

City of Gulf Breeze Florida



Comprehensive Annual Financial Report

Fiscal Year Ending September 30, 2007

I. Introductory Section

- **Principal City Officials**
- **Table of Contents**
- **Letter of Transmittal**
- **Government Finance Officers
Certificate of Achievement in Financial
Reporting**
- **Organizational Chart**

CITY OF GULF BREEZE, FLORIDA
CITY OFFICIALS

City Council

MAYOR LANE GILCHRIST

BEVERLY ZIMMERN
CARL HOFFMAN

J.B. SCHLUTER
RICHARD C. FULFORD



CITY MANAGER
EDWIN EDDY

CITY CLERK
MARITA RHODES

FINANCE DIRECTOR
NANCY MILLAY

CITY ATTORNEY
MATT DANNHEISSER

City of Gulf Breeze, Florida
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2007

	<u>Page</u>	<u>Exhibit</u>
TITLE PAGE		
I. INTRODUCTORY SECTION		
City Officials		
Table of Contents	i	
Letter of Transmittal	v	
GFOA Certificate of Achievement	xii	
Organizational Chart	xiii	
II. FINANCIAL SECTION		
Independent Auditor’s Report	1	
A. MANAGEMENT’S DISCUSSION AND ANALYSIS	3	
B. BASIC FINANCIAL STATEMENTS		
Government Wide Financial Statements		
Statement of Net Assets	15	I
Statement of Activities	16	II
Fund Financial Statements		
<u>Governmental Fund Financial Statements</u>		
Balance Sheet	17	IIIA
Reconciliation of the Balance Sheet to the Statement of Net Assets	18	IIIB
Statement of Revenues, Expenditures and Changes in Fund Balance	19	IVA
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	20	IVB
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	21	V
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Urban Core Redevelopment Special Revenue Fund	22	VI
<u>Proprietary Fund Financial Statements</u>		
Statement of Net Assets	23	VII
Statement of Revenues, Expenses and Changes in Net Assets	25	VIII
Statement of Cash Flows	26	IX
<u>Fiduciary Fund Financial Statements</u>		
Statement of Fiduciary Net Assets	28	X
Statement of Changes in Fiduciary Net Assets	29	XI

City of Gulf Breeze, Florida
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2007

	Page	Statement/ Schedule
II. FINANCIAL SECTION (CONTINUED)		
Notes to Financial Statements	30	
C. REQUIRED SUPPLEMENTARY INFORMATION		
Pension Schedules		
Schedule of Contributions From the Employer and Other Contributing Entities	56	A-1
D. COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES		
Nonmajor Governmental Funds		
Combining Balance Sheet	57	B-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	58	B-2
<i><u>Schedules of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual of Nonmajor Governmental Funds</u></i>		
Traffic Citation Special Revenue Fund - Schedule of Revenues, Expenditures, and Changes in - Budget and Actual	59	B-3
Police Special Revenue Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	60	B-4
Nonmajor Proprietary Funds		
Combining Statement of Net Assets	61	C-1
Combining Statement of Revenues, Expenditures, and Changes in Net Assets	62	C-2
Combining Statement of Cash Flows	63	C-3
Fiduciary Funds		
Agency Funds - Combining Balance Sheet	65	D-1
Agency Funds - Combining Statement of Changes in Assets and Liabilities	66	D-2

City of Gulf Breeze, Florida
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2007

	Page	Table
III. STATISTICAL SECTION (UNAUDITED)		
Components of Net Assets	67	I
Governmental Activities – Changes in Net Assets	68	II
Business-Type Activities – Changes in Net Assets	69	III
Charges for Services by Function and Program	70	IV
Components of Fund Balance	71	V
General Government Expenditures and Other Uses by Function	72	VI
General Government Revenues and Other Financing Sources by Source	73	VII
Property Tax Levies and Collections	74	VIII
Assessed Value of Taxable Property	75	IX
Property Tax Rates Per \$1,000 of Taxable Value - All Direct and Overlapping Governments	76	X
Principal Taxpayers	77	XI
Special Assessment Billings and Collections	78	XII
Outstanding Debt	79	XIII
Ratio of Total Debt to Assessed Value and Total Debt per Capita	80	XIV
Computation of Legal Debt Margin	81	XV
Ratio of Net General Bonded Debt To Assessed Value and Net Bonded Debt Per Capita	82	XVI
Computation of Direct and Overlapping Debt - General Obligations	83	XVII
Revenue Bond Coverage - South Santa Rosa Utility Certificates	84	XVIII
Miscellaneous Demographical Statistics	85	XIX
Schedule of Property Value, Construction, and Bank Deposits	86	XX
Principal Employers	87	XXI
Miscellaneous Statistical Data	88	XXII
Permits	89	XXIII
Water Service Rates	90	XXIV
Sewer Service Rates	91	XXV
Garbage and Trash Rates	92	XXVI
Natural Gas Service Rates	93	XXVII
Insurance Coverage	94	XXVIII

City of Gulf Breeze, Florida
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2007

IV. COMPLIANCE SECTION

Schedule of Expenditures of Federal Awards and State Financial Assistance	95
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance	96
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	97
Report on Compliance with Requirements Applicable to Each Major Program And On Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General	99
Schedule of Findings and Questioned Costs - Federal and State Programs	101
Management Letter	105



City of Gulf Breeze

March 13, 2008

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, 2007, 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, 2007, 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, 2007, 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 was used as a fishing pier until severely damaged in 2004 by Hurricane Ivan.

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

Profile

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

The First Mayor, Dr. C. J. Heinberg, and City Council member's requested and received from Santa Rosa County, the ownership of land (more than 255 acres) that is now Shoreline Park. An outstanding range of recreational facilities is provided by the City, which includes 10 ball fields including basketball, softball football and soccer stadiums, 5 children's parks, 10 tennis courts, several picnic areas, 2 public boat launches, a dog park, a skate park, a disc golf course, 2 nature reserves & beach various nature trails and bicycle paths.

Within the City you will find a full-service hospital, a Sports Medicine Center, a public library, six churches, a recreation center that includes a theater along with a large gymnasium, and three public schools, elementary, middle, and high school, each of which continues to receive high rankings. The City provides public services, which include streets and drainage in addition to enterprise operations consisting of water, sewer, stormwater drainage 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 fully accredited Police Department 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 of the primary government as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City has a discretely reported component unit, Capital Trust Agency (CTA), along with blended component units, Gulf Breeze Financial Services (GBFS) and the Community Redevelopment Agency (CRA).

The annual budget serves as the foundation of the City's financial planning and control. Development of the annual budget is the beginning of the financial transaction process. A town meeting is held, generally the first Monday of May, and is the starting point for developing the budget. All Departments of the City submit requests for appropriation to the City Manager, to be finalized by mid June. The City Manager then reviews the proposed budget, and when a balanced budget is achieved; it is ready for presentation to the City Council. Beginning in July, several public workshops are held, during which time the proposed budget is presented to the Mayor and City Council. A determination regarding the City millage rate is made and all public notices regarding the proposed budget and millage rate are posted. 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% residential with commercial area's accounting for 21% 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.

The City completed one of two major commercial projects during fiscal year 2007. A Sports Medicine Center, the Andrews Institute is now in use. This health sciences venture is a world class institute for orthopedics and sports medicine with the leadership and reputation of nationally and internationally renowned orthopedic surgeon James Andrews, MD.

Five or more corporations are 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 may create an estimated 126 new jobs with nearly \$10 million in wages. The combined impact of the patient clientele and employment opportunities related to the Institute will further enhance Northwest Florida's ability to create an environment for positive growth while creating a reputation for world class medical care.

The development of a large scale retail center at the intersection of Highway 98 and Daniel Drive is underway with expected completion in mid 2008.

Gulf Breeze sponsored its first loan pool in 1985. Since that time the loan pools have generated over \$17 million in fees, allowing the City to make significant improvements. The loan pools have also allowed the City to maintain a low millage rate and approve a rollback rate of 1.552 for tax year 2007.

Long-term Financial Planning

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

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

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

- Continued re-paving of the more than 45 miles of streets within the City of Gulf Breeze. The City is in the seventh year of a fifteen-year program to re-pave all 45 miles of streets. Local Option gas tax revenues are used to fund part of this project.
- The City of Gulf Breeze completed the project to extend its natural gas line and tie-in to a neighboring county gas company line. This project provides the City an additional source of natural gas to assure stability of supply for our growing area of gas customers.
- Continued improvements to storm water management systems resulting from Federal and State mandates which began in 2006. Funding through grants and service fees continues.
- Restoration of the waterside parks was begun in fiscal year 2006 and was completed in 2007 at a cost of \$4 million dollars.
- Phase II of the Shoreline Park North, Renovation Plan project, at \$3.4 million began in December 2006 and includes softball field renovations, park sidewalks, lighting, fencing, and was completed by year end 2007.

- The City is in the process of developing a new Master Plan for our parks to provide capital projects for the next 10 years.
- The Gulf Breeze Fishing Bridge, suffered severe hurricane damage in 2004/2005. It is still to be determined to what extent the City will be responsible for demolition and removal, along with determining what funds will be available through FEMA for actual costs and for alternative projects.

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 unrestricted cash and investments were slightly over \$6.6 million. Approximately \$387,000 was with the Florida State Board of Administration Investment Pool; \$990,000 at the Bank of Pensacola in money market accounts, \$55,000 with The Florida Municipal Investment Trust, \$1,136,000 was invested in certificates of deposit and the remaining \$4,032,000 was maintained in accounts with Qualified Public Depositories.

The Florida State Board of Administration Investment Pool had average earnings of 4.73% throughout the year, with a rate of 5.39% in September. The Bank of Pensacola investments accounts earned an average of 4.77% throughout the year, ending with a rate of 5.43% in September. The City invested \$500,000 with Florida Municipal Investment Trust in May, 2004, however, due to cash flow demands \$487,000 was transferred to the Bank of Pensacola in December 2006. City staff continues to review its options regarding the distribution of investments.

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 7 and 8 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, 2006. (This was the 5th consecutive year that the government has achieved this prestigious award.) In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

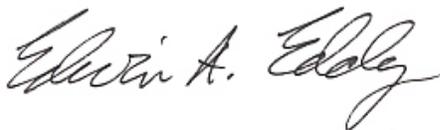
Other City Departments, while not extensively involved in the year-end audit activities, contribute significantly, ensuring the accuracy and integrity of accounting information throughout the year. Their diligence was essential in assisting the Finance Department in providing the Citizens of Gulf Breeze with an outstanding, comprehensive report.

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

Respectfully submitted,

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, 2006

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.

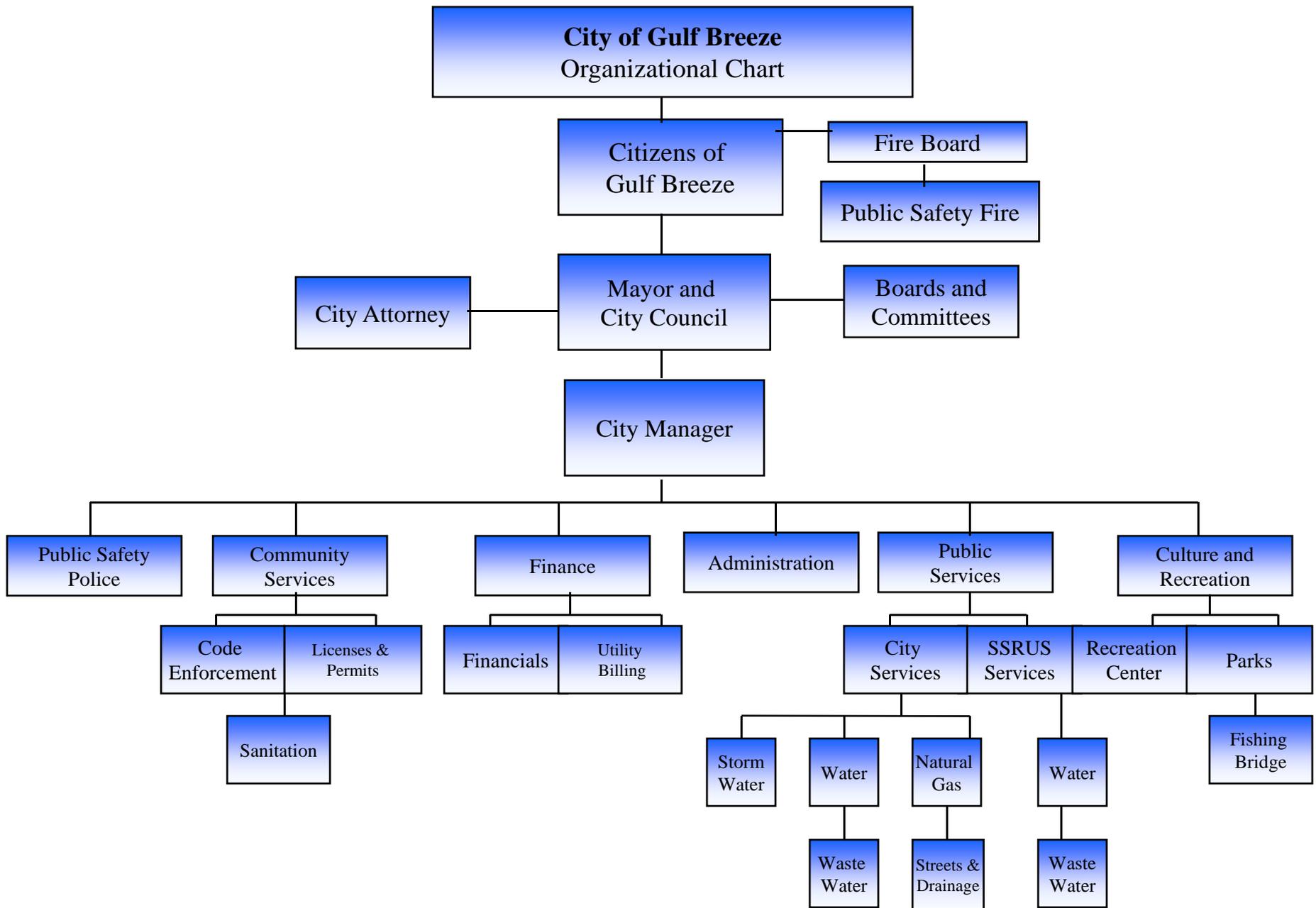


Oliver S. Cox

President

Jeffrey R. Emery

Executive Director



II. Financial Section

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gulf Breeze, Florida, as of and for the year ended September 30, 2007, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Gulf Breeze's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gulf Breeze, Florida as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary information for the General and Urban Core Redevelopment funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated March 13, 2008, 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14 and the Schedule of Contributions from the Employer and other Contributing Entities on page 56 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

O'Sullivan Creel, LLP

March 13, 2008

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

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, 2007. 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 \$28,570,723 (net assets). Of this amount \$8,325,347 (unrestricted net assets) may be used to meet the City's ongoing obligations to its citizens and creditors.
- The City's total net assets decreased by \$1,262,294 or 4.2%. The governmental net assets decreased by \$2,710,521 or 25.8% and the business-type net assets increased by \$1,448,227 or 7.5%.
- The City's governmental funds reported combined ending fund balances of \$5,195,842, an increase of \$2,237,799. Of the total ending fund balance, \$2,901,435 is available for spending at the City's discretion (unreserved and undesignated fund balance). The primary portion of the increase is due to an increase in cash and cash equivalents resulting from a decrease in funds due from other governments (primarily FEMA) along with decrease in Accounts Payable, and Contracts Payable which is the result of completing hurricane and flood damage projects. At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,576,869 or 25.7% 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,

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

natural gas, stormwater management, and solid waste.

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

Fund Financial Statements

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

FUNDS

Governmental Funds

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

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

The City maintains four individual governmental funds (General Fund, Urban Core Redevelopment Fund, Police Special Revenue Fund, and Traffic Citation Fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General and Urban Core Redevelopment Funds, which are considered major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of the combining statements elsewhere in this report.

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

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

Proprietary Funds

All proprietary funds of the City are maintained as enterprise funds. Enterprise funds are used to report the

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

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

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

Fiduciary Funds

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

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

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-55 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 56 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 57-66 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

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

the case of the City of Gulf Breeze, assets exceeded liabilities by \$28,570,723 at the close of the most recent fiscal year, as reported below in Table 1.

The largest portion of the City's net assets \$18,385,330 (64.4%) 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 (6.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$8,235,347 may be used to meet the City's ongoing obligations to citizens and creditors.

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

Table 1
Statement of Net Assets as September 30

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Current and other assets	6,027,854	4,100,081	5,857,450	8,097,743	11,885,304	12,197,824
Capital assets	12,789,561	11,767,158	29,772,929	27,655,572	42,562,490	39,422,730
Total assets	18,817,415	15,867,239	35,630,379	35,753,315	54,447,794	51,620,554
Long term liabilities outstanding	10,453,818	4,239,071	14,015,851	15,649,756	24,469,669	19,888,827
Other liabilities	566,120	1,120,170	841,282	778,540	1,407,402	1,898,710
Total liabilities	11,019,938	5,359,241	14,857,133	16,428,296	25,877,071	21,787,537
Net assets:						
Invested in capital assets net of related debt	1,849,245	7,722,314	16,536,085	12,759,746	18,385,330	20,482,060
Restricted	780,417	2,017,516	1,079,629	771,202	1,860,046	2,788,718
Unrestricted	5,167,815	768,168	3,157,532	5,794,071	8,325,347	6,562,239
Total net assets	7,797,477	10,507,998	20,773,246	19,325,019	28,570,723	29,833,017

Governmental Activities

Governmental activities decreased the City of Gulf Breeze's net assets by \$2,710,521. The key elements of this change are reported below in Table 2.

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

Charges for services reflected an increase of 47.7% this year due in part to an increase in business license revenues attributable to increased inspections and follow up, public safety revenues increased 49.1% due to the Traffic Citation Fund, and culture and recreation revenues increased 18.3% due to increased use of facilities.

Operating grants and contributions were \$2,595,066 this year, a decrease of 28.5% which is attributable to the decreased reimbursements from FEMA. The City received approximately \$3.5 million in reimbursement funds from FEMA, related to Hurricane Ivan.

Investment earnings are down 15.8% due mainly to a decrease in funds invested. Funds have been invested in Florida League of Cities Investment Funds, the Florida State Investment Pool and Investment accounts with the Bank of Pensacola.

Table 2

Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
REVENUES						
Program revenues:						
Charges for services	667,373	451,773	9,239,848	8,481,901	9,907,221	8,933,674
Operating grants & contributions	2,595,066	3,630,268	-	-	2,595,066	3,630,268
Capital grants & contributions	-	129,238	2,448,130	2,912,708	2,448,130	3,041,946
General Revenues;						
Property taxes	1,769,209	1,522,994	-	-	1,769,209	1,522,994
Other taxes	831,815	590,069	-	-	831,815	590,069
Intergovernmental revenues	498,649	492,359	-	-	498,649	492,359
Miscellaneous	597,342	634,908	70,820	112,181	668,162	747,089
Investment earnings	149,068	176,998	133,904	191,820	282,972	368,818
Total revenues	7,108,522	7,628,607	11,892,702	11,698,610	19,001,224	19,327,217

Table 2 -- (Continued)

Change in Net Assets - (Continued)

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

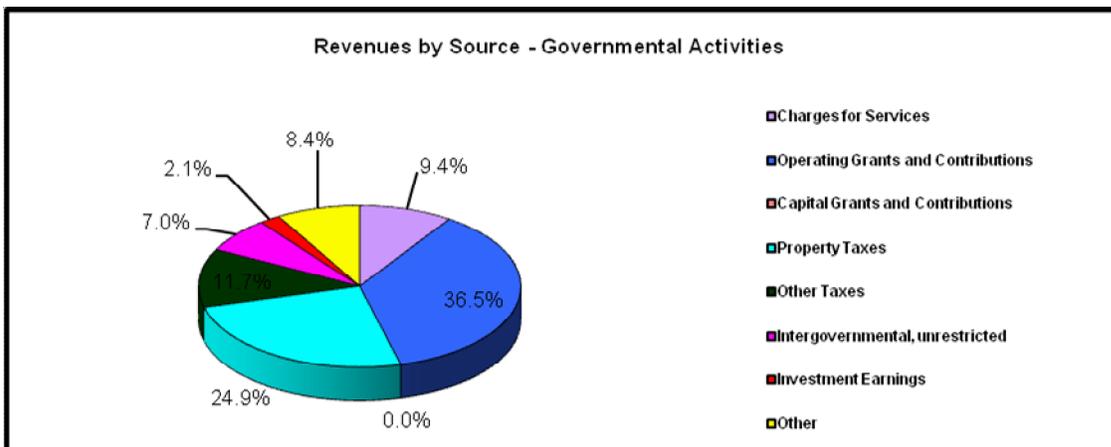
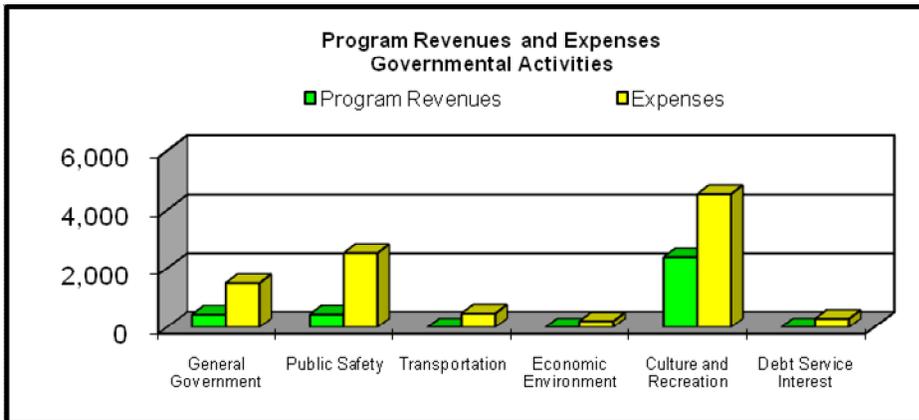
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
EXPENSES						
Primary Government:						
General Government	1,483,562	1,474,805	-	-	1,483,562	4,974,062
Public Safety	2,523,959	2,200,265	-	-	2,523,959	2,200,265
Transportation	470,013	520,691	-	-	470,013	520,691
Economic Environment	203,332	209,664	-	-	203,332	209,664
Culture & Recreation	4,532,538	4,588,716	-	-	4,532,538	1,089,459
Debt Service Interest	291,769	167,473	-	-	291,769	167,473
Business-Type Activities:						
Water & Sewer	-	-	1,411,855	1,308,246	1,411,855	1,308,246
Natural Gas	-	-	1,943,119	2,031,273	1,943,119	2,031,273
SSRUS Utilities	-	-	5,704,870	5,269,482	5,704,870	5,269,482
Stormwater Mgmt	-	-	145,145	-	145,145	
Fishing Bridge	-	-	461,058	10,682	461,058	10,682
Solid Waste Control	-	-	901,297	880,301	901,297	880,301
Gulf Breeze Financial Services	-	-	191,001	189,021	191,001	189,021
Total expenses	9,505,173	9,161,614	10,758,345	9,689,005	20,263,518	18,850,619
Increase (decrease) in net assets before transfers	(2,396,651)	(1,533,007)	1,134,357	2,009,605	(1,262,294)	476,598
Transfers	(313,870)	870,849	313,870	(870,849)	0	0
Increase (decrease) in net assets	(2,710,521)	(662,158)	1,448,227	1,138,756	(1,262,294)	476,598
Net assets - 10/1	10,507,998	11,648,283	19,325,019	18,186,263	29,833,017	29,834,546
Prior period adjustment	-	(478,127)	-	-	-	(478,127)
Net assets - 9/30	7,797,477	10,507,998	20,773,246	19,325,019	28,570,723	29,833,017

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

Property tax revenue has increased by 16.2%. This is due to the increased value of properties within the City along with the completed commercial construction.

Culture and recreation expenses continue to be high due to the continuing repairs to parks damaged during Hurricane Ivan.

Debt service interest increase of 74.2% is due to additional borrowings needed for park repairs and increases in public safety.



Business-Type Activities

Business-type activities increased the City's net assets by \$1,448,227.

There have been no significant changes in the number of water & sewer customers inside City limits and we have not yet returned to the pre-storm numbers. This is also true for the number of water customers outside the City limits as it has not yet reached its pre-storm count either. The number of sewer customers outside City limits has increased (3.1%) due to the ongoing construction of new subdivisions in that area.

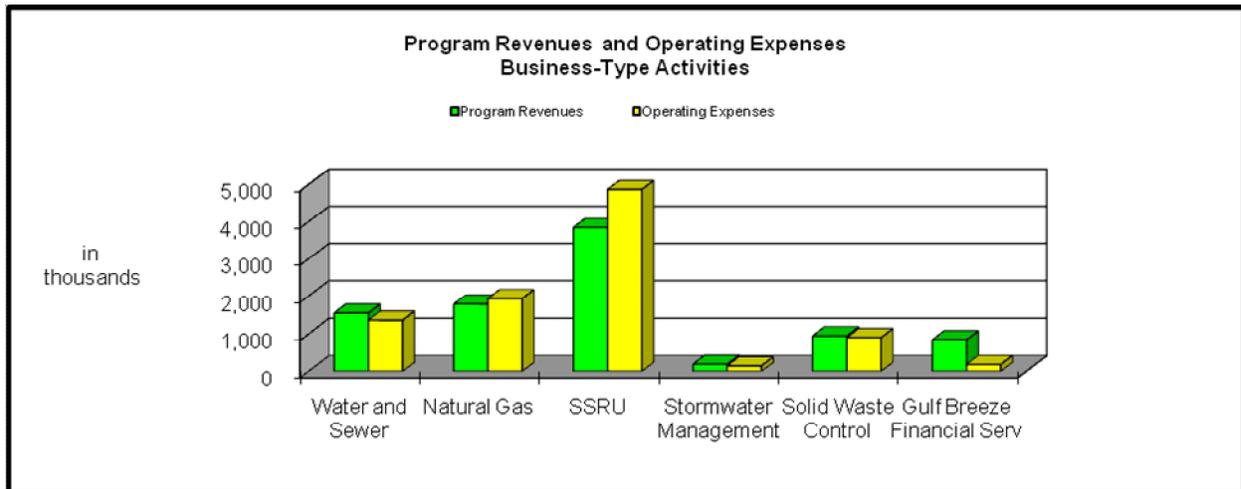
City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

Capital contributions of \$1,324,701 this year continues to reflect the growth in the area serviced by South Santa Rosa Utilities Service (SSRUS). This area is located outside of the City limits and it is expected to continue to be developed over the next several years. As these new developments become complete, the utility infrastructure must meet the standards set by SSRUS prior to acceptance by the Utility.

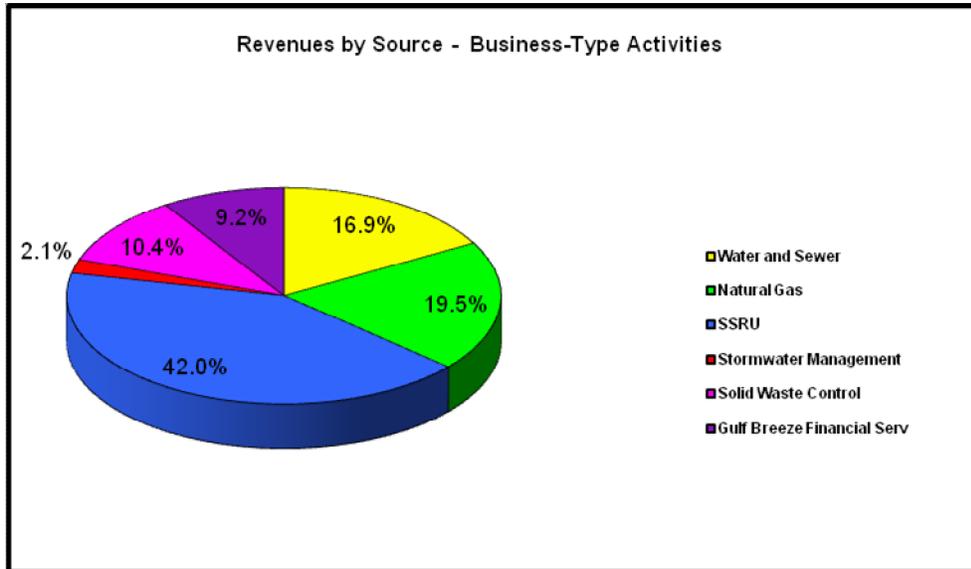
Investment earnings show a decrease of 30.2% as a result of changing market conditions and distribution of investments.

The Natural Gas Utility shows a decrease in expenses of \$88,154 or 4.3%. Although there was a slight increase in the consumption this year of approximately .5%, the decrease is seen primarily in the cost of natural gas, which is in turn sold to customers of the City of Gulf Breeze. Natural Gas revenues have decreased according to the rates based on the cost of natural gas.

The Fishing Bridge continues to show no activity since it has been out of commission from the damage it received during Hurricane Ivan in September 2004. The City decided not to repair the bridge and plans to demolish and remove the remaining spans once funds are approved by FEMA. Accordingly, the remaining net assets of the fishing bridge fund have been transferred to the general fund and the fund has been closed.



City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007



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 \$5,195,842, an increase of \$2,237,799 from the prior year. Of this total amount, \$2,901,435 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 \$887,616, or 3) for several other designated purposes which include self- insurance escrow of \$250,000, disaster recovery of \$100,000, beautification of \$95,062, park subdivisions of \$78,596, and other restricted purposes of \$15,364.

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 \$2,576,869, while total fund balance reached \$4,776,985. 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 25.7% of the total General Fund expenditures, while total fund balance represents 47.7% of that same amount.

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

The General Fund's fund balance increased by \$2,062,098 during the current fiscal year. The key factor in this change is a refunding of debt.

Proprietary Funds

The City'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 \$3,157,532 at the end of the year. Of this total, the

Water and Sewer Fund amounted to \$1,643,589, the Natural Gas Fund totaled \$58,654, South Santa Rosa Utility Fund was \$964,993, Stormwater Management Fund was \$(270,129), and other nonmajor proprietary funds totaled \$760,425. Net assets of the proprietary funds increased \$1,448,227.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund Budget increased from the original budget significantly, due primarily to debt proceeds of \$14,225,000, debt retirement costs of approximately \$8.6 million, and additional expenses due to ongoing repairs for Hurricane Ivan damage of approximately \$2.0 million.

The highlights of the budgetary increases are as follows:

- \$68,900 increase in Governmental Professional Services
- \$55,300 increase in insurance premiums FY 2007
- \$1,957,700 increase in expenditures due to Hurricane Ivan repairs
- \$8,922,486 increase of interest expense and debt service costs due to payoff of existing loans
- \$44,100 increase in fuel costs

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of September 30, 2007 amounts to \$42,562,490 (net of accumulated depreciation), and includes land, buildings, improvements other than buildings, infrastructure, and machinery and equipment. The total increase in capital assets for the current fiscal year was \$3,139,760 or 8% overall. The major changes are summarized below:

- Generator at Recreation Center
- Storm Drainage Improvements – Phase I
- Ongoing streets resurfacing project
- Parks & Recreation – Shoreline North Park renovations in the amount of \$1.1million.

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Buildings	4,232,979	4,232,979	340,662	340,662	4,573,641	4,520,479
Improvements other than buildings	12,146,921	9,831,584	105,515	9,472,884	12,252,436	17,131,630
Infrastructure	119,992	119,992	39,362,596	28,014,648	39,482,588	15,890,061
Machinery and equipment	3,845,961	3,787,586	3,402,380	2,530,036	7,248,341	4,739,375
Accumulated depreciation	(8,743,631)	(7,897,493)	(17,835,731)	(16,048,826)		
Construction in progress	-	505,171	1,733,679	682,340	1,733,679	1,187,511
Land	1,187,339	1,187,339	2,663,828	2,663,828		
Total	\$12,789,561	\$11,767,158	\$29,772,929	\$27,655,572	\$42,562,490	\$39,422,730

Projects included in the Construction in Progress category are:

- Fire Hydrant Upgrades Phase II
- Field Ops Master Plan
- Eastern WWTF Design

Additional information on the City of Gulf Breeze's capital assets can be found in Note 5 in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the City of Gulf Breeze had total bonds, capital leases, and outstanding loans of \$23,414,419. Governmental Debt is to be repaid from General Government revenues. Business-type obligations are secured by specified revenue sources.

Outstanding Debt General Obligations, Capital Leases, and Revenue Bonds						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Notes Payable	\$ -	\$ 4,044,844	\$ 6,133,241	\$ 7,641,487	\$ 6,133,241	\$ 11,686,331
Capital Leases	-	-	223,145	-	223,145	-
Revenue Bonds	10,177,575	-	6,880,458	7,254,339	17,058,033	7,254,339
Total	\$ 10,177,575	\$ 4,044,844	\$ 13,236,844	\$ 14,895,826	\$ 23,414,419	\$ 18,940,670

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 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Gulf Breeze's elected officials (the Mayor and City Council) will be considering many factors

City of Gulf Breeze, Florida
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2007

when adopting the fiscal year 2008 budget. New revenue sources continue to be an issue especially since the Florida State Legislature required municipalities to rollback millage rates and make additional cuts of 3% against property taxes. The overall revenue forecast for the General Fund is \$5,387,150. In FY 2008, no user fee revenue sources will be increased. Increased expenses such as fuel, property and casualty insurance and comprehensive plan consulting fees continue to be absorbed into the City's budget.

The budget for fiscal year 2008 is quite conservative. It is approximately 4.36% more than the budget for fiscal year 2007.

The fiscal year 2008 General Fund expense budget includes \$50,000 for street resurfacing, \$100,000 for comprehensive plan update and purchase of one marked police car for \$27,000. The Proprietary Funds will purchase a forklift for \$36,000 and a concrete mixer for \$5,000. Water & Sewer Fund will provide lift station upgrades for \$30,000, water main improvements for \$50,000 and 2 trucks for \$47,000. The Natural Gas Fund will purchase capital equipment for \$30,000 and replace 2 trucks for \$57,000. South Santa Rosa Fund will provide water, sewer and reuse system improvements for \$796,600, Field Operations building drainage improvements for \$50,000, WWTP chlorine building for \$35,000, replace vehicles for \$74,000 and make computer upgrades for \$12,000. The Community Redevelopment Agency fund will provide \$365,000 in stormwater improvements and \$250,000 of infrastructure upgrades to Daniel Drive. The diligence provided by the City Council has ensured the City will continue to maintain the high level of service desired by this community.

In January 2008, the Florida electorate approved an amendment (referred to as Amendment 1) to the Florida Constitution which will impact the City's property tax revenues beginning with the year ending September 30, 2009. The City is currently evaluating the impact Amendment 1 will have on its financial position.

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, 2007

ASSETS	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Capital Trust Agency
	\$	\$	\$	\$
Cash and cash equivalents	4,077,136	1,892,022	5,969,158	805,364
Receivables	171,725	1,011,911	1,183,636	29,140
Investments	--	674,023	674,023	518,702
Internal balances	1,223,177	(1,223,177)	--	--
Due from other governments	138,450	5,224	143,674	--
Inventory, at cost	10,737	155,473	166,210	--
Restricted assets				
Cash and cash equivalents	76,615	1,407,188	1,483,803	145,000
Capital assets				
Nondepreciable	1,187,339	4,397,507	5,584,846	--
Depreciable	11,602,222	25,375,422	36,977,644	--
Other assets				
Bond issue costs, net	328,986	332,984	661,970	--
Investment in joint venture	--	1,110,383	1,110,383	--
Other	1,028	491,419	492,447	--
Total assets	18,817,415	35,630,379	54,447,794	1,498,206
LIABILITIES				
Accounts payable	102,518	309,514	412,032	5,229
Contracts payable	88,752	108,825	197,577	--
Retainage payable	214,921	86,593	301,514	--
Accrued liabilities	94,307	150,654	244,961	--
Due to other governments	--	--	--	5,224
Payable from restricted assets				
Accrued interest	65,622	185,696	251,318	--
Customer deposits	1,500	655,714	657,214	--
Non-current liabilities				
Due within one year				
Compensated absences	183,493	114,245	297,738	--
Capital leases payable	--	52,215	52,215	--
Revenue bonds payable	--	515,000	515,000	--
Notes payable	--	509,395	509,395	--
Due in more than one year				
Compensated absences	14,635	9,048	23,683	--
Capital leases payable	--	170,930	170,930	--
Revenue bonds payable	10,177,575	6,365,458	16,543,033	--
Notes payable	--	5,623,846	5,623,846	--
Other contractual obligations	76,615	--	76,615	--
Total liabilities	11,019,938	14,857,133	25,877,071	10,453
NET ASSETS				
Invested in capital assets, net of related debt	1,849,245	16,536,085	18,385,330	--
Restricted for:				
Scholarships	--	--	--	145,000
Debt service	--	751,524	751,524	--
Capital projects	762,741	328,105	1,090,846	--
Public safety	17,676	--	17,676	--
Unrestricted	5,167,815	3,157,532	8,325,347	1,342,753
Total net assets	\$ 7,797,477	\$ 20,773,246	\$ 28,570,723	\$ 1,487,753

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

City of Gulf Breeze, Florida
STATEMENT OF ACTIVITIES
Year Ended September 30, 2007

Function/Program Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit Capital Trust Agency
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Governmental Activities								
General government	\$ 1,483,562	\$ 188,550	\$ 246,490	\$ --	\$ (1,048,522)	\$ --	\$ (1,048,522)	\$ --
Public safety	2,523,959	295,201	146,844	--	(2,081,914)	--	(2,081,914)	--
Transportation	470,013	--	--	--	(470,013)	--	(470,013)	--
Economic environment	203,332	--	--	--	(203,332)	--	(203,332)	--
Culture and recreation	4,532,538	183,622	2,201,732	--	(2,147,184)	--	(2,147,184)	--
Debt service interest	291,769	--	--	--	(291,769)	--	(291,769)	--
Total governmental activities	<u>9,505,173</u>	<u>667,373</u>	<u>2,595,066</u>	<u>--</u>	<u>(6,242,734)</u>	<u>--</u>	<u>(6,242,734)</u>	<u>--</u>
Business-Type Activities								
Water and Sewer	1,411,855	1,545,320	--	46,825	--	180,290	180,290	--
Natural Gas	1,943,119	1,781,957	--	--	--	(161,162)	(161,162)	--
South Santa Rosa Utility	5,704,870	3,935,152	--	1,401,305	--	(368,413)	(368,413)	--
Stormwater Management	145,145	188,938	--	1,000,000	--	1,043,793	1,043,793	--
Fishing Bridge	461,058	--	--	--	--	(461,058)	(461,058)	--
Solid Waste Control	901,297	947,181	--	--	--	45,884	45,884	--
Gulf Breeze Financial Services	191,001	841,300	--	--	--	650,299	650,299	--
Total business type activities	<u>10,758,345</u>	<u>9,239,848</u>	<u>--</u>	<u>2,448,130</u>	<u>--</u>	<u>929,633</u>	<u>929,633</u>	<u>--</u>
Total primary government	<u>\$ 20,263,518</u>	<u>\$ 9,907,221</u>	<u>\$ 2,595,066</u>	<u>\$ 2,448,130</u>	<u>\$ (6,242,734)</u>	<u>\$ 929,633</u>	<u>\$ (5,313,101)</u>	<u>\$ --</u>
Capital Trust Agency	<u>\$ 1,241,479</u>	<u>\$ 995,877</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ (245,602)</u>
General Revenues:								
Taxes:								
Property taxes					1,769,209	--	1,769,209	--
Tourist development taxes					39,624	--	39,624	--
Fuel taxes					229,718	--	229,718	--
Franchise taxes					279,313	--	279,313	--
Communication service taxes					146,184	--	146,184	--
Utility service taxes					136,976	--	136,976	--
Intergovernmental, unrestricted					498,649	--	498,649	--
Miscellaneous					597,342	70,820	668,162	--
Unrestricted investment earnings					149,068	133,904	282,972	55,897
Transfers					(313,870)	313,870	--	--
Total general revenues and transfers					<u>3,532,213</u>	<u>518,594</u>	<u>4,050,807</u>	<u>55,897</u>
Change in net assets					(2,710,521)	1,448,227	(1,262,294)	(189,705)
Net assets - beginning of year					<u>10,507,998</u>	<u>19,325,019</u>	<u>29,833,017</u>	<u>1,677,458</u>
Net assets - end of year					<u>\$ 7,797,477</u>	<u>\$ 20,773,246</u>	<u>\$ 28,570,723</u>	<u>\$ 1,487,753</u>

City of Gulf Breeze, Florida
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2007

ASSETS	General	Urban Core Redevelopment	Non-Major Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 3,731,519	\$ 268,294	\$ 77,323	\$ 4,077,136
Receivables	171,725	--	--	171,725
Due from other governments	138,450	--	--	138,450
Inventory, at cost	10,737	--	--	10,737
Due from other funds	1,223,177	--	--	1,223,177
Restricted assets				
Cash and cash equivalents	--	--	76,615	76,615
Total assets	<u>\$ 5,275,608</u>	<u>\$ 268,294</u>	<u>\$ 153,938</u>	<u>\$ 5,697,840</u>
LIABILITIES				
Accounts payable	\$ 99,143	\$ 3,229	\$ 146	\$ 102,518
Contracts payable	88,752	--	--	88,752
Retainage payable	214,921	--	--	214,921
Accrued liabilities	94,307	--	--	94,307
Customer deposits	1,500	--	--	1,500
Total liabilities	<u>498,623</u>	<u>3,229</u>	<u>146</u>	<u>501,998</u>
FUND BALANCES				
Reserved				
Encumbrances	887,616	--	--	887,616
Inventory	10,737	--	--	10,737
Other contractual liabilities	--	--	76,615	76,615
Police trust	--	--	17,676	17,676
Capital projects	762,741	--	--	762,741
Unreserved				
Designated				
Community fund	437	--	--	437
Park subdivision	78,596	--	--	78,596
Self-insurance	250,000	--	--	250,000
Beautification	95,062	--	--	95,062
Disaster recovery	100,000	--	--	100,000
Police and fire department	14,927	--	--	14,927
Undesignated general fund	2,576,869	--	--	2,576,869
Undesignated special revenue	--	265,065	59,501	324,566
Total fund balances	<u>4,776,985</u>	<u>265,065</u>	<u>153,792</u>	<u>5,195,842</u>
Total liabilities and fund balances	<u>\$ 5,275,608</u>	<u>\$ 268,294</u>	<u>\$ 153,938</u>	<u>\$ 5,697,840</u>

City of Gulf Breeze, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
September 30, 2007

Fund balances - total governmental funds (page 17) \$ 5,195,842

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

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

Governmental non-depreciable assets	\$ 1,187,339	
Governmental depreciable assets	20,345,853	
Less accumulated depreciation	<u>(8,743,631)</u>	12,789,561

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

Bond issue costs	330,824	
Less accumulated amortization	(1,838)	
Other	<u>1,028</u>	330,014

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

Revenue bonds payable	(10,225,000)	
Discount on bond issuance	47,690	
Less accumulated amortization	(265)	
Accrued interest	(65,622)	
Compensated absences	(198,128)	
Other contractual obligations	<u>(76,615)</u>	<u>(10,517,940)</u>

Net assets of governmental activities (page 15) \$ 7,797,477

City of Gulf Breeze, Florida
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year ended September 30, 2007

	General	Urban Core Redevelopment	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 1,879,590	\$ 721,435	\$ --	\$ 2,601,025
Licenses and permits	96,644	--	--	96,644
Intergovernmental	3,093,715	--	--	3,093,715
Charges for services	275,527	--	--	275,527
Fines and forfeitures	156,046	--	139,155	295,201
Investment earnings	149,068	--	--	149,068
Miscellaneous	596,912	--	430	597,342
Total revenues	<u>6,247,502</u>	<u>721,435</u>	<u>139,585</u>	<u>7,108,522</u>
Expenditures				
Current				
General government	1,285,410	90,095	1,906	1,377,411
Public safety	2,037,393	--	13,367	2,050,760
Transportation	152,329	--	--	152,329
Economic environment	104,597	--	--	104,597
Culture and recreation	4,236,487	--	--	4,236,487
Capital outlay	1,453,297	757,467	--	2,210,764
Debt service				
Principal	183,554	--	--	183,554
Interest	226,147	--	--	226,147
Costs of issuance	330,824	--	--	330,824
Total expenditures	<u>10,010,038</u>	<u>847,562</u>	<u>15,273</u>	<u>10,872,873</u>
Excess (deficiency) of revenues over expenditures	(3,762,536)	(126,127)	124,312	(3,764,351)
Other financing sources (uses)				
Refunding bonds issued	10,225,000	--	--	10,225,000
Draws on line of credit	4,000,000	--	--	4,000,000
Principal payment to refund debt	(7,861,290)	--	--	(7,861,290)
Discount on bonds	(47,690)	--	--	(47,690)
Transfers in	959,946	177,516	--	1,137,462
Transfers out	(1,451,332)	--	--	(1,451,332)
Total other financing sources (uses)	<u>5,824,634</u>	<u>177,516</u>	<u>--</u>	<u>6,002,150</u>
Net change in fund balances	2,062,098	51,389	124,312	2,237,799
Fund balances, beginning of year	<u>2,714,887</u>	<u>213,676</u>	<u>29,480</u>	<u>2,958,043</u>
Fund balances, end of year	<u>\$ 4,776,985</u>	<u>\$ 265,065</u>	<u>\$ 153,792</u>	<u>\$ 5,195,842</u>

City of Gulf Breeze, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2007

Net change in fund balances - total governmental funds (page 19) \$ 2,237,799

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	\$ 2,210,764	
Less current year depreciation	<u>(1,209,201)</u>	1,001,563

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	183,554	
Principal payments to refund debt	<u>7,861,290</u>	8,044,844

Governmental funds report new issues of debt as revenue. However, in the statement of activities, the issuance of debt is recorded as a long-term liability.

Proceeds from refunding bond issue	(10,225,000)	
Proceeds from line of credit	(4,000,000)	
Discount on refunding bond issue	47,690	
Cost of issuance of refunding bonds	<u>330,824</u>	(13,846,486)

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

Amortization of bond discount	(265)	
Amortization of bond issue costs	<u>(1,838)</u>	(2,103)

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

Change in accrued expenses	(76,615)	
Change in accrued interest on long-term debt	(65,622)	
Change in long-term compensated absences	<u>(3,901)</u>	<u>(146,138)</u>

Change in net assets of governmental activities (page 16) \$ (2,710,521)

City of Gulf Breeze, Florida
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year ended September 30, 2007

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 1,744,376	\$ 1,874,873	\$ 1,879,590	\$ 4,717
Licenses and permits	80,500	85,203	96,644	11,441
Intergovernmental	1,022,300	3,083,993	3,093,715	9,722
Charges for services	137,000	184,314	275,527	91,213
Fines and forfeitures	116,000	155,746	156,046	300
Investment earnings	80,000	149,067	149,068	1
Miscellaneous	127,800	182,831	596,912	414,081
Total revenues	<u>3,307,976</u>	<u>5,716,027</u>	<u>6,247,502</u>	<u>531,475</u>
Expenditures				
Current				
General government	1,074,900	3,228,521	1,285,410	1,943,111
Public safety	1,919,300	2,033,648	2,037,393	(3,745)
Transportation	91,100	117,933	152,329	(34,396)
Economic environment	120,300	108,436	104,597	3,839
Culture and recreation	859,300	1,280,055	4,236,487	(2,956,432)
Capital outlay	319,300	1,012,938	1,453,297	(440,359)
Debt service	322,700	769,097	740,525	28,572
Total expenditures	<u>4,706,900</u>	<u>8,550,628</u>	<u>10,010,038</u>	<u>(1,459,410)</u>
Excess (deficiency) of revenues over expenditures	(1,398,924)	(2,834,601)	(3,762,536)	(927,935)
Other financing sources (uses)				
Refunding debt issued	--	10,225,000	10,225,000	--
Draws on line of credit	--	4,000,000	4,000,000	--
Principal payment to refund debt	--	(7,861,290)	(7,861,290)	--
Discount on debt	--	--	(47,690)	(47,690)
Transfers in	1,385,800	1,885,800	959,946	(925,854)
Transfers out	(125,900)	(505,620)	(1,451,332)	(945,712)
Total other financing sources (uses)	<u>1,259,900</u>	<u>7,743,890</u>	<u>5,824,634</u>	<u>(1,919,256)</u>
Net change in fund balances	(139,024)	4,909,289	2,062,098	(2,847,191)
Fund balances, beginning of year	<u>2,714,887</u>	<u>2,714,887</u>	<u>2,714,887</u>	<u>--</u>
Fund balance, end of year	<u>\$ 2,575,863</u>	<u>\$ 7,624,176</u>	<u>\$ 4,776,985</u>	<u>\$ (2,847,191)</u>

City of Gulf Breeze, Florida
URBAN CORE REDEVELOPMENT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
Year ended September 30, 2007

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 637,300	\$ 898,900	\$ 721,435	\$ (177,465)
Total revenues	637,300	898,900	721,435	(177,465)
Expenditures				
Current				
General government	61,100	88,600	90,095	(1,495)
Capital outlay	576,200	1,262,700	757,467	505,233
Total expenditures	637,300	1,351,300	847,562	503,738
Excess (deficiency) of revenues over expenditures	--	(452,400)	(126,127)	326,273
Other financing sources (uses)				
Transfers in	--	--	177,516	177,516
Total other financing sources (uses)	--	--	177,516	177,516
Net change in fund balances	--	(452,400)	51,389	503,789
Fund balances, beginning of year	--	452,400	213,676	(238,724)
Fund balance, end of year	\$ --	\$ --	\$ 265,065	\$ 265,065

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2007

	Water and Sewer	Natural Gas	South Santa Rosa Utility	Stormwater Management	Nonmajor Proprietary Funds	Total
ASSETS						
Current assets						
Cash and cash equivalents	\$ 1,031,071	\$ 49,028	\$ --	\$ --	\$ 811,923	\$ 1,892,022
Receivables	212,102	145,772	529,846	17,243	106,948	1,011,911
Investments	--	--	56,153	--	617,870	674,023
Due from other governments	--	--	--	--	5,224	5,224
Inventory, at cost	35,220	39,017	81,236	--	--	155,473
Restricted assets						
Cash and cash equivalents	145,998	183,743	1,069,157	--	8,290	1,407,188
Total current assets	<u>1,424,391</u>	<u>417,560</u>	<u>1,736,392</u>	<u>17,243</u>	<u>1,550,255</u>	<u>5,145,841</u>
Noncurrent assets						
Capital assets, net						
Land	--	--	2,663,828	--	--	2,663,828
Buildings	--	--	278,694	--	--	278,694
Improvements other than building	--	--	--	--	90,057	90,057
Infrastructure	2,118,240	975,067	19,003,227	1,272,120	--	23,368,654
Machinery and equipment	122,559	67,160	1,425,713	--	22,585	1,638,017
Construction in progress	--	--	1,733,679	--	--	1,733,679
Total capital assets	<u>2,240,799</u>	<u>1,042,227</u>	<u>25,105,141</u>	<u>1,272,120</u>	<u>112,642</u>	<u>29,772,929</u>
Other assets						
Bond issue costs, net	155	621	332,208	--	--	332,984
Investment in joint venture	562,605	--	547,778	--	--	1,110,383
Other	122,856	--	368,563	--	--	491,419
Total other assets	<u>685,616</u>	<u>621</u>	<u>1,248,549</u>	<u>--</u>	<u>--</u>	<u>1,934,786</u>
Total non-current assets	<u>2,926,415</u>	<u>1,042,848</u>	<u>26,353,690</u>	<u>1,272,120</u>	<u>112,642</u>	<u>31,707,715</u>
Total assets	<u>4,350,806</u>	<u>1,460,408</u>	<u>28,090,082</u>	<u>1,289,363</u>	<u>1,662,897</u>	<u>36,853,556</u>

Continued...

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2007

	Water and Sewer	Natural Gas	South Santa Rosa Utility	Stormwater Management	Nonmajor Proprietary Funds	Total
LIABILITIES						
Current liabilities						
Accounts payable	\$ 92,432	\$ 36,195	\$ 157,193	\$ 1,540	\$ 22,154	\$ 309,514
Contracts payable	--	--	108,825	--	--	108,825
Retainage payable	--	--	86,593	--	--	86,593
Accrued liabilities	31,227	2,361	115,302	831	933	150,654
Compensated absences	2,016	36,376	75,853	--	--	114,245
Other current liabilities						
Due to other funds	--	100,000	152,297	212,427	758,453	1,223,177
Payable from restricted assets						
Accrued interest	--	--	185,696	--	--	185,696
Customer deposits	145,998	183,793	317,633	--	8,290	655,714
Capital leases payable	--	--	52,215	--	--	52,215
Revenue bonds payable	--	--	515,000	--	--	515,000
Notes payable	12,716	50,863	445,816	--	--	509,395
Total current liabilities	284,389	409,588	2,212,423	214,798	789,830	3,911,028
Non-current liabilities						
Compensated absences	203	802	8,043	--	--	9,048
Capital leases payable	--	--	170,930	--	--	170,930
Revenue bonds payable	--	--	6,365,458	--	--	6,365,458
Notes payable	28,628	142,317	5,452,901	--	--	5,623,846
Total non-current liabilities	28,831	143,119	11,997,332	--	--	12,169,282
Total liabilities	313,220	552,707	14,209,755	214,798	789,830	16,080,310
NET ASSETS						
Invested in capital assets, net of related debt	2,199,455	849,047	12,102,821	1,272,120	112,642	16,536,085
Restricted						
Debt service	--	--	751,524	--	--	751,524
Capital projects	194,542	--	60,989	72,574	--	328,105
Unrestricted	1,643,589	58,654	964,993	(270,129)	760,425	3,157,532
Total net assets	\$ 4,037,586	\$ 907,701	\$ 13,880,327	\$ 1,074,565	\$ 873,067	\$ 20,773,246

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year ended September 30, 2007

	Water and Sewer	Natural Gas	South Santa Rosa Utility	Stormwater Management	Nonmajor Proprietary Funds	Total
Operating revenues						
Charges for services	\$ 1,545,320	\$ 1,781,957	\$ 3,843,182	\$ 188,938	\$ 1,788,481	\$ 9,147,878
Total operating revenues	<u>1,545,320</u>	<u>1,781,957</u>	<u>3,843,182</u>	<u>188,938</u>	<u>1,788,481</u>	<u>9,147,878</u>
Operating expenses						
Personal services	133,156	576,963	1,494,291	42,837	213,586	2,460,833
Contractual services	730,198	985,230	874,757	5,383	805,619	3,401,187
Supplies	152,509	139,142	333,156	3,076	4,084	631,967
Professional services	21,943	1,052	124,638	--	31,214	178,847
Repairs and maintenance	47,062	29,537	163,522	2,983	4,154	247,258
Office and utilities	72,366	99,054	387,536	--	16,667	575,623
Depreciation	200,773	100,387	1,487,879	90,866	11,641	1,891,546
Total operating expenses	<u>1,358,007</u>	<u>1,931,365</u>	<u>4,865,779</u>	<u>145,145</u>	<u>1,086,965</u>	<u>9,387,261</u>
Operating income (loss)	187,313	(149,408)	(1,022,597)	43,793	701,516	(239,383)
Non-operating revenues (expenses)						
Intergovernmental revenues	--	--	76,604	1,000,000	--	1,076,604
Interest earnings	32,463	--	51,434	--	50,007	133,904
Rents and royalties	--	--	91,970	--	--	91,970
Interest expense	(37,562)	(9,305)	(622,837)	--	--	(669,704)
Other debt service costs	(13,201)	(2,449)	(213,169)	--	--	(228,819)
Loss on disposal of assets	--	--	--	--	(466,391)	(466,391)
Loss from joint venture	(3,085)	--	(3,085)	--	--	(6,170)
Miscellaneous	6,357	16,322	48,299	2,118	(2,276)	70,820
Total non-operating revenues (expenses)	<u>(15,028)</u>	<u>4,568</u>	<u>(570,784)</u>	<u>1,002,118</u>	<u>(418,660)</u>	<u>2,214</u>
Income (loss) before operating transfers and capital contributions	172,285	(144,840)	(1,593,381)	1,045,911	282,856	(237,169)
Transfers and capital contributions						
Transfers in	1,140,253	--	421,061	72,574	--	1,633,888
Transfers out	(518,352)	(183,960)	(130,200)	(43,920)	(443,586)	(1,320,018)
Developer capital contributions	46,825	--	1,324,701	--	--	1,371,526
Total transfers and capital contributions	<u>668,726</u>	<u>(183,960)</u>	<u>1,615,562</u>	<u>28,654</u>	<u>(443,586)</u>	<u>1,685,396</u>
Changes in net assets	841,011	(328,800)	22,181	1,074,565	(160,730)	1,448,227
Net assets, beginning of year	<u>3,196,575</u>	<u>1,236,501</u>	<u>13,858,146</u>	<u>--</u>	<u>1,033,797</u>	<u>19,325,019</u>
Net assets, end of year	<u>\$ 4,037,586</u>	<u>\$ 907,701</u>	<u>\$ 13,880,327</u>	<u>\$ 1,074,565</u>	<u>\$ 873,067</u>	<u>\$ 20,773,246</u>

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year ended September 30, 2007

	Water and Sewer	Natural Gas	South Santa Rosa Utility	Stormwater Management	Nonmajor Proprietary Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	\$ 1,538,750	\$ 1,823,164	\$ 3,787,627	\$ 173,813	\$ 1,788,100	\$ 9,111,454
Payments to suppliers	(997,835)	(1,317,315)	(1,852,872)	(9,902)	(904,276)	(5,082,200)
Payments to employees	(102,859)	(579,752)	(1,431,550)	(42,006)	(213,557)	(2,369,724)
Net cash provided (used) by operating activities	<u>438,056</u>	<u>(73,903)</u>	<u>503,205</u>	<u>121,905</u>	<u>670,267</u>	<u>1,659,530</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Borrowings (repayments)						
Advances to other funds	400,000	--	--	--	--	400,000
Advances from other funds	--	100,000	126,257	212,427	(370,985)	67,699
Transfers in	1,140,253	--	421,061	72,574	--	1,633,888
Transfers out	(518,352)	(183,960)	(130,200)	(43,920)	(395,053)	(1,271,485)
Net cash provided (used) by non-capital financing activities	<u>1,021,901</u>	<u>(83,960)</u>	<u>417,118</u>	<u>241,081</u>	<u>(766,038)</u>	<u>830,102</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition and construction of capital assets	(110,067)	(46,761)	(1,229,227)	(362,986)	(9,331)	(1,758,372)
Proceeds from sale of assets	--	--	--	--	4,356	4,356
Principal paid on bonds payable	--	--	(373,881)	--	--	(373,881)
Principal paid on notes and capital lease payable	(1,036,479)	(48,317)	(473,451)	--	--	(1,558,247)
Interest paid on long-term debt	(37,562)	(9,305)	(622,837)	--	--	(669,704)
Other debt service costs paid on bonds and notes payable	(523)	(2,094)	(183,421)	--	--	(186,038)
Net cash provided (used) by capital and related financing activities	<u>(1,184,631)</u>	<u>(106,477)</u>	<u>(2,882,817)</u>	<u>(362,986)</u>	<u>(4,975)</u>	<u>(4,541,886)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	--	--	--	--	(507,041)	(507,041)
Proceeds from sale of investments	--	--	478,806	--	--	478,806
Rents and royalties	--	--	91,970	--	--	91,970
Interest income	32,463	--	51,434	--	50,007	133,904
Net cash provided (used) by investing activities	<u>32,463</u>	<u>--</u>	<u>622,210</u>	<u>--</u>	<u>(457,034)</u>	<u>197,639</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS						
	307,789	(264,340)	(1,340,284)	--	(557,780)	(1,854,615)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
	<u>869,280</u>	<u>497,111</u>	<u>2,409,441</u>	<u>--</u>	<u>1,377,993</u>	<u>5,153,825</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR						
	<u>\$ 1,177,069</u>	<u>\$ 232,771</u>	<u>\$ 1,069,157</u>	<u>\$ --</u>	<u>\$ 820,213</u>	<u>\$ 3,299,210</u>

Continued...

City of Gulf Breeze, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year ended September 30, 2007

	Water and Sewer	Natural Gas	South Santa Rosa Utility	Stormwater Management	Nonmajor Proprietary Funds	Total
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF						
Current assets	\$ 1,031,071	\$ 49,028	\$ --	\$ --	\$ 811,923	\$ 1,892,022
Restricted assets	145,998	183,743	1,069,157	--	8,290	1,407,188
	<u>\$ 1,177,069</u>	<u>\$ 232,771</u>	<u>\$ 1,069,157</u>	<u>\$ --</u>	<u>\$ 820,213</u>	<u>\$ 3,299,210</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ 187,313	\$ (149,408)	\$ (1,022,597)	43,793	\$ 701,516	\$ (239,383)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities						
Depreciation	200,773	100,387	1,487,879	90,866	11,641	1,891,546
Miscellaneous income	6,357	16,322	48,299	2,118	(2,276)	70,820
(Increase) decrease in assets						
Receivables	(11,362)	12,301	(112,447)	(17,243)	560	(128,191)
Inventory, at cost	7,656	(9,030)	(21,706)	--	--	(23,080)
Increase (decrease) in liabilities						
Accounts payable	18,587	(54,270)	(72,918)	1,540	(44,438)	(151,499)
Contracts payable	--	--	67,353	--	--	67,353
Retainage payable	--	--	58,008	--	--	58,008
Accrued liabilities	31,227	(7,455)	90,923	831	29	115,555
Other current liabilities	(888)	--	(25,788)	--	--	(26,676)
Customer deposits	(1,565)	12,584	8,593	--	3,235	22,847
Compensated absences payable	(42)	4,666	(2,394)	--	--	2,230
Net cash provided (used) by operating activities	<u>\$ 438,056</u>	<u>\$ (73,903)</u>	<u>\$ 503,205</u>	<u>\$ 121,905</u>	<u>\$ 670,267</u>	<u>\$ 1,659,530</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS						
Amortization of bond issue costs and discounts	<u>\$ 12,678</u>	<u>\$ 355</u>	<u>\$ 29,748</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 42,781</u>
Capital assets contributed by developers	<u>\$ 46,825</u>	<u>\$ --</u>	<u>\$ 1,324,701</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,371,526</u>
Capital assets acquired with capital lease	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 273,146</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 273,146</u>
Capital assets purchased with grant funding	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,000,000</u>	<u>\$ --</u>	<u>\$ 1,000,000</u>

**City of Gulf Breeze, Florida
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2007**

	<u>Police Officer's Retirement Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 63,805	\$ 11,464
Investment in mutual funds, at market	1,473,460	--
Total assets	<u>1,537,265</u>	<u>11,464</u>
LIABILITIES		
Other	--	11,464
Total liabilities	<u>--</u>	<u>11,464</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	<u>\$ 1,537,265</u>	<u>\$ --</u>

Exhibit XI

City of Gulf Breeze, Florida
FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year ended September 30, 2007

	Police Officer's Retirement Fund
Additions	
Contributions	
Employer	\$ 72,070
Plan members	4,458
State of Florida	62,536
Investment income, net	155,233
Total additions	<u>294,297</u>
Deductions	
Administrative expenses	4,983
Total deductions	<u>4,983</u>
Net increase	289,314
Net assets held in trust for pension benefits	
Beginning of year	<u>1,247,951</u>
End of year	<u>\$ 1,537,265</u>

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

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

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, stormwater drainage, culture and recreation, public improvements, planning and zoning, and general administrative services.

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

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

A. The Reporting Entity

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

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

As of September 30, 2007, the City of Gulf Breeze had three component units, as defined by GASB 14, which have been presented in the financial statements of the primary government as either "discretely presented component units" or "blended component units." The component units are: the Urban Core Redevelopment (Community Redevelopment Agency), Gulf Breeze Financial Services, Inc., and Capital Trust Agency, Inc.

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

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

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. The Reporting Entity (Continued)

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

Capital Trust Agency, Inc. (CTA) was established by the City on May 19, 1999 with Resolution 14-99 and incorporated on June 30, 1999, with the directors appointed by the City Council. CTA was formed for the purposes of assisting in the financing, acquisition, construction, development, equipping, maintenance, operation, and/or promotion of certain facilities, intangibles, and capital projects. The City exclusively benefits from the activity of CTA and received \$475,000 in miscellaneous revenues during the fiscal year ending September 30, 2007. CTA is reported as a “discretely presented” Enterprise fund. CTA issues separate financial statements which may be obtained by writing to Capital Trust Agency, Inc., 10 Camelia Street, Gulf Breeze, FL 32561 or calling (850) 916-5420.

Conduit Debt

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

- \$500,000,000 Floating Rate Demand Revenue Bonds, Series 1985
\$262,380,000 outstanding
- \$100,000,000 Variable Rate Demand Revenue Bonds, Series 1995A
\$10,381,201 outstanding
- \$81,500,000 Variable Rate Demand Revenue Bonds, Series 1997A
\$52,512,735 outstanding
- \$90,055,000 4.5% Revenue Bonds, Series 1997B,
\$90,055,000 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 and SunTrust Bank, as Trustee, for the purpose of funding the Gulf Breeze Local Government Loan Pool Program, which makes loans to local government and not-for-profit entities. The bonds are payable solely from the Trust and the proceeds generated from loans to the borrowing entities. The City is not liable for repayment of the bonds under the terms of the Trust Agreement, and the sole remedy for any bondholder as set forth in the Trust Agreement is limited to the assets of the Trust. Accordingly, the activity of the trust is not included in these financial statements.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

The following is the current property tax calendar.

Lien Date	January 1, 2007
Levy Date	November 1, 2007
Due Date	November 1, 2007
Delinquent Date	April 1, 2008

Discounts of 1% for each month taxes are paid prior to March 2008 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 2007 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year. Current year taxes, which are uncollected as of the end of the fiscal year, are generally immaterial in amount and highly susceptible to uncollectibility and, therefore, are not recorded as a receivable on the balance sheet date.

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

D. Basis of Presentation

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

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

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

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

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

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

Governmental

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

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

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

Proprietary

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

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

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

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

Stormwater Management Fund - Used to account for activities associated with managing the City's stormwater.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

Fiduciary

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

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

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

E. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

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

Deposits and Investments

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

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

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deposits and Investments (Continued)

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

Pension Trust Funds may invest in direct obligations of the United States Government or other obligations guaranteed by the United States government, time or savings accounts of a national or state bank or savings and loan association insured by the Bank Insurance Fund or Savings Association Insurance Fund, bonds of United States corporations which hold a rating in one of the three highest classifications by a major rating service, or stocks of U.S. corporations which are listed on a recognized national stock exchanges (limited to 50% of the assets of the fund), and investment accounts maintained by major national banks and insurance companies given the top rating by Best.

Receivables and Payables

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

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

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

Inventory

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

Restricted Assets

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

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Assets

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

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

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

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	39
Improvements other than buildings	15 - 20
System infrastructure	20 - 40
Machinery and equipment	3 - 10

Compensated Absences

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

Long-Term Obligations

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

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Long-Term Obligations -- (Continued)

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

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

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

Fund Equity

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

F. Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

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

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

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

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgets (Continued)

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

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

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

B. Encumbrances

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

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

Deposits

Deposits may be exposed to custodial credit risk, which is the risk that in the event of a bank failure, the government's deposits may not be returned. The City maintains its deposits only with Qualified Public Depositories (QPD) as defined in Chapter 280, Florida Statutes. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial collateral pool required by Chapter 280. Statutes provide that if a loss to public depositors is not

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment levied against other QPD's of the same type as the depository in default.

The City's deposits, including certificates of deposits, at September 30, 2007 were entirely covered by federal depository insurance or the collateral pool described above. At September 30, 2007, the banks reported deposits before outstanding checks for the City and all of its component units of \$9,412,418.

Investments

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

The City invests in the Local Government Surplus Funds Trust Fund Investment Pool (LGSFTF), administered by the Florida State Board of Administration, and the Florida Municipal Investment Trust 1-3 Year High Quality Bond Fund (FMIT), administered by the Florida League of Cities. In accordance with the regulations of "2a7-like" pools, the method used to determine the participants' shares sold and redeemed is the amortized cost method. As of September 30, 2007, the LGSTF portfolio's average days to maturity was 34. The LGSFTF was not rated by a nationally recognized statistical rating agency. As of September 30, 2007, the FMIT average maturity was 1.88 years, and was rated AAA by Fitch Credit Rating. At September 30, 2007, the City's LGSFTF and FMIT balances, including all component units, were \$396,853 and \$56,153 respectively.

NOTE 4 - RECEIVABLES

Receivables at September 30, 2007, were as follows:

	Governmental			Business Type				Total Primary Government
	Activites			Activities				
	General	Water and Sewer	Natural Gas	South Santa Rosa Utility	Stormwater Management	Nonmajor Proprietary Funds		
Accounts	\$ 10,847	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,847	
Utilities	3,814	212,102	145,374	510,586	16,225	103,948	992,049	
Other	157,064	-	398	19,260	1,018	3,000	180,740	
Total	\$ 171,725	\$ 212,102	\$ 145,772	\$ 529,846	\$ 17,243	\$ 106,948	\$ 1,183,636	

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 5 - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 1,187,339	\$ -	\$ -	\$ 1,187,339
Construction in progress	505,171	-	(505,171)	-
Total capital assets not being depreciated	<u>1,692,510</u>	<u>-</u>	<u>(505,171)</u>	<u>1,187,339</u>
Capital assets being depreciated				
Buildings	4,232,979	-	-	4,232,979
Improvements other than buildings	9,831,584	2,076,709	238,628	12,146,921
Infrastructure	119,992	-	-	119,992
Machinery and equipment	3,787,586	134,055	(75,680)	3,845,961
Total capital assets being depreciated	<u>17,972,141</u>	<u>2,210,764</u>	<u>162,948</u>	<u>20,345,853</u>
Less accumulated depreciation				
Buildings	(923,717)	(109,584)	-	(1,033,301)
Improvements other than buildings	(3,913,371)	(756,090)	290,186	(4,379,275)
Infrastructure	(54,329)	(2,646)	-	(56,975)
Machinery and equipment	(3,006,076)	(340,881)	72,877	(3,274,080)
Total accumulated depreciation	<u>(7,897,493)</u>	<u>(1,209,201)</u>	<u>363,063</u>	<u>(8,743,631)</u>
Total capital assets being depreciated, net	<u>10,074,648</u>	<u>1,001,563</u>	<u>526,011</u>	<u>11,602,222</u>
Governmental activities, net	<u>\$ 11,767,158</u>	<u>\$ 1,001,563</u>	<u>\$ 20,840</u>	<u>\$ 12,789,561</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Business Type Activities				
Capital assets not being depreciated				
Land	\$ 2,663,828	\$ -	\$ -	\$ 2,663,828
Construction in progress	682,340	1,078,873	(27,534)	1,733,679
Total capital assets not being depreciated	<u>3,346,168</u>	<u>1,078,873</u>	<u>(27,534)</u>	<u>4,397,507</u>
Capital assets being depreciated				
Buildings	340,662	33,279	(33,279)	340,662
Improvements other than buildings	9,472,884	925,476	(10,292,845)	105,515
Infrastructure	28,014,648	1,676,226	9,671,722	39,362,596
Machinery and equipment	2,530,036	794,834	77,510	3,402,380
Total capital assets being depreciated	<u>40,358,230</u>	<u>3,429,815</u>	<u>(576,892)</u>	<u>43,211,153</u>
Less accumulated depreciation				
Buildings	(53,162)	(8,806)	-	(61,968)
Improvements other than buildings	(2,172,838)	(500,514)	2,657,894	(15,458)
Infrastructure	(12,244,579)	(1,177,723)	(2,571,640)	(15,993,942)
Machinery and equipment	(1,578,247)	(204,503)	18,387	(1,764,363)
Total accumulated depreciation	<u>(16,048,826)</u>	<u>(1,891,546)</u>	<u>104,641</u>	<u>(17,835,731)</u>
Total capital assets being depreciated, net	<u>24,309,404</u>	<u>1,538,269</u>	<u>(472,251)</u>	<u>25,375,422</u>
Business type activities, net	<u>\$ 27,655,572</u>	<u>\$ 2,617,142</u>	<u>\$ (499,785)</u>	<u>\$ 29,772,929</u>

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

Governmental Activities	
General government	\$ 103,182
Public safety	394,369
Transportation	317,679
Economic environment	98,608
Culture and recreation	295,363
Total depreciation expense - governmental activities	<u>\$ 1,209,201</u>
Business Type Activities	
Water and Sewer	\$ 200,773
Natural Gas	100,387
South Santa Rosa Utility	1,487,879
Stormwater Management	90,866
Other Proprietary Funds	11,641
Total depreciation expense - business-type activities	<u>\$ 1,891,546</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 6 - DEFINED BENEFIT PENSION PLANS

Florida Retirement System - General Employees

A. Plan Description

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

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

B. Contribution and Funding Policy

Contribution requirements of the plan are established in Florida Statutes Chapters 121, 122, and 123 and may only be amended by legislative action. All retirement legislation must comply with Article X, Section 14 of the State Constitution and with Part VII, Chapter 112, Florida Statutes. Both of these provisions require that any increase in retirement benefits must be funded concurrently on an actuarially sound basis. Active plan members do not contribute to the plan. All required contributions are made by monthly employer contributions at actuarially determined rates, which are currently 9.85% for general employees and 20.92% for special risk employees. The City's contributions to the plan for the years ended September 30, 2007, 2006, and 2005 listed below were equal to the required contributions for the year.

	Years Ended September 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
General employees	\$ 46,716	\$ 47,695	\$ 45,303
Special risk employees	71,358	64,318	61,672
Total contributions	<u>\$ 118,074</u>	<u>\$ 112,013</u>	<u>\$ 106,975</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Florida League of Cities - Police Officers

A. Plan Description

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

B. Contributions, Funding Policy, and Annual Pension Costs

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

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

The City's contributions to the Police Pension Plan for the years ended September 30, 2007, 2006, and 2005 listed below were equal to the required contributions for the year.

	Years Ended September 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
City Police Pension Plan contributions	\$ <u>72,070</u>	\$ <u>67,127</u>	\$ <u>70,297</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

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.

	<u>Police Officer Retirement Fund</u>
Contributions rates (percentage of covered payroll)	
City	29.16%
Plan Members	1.00%
Annual pension cost	\$ 129,663
Contributions made	
Plan Members	\$ 4,458
Employer	\$ 72,070
State of Florida	\$ 62,536
Net pension obligation (asset)	\$ -
Actuarial valuation date	10/1/2005
Actuarial cost method (1)	Aggregate
Amortization method	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Market Value
Actuarial assumptions	
Invested rate of return	7.50%
Projected salary increases *	5.00%
* Includes inflation at	3.75%
Cost of living adjustments	3% (starting at age 58)

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

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation (Asset)</u>
FMPT	9/30/2005	\$ 111,652	100%	-
	9/30/2006	\$ 141,614	100%	-
	9/30/2007	\$ 129,663	100%	-

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Florida League of Cities - Police Officers (Continued)

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

The Florida Municipal Trust Fund (FMPT) issues a publicly available financial report that includes financial statements and required supplementary information of the defined benefit pension plan of the City's police employees. That report may be obtained by writing to the Florida League of Cities, Inc., 301 South Bronough Street, Suite 300, PO Box 1757, Tallahassee, FL 32302-1757 or by calling (850) 222-9684.

Membership in the plan consisted of the following at September 30, 2007:

Retirees and beneficiaries receiving benefits	0
Active plan members	<u>13</u>
Total	<u>13</u>

NOTE 7 - DEFINED CONTRIBUTION PENSION PLANS

Florida Municipal Trust Fund - General Employees

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

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

The City's contributions to the plan for the years ended September 30, 2007, 2006, and 2005 listed below were equal to the required contributions for the year.

	Years Ended September 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
General employees	<u>\$ 101,780</u>	<u>\$ 68,908</u>	<u>\$ 66,370</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 8 - DEFERRED COMPENSATION PLAN

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

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

Assets of the plan had a fair value of \$845,273 at September 30, 2007. Contributions made by plan members during the year ended September 30, 2007, were \$39,369.

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 reserve has been established in the General Fund for \$250,000, Water & Sewer Fund for \$75,000, and the Natural Gas Fund for \$50,000.

The City remained self-insured for worker's compensation and for its dental and vision employee reimbursement program during the year ending September 30, 2007. These activities are recorded in the general fund. Changes in the estimated liability for self-insured losses for the past two years are as follows:

	2007	2006
Unpaid claims, beginning	\$ -	\$ -
Claims incurred and changes in estimates	141,398	50,123
Less: claims paid	(141,398)	(50,123)
Unpaid claims, ending	<u>\$ -</u>	<u>\$ -</u>

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.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 10 - OPERATING LEASES

The City receives rental income from leasing space on water towers under cancelable operating agreements with lease periods from four to five years. Income for the year ended September 30, 2007, was \$28,748 in the General Fund and \$91,970 in the South Santa Rosa Utility Fund. Capitalized investments in assets associated with these leases are \$2,558,157 with accumulated depreciation of \$2,277,844 at September 30, 2007.

Lease income under these cancelable agreements is as follows:

Year Ending September 30,	Governmental Activities	Business-Type Activities South Santa Rosa Utility
2008	\$ 50,088	\$ 103,656
2009	50,088	70,566
2010	50,088	67,656
2011	50,088	67,656
2012	26,664	33,048
Total minimum lease payments	\$ 227,016	\$ 342,582

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:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Revenue Improvement Bonds, Series 2007	\$ --	\$10,225,000	\$ --	\$10,225,000	\$ --
Less deferred amounts					
For issuance discount	--	(47,690)	265	(47,425)	--
Loan payable	45,000	--	(45,000)	--	--
Capital Improvement Note, Series 2004	1,000,000	4,000,000	(5,000,000)	--	--
Local government loan program, 1997A	2,999,844	--	(2,999,844)	--	--
Compensated absences	194,227	185,588	(181,687)	198,128	183,493
Other contractual obligations	--	76,615	--	76,615	--
Total governmental activities, long-term liabilities	<u>\$ 4,239,071</u>	<u>\$14,439,513</u>	<u>\$(8,226,266)</u>	<u>\$10,452,318</u>	<u>\$ 183,493</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 11 - LONG-TERM DEBT (CONTINUED)

Changes in Long-Term Debt Liabilities (Continued)

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Within</u> <u>One Year</u>
BUSINESS-TYPE ACTIVITIES					
SSRUS Refunding Revenue Bonds, Series 2004	\$ 9,090,000	\$ --	\$ (505,000)	\$8,585,000	\$ 515,000
Less deferred amounts					
For issuance premium	333,721	--	(23,837)	309,884	--
For loss on refunding	(2,169,382)	--	154,956	(2,014,426)	--
Local government loan program, 1995A	4,800,243	--	(115,572)	4,684,671	121,721
Local government loan program, 1996	1,816,844	--	(368,274)	1,448,570	387,674
Local government loan program, 1997A	1,024,400	--	(1,024,400)	--	--
Capital leases payable	--	273,146	(50,001)	223,145	52,215
Compensated absences	<u>121,063</u>	<u>115,293</u>	<u>(113,063)</u>	<u>123,293</u>	<u>114,245</u>
Total business-type activities, long-term liabilities	<u>\$15,016,889</u>	<u>\$ 388,439</u>	<u>\$(2,045,191)</u>	<u>\$13,360,137</u>	<u>\$1,190,855</u>

Description of Long-Term Debt Outstanding

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES			
<i>Revenue Bonds</i>			
\$10,225,000, City of Gulf Breeze, Florida, Revenue Improvement Bonds, Series 2007, due in annual installments of \$175,000 to \$610,000 through 2038; interest payable at 4.0% to 5.0%. Secured by pledged non-ad valorem revenues of the City. Proceeds used to refund various City loans and to finance certain capital improvements.	\$ --	\$ 10,225,000	\$ 10,225,000
Less unamortized bond discount	--	(47,425)	(47,425)
Total Bonds	--	<u>10,177,575</u>	<u>10,177,575</u>
<i>Accrued Compensated Absences</i>			
Total accumulated, vested annual and sick leave for governmental fund types.	183,493	14,635	198,128
<i>Other Contractual Obligations</i>			
Amounts payable under a long-term contract with a third-party for collections of traffic related fines. Payable four years after the services have been performed Secured by cash placed in an escrow account.	--	76,615	76,615
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 183,493</u>	<u>\$ 10,268,825</u>	<u>\$ 10,452,318</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 11 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
BUSINESS-TYPE ACTIVITIES			
<i>Revenue Bonds</i>			
\$9,460,000, 2004 City of Gulf Breeze, Florida, South Santa Rosa Utility System Refunding Revenue Bonds, Series 2004, due in annual installments of \$370,000 to \$815,000 through 2021; interest rate at 2.5% to 5.5%. Secured by pledged revenues of the City's utility systems. Proceeds used to refund all of the City's Series 1994 South Santa Rosa Utility System Revenue Bonds.	\$ 515,000	\$ 8,070,000	\$ 8,585,000
Add unamortized bond premium	--	309,884	309,884
Less unamortized deferred loss on refunding	--	(2,014,426)	(2,014,426)
Total Revenue Bonds	<u>515,000</u>	<u>6,365,458</u>	<u>6,880,458</u>
<i>Notes Payable</i>			
\$4,730,000, 1996, variable rate loan (TBMA plus .0034%) from 1995A Gulf Breeze Local Government Loan Program, due in semi-annual installments ranging from \$191,350 to \$223,209 through 2011; effective rate of interest as of September 30, 2007, was 4.05%. Available net utility revenues are pledged for payment. Proceeds used for utility system improvements.	387,674	1,060,896	1,448,570
\$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 \$60,072 to \$114,815 through 2020 with a balloon payment of \$2,484,391 in 2021; effective rate of interest as of September 30, 2007, was 4.05%. Available net utility revenues are pledged for payment. Proceeds used for utility system improvements.	121,721	4,562,950	4,684,671
Total Notes	<u>509,395</u>	<u>5,623,846</u>	<u>6,133,241</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 11 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<i>Capital lease payable</i>			
Capital lease with BancorpSouth Equipment Finance for a sewer vacuum truck, due in annual payments ranging from \$52,215 to \$59,461 through 2011.	52,215	170,930	223,145
<i>Accrued Compensated Absences</i>			
Accumulated, vested annual accrued compensation for Enterprise Funds.	114,245	9,048	123,293
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 1,190,855	\$ 12,169,282	\$ 13,360,137
GRAND TOTAL ALL LONG-TERM DEBT			\$ 23,812,455

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, 2007, are as follows:

Governmental Activities

Year Ending September 30	Revenue Bonds	
	Principal	Interest
2008	\$ 0	\$ 449,980
2009	175,000	463,479
2010	180,000	456,329
2011	185,000	448,979
2012	195,000	441,279
2013-2017	1,095,000	2,079,618
2018-2022	1,340,000	1,824,387
2023-2027	1,670,000	1,484,752
2028-2032	2,100,000	1,032,143
2033-2037	2,675,000	442,943
2038	610,000	7,243
Total	\$ 10,225,000	\$ 9,131,132

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 11 - LONG-TERM DEBT (CONTINUED)

Annual Requirements to Amortize Debt Outstanding (Continued)

Business-Type Activities

Year Ending September 30	Revenue Bonds		Notes	
	Principal	Interest	Principal	Interest
2008	\$ 515,000	343,080	509,394	230,230
2009	525,000	330,080	536,289	208,642
2010	540,000	314,068	564,605	185,913
2011	555,000	294,905	365,402	171,260
2012	580,000	276,202	149,757	165,348
2013-2017	3,220,000	1,038,806	877,087	726,450
2018-2022	2,650,000	234,500	3,130,707	394,655
Total	\$ 8,585,000	\$ 2,831,641	\$ 6,133,241	\$ 2,082,498

Compensated Absences

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

Current Refunding

During 2007, the City issued \$10,225,000 of Series 2007 Revenue Improvement Bonds, used for a current refunding of \$8,803,690 of various outstanding City long-term debt. The refunding was undertaken in order to refund outstanding debt, as well to finance certain capital improvement projects. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt is approximately \$6,600,000. In addition, the transaction resulted in an economic gain of approximately \$1,100,000.

NOTE 12 - CAPITAL LEASE PAYABLE

The City is obligated under a lease-purchase agreement for a sewer vacuum vehicle. This lease qualifies as a capital lease for accounting purposes and is recorded at the present value of the future minimum lease payments at the inception of the lease. At September 30, 2007, the leased asset had a cost of \$273,146 and accumulated amortization of approximately \$27,000. Amortization of the leased asset is included in depreciation expense. Future minimum lease payments together with the present value of the minimum lease payments as of September 30, 2007, are as follows:

Year ending <u>September 30, 2007,</u>	
2008	\$ 62,095
2009	62,095
2010	62,095
2011	<u>62,095</u>
Total minimum payments	248,380
Less interest	<u>(25,235)</u>
Present value of minimum lease payments	\$ <u>223,145</u>

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 13 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances at September 30, 2007 is as follows:

Due To/From Other Funds

Receivable fund	Payable Fund	Amount
General	Nonmajor Proprietary Funds	\$ 758,453
General	South Santa Rosa Utility	152,297
General	Natural Gas	100,000
General	Stormwater	212,427
		<u>\$ 1,223,177</u>

The General Fund receivable from the Nonmajor Proprietary Funds is for settlement income received in fiscal year 2003, cash flow assistance, accrued payroll expenses, and residual assets generated from closing out the fishing bridge fund. The General Fund receivable from the South Santa Rosa Utility Fund is for lease revenues collected by the South Santa Rosa Utility Fund on behalf of the General Fund. The General Fund receivable due from Natural Gas and Stormwater funds is for cash flow assistance.

	Transfers In					Total
	General Fund	Urban Core Redevelopment	Water and Sewer	South Santa Rosa Utility	Stormwater Management	
Transfers out						
General	\$ -	\$ 177,516	\$ 1,140,253	\$ 60,989	\$ 72,574	\$ 1,451,332
Water and Sewer	158,280	-	-	360,072	-	518,352
Natural Gas	183,960	-	-	-	-	183,960
South Santa Rosa Utility	130,200	-	-	-	-	130,200
Stormwater Management	43,920	-	-	-	-	43,920
Nonmajor Proprietary Funds	443,586	-	-	-	-	443,586
	<u>\$ 959,946</u>	<u>\$ 177,516</u>	<u>\$ 1,140,253</u>	<u>\$ 421,061</u>	<u>\$ 72,574</u>	<u>\$ 2,771,350</u>

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

NOTE 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. A copy of the financial statements for FRUS is available by writing to 8574 Turkey Bluff Road, Navarre, Florida 32569.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

The city has active construction projects as of September 30, 2007 as follows:

Engineering	\$ 443,809
Construction	345,489
Miscellaneous	<u>14,500</u>
	<u>\$ 803,798</u>

Of these commitments, \$420,471 is reported in the governmental fund financial statements as reserved for encumbrances. The remaining \$383,327 represents commitments in proprietary type funds which are not included in the financial statements in accordance with GAAP. These commitments are evidenced by signed purchase orders and contracts which were entered into prior to September 30, 2007.

SSRUS has committed to a capital improvement project totaling approximately \$175,000 to remedy findings from a Florida Department of Environmental Protection inspection of the wastewater treatment plant. Construction is expected to begin in 2008.

Contractual Commitments

The City entered into a five year, non-cancelable application service provider agreement during the year ended September 30, 2007. Remaining payments due under the agreement are \$37,740, \$40,680, \$41,900, and \$43,157 for the years ending September 30, 2008, 2009, 2010, and 2011, respectively.

Under the terms of a lawsuit settlement agreement, the City was required to pay \$100,000 during 2007, and will be required to pay up to an additional \$525,000 over the next two years, contingent on the third party's completion of specific events as outlined in the agreement. The agreement allows for the irrigation of a golf course using the City's effluent, and extends through October 2058. In addition, both parties may be held liable for failure to meet certain compliance requirements at specified daily rates.

Internal Revenue Service Examination and Settlement - The Internal Revenue Service (IRS) initiated an examination of the Capital Trust Agency's (CTA) Seminole Tribe of Florida Convention and Resort Hotel Facilities Bonds, Series 2002A, 2002B, 2002C, 2003A, and 2004A (collectively, the "Bonds"). In conjunction with its examination, the Internal Revenue Service in a Preliminary Adverse Determination (PAD) letter dated December 2, 2004, asserted that the interest paid to holders of the bonds should not be exempt from federal income taxes. Among the reasons cited by the IRS in the PAD that interest paid on bonds should be taxable are (i) that Capital Trust Agency did not have the authority to loan funds to the Seminole Tribe pursuant to an interlocal agreement, and (ii) the proceeds of the bonds were not utilized by the Tribe in the exercise of an essential governmental function. The Capital Trust Agency disagreed with the IRS' position and believed the Bonds were properly issued under Florida law. In 2007, CTA along with other principal parties to the bond issuance had been working with the IRS towards reaching a resolution of the investigation. The settlement was formally concluded in October 2007 whereby the various parties agreed to make a certain payment to the IRS, of which CTA was required to pay less than one percent (\$100,000). CTA's settlement payment is included as "Professional services" expense in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

Grant Receipts

Amounts received or receivable from grants are subject to audit and adjustment by the grantor. 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.

City of Gulf Breeze, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2007

NOTE 15 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Hurricanes Ivan and Dennis

The City, along with most of Northwest Florida, sustained significant damage and incurred substantial costs due to Hurricanes Ivan and Dennis which struck in September 2004 and July 2005, respectively. The City was subsequently identified to be included in a major disaster declaration, issued by the U.S. Department of Homeland Security. In addition, the State of Florida Office of the Governor issued Executive Orders to declare a state of emergency for the areas affected by these hurricanes. These Federal and State declarations provide for the reimbursement of the majority of the costs associated with recovery from Federal and State funding sources with the remaining amount to be paid by the City. The City has estimated and included in the General Fund those costs expected to be reimbursed from Federal and State sources. Final disposition of these costs is subject to review and approval by the Federal and State agencies and may result in additional amounts due to the City or to the Federal and State agencies.

During 2006, the City incurred hurricane related repair expenditures and accordingly recorded revenue and receivables of approximately \$350,000. During 2007 the City concluded the amount would not be reimbursed from the Federal agency, and has recorded the change in accounting estimate of amounts due as a reduction of 2007 revenue.

NOTE 16 – FISHING BRIDGE FUND CLOSURE

The Fishing Bridge has not been operational due to hurricane damage, accordingly, during 2007 the City elected to close the Fishing Bridge Fund. The un-depreciated capital assets have been written off and are reflected as a “loss on disposal of assets” in the statement of revenues, expenses, and changes in net assets. In 2008, the City plans to transfer the remaining Fishing Bridge Fund cash balances to the General Fund.

NOTE 17 – SUBSEQUENT EVENTS

Property Tax Revenue – Amendment 1

On January 29, 2008, the Florida electorate approved an amendment (referred to as Amendment 1) to the Florida Constitution which will impact the City’s property tax revenues beginning with the year ending September 30, 2009. Amendment 1 increases the current homestead exemption for certain properties, allows property owners to transfer up to \$500,000 of their Save Our Homes benefits to their next homestead upon moving, limits the annual increase in assessed value for non-homestead property to 10%, and provides for a \$25,000 exemption for tangible personal property. The City is currently evaluating the impact Amendment 1 will have on its financial position.

State Board of Administration Investments

As discussed in Note 3, the City invested in the State Board of Administration’s (SBA) Local Government Surplus Funds Trust Fund Investment Pool (Pool). The City, subsequent to September 30, 2007, withdrew all its funds from the Pool in response of growing concerns with the Pool’s investments in asset-backed commercial paper that was subject to sub-prime mortgage risk. The City has experienced no loss of funds due to risks associated with the Pool’s activities.

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	State of Florida Contribution	Percentage Contributed
9/30/2007	\$ 129,663	\$ 72,070	\$ 62,536	100%
9/30/2006	\$ 141,614	\$ 67,127	\$ 58,100	100%
9/30/2005	\$ 111,652	\$ 70,297	\$ 56,351	100%
9/30/2004	\$ 106,334	\$ 63,942	\$ 61,164	100%
9/30/2003	\$ 101,271	\$ 62,917	\$ 69,889	100%
9/30/2002	\$ 87,888	\$ 58,152	\$ 59,879	100%
9/30/2001	\$ 66,282	\$ 49,270	\$ 55,787	100%
9/30/2000	\$ 57,159	\$ 32,816	\$ --	100%
9/30/1999	\$ 22,840	\$ 25,642	\$ 59,929	100%
9/30/1998	\$ 19,236	\$ 1,544	\$ --	100%

(1) Annual required contribution represents the actuarially determined employer contribution after taking into account expected participant contributions. The City is authorized by plan provisions to include State contributions to meet the annual required contribution. When contributions exceed the annual required contribution, the excess amounts are placed in a surplus contribution account. When contributions are less than the annual required 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 September 30, 2007, the surplus contribution account total was approximately \$195,000.

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

CITY OF GULF BREEZE, FLORIDA

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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

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

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Traffic Citation Special Revenue Fund

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

Police Special Revenue Fund

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

City of Gulf Breeze, Florida
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2007

ASSETS	Traffic Citation	Police	Total
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 59,501	\$ 17,822	\$ 77,323
Restricted assets			
Cash and cash equivalents	76,615	--	76,615
Total assets	<u>\$ 136,116</u>	<u>\$ 17,822</u>	<u>\$ 153,938</u>
LIABILITIES			
Accounts payable	\$ --	\$ 146	\$ 146
Total liabilities	<u> --</u>	<u> 146</u>	<u> 146</u>
FUND BALANCES			
Reserved			
Other contractual liabilities	76,615	--	76,615
Police trust	--	17,676	17,676
Unreserved			
Undesignated special revenue	59,501	--	59,501
Total fund balances	<u>136,116</u>	<u>17,676</u>	<u>153,792</u>
Total liabilities and fund balances	<u>\$ 136,116</u>	<u>\$ 17,822</u>	<u>\$ 153,938</u>

City of Gulf Breeze, Florida
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year ended September 30, 2007

	Traffic Citation	Police	Total
Revenues			
Fines and forfeitures	\$ 132,962	\$ 6,193	\$ 139,155
Miscellaneous	430	--	430
Total revenues	<u>133,392</u>	<u>6,193</u>	<u>139,585</u>
Expenditures			
Current			
General government	1,906	--	1,906
Public safety	--	13,367	13,367
Total expenditures	<u>1,906</u>	<u>13,367</u>	<u>15,273</u>
Excess (deficiency) of revenues over expenditures	131,486	(7,174)	124,312
Fund balances, beginning of year	<u>4,630</u>	<u>24,850</u>	<u>29,480</u>
Fund balances, end of year	<u><u>\$ 136,116</u></u>	<u><u>\$ 17,676</u></u>	<u><u>\$ 153,792</u></u>

City of Gulf Breeze, Florida
TRAFFIC CITATION SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year ended September 30, 2007

	Budget Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget		
Revenues				
Fines and forfeitures	\$ --	\$ --	\$ 132,962	\$ 132,962
Miscellaneous	--	--	430	430
Total revenues	--	--	133,392	133,392
Expenditures				
Current				
General government	--	--	1,906	(1,906)
Total expenditures	--	--	1,906	(1,906)
Excess (deficiency) of revenues over expenditures	--	--	131,486	131,486
Fund balance, beginning of year	--	--	4,630	4,630
Fund balance, end of year	\$ --	\$ --	\$ 136,116	\$ 136,116

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, 2007

	Budget Amounts			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Fines and forfeitures	\$ --	\$ --	\$ 6,193	\$ 6,193
Total revenues	--	--	6,193	6,193
Expenditures				
Current				
Public safety	--	--	13,367	(13,367)
Total expenditures	--	--	13,367	(13,367)
Excess (deficiency) of revenues over expenditures	--	--	(7,174)	(7,174)
Fund balance, beginning of year	--	--	24,850	24,850
Fund balance, end of year	\$ --	\$ --	\$ 17,676	\$ 17,676

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, 2007

ASSETS	Fishing	Solid Waste	Gulf Breeze Financial	Total
	Bridge	Control	Services	
Current assets				
Cash and cash equivalents	\$ 48,533	\$ 51,158	\$ 712,232	\$ 811,923
Receivables	--	106,948	--	106,948
Investments	--	--	617,870	617,870
Due from other governments	--	--	5,224	5,224
Restricted assets				
Cash and cash equivalents	--	8,290	--	8,290
Total current assets	48,533	166,396	1,335,326	1,550,255
Noncurrent assets				
Capital assets, net				
Improvements other than building	--	--	90,057	90,057
Machinery and equipment	--	--	22,585	22,585
Total noncurrent assets	--	--	112,642	112,642
Total assets	48,533	166,396	1,447,968	1,662,897
LIABILITIES				
Current liabilities				
Accounts payable	--	21,467	687	22,154
Accrued liabilities	--	933	--	933
Due to other funds	48,533	200,000	509,920	758,453
Payable from restricted assets	--	--	--	--
Customer deposits	--	8,290	--	8,290
Total current liabilities	48,533	230,690	510,607	789,830
Total liabilities	48,533	230,690	510,607	789,830
NET ASSETS				
Invested in capital assets, net of related debt	--	--	112,642	112,642
Unrestricted	--	(64,294)	824,719	760,425
Total net assets	\$ --	\$ (64,294)	\$ 937,361	\$ 873,067

City of Gulf Breeze, Florida
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended September 30, 2007

	Fishing Bridge	Solid Waste Control	Gulf Breeze Financial Services	Total
Operating revenues				
Charges for services	\$ --	\$ 947,181	\$ 841,300	\$ 1,788,481
Total operating revenues	--	947,181	841,300	1,788,481
Operating expenses				
Personal services	--	89,242	124,344	213,586
Contractual services	--	805,619	--	805,619
Supplies	1,900	2,184	--	4,084
Professional services	--	--	31,214	31,214
Repairs and maintenance	--	4,154	--	4,154
Office and utilities	--	98	16,569	16,667
Depreciation and amortization	--	--	11,641	11,641
Total operating expenses	1,900	901,297	183,768	1,086,965
Operating income (loss)	(1,900)	45,884	657,532	701,516
Non-operating revenues (expenses)				
Interest earnings	--	--	50,007	50,007
Loss on disposal of assets	(459,158)	--	(7,233)	(466,391)
Miscellaneous	--	(2,276)	--	(2,276)
Total non-operating revenues (expenses)	(459,158)	(2,276)	42,774	(418,660)
Income (loss) before transfers and capital contributions	(461,058)	43,608	700,306	282,856
Transfers and capital contributions				
Transfers out	(48,533)	(69,600)	(325,453)	(443,586)
Total transfers and capital contributions	(48,533)	(69,600)	(325,453)	(443,586)
Changes in net assets	(509,591)	(25,992)	374,853	(160,730)
Net assets, beginning of year	509,591	(38,302)	562,508	1,033,797
Net assets, end of year	\$ --	\$ (64,294)	\$ 937,361	\$ 873,067

City of Gulf Breeze, Florida
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year ended September 30, 2007

	Fishing Bridge	Solid Waste Control	Gulf Breeze Financial Services	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ --	\$ 946,800	\$ 841,300	\$ 1,788,100
Payments to suppliers	--	(857,180)	(47,096)	(904,276)
Payments to employees	--	(89,213)	(124,344)	(213,557)
Net cash provided (used) by operating activities	<u>--</u>	<u>407</u>	<u>669,860</u>	<u>670,267</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Borrowings (repayments):				
Advances from other funds	--	123,586	(494,571)	(370,985)
Transfers out	--	(69,600)	(325,453)	(395,053)
Net cash provided (used) by non-capital financing activities	<u>--</u>	<u>53,986</u>	<u>(820,024)</u>	<u>(766,038)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisitions of fixed assets	--	--	(9,331)	(9,331)
Proceeds from sale of assets	--	--	4,356	4,356
Net cash provided (used) by capital and related financing activities	<u>--</u>	<u>--</u>	<u>(4,975)</u>	<u>(4,975)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	--	--	(507,041)	(507,041)
Proceeds from sale of investments	--	--	--	--
Miscellaneous	--	--	--	--
Interest income	--	--	50,007	50,007
Net cash provided (used) by investing activities	<u>--</u>	<u>--</u>	<u>(457,034)</u>	<u>(457,034)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>--</u>	<u>54,393</u>	<u>(612,173)</u>	<u>(557,780)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>48,533</u>	<u>5,055</u>	<u>1,324,405</u>	<u>1,377,993</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 48,533</u>	<u>\$ 59,448</u>	<u>\$ 712,232</u>	<u>\$ 820,213</u>

Continued...

City of Gulf Breeze, Florida
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
Year ended September 30, 2007

	Fishing Bridge	Solid Waste Control	Gulf Breeze Financial Services	Total
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF				
Current assets	\$ 48,533	\$ 51,158	\$ 712,232	\$ 811,923
Restricted assets	--	8,290	--	8,290
	<u>\$ 48,533</u>	<u>\$ 59,448</u>	<u>\$ 712,232</u>	<u>\$ 820,213</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (1,900)	\$ 45,884	\$ 657,532	\$ 701,516
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	--	--	11,641	11,641
Miscellaneous income (expense)	--	(2,276)	--	(2,276)
Decrease (increase) in assets				
Accounts receivable	1,900	(1,340)	--	560
Due from other governments	--	--	--	--
Increase (decrease) in liabilities				
Accounts payable	--	(45,125)	687	(44,438)
Accrued liabilities	--	29	--	29
Customer deposits	--	3,235	--	3,235
Net cash provided (used) by operating activities	<u>\$ --</u>	<u>\$ 407</u>	<u>\$ 669,860</u>	<u>\$ 670,267</u>

FIDUCIARY FUNDS

AGENCY FUNDS

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

AGENCY FUNDS

Health Insurance Agency Fund

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

D.A.R.E Agency Fund

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

City of Gulf Breeze, Florida
AGENCY FUNDS
COMBINING BALANCE SHEET
September 30, 2007

	Health Insurance	D.A.R.E	Total
ASSETS			
Cash	\$ 10,429	\$ 1,035	\$ 11,464
Total assets	<u>10,429</u>	<u>1,035</u>	<u>11,464</u>
LIABILITIES			
Other	<u>10,429</u>	<u>1,035</u>	<u>11,464</u>
Total liabilities	<u>10,429</u>	<u>1,035</u>	<u>11,464</u>
NET ASSETS	<u><u>\$ --</u></u>	<u><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, 2007

	Balance 9/30/2006	Additions	Deductions	Balance 9/30/2007
HEALTH INSURANCE ASSETS				
Cash	\$ 10,119	\$ 310	\$ --	\$ 10,429
LIABILITIES				
Other	10,119	310	--	10,429
NET ASSETS	\$ --	\$ --	\$ --	\$ --
D.A.R.E ASSETS				
Cash	\$ 698	\$ 337	\$ --	\$ 1,035
LIABILITIES				
Other	698	337	--	1,035
NET ASSETS	\$ --	\$ --	\$ --	\$ --
TOTAL - ALL AGENCY FUNDS ASSETS				
Cash	\$ 10,817	\$ 647	\$ --	\$ 11,464
LIABILITIES				
Other	10,817	647	--	11,464
NET ASSETS	\$ --	\$ --	\$ --	\$ --

III. STATISTICAL SECTION

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

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

STATISTICAL SECTION

This section of the City of the Gulf Breeze's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

REVENUE CAPACITY

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

DEBT CAPACITY

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

OPERATING INFORMATION

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

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

Fiscal Year	Invested in Capital Assets, Net of Related Debt			Restricted Net Assets			Unrestricted Net Assets			Total Net Assets		
	Governmental Activities	Business-Type Activities	Total Primary Govt	Governmental Activities	Business-Type Activities	Total Primary Govt	Governmental Activities	Business-Type Activities	Total Primary Govt	Governmental Activities	Business-Type Activities	Total Primary Govt
2007	\$ 1,849,245	\$ 16,536,085	\$ 18,385,330	\$ 780,417	\$ 1,079,629	\$ 1,860,046	\$ 5,167,815	\$ 3,157,532	\$ 8,325,347	\$ 7,797,477	\$ 20,773,246	\$ 28,570,723
2006	7,722,314	12,759,746	20,482,060	2,017,516	771,202	2,788,718	768,168	5,794,071	6,562,239	10,507,998	19,325,019	29,833,017
2005	6,802,620	10,918,455	17,721,075	783,266	640,827	1,424,093	4,062,697	6,626,981	10,689,678	11,648,583	18,186,263	29,834,846
2004	7,007,577	9,606,570	16,614,147	1,354,090	1,863,500	3,217,590	3,107,762	5,619,990	8,727,752	11,469,429	17,090,060	28,559,489
2003	5,964,365	8,704,729	14,669,094	1,556,892	1,835,048	3,391,940	3,873,152	5,781,486	9,654,638	11,394,409	16,321,263	27,715,672
2002	-	-	-	-	-	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-	-	-	-	-	-
2000	-	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-	-	-	-	-	-

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

SOURCE: City of Gulf Breeze Finance Department

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

Fiscal Year	Expenses by Function							Program Revenues				Net (Expense) Revenue	General Revenues					Change in Net Assets	
	General Government	Public Safety	Transportation	Economic Environment	Culture & Recreation	Debt Service Interest	Total Gov't'l Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Total Program Revenues		Taxes	Inter-governmental unrestricted	Misc	Investment Earnings	Total General Revenues		Transfers
2007	\$ 1,483,562	\$ 2,523,959	\$ 470,013	\$ 203,332	\$ 4,532,538	\$ 291,769	\$ 9,505,173	\$ 667,373	\$ 2,595,066	\$ -	\$ 3,262,439	\$ (6,242,734)	\$ 2,601,024	\$ 498,649	\$ 597,342	\$ 149,068	\$ 3,846,083	\$ (313,870)	\$ (2,710,521)
2006	4,974,062	2,200,265	520,691	209,664	1,089,459	167,473	9,161,614	451,773	3,630,268	129,238	4,211,279	(4,950,335)	2,113,063	528,262	599,005	176,998	3,417,328	870,849	(662,158)
2005	6,677,903	2,151,503	507,045	191,815	987,333	97,215	10,612,814	468,344	6,110,676	350,510	6,929,530	(3,683,284)	1,995,221	600,271	344,985	81,153	3,021,630	840,508	178,854
2004	1,951,555	1,955,658	484,196	168,023	954,933	170,161	5,684,526	664,849	927,774	671,424	2,264,047	(3,420,479)	1,742,490	434,544	342,639	129,222	2,648,895	846,604	75,020
2003	1,054,369	1,984,781	405,322	318,298	858,384	134,571	4,755,725	656,918	628,643	330,931	1,616,492	(3,139,233)	1,647,655	447,143	907,972	61,973	3,064,743	1,496,100	1,421,610
2002	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

SOURCE: City of Gulf Breeze Finance Department

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

Fiscal Year	Expenses by Program								Program Revenues			Net (Expense) Revenue	General Revenues			Change in Net Assets	
	Water & Sewer	Natural Gas	South Santa Rosa Utility	Stormwater Management	Fishing Bridge	Solid Waste	Gulf Breeze Financial Services	Total Business-Type Expenses	Charges for Services	Capital Grants & Contributions	Total Program Revenues		Misc	Investment Earnings	Total General Revenues		Transfers
2007	\$ 1,411,855	\$ 1,943,119	\$ 5,704,870	\$ 145,145	\$ 461,058	\$ 901,297	\$ 191,001	\$ 10,758,345	\$ 9,239,848	\$ 2,448,130	\$ 11,687,978	\$ 929,633	\$ 70,820	\$ 133,904	\$ 204,724	\$ 313,870	\$ 1,448,227
2006	1,308,246	2,031,273	5,269,482	-	10,682	880,301	189,021	9,689,005	8,481,901	2,912,708	11,394,609	1,705,604	112,181	191,820	304,001	(870,849)	1,138,756
2005	1,643,605	1,482,273	4,963,407	-	17,105	869,522	445,598	9,421,510	7,944,876	1,539,970	9,484,846	63,336	705,214	83,337	788,551	(840,508)	11,379
2004	1,281,717	1,352,419	4,503,775	-	104,308	774,328	214,227	8,230,774	7,744,378	2,868,146	10,612,524	2,381,750	49,142	58,832	107,974	(846,604)	1,643,120
2003	1,218,267	1,257,860	4,323,126	-	104,636	738,716	225,320	7,867,925	7,620,441	2,383,069	10,003,510	2,135,585	49,513	68,845	118,358	(1,496,100)	757,843
2002	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

SOURCE: City of Gulf Breeze Finance Department

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

Fiscal Year	Governmental Activities						Business-Type Activities								
	General Government	Public Safety	Transportation	Economic Environment	Culture & Recreation	Total Gov't Expenses	Water & Sewer	Natural Gas	South Santa Rosa Utility	Stormwater Management	Fishing Bridge	Solid Waste	Gulf Breeze Financial Services	Total Business-Type	Total Primary Govt
2007	\$ 188,550	\$ 295,201	\$ -	\$ -	\$ 183,622	\$ 667,373	\$ 1,545,320	\$ 1,781,957	\$ 3,935,152	\$ 188,938	\$ -	\$ 947,181	\$ 841,300	\$ 9,239,848	\$ 9,907,221
2006	26,040	197,998	72,496	-	155,239	451,773	1,542,876	2,060,168	3,440,755	-	-	927,550	510,552	8,481,901	8,933,674
2005	26,040	224,688	86,840	-	130,776	468,344	1,423,554	1,681,768	3,173,648	-	-	902,379	763,527	7,944,876	8,413,220
2004	316,116	180,391	45,219	-	123,123	664,849	1,368,238	1,676,024	3,241,172	-	147,147	817,628	494,169	7,744,378	8,409,227
2003	328,883	191,449	19,145	-	117,441	656,918	1,363,053	1,509,490	3,275,513	-	154,812	769,831	547,742	7,620,441	8,277,359
2002	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

SOURCE: City of Gulf Breeze Finance Department

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

Fiscal Year	Reserved Fund Balance			Unreserved, Designated Fund Balance			Unreserved, Undesignated Fund Balance			Total Fund Balance		
	General Fund	Aggregate Special Revenue Funds		General Fund	Aggregate Special Revenue Funds		General Fund	Aggregate Special Revenue Funds		General Fund	Aggregate Special Revenue Funds	
		Total	Total		Total	Total		Total	Total			
2007	\$ 1,661,094	\$ 94,291	\$ 1,755,385	\$ 539,022	\$ -	\$ 539,022	\$ 2,576,869	\$ 324,566	\$ 2,901,435	\$ 4,776,985	\$ 418,857	\$ 5,195,842
2006	1,618,928	24,850	1,643,778	520,392	-	520,392	575,567	218,306	793,873	2,714,887	243,156	2,958,043
2005	226,043	35,210	261,253	520,392	-	520,392	3,680,089	553,659	4,233,748	4,426,524	588,869	5,015,393
2004	25,258	37,671	62,929	511,809	-	511,809	3,595,720	562,556	4,158,276	4,132,787	600,227	4,733,014
2003	1,525,195	37,503	1,562,698	506,409	-	506,409	3,027,011	589,828	3,616,839	5,058,615	627,331	5,685,946
2002 ⁽¹⁾	-	-	-	-	-	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-	-	-	-	-	-
2000	-	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-	-	-	-	-	-

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

SOURCE: City of Gulf Breeze Finance Department

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

Fiscal Year	General Government Services	Public Safety	Transportation	Economic Environment	Community Service	Culture/ Recreation	Capital Outlay	(2)	Debt Service Interest	Costs of Issuance	Other Financing Uses	Total	(3)
								Debt Service Principal					Debt Service to Noncapital Expenditures
2007	\$ 1,377,411	\$ 2,050,760	\$ 152,329	\$ 104,597	\$ -	\$ 4,236,487	\$ 2,210,764	\$ 183,554	\$ 226,147	\$ 330,824	\$ 9,360,312	\$ 20,233,185	5%
2006	4,882,687	1,859,355	241,410	123,298	-	831,588	1,674,036	192,462	156,930	-	133,481	10,095,247	4%
2005	6,708,807	1,813,964	243,260	109,397	-	739,305	1,610,747	186,594	97,215	-	123,764	11,633,053	3%
2004	1,765,047	1,647,056	172,810	95,252	-	727,324	2,206,017	55,300	46,672	-	84,908	6,800,386	2%
2003	977,379	1,698,658	181,397	248,140	-	647,466	2,374,337	106,471	-	-	76,820	6,310,668	3%
2002	963,450	1,421,983	201,269	-	158,888	632,877	1,506,488	69,899	-	-	72,949	5,027,803	2%
2001	903,313	1,364,641	179,703	-	70,857	599,318	900,755	80,122	-	-	68,589	4,167,298	3%
2000	918,603	1,305,296	182,719	39,707	-	537,960	1,152,494	80,853	-	-	930,741	5,148,373	3%
1999	979,114	1,240,622	143,001	27,529	-	451,952	917,651	55,046	-	-	551,213	4,366,128	2%
1998	942,857	1,179,259	147,662	8,900	-	459,964	244,715	58,564	-	-	804,521	3,846,442	2%

(1) Includes General Fund and Special Revenue Funds.

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

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

SOURCE: City of Gulf Breeze Finance Department

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

Fiscal Year	Taxes	Licenses & Permits	Inter-Governmental Revenues	Charges for Services	Fines & Forfeitures	Miscellaneous Revenues	Other Financing Sources	Total Revenue & Other Sources	(2) Total Expenditures & Other Uses	Total Change in Fund Balance
2007	\$ 2,601,025	\$ 96,644	\$ 3,093,715	\$ 275,527	\$ 295,201	\$ 597,342	\$15,362,462	\$ 22,470,984	\$ 20,233,185	\$ 2,237,799
2006	2,067,873	64,187	4,231,538	155,239	197,998	837,946	1,078,156	8,632,937	10,095,247	(1,462,310)
2005	1,951,893	61,788	6,841,071	130,776	224,688	567,335	2,137,881	11,915,432	11,633,053	282,379
2004	1,712,442	69,085	2,078,960	147,218	180,391	724,846	846,604	5,759,546	6,800,386	(1,040,840)
2003	1,616,583	86,060	1,383,234	143,466	191,450	1,315,343	4,572,920	9,309,056	6,310,668	2,998,388
2002	1,617,221	84,750	747,045	136,840	256,989	421,468	1,538,505	4,802,818	5,027,803	(224,985)
2001	1,437,157	79,747	724,530	115,211	170,066	508,553	1,086,197	4,121,461	4,167,298	(45,837)
2000	1,287,439	72,774	778,446	93,213	251,484	1,638,801	1,436,937	5,559,094	5,148,373	410,721
1999	1,163,000	56,712	908,327	104,049	221,727	1,312,600	1,359,617	5,126,032	4,366,128	759,904
1998	1,145,269	72,921	542,179	86,658	209,730	1,200,078	956,448	4,213,283	3,846,442	366,841

(1) Includes General Fund and Special Revenue Funds.

(2) From Table VI.

SOURCE: City of Gulf Breeze Finance Department

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

Fiscal Year	Total Tax Levy⁽¹⁾	Amount of Current Taxes Collected	Percent of Current Taxes Collected	Amount of Delinquent Taxes Collected	Total Collected for the Year	Ratio of Total Taxes Collected To Current Levy	Delinquent Taxes	Ratio of Delinquent Taxes to Current Levy
2007	This levy will be collected during Fiscal Year 2008							
2006	\$ 1,086,162	\$1,081,722	99.6%	\$ 2,500	\$1,084,222	99.8%	\$ 1,769	0.2%
2005	1,075,841	1,039,183	96.6%	3,245	1,042,428	96.9%	1,347	0.1%
2004	999,824	967,773	96.8%	2,754	970,527	97.1%	8,495	0.8%
2003	913,208	879,300	96.3%	2,354	881,654	96.5%	2,202	0.2%
2002	822,024	793,816	96.6%	1,081	794,897	96.7%	972	0.1%
2001	782,978	752,087	96.1%	3,421	755,508	96.5%	2,563	0.3%
2000	739,760	711,831	96.2%	2,003	713,834	96.5%	3,804	0.5%
1999	673,869	650,432	96.5%	2,231	652,663	96.9%	1,637	0.2%
1998	633,828	612,651	96.7%	1,221	613,872	96.9%	946	0.1%

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

SOURCE: Santa Rosa County Tax Collector Office

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

<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>	<u>Millage Rate</u>
2007	\$1,112,840,126	\$ 31,427,047	\$ 1,144,267,173	\$459,490,041	\$684,777,132	1.6283
2006	\$1,133,658,192	\$ 33,232,222	\$ 1,166,890,414	\$499,240,156	\$667,650,258	1.9000
2005	\$ 960,727,282	\$ 28,162,900	\$ 988,890,182	\$423,084,878	\$565,805,304	1.9000
2004	\$ 819,535,885	\$ 31,872,976	\$ 851,408,861	\$339,659,012	\$511,749,849	1.9000
2003	\$ 756,517,941	\$ 29,781,148	\$ 786,299,089	\$306,137,010	\$480,162,079	1.8300
2002	\$ 693,497,553	\$ 27,689,218	\$ 721,186,771	\$272,613,514	\$448,573,257	1.8300
2001	\$ 655,231,301	\$ 23,521,500	\$ 678,752,801	\$254,746,230	\$424,006,571	1.8300
2000	\$ 639,135,302	\$ 23,666,792	\$ 662,802,094	\$259,131,479	\$403,670,615	1.8300
1999	\$ 601,290,829	\$ 23,624,562	\$ 624,915,391	\$256,681,253	\$368,234,138	1.8300
1998	\$ 524,746,936	\$ 22,578,356	\$ 547,325,292	\$200,957,339	\$346,367,953	1.8300

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

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

SOURCE: Santa Rosa County Property Appraiser

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

<u>Year</u>	<u>Millage</u>
2007	1.6283
2006	1.9000
2005	1.9000
2004	1.9000
2003	1.8300
2002	1.8300
2001	1.8300
2000	1.8300
1999	1.8300
1998	1.8300

SOURCE: Santa Rosa County Property Appraiser

City of Gulf Breeze, Florida
TABLE XI
PRINCIPAL TAXPAYERS
Unaudited

<u>Taxpayer</u>	<u>FY 2006-07</u>	
	<u>Total</u> <u>Assessed</u> <u>Valuation</u>	<u>Percentage</u>
<u>FY 2006-07</u>		
Mullet, Willis J.	\$ 9,081,652	1.33%
East End Company, LLC	8,169,979	1.19%
Gulf Power	6,011,065	0.88%
Falzone, Timothy D.	5,788,437	0.85%
Moulton Properties, Inc	5,577,791	0.81%
Bellsouth Telecom	5,496,558	0.80%
Quietwater LLC	5,344,521	0.78%
Exposition Properties, LLC	5,171,860	0.76%
Bay Beach Hotel, LLC	5,103,354	0.75%
Baptist Hospital	4,592,656	0.67%
<hr/>		
Total Taxable Assessed Value Principal Taxpayers	\$ 60,337,873	8.81%
Total Taxable Assessed Value Other Taxpayers	<u>\$ 624,439,259</u>	<u>91.19%</u>
Total Taxable Value	<u>\$ 684,777,132</u>	<u>100.00%</u>

SOURCE: Santa Rosa County Property Appraiser

Information for the period 9 years prior to 2007 (FY 1996) is not available.

City of Gulf Breeze, Florida
TABLE XII
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
2007	\$ 57,403	\$ 51,025	88.89%	\$ 6,378
2006	-	-	0.00%	-
2005	-	-	0.00%	-
2004	-	-	0.00%	-
2003	-	1,512	0.00%	-
2002	-	-	0.00%	1,512
2001	-	10,589	0.00%	1,512
2000	-	33,535	0.00%	12,101
1999	154,292	108,912	70.59%	45,636
1998	-	539	0.00%	256

SOURCE: City of Gulf Breeze Finance Department

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

Fiscal Year	Revenue Bonds Payable			Notes Payable			Capital Leases Payable			Other Contractual Obligations			Total Debt		
	Governmental Activities	Business-Type Activities	Total Primary Govt	Governmental Activities	Business-Type Activities	Total Primary Govt	Governmental Activities	Business-Type Activities	Total Primary Govt	Governmental Activities	Business-Type Activities	Total Primary Govt	Governmental Activities	Business-Type Activities	Total Primary Govt
2007	\$ 10,177,575	\$ 6,880,458	\$ 17,058,033	\$ -	\$ 6,133,241	\$ 6,133,241	\$ -	\$ 223,145	\$ 223,145	\$ 76,615	\$ -	\$ 76,615	\$ 10,254,190	\$ 13,236,844	\$ 23,491,034
2006	-	7,254,339	7,254,339	4,044,844	7,641,487	11,686,331	-	-	-	-	-	-	4,044,844	14,895,826	18,940,670
2005	-	7,493,220	7,493,220	4,237,306	8,178,970	12,416,276	-	-	-	-	-	-	4,237,306	15,672,190	19,909,496
2004	-	8,688,333	8,688,333	3,423,900	8,689,304	12,113,204	-	-	-	-	-	-	3,423,900	17,377,637	20,801,537
2003	-	8,949,412	8,949,412	3,479,200	9,173,646	12,652,846	-	-	-	-	-	-	3,479,200	18,123,058	21,602,258
2002	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2001	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

SOURCE: City of Gulf Breeze Finance Department

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

Fiscal Year	Estimated Population⁽³⁾	Assessed Value for Operations⁽²⁾	Total Outstanding Debt	Ratio of Total Outstanding Debt to Assessed Value	Amount of Total Outstanding Debt Per Capita
2007	5,805	\$ 684,777,132	\$ 23,491,034	3%	\$ 4,047
2006	5,774	667,650,258	18,940,670	3%	3,280
2005	5,765	565,805,304	19,909,496	4%	3,454
2004	5,790	511,749,849	20,801,537	4%	3,593
2003	5,764	480,162,079	21,602,258	4%	3,748
2002	5,736	448,573,257	-	0%	-
2001	5,736	424,006,571	-	0%	-
2000	5,665	403,670,615	-	0%	-
1999	6,189	368,234,138	-	0%	-
1998	6,154	346,367,953	-	0%	-

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

(2) From Table IX

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

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

Unaudited

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

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

Fiscal Year	Estimated Population ⁽²⁾	Assessed Value for Operations ⁽¹⁾	Gross Bonded Debt	Debt Service Monies Available	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Gross Bonded Debt
2007	5,805	\$ 684,777,132	\$ -	\$ -	\$ -	-	\$ -
2006	5,774	667,650,258	-	-	-	-	-
2005	5,765	565,805,304	-	-	-	-	-
2004	5,790	511,749,849	-	-	-	-	-
2003	5,764	480,162,079	-	-	-	-	-
2002	5,736	448,573,257	-	-	-	-	-
2001	5,736	424,006,571	-	-	-	-	-
2000	5,665	403,670,615	-	-	-	-	-
1999	6,189	368,234,138	-	-	-	-	-
1998	6,154	346,367,953	-	-	-	-	-

(1) From Table IX

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

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

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

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

Fiscal Year	Operating Revenue	Tap Fees	Direct Operating Expenses (excluding depreciation)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
					Principal	Interest	Total	
2007	\$ 3,843,182	\$ 1,011,461	\$ 3,377,900	\$ 1,476,743	\$ 515,000	\$ 343,080	\$ 858,080	1.72
2006	3,362,140	1,674,431	3,133,753	1,902,818	505,000	355,830	860,830	2.21
2005	3,076,688	1,238,896	2,891,333	1,424,251	370,000	366,767	736,767	1.93
2004	3,170,682	2,260,893	2,395,033	3,036,542	405,000	555,996	960,996	3.16
2003	3,231,897	1,921,567	2,165,706	2,987,758	375,000	590,706	965,706	3.09
2002	3,082,596	1,225,392	2,178,377	2,129,611	355,000	614,222	969,222	2.20
2001	3,178,055	843,570	2,193,761	1,827,864	340,000	628,164	968,164	1.89
2000	2,854,903	1,275,764	1,399,470	2,731,197	330,000	641,198	971,198	2.81
1999	2,970,308	1,911,753	1,254,612	3,627,449	320,000	653,358	973,358	3.73
1998	2,723,271	939,678	1,211,882	2,451,067	305,000	664,338	969,338	2.53

SOURCE: City of Gulf Breeze Finance Department

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

Section One - Population

<u>Fiscal Year</u>	<u>Gulf Breeze Population</u>	<u>Santa Rosa County Population</u>	<u>GB as a % of the County</u>
2007	5,805	142,144	4.08%
2006	5,774	141,428	4.08%
2005	5,765	141,750	4.07%
2004	5,790	133,721	4.33%
2003	5,764	128,889	4.47%
2002	5,736	124,956	4.59%
2001	5,736	121,370	4.73%
2000	5,665	117,743	4.81%
1999	6,189	112,631	5.49%
1998	6,154	107,814	5.71%

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	\$ 48,646	2.26%	
Median Household Income	\$ 66,699		
Less than \$15,000	9.38%		
\$15,000 - \$50,000	28.92%		
Over \$50,000	61.56%		
<u>Race:</u>		<u>Labor Force:</u>	
White	97.4%	Male	1,504
Black	0.04%	Female	1,190
Other	2.56%	Total	<u><u>2,694</u></u>

SOURCES: Bureau of Economic and Business Research, University of Florida

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

Fiscal Year	Total Assessed Value ⁽²⁾	Commercial Construction		Residential Construction		Bank Deposits ⁽³⁾
		# of Units ⁽¹⁾	Value	# of Units ⁽¹⁾	Value	
2007	\$ 684,777,132	24	\$ 5,794,633	14	\$ 3,849,400	\$ 317,633,000
2006	667,650,258	12	9,046,301	11	9,022,840	308,860,000
2005	565,805,304	8	7,814,249	18	4,545,760	302,040,000
2004	511,749,849	6	2,634,482	14	5,542,241	212,625,000
2003	480,162,079	4	3,200,044	22	10,988,027	189,295,000
2002	448,573,257	2	2,250,000	20	12,772,925	162,007,000
2001	424,006,571	1	-	22	5,274,500	144,862,000
2000	403,670,615	5	18,498	24	9,297,957	140,058,000
1999	368,234,138	6	487,620	23	4,544,840	141,146,000
1998	346,367,953	5	2,831,000	32	7,378,587	133,907,000

SOURCE:

(1) Santa Rosa County Inspection Department

(2) Santa Rosa County Property Appraiser from Table IX

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

City of Gulf Breeze, Florida
TABLE XXI
PRINCIPAL EMPLOYERS
Unaudited

<u>Employer</u>	<u>Number of Employees</u>	<u>Percentage of Total Employment</u>
<u>FY 2006-07</u>		
Gulf Breeze Hospital	349	12.95%
Gulf Breeze High School	115	4.27%
City of Gulf Breeze	82	3.04%
Gulf Breeze Middle School	67	2.49%
Gulf Breeze Elementary School	52	1.93%
Listener	55	2.04%
Studer Group	39	1.45%
Bruno's Grocery Store	35	1.30%
AppRiver	27	1.00%
Coastal Courier	19	0.71%
 Total Labor Force (Table XIX)	 2,694	

Information for 9 years prior (FYE 1996) not available.

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

		SANTA ROSA COUNTY	
		<u>FY 06-07</u>	<u>FY 05-06</u>
EDUCATION:			
Schools:	Pre K	1	1
	Primary K-2	2	2
	Intermediate 3-5	2	2
	Grades K - 5	11	11
	Grades 6 - 8	7	7
	Grades 9 - 12	7	6
	Santa Rosa Community	1	1
	Vocational Technical	1	1
	Santa Rosa Adult	1	1
	Department of Juvenile Justice	2	3
	ESE Centers, Alternative Education, etc.	7	3
Students:	Pre K	562	554
	Primary K-2	1,709	1,685
	Intermediate 3-5	2,558	2,522
	Grades K - 5	6,428	6,320
	Grades 6 - 8	6,083	5,999
	Grades 9 - 12	7,837	7,355
	Santa Rosa Community	N/A	N/A
	Vocational Technical/Santa Rosa Adult	583	575
	Rader (Charter)	91	90
	Instructional (Classroom) Personnel	1,689	1,512
	Non-Instructional Personnel	832	760

CITY OF GULF BREEZE			
	<u>FY 06-07</u>	<u>FY 05-06</u>	<u>FY 04-05</u>
Police Protection - number of sworn officers FT	18	18	18
Police Protection - number of sworn officers PT	5	5	5
Fire Protection -Volunteers	28	28	28
City Employees	87 full time 30 part time	82 full time 30 part time	82 full time 30 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 1 tank 1,500,000 gal		

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

City of Gulf Breeze, Florida
TABLE XXIII
PERMITS
Unaudited

<u>Year</u>	<u>Residential Additions/ Renovations</u>	<u>Residential New Construction</u>	<u>Residential Pool Permits</u>	<u>Miscellaneous Residential Permits</u>	<u>Commercial Additions/ Renovations</u>	<u>Commercial New Construction</u>	<u>Commercial Sign Permits</u>	<u>Miscellaneous Commercial Permits</u>
2007	25	22	22	14	4	3	37	5
2006	30	25	18	1	7	2	8	0
2005	144	36	36	11	22	14	38	5
2004	53	17	20	10	16	9	28	4
2003	21	11	7	21	5	4	36	7
2002	31	21	18	6	6	0	52	3
2001	23	19	13	7	1	2	15	0
2000	26	25	11	4	15	1	16	6
1999	24	14	17	19	4	0	23	7

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

SOURCE: City of Gulf Breeze Departments

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

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

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

Per 1,000 gallons monthly - \$2.04

Outside City Limits - Commercial Only

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

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

SOURCE: City Water Customer Service Division

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

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

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

Per 1,000 gallons monthly - \$3.06

Outside City Limits - Commercial Only

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

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

SOURCE: City Water Customer Service Division

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

Residential

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

Commercial

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

Miscellaneous Services

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

SOURCE: City Water Customer Service Division

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

Inside City Limits - Residential and Commercial

Minimum monthly service charge \$6.00

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

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

Outside City Limits - Residential and Commercial

Minimum monthly service charge \$7.00

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

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

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

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

SOURCE: City of Gulf Breeze Departments

City of Gulf Breeze, Florida
TABLE XXVIII
INSURANCE COVERAGE
September 30, 2007
Unaudited

<u>Effective Dates</u>	<u>Company</u>	<u>Policy Number</u>	<u>Type</u>	<u>Amount</u>
10/01/07 to 9/30/08	Florida Municipal Insurance Trust	FMIT # 0224	Auto (Person)	\$ 100,000
			Auto (Occurrence)	\$ 200,000
10/01/07 to 9/30/08	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
10/01/07 to 9/30/08	Florida Municipal Insurance Trust	FMIT # 0224	Real Property	\$ 20,739,606
10/01/07 to 9/30/08	Florida Municipal Insurance Trust	FMIT # 0224	Personal Property	\$ 1,080,503
10/01/07 to 9/30/08	Florida Municipal Insurance Trust	FMIT # 0224	Island Marine	\$ 193,380
10/01/07 to 9/30/08	Citizens Property Insurance Company	728652	Wind Storm	\$ 4,624,000
10/01/07 to 9/30/08	City of Gulf Breeze - self insured	N/A	Worker's Compensation	\$ 250,000
10/01/07 to 9/30/08	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, 2007

Federal / State Agency Pass-Through Entity	CFDA / CSFA Number	Contract/ Grant Number	Expenditure
FEDERAL AWARDS			
<i>U.S. Department of Justice</i>			
Office of Community Oriented Policing Services Indirect Programs Pass-Through From: State Office of Attorney General Victims of Crime Act	16.710	2004UMWX0085	\$ 30,000
Florida Department of Law Enforcement Local Law Enforcement Block Grant	16.575	V6047	32,724
	16.738	2007-JAGD-SANT-2-P4-072	1,015
Total U.S. Department of Justice			<u>63,739</u>
<i>U.S. Department of Housing and Urban Development</i>			
Indirect Programs Pass-Through From: Florida Department of Community Affairs Pass-Through From: Santa Rosa County, Florida Small Cities CDBG Program	14.228	06DB-3C-01-67-01-W 30	74,533
Total U.S. Department of Housing and Urban Development			<u>74,533</u>
<i>U.S. Department of Agriculture</i>			
Indirect Programs Pass-Through From: Florida Department of Agriculture and Consumer Services Urban and Community Forestry Grant	10.664	10344	46,831
Total U.S. Department of Agriculture			<u>46,831</u>
<i>U.S. Department of Homeland Security</i>			
Indirect Programs Pass-Through From: Florida Department of Community Affairs Public Assistance Grant - Disaster Relief Funding - Hurricane Ivan Public Assistance Grant - Disaster Relief Funding - Hurricane Dennis	97.036	05-PA-G=-01-67-02-621	2,144,485
	97.036	06-DN-@G-01-67-02-501	109,200
Total U.S. Department of Homeland Security			<u>2,253,685</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,438,788</u>
STATE FINANCIAL ASSISTANCE			
<i>Florida Department of Environmental Protection</i>			
Indirect Programs Pass-Through From: Northwest Florida Water Management District Florida Forever Grant - Stormwater Drainage Improvements	37.022	--	\$ 1,000,000
Total Florida Department of Environmental Protection			<u>1,000,000</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 1,000,000</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, 2007

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.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Gulf Breeze, Florida, as of and for the year ended September 30, 2007, which collectively comprise the City of Gulf Breeze, Florida's basic financial statements and have issued our report thereon dated March 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Gulf Breeze's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gulf Breeze's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Gulf Breeze's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Gulf Breeze's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the

City of Gulf Breeze's financial statements that is more than inconsequential will not be prevented or detected by the City of Gulf Breeze's internal control. We consider the deficiencies, listed as 2006-1 and 2007-1, described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Gulf Breeze's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gulf Breeze'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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as 2007-2.

As required by the provisions of Chapter 10.550, Rules of the Auditor General, we have issued a separate management letter dated March 13, 2008, which should be considered in assessing the results of our audit.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, others within the organization, city council, and federal and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

O'Sullivan Greel, LLP

March 13, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 AND CHAPTER 10.550, RULES OF
THE AUDITOR GENERAL**

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

Compliance

We have audited the compliance of the City of Gulf Breeze, Florida (hereinafter referred to as the City), with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and the requirements described in the State of Florida Department of Financial Services' *State Projects Compliance Supplement* that are applicable to each major federal program and state project for the year ended September 30, 2007. The City's major federal program and state project 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 major federal program and state project 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, *Rules of the Auditor General*. Those standards, OMB Circular A-133, and Chapter 10.550, 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 or state project 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 its major federal program and major state project for the year ended September 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-3.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state project such that there is a more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City's responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response, and accordingly, we express no opinion on it.

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

O'Sullivan Greel, LLP

March 13, 2008

City of Gulf Breeze, Florida
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2007

I. SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

- | | | | |
|---|--------------------|-----|---------------------|
| 1. Type of auditor's report issued: | <u>Unqualified</u> | | |
| 2. Internal control over financial reporting: | | | |
| a. Material weakness (es) identified? | _____ | Yes | <u> x </u> No |
| b. Significant deficiency(ies) identified not considered to be material weaknesses? | <u> x </u> | Yes | _____ None reported |
| 3. Noncompliance material to financial statements noted? | _____ | Yes | <u> x </u> No |

B. Federal Awards and State Financial Assistance

- | | | | |
|---|--------------------|-----|----------------------------|
| 1. Internal control over financial reporting: | | | |
| a. Material weakness (es) identified? | _____ | Yes | <u> x </u> No |
| b. Significant deficiency(ies) identified not considered to be material weaknesses? | _____ | Yes | <u> x </u> None reported |
| 2. Type of auditor's report issued on compliance for major programs: | <u>Unqualified</u> | | |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | <u> x </u> | Yes | _____ No |
| 4. Identification of major programs: | | | |

a. *Federal Program*

CFDA Number
97.036

Name of Federal Program
Disaster Grants - Public Assistance Grant

Dollar threshold used to distinguish
Between type A and type B programs

 \$300,000

Auditee qualified as low-risk auditee?

 X Yes No

b. *State Projects*

CSFA Number
37.022

Name of State Project
Water Management Districts – Land Acquisition

Dollar threshold used to distinguish
Between type A and type B programs

 \$300,000

II. FINANCIAL STATEMENT FINDINGS

Current Year Significant Deficiencies:

2006-1 – Tap Fee Receipts (originally reported in 2006, and continuing in 2007)

During testing of tap fee receipts, we noted several large checks from customers were accepted by a City employee but were not recorded or deposited in a timely manner.

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

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

2007-1 – Recording of Grant Revenues

The City's revenue recognition policy requires that grant revenues be recorded in the same period in which the grant expenditure occurred. However, we noted during the audit that the City currently records grant revenues upon receipt of cash (the cash basis of accounting). By matching in the same accounting period the recording of grant revenue and grant expenditure, the City will have more meaningful financial information throughout the year.

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

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

Current Year Noncompliance:

2007-2 – Budget Over-Expenditures

The City's final amended budget for fiscal year 2006 – 2007 included a planned excess of revenues over expenditures of \$4.9 million. However, due to adjustments generated during the audit, the actual expenditures exceeded the appropriations by approximately \$1.4 million resulting in a reduction to the planned addition to General Fund reserves. The legal level of control for appropriations is exercised at the fund level by the City. While the City did have adequate reserves to pay for all expenditures, the expenditures were not actually appropriated to the specific budgetary line items.

Recommendation: We recommend the City monitor and review actual versus budgeted expenditures, and adopt budget amendments as appropriate to ensure that future expenditures do not exceed budgetary authority.

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

III. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

2007-3 - Allowable Costs

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

Public Assistance Grant - Disaster Relief Funding – CFDA # 97.036

U.S. Department of Homeland Security passed through the Florida State Department of Community Affairs

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

Condition: We noted one invoice for \$72,940 of eligible expenditures was submitted for reimbursement twice. Another invoice which contained \$36,147 of eligible expenditures was submitted for reimbursement for \$59,347.

Cause: Invoices are identified as FEMA reimbursable expenditures by the appropriate department head by documenting the project worksheet number on the related purchase order and invoice. The approved invoice is then paid by the accounting department, and reimbursement from FEMA is requested. In this instance, one invoice was erroneously submitted twice and another for the incorrect amount. These errors were subsequently detected by the finance director.

Questioned Costs: The ineligible amounts totaled \$96,140.

Context: Significant current year expenditures were incurred by the City totaling approximately \$2,000,000. No other questioned costs were noted.

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

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

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

City of Gulf Breeze, Florida
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2007

2006-2 - Allowable Costs

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

Public Assistance Grant - Disaster Relief Funding – CFDA # 97.036

U.S. Department of Homeland Security passed through the Florida State Department of Community Affairs

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

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

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

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

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

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

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

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

Corrective Action Taken: No reimbursements for ineligible projects were submitted for during 2007, however, certain ineligible reimbursements, as described in the finding and questioned costs section of this report, were made during the year.

MANAGEMENT LETTER

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gulf Breeze, Florida, as of and for the year ended September 30, 2007, and have issued our report thereon dated March 13, 2008.

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 Federal Program and State Project and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 13, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

The Rules of the Auditor General (Section 10.554(1)(i)1.) require that we comment as to 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 implemented except as noted below under the heading Prior Years Findings and Recommendations.

As required by the Rules of the Auditor General (Section 10.554(1)(i)2.), we determined that the City is in compliance with Section 218.415, Florida Statutes, regarding the investment of public funds.

The Rules of the Auditor General (Section 10.554(1)(i)3.) require that we comment as to whether or not there were any recommendations made to improve financial management, accounting procedures, and internal controls. We are submitting for consideration the recommendations under the heading Current Year Findings and Recommendations.

The Rules of the Auditor General (Section 10.554(1)(i)4.) require disclosure in the management letter of violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. No items were identified which are required to be disclosed.

The Rules of the Auditor General (Section 10.554(1)(i)5.) permit disclosure in the management letter based on professional judgment of matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors, including the following: violation of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; improper expenditures or illegal acts that would have an immaterial effect on the financial statements; control deficiencies that are not significant deficiencies, including, but not limited to: improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual 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. These findings and recommendations are included in this letter under the heading Current Year Findings and Recommendations.

The Rules of the Auditor General (Section 10.554(1)(i)6.) requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information can be found in Note 1 of the financial statements.

The Rules of the Auditor General (Section 10.554(1)(i)7.a.) requires a statement be included as to whether or not the City has met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Gulf Breeze, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(i)7.b.) requires that we determine whether the annual financial report for the City for the year ended September 30, 2007, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the current audit period. In connection with our audit, we determined that these two reports were in agreement.

The Rules of the Auditor General (Sections 10.554(1)(i)7.c.1. and 10.556(7)) require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures.

PRIOR YEARS FINDINGS AND RECOMMENDATIONS

1. *SEGREGATION OF DUTIES*

Observation

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

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

Recommendation

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

Status

The recommendation has not been implemented by the City.

Management Response

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

2. *CAPITAL ASSETS*

Observation

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

- Capital outlay (for governmental funds) and additions to capital assets (for proprietary funds) were not reconciled to the final capital asset reports. Some asset additions and disposals were not recorded in the capital asset system.

- Capital assets are not classified consistently in the general ledger or in the capital assets system. The estimated useful lives used to depreciate capital assets are not always consistent with the City’s policies.
- Capital assets are not permanently marked with their assigned identification number and are not consistently marked as belonging to the City of Gulf Breeze.

Recommendation

We recommend the City reconcile all capital asset and capital outlay accounts to the asset system on a monthly basis and review and correct the classification and estimated useful lives of all capital assets. Also, procedures should be implemented to ensure that future activity is recorded consistent with City policies. Lastly, the City should ensure all capital assets are identified as being property of the City.

Status

The recommendation has not been implemented by the City.

Management Response

The City plans to implement the recommendation.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

1. UNRECORDED RECEIPTS & BANK RECONCILIATIONS

Observation

Amounts electronically deposited in the City’s bank account totaling approximately \$7,000 were not recorded in the general ledger and were not detected during the monthly bank reconciliation.

Recommendation

We recommend the City investigate and properly account for all unreconciled differences detected during the monthly bank reconciliations.

Management Response

The City plans to implement the recommendation.

2. TRAVEL EXPENSES

Observation

The City’s travel policy states that all travel should be authorized prior to travel by the department head or city manager. We noted instances where travel vouchers were not approved by a department head, where approval was obtained after travel had occurred, where supporting documentation could not be located, or where support did not agree to

the amount paid. We also noted that the City's travel vouchers are not completed and authorization is not documented for travel expenses paid from petty cash.

Recommendation

We recommend the City implement procedures to ensure the City's travel policy is adhered to by all employees for all travel expenses. Also, the reimbursement process should be reviewed and steps should be taken to ensure that supporting documentation is obtained for all travel expenses prior to reimbursement.

Management Response

The City plans to implement the recommendation.

3. ALLOWANCE FOR DOUBTFUL UTILITY ACCOUNTS

Observation

Currently, the City does not have a formal policy for calculating the allowance for doubtful utility accounts receivable. At year-end approximately 6% of billed utility accounts receivable were over 90 days old and no allowance had been recorded.

Recommendation

We recommend the City establish and implement a policy related to recording an allowance for doubtful accounts receivable. The adequacy of the allowance should be reviewed throughout the year and adjusted based on the success of the City's collection efforts, accounts aging, and an overall evaluation of the accounts. This will minimize the need for a year-end adjustment and improve the accuracy of interim financial statements.

Management Response

The City plans to implement the recommendation.

4. BOND COVENANTS

Observation

Bond covenants related to the South Santa Rosa Utility bonds, refunded in 2005, require transferring monthly amounts to a restricted cash account to fund upcoming debt service requirements. While the City had funds to make the required payments, the monthly transfers to restricted cash were not sufficient to liquidate a future debt service payment. Accordingly, an audit adjustment was proposed to record an appropriate amount of restricted cash.

Recommendation

We recommend the City evaluate the amount of its monthly sinking fund allocations and test its compliance with bond covenants on at least on a quarterly basis.

Management Response

The City plans to implement the recommendation.

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

O'Sullivan Geel, LLP

March 13, 2008