation for Enterprise Funds	-	98,025	98,025
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 915,334	\$ 16,560,328	\$ 17,475,662
GRAND TOTAL ALL LONG-TERM DEBT			\$ 21,085,277

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 11 - LONG-TERM DEBT (CONTINUED)

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, 2004, are as follows:

Governmental Activities

<u>Year Ending September 30</u>	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 181,841	\$ 138,486
2006	187,494	133,486
2007	178,362	128,259
2008	139,454	122,796
2009	145,778	117,086
2010-2014	834,505	490,346
2015-2018	1,756,466	261,099
Total	<u>\$ 3,423,900</u>	<u>\$ 1,391,557</u>

Business-Type Activities

<u>Year Ending September 30</u>	<u>Revenue Bonds</u>		<u>Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 405,000	\$ 555,996	\$ 510,334	\$ 232,362
2006	425,000	536,588	537,482	218,300
2007	445,000	515,703	565,848	203,496
2008	465,000	493,403	595,494	187,921
2009	485,000	469,648	626,489	171,543
2010-2014	2,835,000	1,933,054	1,924,298	648,400
2015-2019	3,695,000	1,065,817	1,218,273	389,562
2020-2023	2,040,000	160,713	2,711,086	60,961
Total	<u>\$ 10,795,000</u>	<u>\$ 5,730,920</u>	<u>\$ 8,689,304</u>	<u>\$ 2,112,546</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 12 - COMMENTS REQUIRED BY THE BOND ORDINANCES

South Santa Rosa Utility Refunding Revenue Bonds

1. The Balance Sheet, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows for the South Santa Rosa Utility System Enterprise Fund are shown in the financial statements section of the report.
2. The City is required to establish Sinking Fund amounts sufficient to pay one-sixth (1/6) of all interest becoming due on the Bonds on the next semi-annual interest payment date and one-twelfth (1/12) of all principal maturing on the Bonds in the current Bond Year.

	<u>Principal/Interest Payments Due</u>	<u>Sinking Fund Requirement at 9/30/04</u>	<u>Amount in Fund</u>
Principal due at 10/01/04	\$ 405,000	\$ 405,000	\$ 405,000
Interest due at 10/01/04	<u>291,318</u>	<u>291,318</u>	<u>291,318</u>
Total	<u>\$ 696,318</u>	<u>\$ 696,318</u>	<u>\$ 696,318</u> (1)

(1) Amounts are included in the restricted cash amounts on the Balance Sheet of the Utility fund.

3. The City is required to establish a reserve in the amount of the Reserve Requirement. The Reserve Requirement is the maximum bond service requirement in the current or any subsequent year. The City is in compliance with this reserve requirement.
4. Insurance schedules are included in the statistical section of the insurance in force at September 30, 2004.
5. The City is not aware of any noncompliance with the bond ordinances.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 13 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2004, is as follows:

Due To/From Other Funds

Receivable fund	Payable Fund	Amount
General	Other Proprietary	\$ 1,098,280
South Santa Rosa Utility	Water and Sewer	5,495
Other Proprietary	Other Proprietary	24,771
		\$ 1,128,546

General Fund receivable from the Gulf Breeze Financial Services Fund is for settlement income received in the prior year, accrued payroll expenses, and reimbursement for a capital asset purchase (see Note 15). General fund receivable from the South Santa Rosa Utility Fund is for impact fees income not yet transferred at year-end. Other Proprietary interfund balances are the result of program income not yet transferred before year-end.

Interfund Transfers

	Transfers In				Total
	General Fund	Urban Core Redevelopment	Water and Sewer	South Santa Rosa Utility	
Transfers out					
General	\$ -	\$ 84,908	\$ -	\$ -	\$ 84,908
Water and Sewer	159,108	-	-	217,318	376,426
Natural Gas	158,796	-	-	-	158,796
South Santa Rosa Utility	112,800	-	14,713	-	127,513
Non-Major Proprietary Funds	415,900	-	-	-	415,900
	\$ 846,604	\$ 84,908	\$ 14,713	\$ 217,318	\$ 1,163,543

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.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 14 – 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. FRUS had no income activity during 2004. A copy of the financial statements for FRUS is available by writing to 8574 Turkey Bluff Road, Navarre, Florida 32569.

NOTE 15 - 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.

Legal Proceedings

In 2003, the City of Gulf Breeze initiated legal proceeding against the Escambia County Utilities Authority (ECUA) seeking to recover over \$4,000,000 of damages resulting from various asserted misrepresentations by ECUA and/or ECUA's supply of defective water. To induce Gulf Breeze to enter into an agreement to purchase water, ECUA represented that it was capable of supplying an unlimited quantity of excellent quality potable water for the City's needs. In reliance thereupon the City agreed to pay certain expenses in connection with the enlargement of a water transmission pipe across Pensacola Bay. The City contends that ECUA's representations about its ability to supply unlimited quantities of excellent quality potable water were inaccurate. As a consequence, the City incurred significant expenses in rectifying the quality of water supplied by ECUA. Additionally, but for ECUA's alleged misrepresentation, the City of Gulf Breeze would not have incurred the significant expense of enlarging the transmission pipe. Further, the City's claim against ECUA seeks reimbursement of sums paid and/or recovery of damages as a result of the allegedly deficient quality of water supplied by ECUA.

Within the aforementioned lawsuit ECUA has filed two counterclaims against the City of Gulf Breeze. The first seeks recovery of over \$152,000 of damages allegedly resulting from a breach by Gulf Breeze to pay for certain portions of the costs of increasing the water transmission line referenced in the preceding paragraph, with the second seeking recovery of over \$4,000,000 asserting that the City was bound to purchase all of its potable water needs from ECUA. The City intends to vigorously defend the ECUA counterclaims. The likelihood of an unfavorable outcome with respect to the first counterclaim is reasonably possible, and with respect to the second unlikely. The City has retained legal counsel to represent its interest in this matter.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 15 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, and 2002C. 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

In September 2004, the City along with most of Northwest Florida, sustained damage due to Hurricane Ivan. As of September 30, 2004 the City has recorded revenues and expenses attributable to hurricane activities incurred through that date. There was significant damage to the City's facilities and infrastructure. Expenses incurred for storm preparation, emergency assistance, debris removal and damage repair through September 30, 2004, were \$671,966. Of this amount the City has recorded revenues and receivables from Federal Emergency Management Agency (FEMA) and the State Department of Community Affairs in the amount of \$604,769 and \$33,598, respectively. The following table summarizes the City's estimates of total disaster related expenditures:

Estimated disaster expenditures	\$	12,000,000
Estimated expenditures eligible for reimbursement		<u>10,450,000</u>
Net obligation to City	\$	<u><u>1,550,000</u></u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 16 – PRIOR PERIOD ADJUSTMENT

During the year ended September 30, 2004, the City identified assets in the Water and Sewer fund that should have been depreciated in prior years. Depreciation expense of \$216,306 should have been charged to operations through September 30, 2003, and a prior period adjustment for this amount has been recorded at September 30, 2004.

NOTE 17 – SUBSEQUENT EVENTS

In November 2004, The City authorized the sale of \$9,460,000, 2004, City of Gulf Breeze, Florida, South Santa Rosa Utility System Refunding Revenue Bonds, Series 2004 for purposes of refunding all of the outstanding South Santa Rosa Utility System Revenue Bonds, Series 1994.

On December 23, 2005, The City executed a line of credit for \$3,000,000 secured by pledged revenues. The line of credit has a variable interest rate and matures on December 23, 2005. The line of credit had no outstanding balance as of the issuance date of this report.

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
9/30/2004	\$ 101,271	\$ 63,942	\$ 61,164	100%
9/30/2003	\$ 100,074	\$ 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	\$ 0	100%
9/30/1999	\$ 22,840	\$ 25,642	\$ 59,929	100%
9/30/1998	\$ 19,236	\$ 1,544	\$ 0	100%
9/30/1997	\$ 18,527	\$ 18,527	\$ 0	100%
9/30/1996	\$ 5,917	\$ 5,917	\$ 0	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, 2002, the surplus contribution account total \$151,747.

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 are 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 for major capital projects) that are legally restricted to expenditure for specified purposes.

Police Special Revenue Fund

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

*The Police Special Revenue Fund is the only non-major governmental fund; therefore, no combining schedules are presented. The financial activity of the Police Special Revenue Fund has been reported in exhibits IIIA and IVA.

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, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Fines and forfeits	\$ -	\$ -	\$ 8,849	\$ 8,849
Miscellaneous	-	-	-	-
TOTAL REVENUES	-	-	8,849	8,849
EXPENDITURES				
Current	-	-	-	-
Public safety	-	-	9,633	(9,633)
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	-	-	9,633	(9,633)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(784)	(784)
NET CHANGE IN FUND BALANCE	-	-	(784)	(784)
FUND BALANCE - BEGINNING OF YEAR	-	-	37,503	37,503
FUND BALANCE - END OF YEAR	\$ -	\$ -	\$ 36,719	\$ 36,719

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, 2004

	Fishing Bridge	Solid Waste Control	Gulf Breeze Financial Services	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 57,180	\$ (12,543)	\$ 1,316,977	\$ 1,361,614
Investments	-	-	104,595	104,595
Receivables	-	70,176	14,792	84,968
Due from other funds	-	-	-	-
Restricted assets				
Cash and cash equivalents	-	3,190	-	3,190
Total current assets	57,180	60,823	1,436,364	1,554,367
Non-current assets				
Capital assets, net				
Improvements other than building	481,049	-	101,314	582,363
Machinery and equipment	-	-	96,685	96,685
Total capital assets	481,049	-	197,999	679,048
Total non-current assets	481,049	-	197,999	679,048
TOTAL ASSETS	538,229	60,823	1,634,363	2,233,415
LIABILITIES				
Current liabilities				
Accounts payable	1,725	50,812	1,720	54,257
Accrued liabilities	(874)	1,270	-	396
Due to other funds	-	-	1,123,051	1,123,051
Payable from restricted assets				
Customer deposits	-	3,190	-	3,190
Total current liabilities	851	55,272	1,124,771	1,180,894
TOTAL LIABILITIES	851	55,272	1,124,771	1,180,894
NET ASSETS				
Invested in capital assets, net of related debt	481,048	-	197,999	679,047
Unrestricted	56,330	5,552	311,593	373,475
TOTAL NET ASSETS	\$ 537,378	\$ 5,552	\$ 509,592	\$ 1,052,522

City of Gulf Breeze, Florida
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
Year Ended September 30, 2004

	Fishing Bridge	Solid Waste Control	Gulf Breeze Financial Services	Total
OPERATING REVENUES				
Charges for services	\$ 147,147	\$ 817,628	\$ 494,169	\$ 1,458,944
TOTAL OPERATING REVENUES	147,147	817,628	494,169	1,458,944
OPERATING EXPENSES				
Personal services	63,899	64,134	135,115	263,148
Contractual services	17,845	702,355	-	720,200
Supplies	1,236	1,647	-	2,883
Professional services	-	-	33,740	33,740
Repairs and maintenance	119	5,627	-	5,746
Office and utilities	7,370	-	43,836	51,206
Depreciation and amortization	13,839	565	1,536	15,940
TOTAL OPERATING EXPENSES	104,308	774,328	214,227	1,092,863
OPERATING INCOME	42,839	43,300	279,942	366,081
NON-OPERATING REVENUES				
Interest earnings	-	-	25,204	25,204
TOTAL NONOPERATING REVENUE	-	-	25,204	25,204
INCOME BEFORE TRANSFERS	42,839	43,300	305,146	391,285
Transfers out	(30,900)	(60,000)	(325,000)	(415,900)
CHANGE IN NET ASSETS	11,939	(16,700)	(19,854)	(24,615)
NET ASSETS - BEGINNING OF YEAR	525,440	22,251	529,446	1,077,137
NET ASSETS - END OF YEAR	\$ 537,379	\$ 5,551	\$ 509,592	\$ 1,052,522

City of Gulf Breeze, Florida
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year Ended September 30, 2004

	Fishing Bridge	Solid Waste Control	Gulf Breeze Financial Services	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 147,147	\$ 806,448	\$ 487,330	\$ 1,440,925
Payments to suppliers	(26,138)	(669,103)	(108,273)	(803,513)
Payments to employees	(65,070)	(62,862)	(135,115)	(263,047)
Net cash provided (used) by operating activities	<u>55,940</u>	<u>74,483</u>	<u>243,942</u>	<u>374,365</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Borrowings (repayments)				
Advances to other funds	-	-	23,763	23,763
Advances from other funds	-	(27,055)	27,338	283
Transfers out	(30,900)	(60,000)	(325,000)	(415,900)
Net cash provided (used) by non-capital financing activities	<u>(30,900)</u>	<u>(87,055)</u>	<u>(273,899)</u>	<u>(391,854)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisitions of fixed assets	-	-	(101,314)	(101,314)
NET CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Income	-	-	25,204	25,204
Purchase of investments	-	-	(3,851)	(3,851)
Proceeds from sale of investments	-	-	212,433	212,433
Net cash provided (used) by investing activities	<u>-</u>	<u>-</u>	<u>233,786</u>	<u>233,786</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,040	(12,572)	102,515	114,983
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	32,140	3,220	1,214,462	1,249,822
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 57,180</u>	<u>\$ (9,352)</u>	<u>\$ 1,316,977</u>	<u>\$ 1,364,805</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF				
Current assets	\$ 57,180	\$ (12,542)	\$ 1,316,977	\$ 1,361,615
Restricted assets	-	3,190	-	3,190
	<u>\$ 57,180</u>	<u>\$ (9,352)</u>	<u>\$ 1,316,977</u>	<u>\$ 1,364,805</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 42,839	\$ 43,300	\$ 279,942	\$ 366,081
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	13,839	565	1,536	15,940
Decrease (increase) in assets				
Accounts receivable		(11,147)	(6,839)	(17,986)
Increase (decrease) in liabilities:				
Accounts payable	434	40,526	(30,697)	10,263
Accrued liabilities	(1,170)	1,269		99
Customer deposits		(30)		(30)
Total adjustments	<u>13,102</u>	<u>31,183</u>	<u>(36,000)</u>	<u>8,284</u>
Net cash provided (used) by operating activities	<u>\$ 55,940</u>	<u>\$ 74,483</u>	<u>\$ 243,942</u>	<u>\$ 374,365</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 project

City of Gulf Breeze, Florida
AGENCY FUNDS
COMBINING BALANCE SHEET
September 30, 2004

	Health Insurance	D.A.R.E.	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ 9,615	\$ 1,511	\$ 11,126
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 9,615</u>	<u>\$ 1,511</u>	<u>\$ 11,126</u>
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES			
Liabilities			
Other	\$ 9,615	\$ 1,511	\$ 11,126
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>\$ 9,615</u>	<u>\$ 1,511</u>	<u>\$ 11,126</u>
	<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, 2004

	Balance 9/30/2003	Additions	Deductions	Balance 9/30/2004
HEALTH INSURANCE				
ASSETS				
Cash	\$ <u>9,708</u>	\$ <u>-</u>	\$ <u>93</u>	\$ <u>9,615</u>
LIABILITIES				
Other	\$ <u>9,708</u>	\$ <u>-</u>	\$ <u>93</u>	\$ <u>9,615</u>
D.A.R.E				
ASSETS				
Cash	\$ <u>1,032</u>	\$ <u>479</u>	\$ <u>-</u>	\$ <u>1,511</u>
LIABILITIES				
Other	\$ <u>1,032</u>	\$ <u>479</u>	\$ <u>-</u>	\$ <u>1,511</u>
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash	\$ <u>10,740</u>	\$ <u>479</u>	\$ <u>93</u>	\$ <u>11,126</u>
LIABILITIES				
Other	\$ <u>10,740</u>	\$ <u>479</u>	\$ <u>93</u>	\$ <u>11,126</u>

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
GENERAL GOVERNMENT EXPENDITURES AND OTHER USES BY FUNCTION⁽¹⁾
Last Ten Fiscal Years
Unaudited

Fiscal Year	General Government Services	Public Safety	Physical Environment	Transportation	Economic Environment	Community Service	Culture/ Recreation	Capital Outlay	Debt Service	Other Financing Uses	Total
2004	\$ 1,765,047	\$ 1,647,056	\$ -	\$ 172,810	\$ 95,252	\$ -	\$ 727,324	\$ 2,206,017	\$ 101,972	\$ 84,908	\$ 6,800,386
2003	977,379	1,698,658	-	181,397	248,140	-	647,466	2,374,337	106,471	76,820	6,310,668
2002	963,450	1,421,983	-	201,269	-	158,888	632,877	1,506,488	69,899	72,949	5,027,803
2001	903,313	1,364,641	-	179,703	-	70,857	599,318	900,755	80,122	68,589	4,167,298
2000	918,603	1,305,296	-	182,719	39,707	-	537,960	1,152,494	80,853	930,741	5,148,373
1999	979,114	1,240,622	-	143,001	27,529	-	451,952	917,651	55,046	551,213	4,366,128
1998	942,857	1,179,259	-	147,662	8,900	-	459,964	244,715	58,564	804,521	3,846,442
1997	861,931	1,066,485	-	156,598	11,725	-	444,313	1,236,812	61,343	367,266	4,206,473
1996	1,034,652	980,825	494,537	219,649	-	-	447,663	222,446	68,966	19,800	3,488,538
1995	1,020,853	980,552	502,108	187,957	-	-	402,643	230,937	82,473	15,000	3,422,523

(1) Includes General Fund and Special Revenue Funds.

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
Table II
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
2004	\$ 1,712,442	\$ 69,085	\$ 2,078,960	\$ 147,218	\$ 180,391	\$ 724,846	\$ 846,604	\$ 5,759,546
2003	1,616,583	86,060	1,383,234	143,466	191,450	1,315,343	4,572,920	9,309,056
2002	1,617,221	84,750	747,045	136,840	256,989	421,468	1,538,505	4,802,818
2001	1,437,157	79,747	724,530	115,211	170,066	508,553	1,086,197	4,121,461
2000	1,287,439	72,774	778,446	93,213	251,484	1,638,801	1,436,937	5,559,094
1999	1,163,000	56,712	908,327	104,049	221,727	1,312,600	1,359,617	5,126,032
1998	1,145,269	72,921	542,179	86,658	209,730	1,200,078	956,448	4,213,283
1997	1,072,130	66,205	647,880	83,405	245,686	853,390	834,850	3,803,546
1996	1,049,733	66,709	860,967	641,494	194,285	831,540	360,603	4,005,331
1995	876,047	51,787	834,479	627,825	220,124	729,522	319,551	3,659,335

(1) Includes General Fund and Special Revenue Funds.

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
TABLE III
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
2004	This levy will be collected during Fiscal Year 2005							
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%
1996	549,919	530,265	96.4%	2,886	533,151	97.0%	739	0.1%

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

SOURCE: Santa Rosa County Tax Collector Office

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

<u>Year ⁽²⁾</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Assessed Value</u>	<u>Exemptions</u>	<u>Assessed Value for Operations</u>
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
1996	\$ 451,298,370	\$ 21,140,716	\$ 472,439,086	\$171,935,003	\$ 300,504,083
1995	(3)				
1994	(3)				

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

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

(3) This information could not be obtained from the Santa Rosa County Property Appraiser

SOURCE: Santa Rosa County Property Appraiser

City of Gulf Breeze
TABLE V
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>
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
1995	1.9200

SOURCE: Santa Rosa County Property Appraiser

City of Gulf Breeze, Florida
TABLE VI
PRINCIPLE TAXPAYERS
Unaudited

<u>Taxpayer</u>	<u>Total Assessed Valuation</u>	<u>Percentage</u>
Jenkins, Robert Berryman	8,176,111	1.55%
Bell South Communications	8,112,352	1.54%
Gulf Power Company	6,252,472	1.19%
Bay Beach Hotel, LLC	4,678,702	0.90%
Exposition Properties, LLC	4,302,623	0.82%
Villas at Gulf Breeze, Inc.	4,104,617	0.78%
Quietwater Limited Partnership	3,982,941	0.76%
Belleau, George A & F	3,834,126	0.73%
Mullet, Willis	3,119,027	0.59%
Levin, Fredrick G.	<u>3,108,457</u>	<u>0.59%</u>
Total Taxable Assessed Value Principle Taxpayers	49,671,428	9.45%
Total Taxable Assessed Value Other Taxpayers	<u>476,196,099</u>	<u>90.55%</u>
Total Taxable Value	<u><u>525,867,527</u></u>	<u><u>100.00%</u></u>

SOURCE: Santa Rosa County Property Appraiser

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

Fiscal Year	Assessments	Assessments Collected	Ratio of Collections to Amount Assessed	Total Outstanding Current and Delinquent Assessment
2004	\$ 0.00	\$ 0.00	0.00%	\$ 0.00
2003	0.00	1,512.00	0.00%	0.00
2002	0.00	0.00	0.00%	1,512.00
2001	0.00	10,589.00	0.00%	1,512.00
2000	0.00	33,535.00	0.00%	12,101.00
1999	154,292.00	108,912.00	70.59%	45,636.00
1998	0.00	539.00	0.00%	256.00
1997	0.00	21,850.00	0.00%	794.00
1996	18,494.00	37,598.00	203.30%	22,644.00
1995	18,600.00	102,425.00	550.67%	41,748.00

SOURCE: City of Gulf Breeze Finance Department

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

Fiscal Year	Estimated Population	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
2004	5,790	\$ 5,111,749,849	\$ -	\$ -	\$ -	\$ -	\$ -
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	-	-	-	-	-
1996	5,959	300,504,083	-	-	-	-	-
1995	5,922	(2)	-	-	-	-	-

(1) From Table IV

(2) This information could not be obtained from the Santa Rosa County Property Appraiser

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

City of Gulf Breeze, Florida
TABLE X
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 XI
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			Coverage
					Principal	Interest	Total	
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
1996	2,236,139	17,600	1,720,432	533,307	285,000	682,772	967,772	0.55
1995	1,876,912	2,792	1,458,996	420,708	525,000	463,931	988,931	0.43

SOURCE: City of Gulf Breeze Finance Department

City of Gulf Breeze, Florida
TABLE XII
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>
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%
1996	5,959	98,491	6.05%
1995	5,922	96,091	6.16%

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	\$ 45,241	2.90%	
Median Household Income	\$ 61,635		
Less than \$15,000	9.8%		
\$15,000 - \$50,000	30.6%		
Over \$50,000	59.4%		
<u>Race:</u>		<u>Labor Force:</u>	
White	97.4%	Male	1,437
Black	0.02%	Female	1,170
Other	2.58%	Total	<u><u>2,607</u></u>

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

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

Fiscal Year	Total Assessed Value ⁽²⁾	Commercial Construction		Residential Construction		Bank Deposits ⁽³⁾
		# of Units ⁽¹⁾	Value	# of Units ⁽¹⁾	Value	
2004	\$480,162,079	2	\$1,300,000	10	\$5,480,000	\$212,625,000
2003	448,373,257	5	10,747,526	18	10,931,027	189,295,000
2002	427,856,879	2	2,250,000	20	12,772,925	162,007,000
2001	403,470,615	1	-	22	5,274,500	144,862,000
2000	368,234,138	5	18,498	24	9,297,957	140,058,000
1999	346,367,953	6	487,620	23	4,544,840	141,146,000
1998	325,924,120	5	2,831,000	32	7,378,587	133,907,000
1997	300,502,083	3	320,000	26	5,295,065	128,819,000
1996	280,746,123	7	1,221,500	16	4,472,306	132,606,000
1995	256,467,318	3	145,500	25	3,100,600	122,920,000

SOURCE:

(1) Santa Rosa County Inspection Department

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

(3) Florida Banker's Association, FDIC Website - Summary of Deposits as of June 30, 2004

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

		SANTA ROSA COUNTY
		<u>FY 03-04</u>
EDUCATION:		
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
Students:	Pre K	580
	Primary K-2	1,903
	Intermediate 3-5	2,174
	Grades K - 5	5,195
	Grades 6 - 8	5,796
	Grades 9 - 12	7,317
	Santa Rosa Community	NA
	Vocational Technical/Santa Rosa Adult	585
	Rader (Charter)	95
	Instructional (Classroom) Personnel	1,404
	Non-Instructional Personnel	738

				CITY OF GULF BREEZE		
				<u>FY 03-04</u>	<u>FY 02-03</u>	<u>FY 01-02</u>
Police Protection - number of sworn officers FT	19	18	18			
Police Protection - number of sworn officers PT	3	8	5			
Fire Protection -Volunteers	28	25	25			
City Employees	78 full time 22 part time	72 full time 37 part time	79 full time 15 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 XV
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>
2004	36	12	18	32	4	11	28	5
2003	26	19	14	9	6	1	26	4
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 XVI
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 XVII
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 XVIII
GARBAGE AND TRASH RATES
Unaudited

Residential

Regular curbside	\$ 16.49
Regular Side Door	\$ 21.30
Regular Disabled	\$ 16.49
Senior Curbside	\$ 14.85
Senior Side Door	\$ 19.17
Senior Disabled	\$ 14.85

Commercial

<u>Container Size</u>	<u>Frequency Per Week</u>				
	1	2	3	4	5
2 Cubic Yards	\$ 55.87	\$ 98.00	\$ 140.13	\$ 178.51	\$ 223.14
4 Cubic Yards	\$ 86.75	\$ 157.25	\$ 226.52	\$ 290.79	\$ 362.53
6 Cubic Yards	\$122.63	\$ 221.52	\$ 315.41	\$ 409.31	\$ 506.94
8 Cubic Yards	\$153.50	\$ 278.28	\$ 401.80	\$ 521.57	\$ 646.34

Miscellaneous Services

- 6 Yard Compactor - weekly service - Total cost \$120.81
- 30 Yard Compactor - on call - Total cost, variable
- 40 Gallon Hand Pickup- weekly service - Total cost \$21.00
- 30 Yard Roll Off - on call - Total cost, variable

SOURCE: City Water Customer Service Division

City of Gulf Breeze, Florida
TABLE XIX
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 XX
INSURANCE COVERAGE
September 30, 2004
Unaudited

<u>Effective Dates</u>	<u>Company</u>	<u>Policy Number</u>	<u>Type</u>	<u>Amount</u>
10/01/04 to 9/30/05	Florida Municipal Insurance Trust	FMIT # 0224	Auto (Person)	\$ 100,000
			Auto (Occurrence)	\$ 200,000
10/01/04 to 9/30/05	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
10/01/04 to 9/30/05	Florida Municipal Insurance Trust	FMIT # 0224	Real Property	\$ 16,910,848
10/01/04 to 9/30/05	Florida Municipal Insurance Trust	FMIT # 0224	Personal Property	\$ 973,802
10/01/04 to 9/30/05	Florida Municipal Insurance Trust	FMIT # 0224	Island Marine	\$ 193,380
10/01/04 to 9/30/05	Citizens Property Insurance Company	728652	Wind Storm	\$ 4,110,000
10/01/04 to 9/30/05	City of Gulf Breeze	N/A	Worker's Compensation	\$ 250,000
10/01/04 to 9/30/05	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
AND STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2004

Federal/State Agency Pass-Through Entity Federal Program/State Project	CFDA CSFA Number	Contract/ Grant Number	Expenditures	Transfer to Subrecipients
FEDERAL AWARDS				
<i>U.S. Department of Justice</i>				
Direct Programs				
Cops in Schools	16.710	2002SHWX0161	\$ 39,385	\$ -
Gangs Resistance Education and Training Program	16.737	1006876	4,250	-
Indirect Programs				
Pass-Through From:				
State Department of Law Enforcement				
Drug Reduction Through Impact Patrols	16.592	V3135	3,352	-
State Office of Attorney General				
Victims of Crime Act	16.575	04-CJ-7N-01-67-02-003	32,724	-
Total U.S. Department of Justice			<u>79,712</u>	<u>-</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	97.036	05-PA-G-01-67-02-621	638,367	-
Total U.S. Federal Emergency Management Agency			<u>638,367</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 718,079</u>	<u>\$ -</u>
STATE FINANCIAL ASSISTANCE				
<i>Florida Department of Transportation</i>				
Indirect Programs				
Pass-Through From:				
Santa Rosa County				
County Incentive Grant Program	55.008	AK 229	\$ 221,424	\$ -
Joint Participation Agreement - Hwy 98				
Corridor Improvements			450,000	-
Total Florida Department of Transportation			<u>671,424</u>	<u>-</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 671,424</u>	<u>\$ -</u>

The accompanying notes are an
integral part of this schedule.

City of Gulf Breeze, Florida
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year Ended September 30, 2004

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state 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*, and Chapter 10.550, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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

**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**

We have audited the financial statements of the City of Gulf Breeze, Florida as of and for the year ended September 30, 2004, and have issued our report thereon dated January 31, 2005. We conducted our audit in accordance with generally accepted auditing standards 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Gulf Breeze, Florida in a separate letter dated January 31, 2005.

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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Gulf Breeze, Florida in a separate letter dated January 31, 2005.

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. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "O'Sullivan Creel, LLP". The signature is written in a cursive, flowing style.

**O'SULLIVAN CREEL, LLP
Certified Public Accountants & Consultants**

January 31, 2005



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

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

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, 2004. 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, 2004.

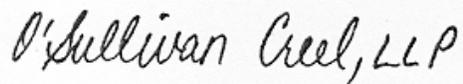
Internal Control Over Compliance

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 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.

The Honorable Mayor, Members of
the City Council and Citizens
of Gulf Breeze, Florida
Report on Compliance
With Requirements Applicable to each
Major Program and Internal Control over
Compliance in Accordance with OMB
Circular A-133 (Continued)

This report is intended solely for the information and use of the Audit Committee, 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. However, this report is a matter of public record and its distribution is not limited.



O'SULLIVAN CREEL, LLP
Certified Public Accountants & Consultants

January 31, 2005

City of Gulf Breeze, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2004

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? _____ Yes x 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: Unqualified

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
97.036	Federal Emergency Management Agency - Disaster Funding Agreement

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

No matters were reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.



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

MANAGEMENT LETTER

We have audited the financial statements of the City of Gulf Breeze, Florida, as of and for the fiscal year ended September 30, 2004, and have issued our report thereon dated January 31, 2005.

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 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*, 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 this report and schedules, which are dated January 31, 2005, 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*. Those rules (Section 10.554(1)(h)) require that we include our comments and recommendations pursuant to Florida Statute 218.39(4) in a management letter, if not already addressed in the auditor's report on compliance and internal controls or schedule of findings and questioned costs.

Communications Required by the Auditor General

- The *Rules of the Auditor General* (Section 10.554(1)(h)1) require that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial audit report have been corrected or further commented on below under *Prior Year Comments*.
- 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 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 disclosure in the management letter of our 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 Comments*.

The Honorable Mayor, Members of
the City Council and Citizens
of Gulf Breeze, Florida
Management Letter (Continued)

- 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: a) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred or are likely to have occurred and were discovered within the scope of the audit; b) improper or illegal expenditures that may not materially affect the financial statements; c) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); failures to properly record financial transactions; and other inaccuracies, shortages, defalcations and instances of fraud discovered by, or that come to the attention of the auditor. Our audit did not disclose any matters required to be disclosed by Rules of Auditor General under this section.
- 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 as defined in publications cited in Rule 10.553, unless disclosed in the notes to the financial statements be disclosed in the management letter. The information can be found in Note 1 of the financial statements.
- The *Rules of the Auditor General* (Section 10.554(1)(h)6a), require a statement as to whether or not the City met one or more of the conditions described in Section 218.503(1), Florida Statutes, and the identification of the specific condition(s) met. The City did not meet any of the financial emergency conditions as described in Section 218.503(1), Florida Statutes.
- As required by the *Rules of the Auditor General* (Section 10.554(1)(h)6b), we determined that the annual financial report for the City of Gulf Breeze, Florida, for the fiscal year ended September 30, 2004, filed with the Department of Banking Finance pursuant to Section 218.32, Florida Statutes is in agreement with the annual financial audit report for the fiscal year ended September 30, 2004.
- As required by the Rules of the Auditor General (Sections 10.554(h)(6c), and 10.556(8)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

PRIOR YEAR COMMENTS

I. GRANTS MANAGEMENT

Observation

The City receives numerous grants from various sources that it must administer. City personnel are responsible for establishing policies, monitoring the various grants and keeping current in federal and state reporting requirements. The following were noted during our audit.

- There is no single point of contact to coordinate grant activity for the City making it difficult for the finance department to accurately report grant receivables, revenues and expenses.
- There were no written grant procedures defining grant responsibilities or reporting and monitoring procedures.
- Grant files were not maintained in an orderly manner making it difficult to determine grants applied for, grants approved, status of grants, accuracy of receipts and expenditures, and proper grant monitoring and reporting.

PRIOR YEAR COMMENTS (CONTINUED)

1. GRANTS MANAGEMENT(Continued)

Recommendation

The City should establish policies and procedures for grant administration to insure all grants are properly administered and all grant requirements are preformed and documented. Grant files should be centrally located and each file should contain all of the applicable documentation. Established procedures and orderly files will enable the City's Finance Department to properly report, monitor and record grant activity.

Status

The City instituted procedures to insure that grant responsibility was placed with an appropriate level of management. The City also defined procedures and requirements for maintaining this information as well as ensuring that grant files are kept in a more orderly and standardized format.

2. CONSTRUCTION PROJECTS

Observation

The City's Utility System typically incurs a substantial amount of construction projects in a given fiscal year. The City has made significant progress in capturing project costs by recording them in improvements other than buildings. However, proper accounting for construction projects dictates that costs associated with a particular project be accumulated in a construction in progress account from inception through actual completion of the project, which when complete, will result in a single asset being identified and capitalized and depreciated in the subsidiary ledger as one project.

Currently, the Utility does not have a system in place to adequately accumulate these costs in a manner that will ensure the City Finance Department accurately records and capitalizes these construction projects.

Recommendation

We recommended the Utility establish procedures to ensure the maintenance of current files that keep track of all on-going construction projects to include, copies of original and amended contracts, expenditures to date, and reconciliation of expenditures to the accounting records.

Status

The City developed procedures to allow the Finance department to improve and correctly record and capitalize this information. An added recommendation this year is that the City also record retainage payable on long-term construction contracts to enhance the information provided to Management and Council.

Management Response

The City agrees and has discussed an acceptable procedure with the Auditors.

CURRENT YEAR COMMENTS

1. *FIXED ASSET DISPOSALS*

Observation

At present, the City of Gulf Breeze, does not appear to have a formal procedure to ensure that disposals of fixed assets, whether by destruction, sale, scrapping, or trade-in, are reported to the finance department. Without such a procedure, the likelihood of a disposal going unrecorded increases substantially. A formal policy to ensure the reporting of fixed asset dispositions should be adopted and should require the necessary level of approvals based on the value of the asset. We noted instances of fixed asset disposals that were not recorded in either the general ledger or the detailed sub-ledger that could have been detected if a formal procedure were in place.

Recommendation

We recommend a standardized form be developed to provide adequate approvals for disposal, details, and other pertinent information as evidence of adherence to the City of Gulf Breeze's policy. This form would also provide the necessary accounting documentation for recording the disposal into the books of account.

Management Response

A physical inventory is generally done at the end of each fiscal year, which captures any changes or deletions that have not been recorded throughout the year. Due to Hurricane Ivan, the inventory was not completed this year. The City agrees with the recommendation and will revise its procedures and implement forms for department heads to use to standardize this procedure.

2. *RECONCILIATION OF CASH WITH FISCAL AGENT ACCOUNT*

Observation

Our audit procedures revealed that timely and complete monthly reconciliations of the cash with fiscal agent account were not completed. This resulted in numerous transactions that were not posted into the accounting system. Failure to record and reconcile activity in all City related accounts could deter Management and/or Council from making well informed fiscal decisions, as well as lead to errors in the financial records and financial statements.

Recommendation

We recommend that procedures be established to ensure the consistent periodic (quarterly at a minimum) reconciliation and recording of all City related activity, whether held in City accounts, or with a third-party agent to ensure all transactions are posted into the accounting system.

Management Response

Management agrees and will implement a procedure to ensure all transactions are posted.

The Honorable Mayor, Members of
the City Council and Citizens
of Gulf Breeze, Florida
Management Letter (Continued)

3. **BUDGET AMENDMENT**

Observation

Florida Statutes, Chapter 166.241 provides the following:

The governing body of each municipality at any time within a fiscal year or within up to 60 days following the end of the fiscal year may amend a budget for that year as follows:

- (a) Appropriations for expenditures within a fund may be decreased or increased by motion recorded in the minutes, provided that the total of the appropriations of the fund is not changed.
- (b) The governing body may establish procedures by which the designated budget officer may authorize certain budget amendments within a department, provided that the total of the appropriations of the department is not changed.
- (c) If a budget amendment is required for a purpose not specifically authorized in paragraph (a) or paragraph (b), the budget amendment must be adopted in the same manner as the original budget unless otherwise specified in the charter of the respective municipality.

We noted that the City of Gulf Breeze amended their budget in December, which is beyond the 60 day allowable window for budget amendments. Total appropriations increased by \$2,600,000. All expenses not in the original budget are approved by Council prior to their purchase, unless it is an emergency upon which such purchases are brought to Council at the next meeting.

Recommendation

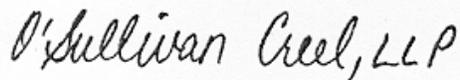
We recommend the City implement procedures to ensure that the budget is reviewed at least at mid-year, and then again within 30 days after fiscal year-end to allow adequate time to adopt a final amended budget within the time allotted under Statute.

Management Response

Management agrees the timing of the amended budget adjustment was not within the allowable 60 day period, however, Council was aware of and had approved the changes in appropriations prior to this adjustment. Management will put procedures in place to see that these amendments are completed in a more timely manner.

This management letter is intended solely for the information of the City of Gulf Breeze, Florida, management, and the State of Florida Office of the Auditor General. However, this report is a matter of public record and its distribution is not limited.

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



O'SULLIVAN CREEL, LLP
Certified Public Accountants & Consultants

January 31, 2005