

COMPREHENSIVE ANNUAL FINANCIAL REPORT



The City of Sebastian Municipal Airport Administration Building

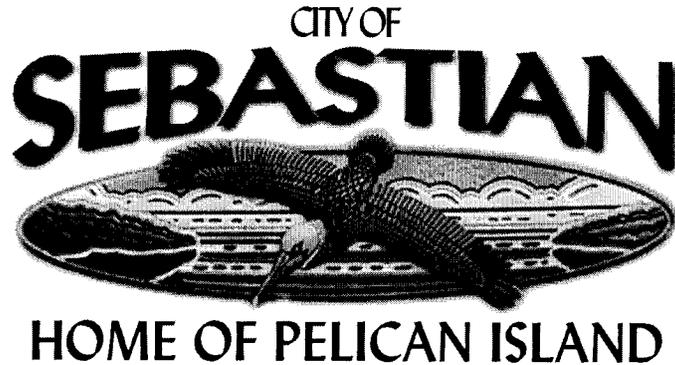
CITY OF SEBASTIAN FLORIDA

For the Fiscal Year October 1, 2005 through September 30, 2006

The City of Sebastian Municipal Airport Administration Building project was officially completed in October 2006. The total construction period for the building was approximately 24 months. The project cost is approximately \$2 million, 40% funded by the Florida Department of Transportation and 60% funded by the City of Sebastian.

A dedication ceremony was held on October 27, 2006. The new one story, 10,000 square foot building is designed to accommodate the Airport and the Public Works Administration staffs, a pilot lounge, as well as extra space for future leasing opportunities.

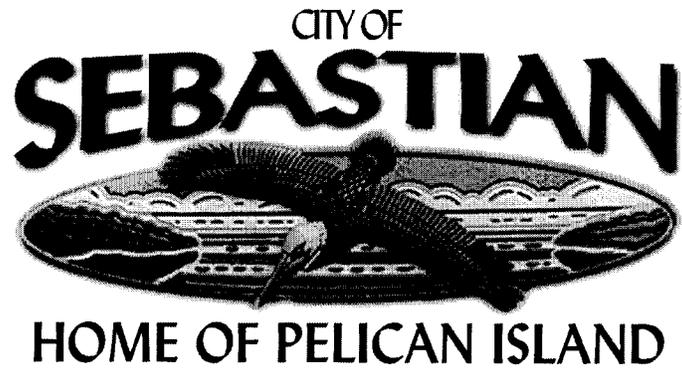
CITY OF SEBASTIAN, FLORIDA



Comprehensive Annual Financial Report For the Year Ended September 30, 2006

CITY COUNCIL

Brian S. Burkeen	Mayor
Andrea Coy	Councilmember
Nathan McCollum.....	Councilmember
Sal Neglia	Councilmember
Al Paternoster	Councilmember



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INTRODUCTORY SECTION

This section contains the following subsections:

- Table of Contents
- Letter of Transmittal
- Certificate of Achievement for Excellence in Financial Reporting for the Fiscal Year Ended September 30, 2005
- Organizational Chart
- List of Officials

CITY OF SEBASTIAN, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2006

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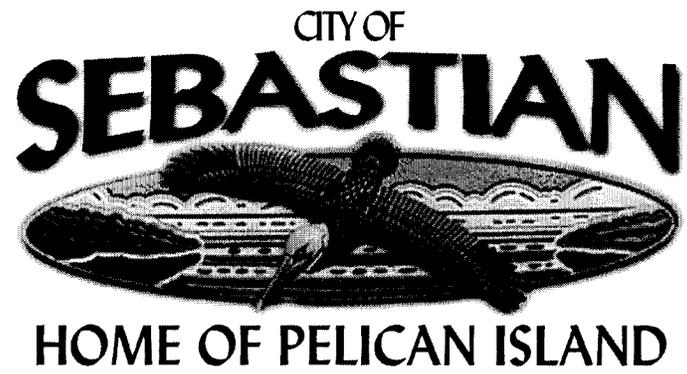
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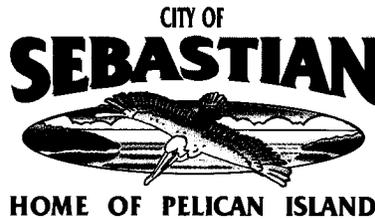
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1225 MAIN STREET • SEBASTIAN, FLORIDA 32958
TELEPHONE: (772) 589-5330 • FAX (772) 589-5570

January 31, 2007

Honorable Mayor and City Council
City of Sebastian, Florida

Dear Council Members:

We are submitting the Comprehensive Annual Financial Report of the City of Sebastian, Florida for the fiscal year ended September 30, 2006, as prepared by the City's Finance department. State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended September 30, 2006.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based on a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Chapter 218.39, Florida Statutes requires that the financial statements of the City of Sebastian be audited by a certified public accountant selected by the City Council. The City's independent Certified Public Accountants, Harris, Cotherman, Jones, Price & Associates, has issued an unqualified ("clean") opinion on the City of Sebastian's financial statements for the year ended September 30, 2006. The independent auditors' report is located on page 3 and 4.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Sebastian, Florida is located in Indian River County approximately midway through the east coast of the Florida Peninsula (between Melbourne and Vero Beach) in an area known as the Treasure Coast. It is recognized as the Home of Pelican Island, the first designated wildlife refuge in the United States, a Millennium City, and a Tree City USA.

The City of Sebastian was first incorporated as the Town of Sebastian in 1924. In the late 1950s General Development Corporation purchased the land from the Mackle family of Miami and began the development of a planned community that is now the City of Sebastian. The City has a population of 21,666 living in an area of approximately 14.6 square miles. The City is empowered to levy a property tax on both real and personal property located within its boundaries. It also is empowered by state statute

to extend its corporate limits by annexation, which it has done from time to time. The City has seen rapid growth in the past several years and it is anticipated to continue.

The City is a Florida municipal corporation with a five-member City Council. Council members serve a two-year term. Annual elections are held on the second Tuesday in March and two members are elected in even-numbered years and three members are elected in odd-numbered years. Elections are non-partisan and at-large. Mayor and Vice Mayor are elected from among the members of every newly seated Council at a Special meeting following the election each year. The City has operated under a Council-City Manager form of government since 1989.

The City provides a wide range of services including general government administration, police protection, the construction and maintenance of local roads, public works, recreational and cultural activities, a golf course, a general aviation airport, and a building department to enforce building codes.

This report includes all funds of the City. In evaluating the City as a reporting entity, we have included all component units for which the City Council is financially accountable. The component units have been blended with the financial statements presented for the Primary Government because the component unit's governing body is the same as the City Council or because the component unit exclusively serves the City. The blended component units are the Riverfront Redevelopment Agency and the Sebastian Police Officer's Pension Trust Fund.

The Council is required to adopt a final budget no later than the close of the fiscal year. This annual budget serves as the foundation for the City's financial planning and control. The budget is prepared by fund, function (e.g., transportation), and department (e.g., public works). Shifts in appropriations within fund totals may be done administratively on the authority of the City Manager. Total fund appropriation changes and use of contingency appropriations must be approved by the City Council.

Local Economy

The region (which includes the City of Sebastian and the surrounding unincorporated area within the same county) has a fluctuating labor force depending on agricultural demand and a strong retirement community. Although the labor force fluctuates, unemployment in the region has been between 4% and 8.1% over the past ten years. Retail sales and the service industries remain the largest sectors of employment in the Sebastian area. The historical overall unemployment rate for the area over the past ten years and the projected unemployment rate for the next ten years are greater than that of the State of Florida. This high number indicates that the influx of residents to the area continues to outpace job creation. According to the U.S. Census Bureau (2000), 86% of the population age 25 or older are high school graduates and 23.1% hold a bachelor's degree or higher. The geographical area of the City of Sebastian, just north of the Treasure Coast, houses a number of high-tech industries including NASA and various aerospace industry-related businesses. This attracts a workforce with a higher than average education and technical skills to the vicinity. The area median age for 2000 was 49.2 per U.S Census Bureau and median household income for 2003 was \$40,291 per the Florida Research & Economic Database.

In FY 2006, the City of Sebastian experienced a decrease (35%) in building activity and an increase (29%) in property value, which are consistent with the state and national trend. The overall local economy is stable and the slow down on building activity level is expected to continue for FY 2007.

Long-term Financial Planning

The voters of Indian River County in November 2003 extended the Infrastructure Sales Surtax in the amount of \$.01 per \$1.00 sale for an additional fifteen years and seven months beginning in January

2004. This Infrastructure Sales Surtax is estimated to provide the City in excess of \$40 million dollars over the life of the extension for the City's emergency vehicle and capital improvement needs.

Strong growth in the City continued and has provided the City funding for a high level of services to City residents and visitors without increasing the property tax millage rate. Property tax revenues increased 15.45% and the assessed value for real property has increased by 24%. Construction activity in fiscal year 2006 was not as strong as fiscal year 2005, with 506 permits being issued for construction with a value of \$88.3 million. Unreserved, undesignated fund balance in the general fund (42.56% of total general fund expenditure budget) exceeds the policy guidelines set by the Council for budgetary and planning purposes (i.e., minimum of 25% of total general fund expenditure budget). In an effort to be more in line with the adopted policy guideline, the City Council actually has reduced the fiscal year 2007 millage rate by 22.4%. The City faces challenges relative to growth in both residential and commercially zoned areas. With the continued residential growth, there are parallel new commercial developments. The Village Shops of Sebastian are nearing completion of Phase II, adding several new retail buildings in the "historic fishing village" theme. Commercial growth on the west side of Sebastian continues, with a new Publix grocery store and a new shopping center (Shoppes of Sebastian, Phase I) offering dining and other retail amenities. Several new commercially zoned areas were annexed into the City, and are in various stages of planning for new commercial developments including a Space Coast Credit Union, Shoppes of Sebastian Phase II, Sebastian Crossing Commercial and Sebastian Crossroads Plaza. Several industrial properties have also been developed providing additional service and warehousing opportunities. These include two buildings in the Sebastian Industrial Park, new mini-warehouse buildings in the 512 Commerce Center, a contractor trade building (Arnold's Air) and an auto service building (Firehouse Garage).

Major Initiatives

Stormwater - The main focus of stormwater effort expended for the past fiscal year has been on the City's Stormwater Management Program, including capital projects, maintenance, citizen response and education, and forward planning. In fiscal year 2006, City Council initiated a citywide stormwater drainage cleanup program by outsourcing. The phase I of the program involves swale and ditch clean up. At the end of the fiscal year 2006, the phase I of the program had been completed and proven to be successful and cost effective. The phase II of the program will mainly involve mowing and maintaining. With the adoption of City Ordinance 05-16 (allows stormwater utility fees to be utilized to fund the General Fund stormwater operation), the City's ability to deal with stormwater maintenance issues is enhanced.

Traffic & Transportation - The City continues working on a long-term street-resurfacing program for the next 10 to 15 years. City administration will also continue to program funding for streetscape projects to help maintain public safety and beautification efforts. In addition, capital improvement programming for sidewalk installation throughout the City will continue for both the short and long term as funding and resources permit.

Airport - The Fiscal Year 2002 adoption of the current Sebastian Municipal Airport (SMA) Master Plan has yielded numerous successes and accomplishments involving the ability to receive federal and state grants, which permitted for much needed infrastructure improvements at the Airport. As Sebastian Municipal Airport's infrastructure is being developed to attract businesses and create jobs in our community, a comprehensive business plan is being developed and an initial Council Workshop was held in August 2006 to review the plan. Presently requested changes are being incorporated into the business plan, which will be submitted to the City Council for official adoption.

Other endeavors at the Airport are aimed to help diverse revenues. One such task is the completion of the self-serve fuel facility, which is expected to be completed in the first part of the new fiscal year. These and other ventures will help diversify airport revenues, providing for a stronger enterprise fund that has the potential to increase taxable values.

Public Safety - Despite recent policy directives by The School District of Indian River County not to sustain partnership with the City of Sebastian to continue the School Resources Officer Program, the City continues its sponsorship of two officers, one to remain stationed at Pelican Island Elementary School and the other at Sebastian Elementary School. The encouragement of this program remains indicative of the philosophy that preventative education for this age group is most effective in preventing long-term juvenile crime, as well as to instill the importance of community safety and responsibility. Such rationale also justifies the Drug Awareness Resistance Education (D.A.R.E.) and Gang Resistance Education and Training (G.R.E.A.T.) initiatives as well as a new child abduction resistance course called Resist Aggression Defensively (R.A.D. Kids). The programs remain very popular among both children and parents and are expected to continue in fiscal year 2007 via assistance from various grant programs sponsored by the United States Department of Justice.

Awards and Acknowledgements

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 Sebastian for its comprehensive annual financial report for the fiscal year ended September 30, 2005. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports. 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 U.S. 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.

The preparation of this report would not be possible without the dedicated service of the Finance department staff. Their efforts toward improving the accounting and financial reporting systems has led to the improved quality of information reported to the City Council, State and Federal agencies and the citizens of the City of Sebastian. We sincerely appreciate their contributions.

Respectfully submitted,



Al Minner
City Manager



Shai L. Francis, CPA, CGFO
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sebastian
Florida

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

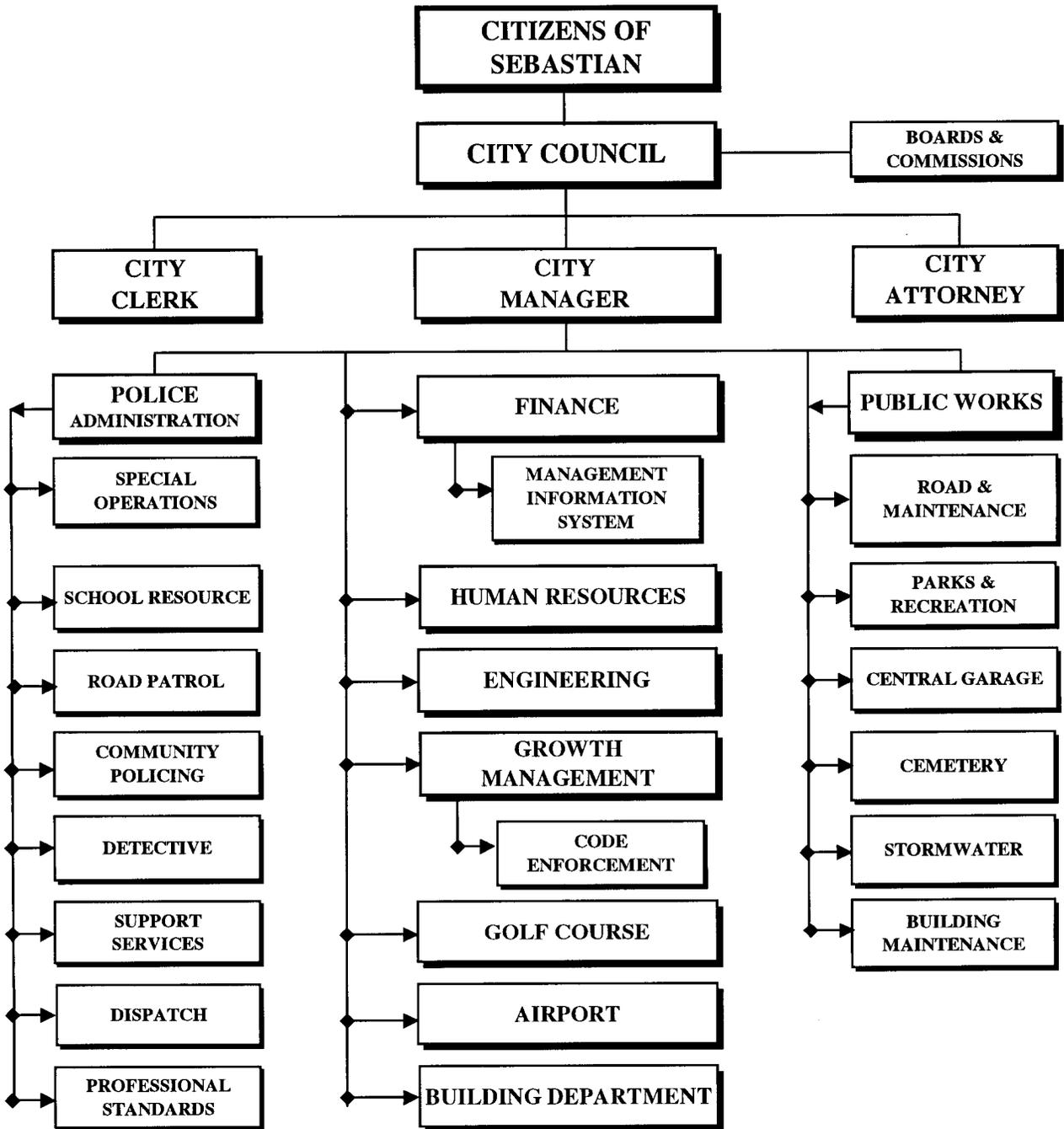
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

CITY OF SEBASTIAN, FLORIDA ORGANIZATIONAL CHART



CITY OF SEBASTIAN, FLORIDA

CITY OFFICIALS

City Manager

AL MINNER

City Clerk

SALLY A. MAIO, MMC

City Attorney

RICH STRINGER

DEPARTMENT HEADS:

Police Chief

JAMES A. DAVIS

Director of Finance

SHAI L. FRANCIS, CPA, CGFO

City Engineer

DAVID W. FISHER, P.E.

Acting Public Works Director

JERRY CONVERSE

Growth Management Director

REBECCA GROHALL

Building Director

WAYNE ESELTINE

Human Resources Director

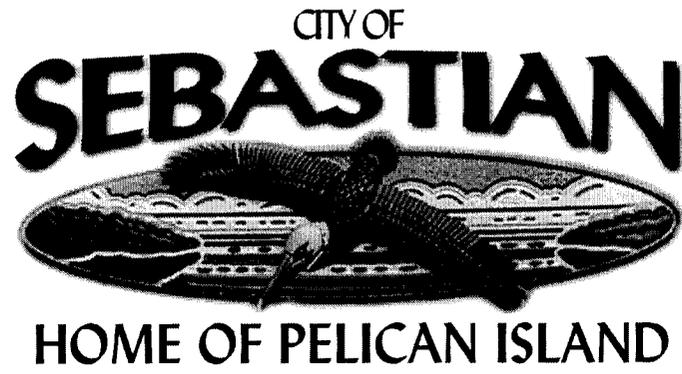
DEBRA KRUEGER

Golf Course Director

GREG GARDNER

Airport Director

JOSEPH GRIFFIN

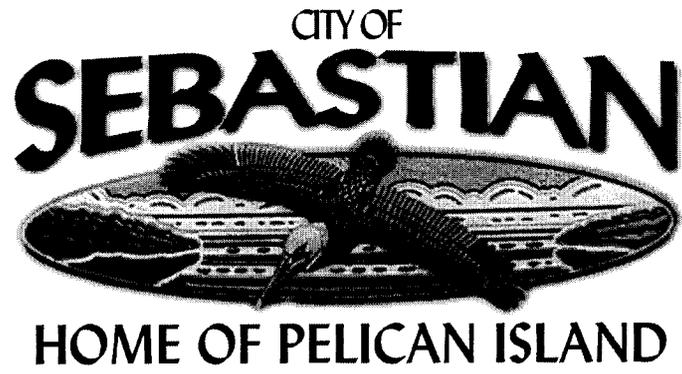


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FINANCIAL SECTION

This section contains the following subsections:

- Independent Auditor's Report
- Management's Discussion and Analysis
- Government-wide Financial Statements
- Fund Financial Statements
- Notes to Financial Statements
- Required Supplementary Information
- Combining and Individual Fund Statements and Schedules



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**Harris, Cotherman,
Jones, Price & Associates**

Certified Public Accountants - Chartered

5070 North Highway A1A, Suite 250
Vero Beach, FL 32963
Tel 772-234-8484
Fax 772-234-8488

Independent Auditors' Report

Honorable Mayor and Members of City Council
City of Sebastian
Sebastian, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sebastian, Florida, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Sebastian, Florida's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, each major fund, and the aggregate remaining fund information of the City of Sebastian, Florida, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 8, 2006, on our consideration of the City of Sebastian, Florida's internal control over financial reporting and on 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 5 - 14 and the required supplementary information on pages 49 - 54 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Honorable Mayor and Members of City Council
City of Sebastian
Page two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sebastian, Florida's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the 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 section and statistical tables 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.

The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the Florida Single Audit Act; and Chapter 10.550 Rules of the Auditor General, and is also not a required part of the basic financial statements of the City of Sebastian, Florida. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Harris, Cotherman, Jones, Price & Associates
Certified Public Accountants - Chartered

Harris, Cotherman, Jones, Price & Associates, Chartered
Certified Public Accountants

December 8, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sebastian's (the "City") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position, (d) identify any material deviations from the financial plan, and (e) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the Transmittal Letter (beginning on page v) and the City's financial statements (beginning on page 15).

HIGHLIGHTS

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year 2006 by \$45,197,875 (net assets). Of this amount, \$13,190,416 (unrestricted net assets) may be used to meet the government's on going obligations to citizens and creditors.
- The city's total net assets increased by \$4,844,683. The increase is mainly attributable to increases in tax revenues, franchise fees, state shared revenues, interest earnings, and the elimination of restricted net assets for building code enforcement due to the one time transfer of building code enforcement reserve from the general fund to the building fund in FY 2006.
- As of the close of current fiscal year, the City's governmental funds reported combined ending fund balance of \$21,918,531, an increase of \$1,843,896 in comparison with the prior year. Approximately 46% of this amount, \$10,045,161, is available for spending at the City's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$4,663,885, or a 43% increase from prior year general fund unreserved and undesignated fund balance. The key factor in this increase was the elimination of reserve for building code enforcement due to the one time transfer of building code enforcement reserve from the general fund to the building fund in FY 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 15, 16, and 17) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements begin on page 18. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 15. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used in most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets, is one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the police, public works, parks and recreation, and general administration. Taxes, franchise fees, and state shared revenue finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's Golf Course, Airport, and Building operations are reported here.

Fund Financial Statements

Our analysis of the City's major funds begins on page 18. The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the local option gas tax and infrastructure sales surtax (a.k.a. Discretionary Sales Tax)).

Governmental Funds

Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations at the bottom of the fund financial statements.

The City maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, discretionary sales tax special revenue fund, riverfront redevelopment special revenue fund, and stormwater utility improvements capital project fund, all of which are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each nonmajor governmental fund is provided in the form of combining statements begins on page 55.

Annual budgets are adopted for all governmental funds except the capital project funds, which are approved on a "life of the project basis", and the permanent fund, which is not budgeted. The budgetary comparison statements have been provided for all governmental funds except capital project funds to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 18-22 of this report.

Proprietary Funds

When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The basic proprietary fund financial statements can be found on page 23-26 of this report.

Fiduciary Funds

The City is the trustee, or fiduciary, for the Police Officers' Pension Plan. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on page 27 and 28. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The City holds deposits for various individuals and businesses for contract performance that are then returned when the contract has been completed. These deposits are accounted for in an Agency fund, where assets equal liabilities.

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 29-48 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's major funds budget and actual comparison and progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 49-54 of this report.

THE CITY AS A WHOLE

Financial Analysis of the City as a Whole

The City's combined net assets increased \$4.8 million from \$40.4 million to \$45.2 million or 12%. Looking at the net assets and net revenues of the governmental and business-type activities, the increase occurred in both the governmental-type activities and the business-type activities. Our analysis focuses on net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

GOVERNMENT-WIDE STATEMENTS

Statement of Net Assets

The following table reflects the condensed Statements of Net Assets:

Table 1

Statements of Net Assets
as of September 30, 2006 and 2005
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 23,313	\$ 22,018	\$ 2,867	\$ 2,049	\$ 26,180	\$ 24,067
Capital assets	29,644	30,331	9,909	8,817	39,553	39,148
Total assets	<u>\$ 52,957</u>	<u>\$ 52,349</u>	<u>\$ 12,776</u>	<u>\$ 10,866</u>	<u>\$ 65,733</u>	<u>\$ 63,215</u>
Non-current liabilities	\$ 17,083	\$ 18,385	\$ 1,259	\$ 1,440	\$ 18,342	\$ 19,825
Other liabilities	1,932	2,383	261	653	2,193	3,036
Total liabilities	<u>\$ 19,015</u>	<u>\$ 20,768</u>	<u>\$ 1,520</u>	<u>\$ 2,093</u>	<u>\$ 20,535</u>	<u>\$ 22,861</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 17,580	\$ 17,103	\$ 8,799	\$ 7,460	\$ 26,379	\$ 24,563
Restricted	5,068	5,396	560	574	5,628	5,970
Unrestricted	11,294	9,082	1,897	739	13,191	9,821
Total net assets	<u>\$ 33,942</u>	<u>\$ 31,581</u>	<u>\$ 11,256</u>	<u>\$ 8,773</u>	<u>\$ 45,198</u>	<u>\$ 40,354</u>

For more detail information see the Statement of Net Assets on page 15.

Total net assets of the governmental activities increased from \$31.581 million to \$33.942 million. Total net assets for business-type activities increased from \$8.773 million to \$11.256 million.

The decrease in governmental activities capital assets is due to depreciation. The decrease in governmental activities non-current liabilities is due to the payment of long-term debt. The increase in unrestricted net assets is mainly due to the elimination of restricted net assets for building code enforcement due to the one time transfer of building code enforcement reserve from the general fund to the building fund in FY 2006.

The overall increase in business-type activities is due to the transfer of building department operation from the general fund to the proprietary fund. The increase in net assets – invested in capital assets of the City’s business-type activities is primarily due to the increase in capital assets funded by the Federal Aviation Administration and the Florida Department of Transportation for the City’s municipal airport.

The following table shows the revenue and expenses of the total primary government.

Table 2

Changes in Net Assets
For the Fiscal Years Ended September 30, 2006 and 2005
(in thousands)

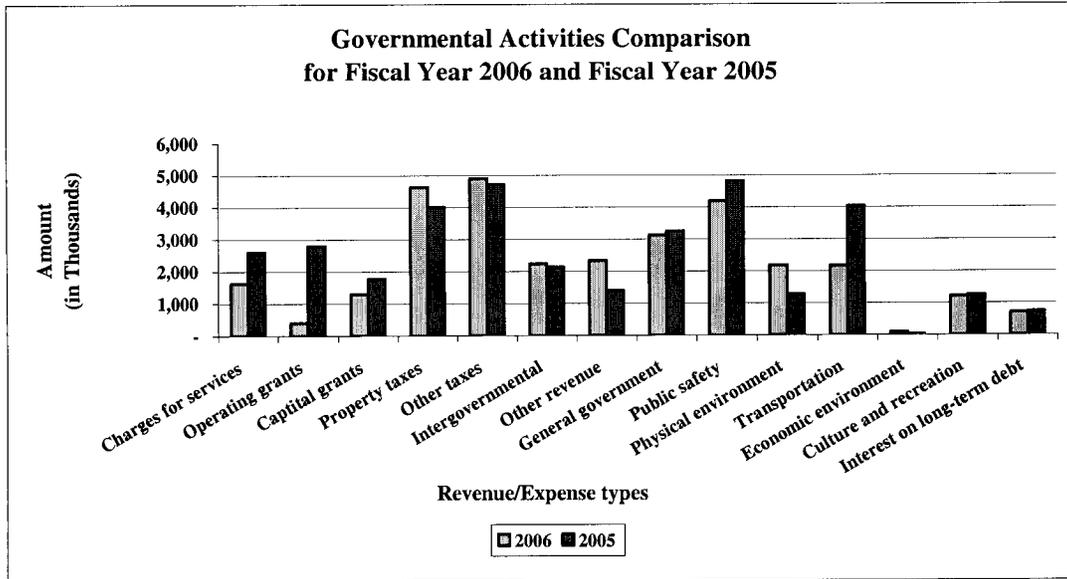
	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
REVENUES						
Program revenues:						
Charges for services	\$ 1,634	\$ 2,612	\$ 3,177	\$ 1,817	\$ 4,811	\$ 4,429
Operating grants and contributions	408	2,802	7	13	415	2,815
Capital grants and contributions	1,301	1,782	1,057	2,290	2,358	4,072
General revenues:						
Property taxes	4,645	4,018	-	-	4,645	4,018
Other taxes	4,908	4,719	-	-	4,908	4,719
Intergovernmental	2,242	2,138	-	-	2,242	2,138
Other	2,338	1,403	125	46	2,463	1,449
Total revenues	<u>17,476</u>	<u>19,474</u>	<u>4,366</u>	<u>4,166</u>	<u>21,842</u>	<u>23,640</u>
EXPENSES						
General government	3,130	3,262	-	-	3,130	3,262
Public safety	4,191	4,817	-	-	4,191	4,817
Physical environment	2,194	1,284	-	-	2,194	1,284
Transportation	2,173	4,035	-	-	2,173	4,035
Economic environment	99	32	-	-	99	32
Culture and recreation	1,208	1,260	-	-	1,208	1,260
Golf Course	-	-	1,558	1,465	1,558	1,465
Airport	-	-	802	519	802	519
Building	-	-	937	-	937	-
Interest and fiscal charges	706	740	-	-	706	740
Total expenses	<u>13,701</u>	<u>15,430</u>	<u>3,297</u>	<u>1,984</u>	<u>16,998</u>	<u>17,414</u>
Change in net assets before transfers	3,775	4,044	1,069	2,182	4,844	6,226
Transfers	(1,414)	(107)	1,414	107	-	-
Increase in net assets	2,361	3,937	2,483	2,289	4,844	6,226
Net assets - October 1, 2005	31,581	27,643	8,773	6,484	40,354	34,127
Net assets - September 30, 2006	<u>\$ 33,942</u>	<u>\$ 31,580</u>	<u>\$ 11,256</u>	<u>\$ 8,773</u>	<u>\$ 45,198</u>	<u>\$ 40,353</u>

Overall the total revenues decreased \$1.798 million from the previous year. The total cost of all programs decreased by 2.4% (\$0.416 million). Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Governmental activities revenues exceed expenses by \$3.775 million. Total revenues decreased approximately \$1.998 million from the previous year. Decreases in grant revenues are mainly due to reimbursements received in FY 2005 from FEMA and the State for damages caused by Hurricanes Frances and Jeanne. Decrease in charges for services are due to the transfer of building department operation from general fund to proprietary fund at the beginning of FY 2006. Increase in property values generates an increase in property taxes. The strong local economy plus population growth of the City contributed to increases in sales taxes and state shared revenues. Total expenses decreased \$1.729 million from the previous year. Decreased spending was primarily due to the costs incurred in FY 2005 for debris removal, signage replacements, and repair works associated with hurricanes Frances and Jeanne.

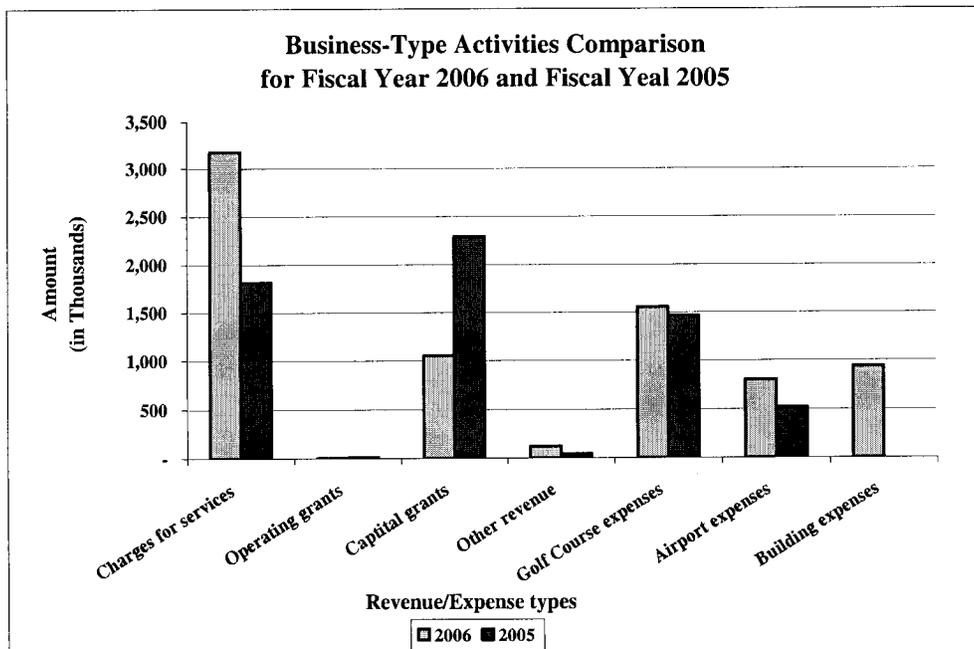
The following is a graphic illustration of the comparison for governmental activities revenue and expenses.



Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by 4.8% (an increase of \$0.2 million in fiscal year 2006 compared to a decrease of \$0.227 million in fiscal year 2005) and expenses rose 66.2%. The increase in revenues is mainly due to the transfer of building department operation from the general fund to proprietary fund at the beginning of FY 2006. Capital contributions have a decrease of \$1.233 million mainly due to the completion of major grant funded projects in FY 2006. The City's Municipal Airport enjoys a continued interest by the Florida Department of Transportation-Aviation Section and Federal Aviation Administration to upgrade the airport facilities as evidenced by repeated support via grant funding.

Following is a graphic comparison of the City's business-type activities.



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'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 the City completed the fiscal year, its governmental funds (as presented in the balance sheet on pages 18-19) reported a combined fund balance of \$21.9 million, which is an increase of \$1.8 million over the prior year of \$20.1 million. Approximately 45.8% of this total amount (\$10 million) constitutes unreserved, undesignated fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$225,916), 2) to fund the advances from general fund to airport capital project (\$1,000,000), 3) to fund the capital projects (\$8,038,947), 4) to generate income to pay for the perpetual care of the municipal cemetery (\$656,160), or 5) for a variety of other restricted or designated purposes (\$1,952,347).

The **general fund** is the chief operating fund of the City. At the end of the fiscal year, unreserved, undesignated fund balance of the general fund was \$4,663,885, while total fund balance reached \$6,479,072. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 42 percent of total general fund expenditures, while total fund balance represents 58 percent of that same amount.

The fund balance of the City's general fund increased by \$375,605 during the current fiscal year. Key factors in this growth are as follows:

- Tax revenues increased by \$576,297, as a result of property value and population increases.
- Franchise fees increased by \$367,359, as a result of population increase.

The **discretionary sales tax revenue special revenue fund** has a total fund balance of \$1,804,332, all of which is unreserved and undesignated. The increase of the total fund balance from prior year (\$525,071) is mainly due to an increase in discretionary sales surtax collection, which is population driven.

The **riverfront redevelopment special revenue fund** has an unreserved and undesignated fund balance of \$580,161, while total fund balance reached \$675,417. The increase of the total fund balance from prior year (\$298,735) is mainly due to property value increases.

The **stormwater utility improvements capital project fund** has a total fund balance of \$5,038,514, all of which is reserved for stormwater capital projects. The decrease of the total fund balance from prior year (\$109,562) is due to the spend down on construction debt proceeds of the Stormwater Utility Revenue Bonds, Series 2003.

Proprietary Funds

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

The total net assets of the **golf course fund** at the end of the fiscal year amounted to \$311,819, while the unrestricted net assets amounted to \$5,861. Compared to the prior year in the same category, the net assets has an increase of \$69,677 from the prior year while the unrestricted net assets has a decrease of \$65,673 from prior year. This is mainly due to the increase in invested in capital assets net of related debt. As the negative number in invested in capital assets net of related debt continue to move toward a positive territory due to the decreasing in outstanding debt, the unrestricted net assets will decrease in the coming year if the golf operation continues its flat performance. Detailed golf course net assets information is presented on page 23.

The total net assets of the **airport fund** at the end of the fiscal year amounted to \$9,465,768, while the unrestricted net assets amounted to \$455,314. Compared to the prior year in the same category, the net assets has an increase of \$935,341 from the prior year while the unrestricted net assets has a decrease of \$211,671 from prior year. The decrease in unrestricted net assets is mainly due to the construction of airport capital projects.

The total net asset of the **building fund** at the end of the fiscal year amounted to \$1,478,145, while the unrestricted net assets amounted to \$1,435,364. The building fund started its enterprise operation on October 1, 2005. A one-time transfer from the general fund in the amount of \$1,139,289 took place in the beginning of FY 2005-06. The amount represents the unspent building code enforcement fund reserve.

Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Over the course of the fiscal year, the City Council revised the City budget four times. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts originally estimated in July 2005). The second category includes the changes that the Council made during the year to take into account the City's staff restructuring efforts. During the fiscal year, the City amended the general fund budget in the amount of \$1,139,871 for encumbrances carried forward, intergovernmental revenues, contributions, and insurance reimbursements. Following are the main components of the increase:

- \$248,706 supplemental appropriation to the public works and engineering departments for the debris clean up, property damages, and signage repairs costs associated with hurricanes Wilma that impacted the City in October 2005.
- \$83,084 supplemental appropriation to general fund departments for encumbered amounts carried forward from the prior fiscal year.
- \$117,621 supplemental appropriation to the police department for the pension contribution.
- \$336,799 supplemental appropriation to increase the amount transferred from the general fund to the building fund for building code enforcement reserve generated for FY 2005-06 building operation.

The increase is possible because of anticipated revenues received. Those revenues included grant revenues associated with FEMA, State, and Federal Highway Administration and insurance reimbursement for hurricane costs (\$248,706), State police pension contributions (\$117,621), excess building revenues set aside as building code enforcement reserve (\$336,799), and the encumbered amount carried forward from the prior fiscal year (\$83,084).

During the fiscal year, total general fund actual revenues exceeded final amended budgetary estimates and total general fund actual expenditures were less than the final amended budgetary estimates, therefore, eliminating the need to draw upon existing fund balance. The increase in anticipated revenues are mainly due to the increase in franchise fees, property taxes and interest earnings.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006 the City had \$57,298,192 invested in a broad range of capital assets, including land, police and public works equipment, buildings, park facilities, roads, bridges, and stormwater drainage structures. This amount represents a net increase (including additions and deductions) of \$2,353,612, or 4.3%, over last year. The following table illustrates the changes in capital assets. See page 38 and page 39 in the notes to the financial statements for detailed changes in capital assets.

Table 3

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 5,301,947	\$ 5,489,774	\$ 9,060	\$ 9,060	\$ 5,311,007	\$ 5,498,834
Buildings	9,958,190	9,890,903	1,832,148	1,555,358	11,790,338	11,446,261
Improvements	4,614,326	4,152,943	1,181,052	779,905	5,795,378	4,932,848
Equipment	6,436,238	6,100,906	638,926	585,282	7,075,164	6,686,188
Infrastructure	17,375,199	17,203,261	6,012,963	3,313,755	23,388,162	20,517,016
Construction-in-Progress	1,167,207	1,006,241	2,770,936	4,857,192	3,938,143	5,863,433
Totals	\$ 44,853,107	\$ 43,844,028	\$ 12,445,085	\$ 11,100,552	\$ 57,298,192	\$ 54,944,580

Governmental activities had the following major increases during the fiscal year:

- A decrease in land mainly due to a contribution made to the Indian River County.
- An increase in infrastructure mainly due to the capitalization of Louisiana Avenue improvements project.
- An increase in improvements mainly due to the capitalization of River View Park and lightings at the Barber Street Sports Complex.
- An increase in equipment mainly due to the capitalization of new police vehicles.

Business-type activities had the following major increases during the fiscal year:

- A decrease in construction in progress primarily due to the completion of airport run way and security fencing projects.
- An increase in infrastructure and improvements primarily due to the completion of the airport runway and security-fencing project.

Debt

On September 30, 2006, the City had \$18,068,698 in bonds, notes and capital leases outstanding versus \$19,564,551 on September 30, 2005 – a decrease of 7.6% – as shown in the table on the following page:

The decrease in debt is solely attributable to the retirement of debts. The Infrastructure Sales Surtax Revenue Bonds, Series 2003 and Series 2003A and the Stormwater Utility Revenue Bonds, Series 2003 are insured by AAA rated insurance agencies, the bonds are all rated AAA, which is the highest rating given by rating agencies. The City's Recreational Facilities Improvement and Refunding Revenue Bonds, Series 2001 carries an AAA rating from Standard & Poor's, a rating it has held since 1992. All of the City's other debt, primarily notes and a capital lease, are not rated. Other obligations of the City include accrued vacation pay and sick leave.

Additional information on the City's long-term debt can be found on pages 42 through 44 in the notes to the financial statements.

Table 4

	Governmental		Business-type		Totals	
	2006	2005	2006	2005	2006	2005
Infrastructure sales surtax revenue bonds, Series 2003	\$ 7,955,000	\$ 8,490,000	\$ -	\$ -	\$ 7,955,000	\$ 8,490,000
Infrastructure sales surtax revenue bonds, Series 2003A	1,870,000	2,000,000	-	-	1,870,000	2,000,000
Stormwater utility revenue bonds, Series 2003	5,055,000	5,290,000	-	-	5,055,000	5,290,000
Notes payable (backed by local option gas tax)	1,790,544	2,004,718	-	-	1,790,544	2,004,718
Capital lease obligation (backed by City)	288,252	422,456	-	-	288,252	422,456
Recreational facilities improvements and refunding revenue bonds, series 2001	-	-	1,109,902	1,357,377	1,109,902	1,357,377
Totals	\$ 16,958,796	\$ 18,207,174	\$ 1,109,902	\$ 1,357,377	\$ 18,068,698	\$ 19,564,551

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for the business-type activities. One of those factors is the economy.

Sebastian's local economy consists largely of retail and service industries. Less than one percent is devoted to industrial activities. Construction of new homes is the largest single business in the area. Some of the largest retail stores include Publix Supermarket and Wal-Mart Stores, Inc.[®] The Indian River County unemployment rate in 2006 was 4.1% up from 4% in the previous year and down from a high of 8.1% in 1997. This indicates that business growth in the area remains strong. Still, employment in the county fluctuates seasonally due to farm workers. In FY 2006, the city has experienced a significant increase in property value (29% increase) and a decrease in construction permits (35% drop) especially in single-family residents permits. The decrease in construction permits reflects the national trend and is consistent with the national housing market.

These indicators were taken into account when adopting the General Fund budget for fiscal year 2007. Amounts available for appropriation in the General Fund budget are \$12,322,178, an increase of 2.9% from the original fiscal year 2006 budget of \$11,975,141 and a decrease of 6% from the final fiscal year 2006 budget. The 2.9% increase is mainly due to increases in estimated property taxes and public services taxes to be received due to growth. The 6% decrease from the final fiscal year 2006 budget is mainly due to the hurricane related expenditures in FY 2006. The City will use the increases in tax revenues to finance programs we currently offer, as well as, the effect that we expect inflation to have on program costs.

The Golf Course has experienced an increase in golf revenues in FY 2006 mainly due to hurricanes that impacted the City in FY 2005. The increase of revenues has help the City to meet the Recreational Facilities Improvement and Refunding Revenue Bonds, Series 2001 bond coverage requirement, which is the net revenues equal to at least 125% of the annual debt service payment. City staff continues to monitor the revenue stream and intends to adjust rates whenever necessary to meet the bond coverage requirement.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Finance Department at City of Sebastian, 1225 Main Street, Sebastian, Florida 32958.

City of Sebastian, Florida
Statement of Net Assets
September 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 116,997	\$ 71,513	\$ 188,510
Investments	11,563,402	2,071,589	13,634,991
Receivables	1,160,632	93,179	1,253,811
Special assessment receivable	3,849	-	3,849
Prepaid items	6,775	1,575	8,350
Inventory	50,611	13,688	64,299
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	74,847	-	74,847
Investments	9,139,870	560,581	9,700,451
Permanently restricted:			
Investments	542,950	-	542,950
Overfunded pension costs	148,607	-	148,607
Deferred charges	504,171	55,588	559,759
Capital assets not being depreciated:			
Land	5,301,947	9,060	5,311,007
Construction in progress	1,167,207	2,770,936	3,938,143
Capital assets (net of accumulated depreciation):			
Buildings	8,372,924	1,475,418	9,848,342
Improvements other than buildings	3,447,330	945,782	4,393,112
Machinery and equipment	1,933,944	125,384	2,059,328
Infrastructure	9,420,783	4,581,934	14,002,717
Total assets	<u>52,956,846</u>	<u>12,776,227</u>	<u>65,733,073</u>
LIABILITIES			
Accounts payable and other current			
liabilities	848,864	177,080	1,025,944
Matured bonds payable	920,000	-	920,000
Accrued interest payable	97,081	-	97,081
Deferred revenues	65,292	84,667	149,959
Non-current liabilities:			
Due within one year	465,346	-	465,346
Due in more than one year	16,618,120	1,258,748	17,876,868
Total liabilities	<u>19,014,703</u>	<u>1,520,495</u>	<u>20,535,198</u>
NET ASSETS			
Invested in capital assets, net of related debt	17,579,683	8,798,612	26,378,295
Restricted for:			
Capital projects	2,221,359	-	2,221,359
Debt service	225,916	316,490	542,406
Road projects	1,932,026	-	1,932,026
Perpetual care:			
Expendable	113,210	-	113,210
Nonexpendable	542,950	-	542,950
Other purposes	33,122	244,091	277,213
Unrestricted	11,293,877	1,896,539	13,190,416
Total net assets	<u>\$ 33,942,143</u>	<u>\$ 11,255,732</u>	<u>\$ 45,197,875</u>

The accompanying notes to financial statements are an integral part of this financial statement.

City of Sebastian, Florida
Statement of Activities
For the year ended September 30, 2006

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 3,129,723	\$ 533,482	\$ 46,109	\$ -
Public safety	4,191,295	140,545	165,175	982
Physical environment	2,193,589	887,819	2,273	-
Transportation	2,173,071	-	183,870	716,495
Economic environment	98,661	-	-	30,059
Cultural/recreation	1,208,288	72,472	10,471	553,902
Interest and fiscal charges	706,303	-	-	-
Total governmental activities	<u>13,700,930</u>	<u>1,634,318</u>	<u>407,898</u>	<u>1,301,438</u>
Business-type activities:				
Golf Course	1,558,338	1,580,407	6,998	-
Airport	801,967	375,768	-	1,056,562
Building	936,793	1,220,823	-	-
Total business-type activities	<u>3,297,098</u>	<u>3,176,998</u>	<u>6,998</u>	<u>1,056,562</u>
Total government	<u>\$ 16,998,028</u>	<u>\$ 4,811,316</u>	<u>\$ 414,896</u>	<u>\$ 2,358,000</u>

General Revenues:

Property taxes, levied for general purposes
Sales and use taxes
Franchise fees
State shared revenues not restricted to specific programs
Interest earnings
Miscellaneous
Total general revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning
Net assets - ending

The accompanying notes to financial statements are an integral part of this financial statement.

**Net (Expense) Revenue and
Changes in Net Assets**

Governmental Activities	Business-type Activities	Total
\$ (2,550,132)	\$ -	\$ (2,550,132)
(3,884,593)	-	(3,884,593)
(1,303,497)	-	(1,303,497)
(1,272,706)	-	(1,272,706)
(68,602)	-	(68,602)
(571,443)	-	(571,443)
(706,303)	-	(706,303)
<u>(10,357,276)</u>	<u>-</u>	<u>(10,357,276)</u>
-	29,067	29,067
-	630,363	630,363
-	284,030	284,030
-	<u>943,460</u>	<u>943,460</u>
<u>(10,357,276)</u>	<u>943,460</u>	<u>(9,413,816)</u>
4,645,050	-	4,645,050
4,907,906	-	4,907,906
1,253,749	-	1,253,749
2,242,292	-	2,242,292
827,224	125,498	952,722
256,780	-	256,780
<u>14,133,001</u>	<u>125,498</u>	<u>14,258,499</u>
<u>(1,414,205)</u>	<u>1,414,205</u>	<u>-</u>
<u>12,718,796</u>	<u>1,539,703</u>	<u>14,258,499</u>
2,361,520	2,483,163	4,844,683
31,580,623	8,772,569	40,353,192
<u>\$ 33,942,143</u>	<u>\$ 11,255,732</u>	<u>\$ 45,197,875</u>

City of Sebastian, Florida
Balance Sheet
Governmental Funds
September 30, 2006

	General	Discretionary Sales Tax	Riverfront Redevelopment	Stormwater Utility Improvements	Other Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 37,839	\$ 4,690	\$ 6,892	\$ 9,816	\$ 132,607
Investments	6,357,752	1,560,640	664,839	4,976,833	7,686,158
Accounts receivables	337,454	-	-	-	-
Special assessments receivable	3,849	-	-	-	-
Due from other funds	108,269	-	-	-	-
Due from other governments	328,984	226,039	-	2,798	100,570
Interest receivable	48,806	12,963	4,318	50,237	48,463
Inventory	50,611	-	-	-	-
Prepaid items	6,775	-	-	-	176,603
Total assets	<u>\$ 7,280,339</u>	<u>\$ 1,804,332</u>	<u>\$ 676,049</u>	<u>\$ 5,039,684</u>	<u>\$ 8,144,401</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 521,299	\$ -	\$ 632	\$ 1,170	\$ 109,246
Retainage payable	-	-	-	-	5,690
Due to other funds	-	-	-	-	108,269
Due to other governments	210,827	-	-	-	-
Deferred revenues	69,141	-	-	-	-
Total liabilities	<u>801,267</u>	<u>-</u>	<u>632</u>	<u>1,170</u>	<u>223,205</u>
Fund balances:					
Reserved for:					
Encumbrance	58,020	-	95,256	65,206	943,576
Debt service	-	-	-	-	225,916
Capital projects	1,000,000	-	-	4,973,308	3,065,639
Property and casualty	100,000	-	-	-	-
Cemetery care	-	-	-	-	656,160
Law enforcement	-	-	-	-	33,122
Emergency services	350,000	-	-	-	-
Equipment replacement	307,167	-	-	-	-
Unreserved:					
Designated for employee events	4,082	-	-	-	-
Designated for law enforcement	5,774	-	-	-	-
Undesignated, reported in:					
General fund	4,654,029	-	-	-	-
Special revenue funds	-	1,804,332	580,161	-	2,996,783
Total fund balances	<u>6,479,072</u>	<u>1,804,332</u>	<u>675,417</u>	<u>5,038,514</u>	<u>7,921,196</u>
Total liabilities and fund balances	<u>\$ 7,280,339</u>	<u>\$ 1,804,332</u>	<u>\$ 676,049</u>	<u>\$ 5,039,684</u>	<u>\$ 8,144,401</u>

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

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

Negative net pension obligation resulting from overfunding of the police officers' pension plan.

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

Accrued long term debt interest expenses are not financial uses, therefore, are not reported in the funds.

Special assessment receivables are not financial resources in the current period, therefore, are reported as deferred revenues.

Net assets of governmental activities

The accompanying notes to financial statements are an integral part of this financial statement.

**Total
Governmental
Funds**

\$ 191,844
21,246,222
337,454
3,849
108,269
658,391
164,787
50,611
183,378
\$ 22,944,805

\$ 632,347
5,690
108,269
210,827
69,141
1,026,274

1,162,058
225,916
9,038,947
100,000
656,160
33,122
350,000
307,167

4,082
5,774

4,654,029
5,381,276
21,918,531

29,644,135
148,607
(17,499,295)
(273,684)
3,849

\$ 33,942,143

City of Sebastian, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2006

	General	Discretionary Sales Tax	Riverfront Redevelopment	Stormwater Utility Improvements	Other Governmental Funds
REVENUES:					
Taxes:					
Property	\$ 4,306,213	\$ -	\$ 338,837	\$ -	\$ -
Public utility	2,183,164	-	-	-	-
Sales	-	2,724,742	-	-	-
Motor fuel	-	-	-	-	716,495
Franchise fees	1,253,749	-	-	-	-
Licenses and permits	244,370	-	-	-	-
Intergovernmental	2,617,774	-	-	-	234,519
Impact fees	-	-	-	-	337,675
Charges for services	457,780	-	-	-	59,825
Fines	62,648	-	-	-	15,128
Special assessments	-	-	-	-	819,286
Investment earnings	295,123	107,965	28,400	103,837	291,899
Contributions and donations	41,110	-	-	-	4,055
Other revenue	247,357	-	100	-	2,073
Total revenues	<u>11,709,288</u>	<u>2,832,707</u>	<u>367,337</u>	<u>103,837</u>	<u>2,480,955</u>
EXPENDITURES:					
Current:					
General government	2,494,863	-	-	-	-
Public safety	3,810,648	-	-	-	3,260
Physical environment	1,843,877	-	-	-	6,765
Transportation	1,462,048	-	-	-	210,935
Economic environment	-	-	68,602	-	30,059
Culture and recreation	926,846	-	-	-	-
Debt Service:					
Principal	-	-	-	-	1,248,378
Interest and fiscal charges	-	-	-	-	678,682
Capital outlay	556,673	-	-	152,830	741,557
Total expenditures	<u>11,094,955</u>	<u>-</u>	<u>68,602</u>	<u>152,830</u>	<u>2,919,636</u>
Excess (deficiency) of revenues over (under) expenditures	<u>614,333</u>	<u>2,832,707</u>	<u>298,735</u>	<u>(48,993)</u>	<u>(438,681)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	900,561	6,960	-	-	2,878,460
Transfers out	(1,139,289)	(2,314,596)	-	(60,579)	(1,685,722)
Total other financing sources (uses)	<u>(238,728)</u>	<u>(2,307,636)</u>	<u>-</u>	<u>(60,579)</u>	<u>1,192,738</u>
Net changes in fund balances	375,605	525,071	298,735	(109,572)	754,057
Fund balances - beginning	6,103,467	1,279,261	376,682	5,148,086	7,167,139
Fund balances - ending	<u>\$ 6,479,072</u>	<u>\$ 1,804,332</u>	<u>\$ 675,417</u>	<u>\$ 5,038,514</u>	<u>\$ 7,921,196</u>

The accompanying notes to financial statements are an integral part of this financial statement.

**Total
Governmental
Funds**

\$ 4,645,050
2,183,164
2,724,742
716,495
1,253,749
244,370
2,852,293
337,675
517,605
77,776
819,286
827,224
45,165
249,530

17,494,124

2,494,863
3,813,908
1,850,642
1,672,983
98,661
926,846

1,248,378
678,682
1,451,060

14,236,023

3,258,101

3,785,981

(5,200,186)

(1,414,205)
1,843,896
20,074,635

\$ 21,918,531

City of Sebastian, Florida
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2006

Net change in fund balances - total governmental funds	\$	1,843,896
Amount reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		(464,232)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(223,024)
Overfunded pension contributions are reported as expenditures in the fund financial statements and recorded as a net pension asset on the statement of net assets.		26,187
Repayment of bond principal, note principal, and capital lease principal are expenditures in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets.		1,248,378
Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds.		(69,685)
Change in net assets of governmental activities	\$	2,361,520

The accompanying notes to financial statements are an integral part of this financial statement.

City of Sebastian, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2006

	Enterprise Funds			
	Golf Course	Airport	Building	Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 12,162	\$ 37,940	\$ 21,411	\$ 71,513
Investments	89,751	474,132	1,507,706	2,071,589
Restricted cash, cash equivalents and investments:				
Revenue bond covenant accounts	560,581	-	-	560,581
Accounts receivable	-	39,172	-	39,172
Due from other governments	-	41,737	-	41,737
Interest receivable	3,253	97	8,920	12,270
Inventory	13,688	-	-	13,688
Prepaid items	1,575	-	-	1,575
Total current assets	<u>681,010</u>	<u>593,078</u>	<u>1,538,037</u>	<u>2,812,125</u>
Noncurrent assets:				
Deferred charges	\$55,588	-	-	55,588
Capital assets:				
Land	-	9,060	-	9,060
Buildings	331,228	1,500,920	-	1,832,148
Improvements other than buildings	220,556	960,496	-	1,181,052
Machinery and equipment	338,527	252,347	48,052	638,926
Infrastructure	1,616,948	4,396,015	-	6,012,963
Construction in process	-	2,770,936	-	2,770,936
Less accumulated depreciation	(1,651,980)	(879,320)	(5,271)	(2,536,571)
Total noncurrent assets	<u>910,867</u>	<u>9,010,454</u>	<u>42,781</u>	<u>9,964,102</u>
Total assets	<u>1,591,877</u>	<u>9,603,532</u>	<u>1,580,818</u>	<u>12,776,227</u>
LIABILITIES				
Current liabilities:				
Accounts payable	43,592	105,187	19,966	168,745
Due to other governments	8,083	252	-	8,335
Deferred revenues	66,877	3,775	14,015	84,667
Compensated absences	1,385	1,897	2,994	6,276
Total current liabilities	<u>119,937</u>	<u>111,111</u>	<u>36,975</u>	<u>268,023</u>
Non-current liabilities:				
Compensated absences	50,219	26,653	65,698	142,570
Bonds payable (net of unamortized premium and deferred amount on refunding)	1,109,902	-	-	1,109,902
Total non-current liabilities	<u>1,160,121</u>	<u>26,653</u>	<u>65,698</u>	<u>1,252,472</u>
Total liabilities	<u>1,280,058</u>	<u>137,764</u>	<u>102,673</u>	<u>1,520,495</u>
NET ASSETS				
Invested in capital assets, net of related debt	(254,623)	9,010,454	42,781	8,798,612
Restricted for:				
Debt service	316,490	-	-	316,490
Other purposes	244,091	-	-	244,091
Unrestricted	5,861	455,314	1,435,364	1,896,539
Total net assets	<u>\$ 311,819</u>	<u>\$ 9,465,768</u>	<u>\$ 1,478,145</u>	<u>\$ 11,255,732</u>

The accompanying notes to financial statements are an integral part of this financial statement.

City of Sebastian, Florida
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2006

	Enterprise Funds			
	Golf Course	Airport	Building	Totals
Operating revenues:				
Charges for fees and rents:				
Building permit fees	\$ -	\$ -	\$ 1,220,823	\$ 1,220,823
Golf course fees pledged as security for revenue bonds	1,532,185	-	-	1,532,185
Rents	31,252	313,562	-	344,814
Other revenue	16,970	62,206	-	79,176
Total operating revenues	<u>1,580,407</u>	<u>375,768</u>	<u>1,220,823</u>	<u>3,176,998</u>
Operating expenses:				
Salaries, wages and employee benefits	313,305	168,894	639,191	1,121,390
Contractual services, materials and supplies	1,061,103	174,827	292,331	1,528,261
Depreciation	105,058	186,955	5,271	297,284
Total operating expenses	<u>1,479,466</u>	<u>530,676</u>	<u>936,793</u>	<u>2,946,935</u>
Operating income (loss)	100,941	(154,908)	284,030	230,063
Nonoperating revenues (expenses):				
Interest income	-	30,062	54,826	84,888
Interest income pledged as security for revenue bonds	40,610	-	-	40,610
Intergovernmental	6,998	-	-	6,998
Interest expense	(64,715)	-	-	(64,715)
Bond amortization expense	(13,897)	-	-	(13,897)
Loss on disposal of capital assets	(260)	-	-	(260)
Total nonoperating revenues (expenses)	<u>(31,264)</u>	<u>30,062</u>	<u>54,826</u>	<u>53,624</u>
Income/(loss) before capital contributions and transfers	69,677	(124,846)	338,856	283,687
Capital contributions in	-	1,056,562	-	1,056,562
Capital contributions out	-	(271,291)	-	(271,291)
Transfers in	-	274,916	1,139,289	1,414,205
Change in net assets	69,677	935,341	1,478,145	2,483,163
Total net assets - beginning	<u>242,142</u>	<u>8,530,427</u>	<u>-</u>	<u>8,772,569</u>
Total net assets - ending	<u>\$ 311,819</u>	<u>\$ 9,465,768</u>	<u>\$ 1,478,145</u>	<u>\$ 11,255,732</u>

The accompanying notes to financial statements are an integral part of this financial statement.

City of Sebastian, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2006

	Enterprise Funds			
	Golf Course	Airport	Building	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers and users	\$ 1,561,274	\$ 337,335	\$ 1,234,838	\$ 3,133,447
Cash payments to suppliers	(1,057,053)	(258,942)	(272,365)	(1,588,360)
Cash payments for employee services	(305,531)	(179,680)	(570,499)	(1,055,710)
Net cash provided (used) by operating activities	<u>198,690</u>	<u>(101,287)</u>	<u>391,974</u>	<u>489,377</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(6,717)	(1,662,548)	(48,052)	(1,717,317)
Receipt from capital grants	6,998	1,176,601	-	1,183,599
Receipt from capital transfers	-	274,916	1,139,289	1,414,205
Receipt from advance from other fund	-	(35,416)	-	(35,416)
Principal paid on revenue bond maturities	(255,000)	-	-	(255,000)
Bond issuance costs	7,525	-	-	7,525
Interest paid on revenue bonds	(64,715)	-	-	(64,715)
Capital contributed to others	-	(271,291)	-	(271,291)
Net cash provided (used) by capital and related financing activities	<u>(311,909)</u>	<u>(517,738)</u>	<u>1,091,237</u>	<u>261,590</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	37,605	31,270	45,906	114,781
Net cash provided by investing activities	<u>37,605</u>	<u>31,270</u>	<u>45,906</u>	<u>114,781</u>
Net decrease in cash and cash equivalents	(75,614)	(587,755)	1,529,117	865,748
Cash and cash equivalents, October 1	738,108	1,099,827	-	1,837,935
Cash and cash equivalents, September 30	<u>\$ 662,494</u>	<u>\$ 512,072</u>	<u>\$ 1,529,117</u>	<u>\$ 2,703,683</u>

The accompanying notes to financial statements are an integral part of this financial statement.

City of Sebastian, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2006
(Continued)

	<u>Enterprise Funds</u>			
	<u>Golf Course</u>	<u>Airport</u>	<u>Building</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 100,941	\$ (154,908)	\$ 284,030	\$ 230,063
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	105,058	186,955	5,271	297,284
(Increase) Decrease in assets:				
Accounts receivable	48	(36,997)	-	(36,949)
Prepaid expenses	-	384	-	384
Inventories	(4,548)	-	-	(4,548)
				-
Increase (Decrease) in liabilities:				
Accounts payable	10,352	(84,418)	19,966	(54,100)
Due to other governments	(1,754)	(81)	-	(1,835)
Accrued compensated absences	7,774	(10,786)	68,692	65,680
Deferred revenues	(19,181)	(1,436)	14,015	(6,602)
Total adjustments	97,749	53,621	107,944	259,314
Net cash provided (used) by operating activities	<u>\$ 198,690</u>	<u>\$ (101,287)</u>	<u>\$ 391,974</u>	<u>\$ 489,377</u>
Cash and cash equivalents reconciliation:				
Current assets:				
Cash and cash equivalents	\$ 12,162	\$ 37,940	\$ 21,411	\$ 71,513
Investments	89,751	474,132	1,507,706	2,071,589
Restricted asset:				
Investments	560,581	-	-	560,581
Cash and cash equivalents at September 30	<u>\$ 662,494</u>	<u>\$ 512,072</u>	<u>\$ 1,529,117</u>	<u>\$ 2,703,683</u>

The accompanying notes to financial statements are an integral part of this financial statement.

City of Sebastian, Florida
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2006

	Pension Trust	Agency
	Police Officers' Pension	Performance Deposits
ASSETS		
Cash and cash equivalents	\$ 575,997	\$ 165,090
Receivables:		
Interest and dividends	21,151	-
Total receivables	597,148	165,090
Investments, at fair value:		
United States treasuries	436,213	-
United States agency notes	723,537	-
Domestic corporate bonds	531,853	-
Domestic corporate equities	2,422,543	-
Total investments	4,114,146	-
Total assets	4,711,294	165,090
LIABILITIES		
Refunds payable	-	165,090
Total liabilities	-	165,090
NET ASSETS		
Held in trust for pension benefits	\$ 4,711,294	\$ -

The accompanying notes to financial statements are an integral part of this financial statement.

City of Sebastian, Florida
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund - Pension Trust
For the Year Ended September 30, 2006

		Police Officers' Pension
ADDITIONS		
Contributions:		
Employer	\$	219,898
Plan members		85,433
State		117,621
Total contributions		422,952
Investment earnings:		
Net increase in fair value of investments		141,456
Interest and dividends		144,940
Total investment earnings		286,396
Less investment expenses		(20,606)
Net investment earnings		265,790
Total additions		688,742
DEDUCTIONS		
Benefits		105,202
Refunded contributions		12,388
Administrative expenses		13,078
Total deductions		130,668
Change in net assets		558,074
Net assets - beginning of year		4,153,220
Net assets - end of year	\$	4,711,294

The accompanying notes to financial statements are an integral part of this financial statement.

City of Sebastian, Florida
Notes to the Financial Statements
September 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sebastian (the "City"), a Florida Municipal Corporation, was incorporated in 1924 under Sections 1826-1832 of the Revised Florida Statutes. The City has a population of approximately 21,600 living in an area of approximately 14.6 square miles. The governing body is a five member elected City Council with a mayor elected from the five members. The City Council appoints the City Manager who is responsible for the administration of all City services.

The financial statements of the City have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The more significant of the City's accounting policies are described below:

A. Reporting Entity

In evaluating the City as a reporting entity, management has included all component units in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "Defining the Financial Reporting Entity". The Financial Reporting Entity consists of the City of Sebastian (the primary government) and its blended component units. Blended component units are legally separate organizations for which the City Council is financially accountable. The component units discussed below are included in the City's reporting entity.

Blended Component Units

The following component units are blended with the primary government for financial statement purposes because the component unit's governing body is substantially the same as the City Council or because the component unit exclusively serves the City. The financial statements of these component units may be obtained from the Finance Department of the City of Sebastian.

Community Redevelopment Agency (CRA) – The governing body of the CRA is the Sebastian City Council. The CRA is accounted for in a special revenue fund entitled "Riverfront Redevelopment". F.S. Section 163.387(8) requires an independent audit of the fund each fiscal year and a report of such audit. The City has presented the CRA as a major fund of the City to satisfy this requirement simply due to the scope of the audit for a major fund is broader than a non-major fund.

City of Sebastian Police Officers' Pension Plan – The City Council only appoints two of the five members of the governing board, but it is financially responsible for funding the police officers' pension benefits. The City of Sebastian Police Officers' Pension Trust Fund only exists to provide pension benefits to City of Sebastian police officers. It is accounted for as a Pension Trust fund entitled "Police Officers' Pension".

B. Government-wide 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 blended 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 fees and charges for support.

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

GASB Statement No. 34 Basic Financial Statements and Management Discussion and Analysis for State and Local Governments sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining section.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

1. Economic Resources Measurement Focus and Accrual 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 financial statements. This means that revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions as amended by GASB Statement No. 36, Recipient Reporting of Certain Shared Nonexchange Revenues (the City may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. 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 government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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*.

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 golf course fund and the building fund are charges to customers for services and for the airport fund lease revenue. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The agency fund reports only assets and liabilities; therefore, it does not have a measurement focus. However, it uses the accrual basis of accounting to recognize receivables and payables.

2. Modified Accrual

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. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period except grant revenues. The City considers grant revenues to be available if they are collected within one year of the end of the current fiscal period. All material revenues, except for occupational licenses and property taxes, are considered measurable and available and are thus susceptible to accrual. Occupational licenses are not considered available since neither a legally enforceable claim exists nor were the related services provided before October 1, 2006. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable. An exception to this general rule is principal and interest on general long-term obligations, which are recognized when due.

Property taxes, public utility taxes, franchise fees, sales and fuel 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 in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *discretionary sales tax fund* accounts for the financial resources used for infrastructure improvements and equipment purchases.

The *riverfront redevelopment fund* accounts for tax increment revenues that are legally restricted for the redevelopment of the City's riverfront area.

The *stormwater utility improvements fund* accounts for the resources associated with debt and stormwater assessment fees for the purpose of constructing stormwater related improvements.

The government reports the following major proprietary funds:

The *golf course fund* accounts for the activities of the municipal golf course.

The *airport fund* accounts for the activities of the municipality's general aviation airport.

The *building fund* accounts for the activities associated with the building permit and inspection program.

Additionally, the government reports the following fund types:

The *pension trust fund* accounts for the activities of the Police Officer's Retirement System, which accumulates resources for pension benefit payments to qualified police officers.

The *performance deposits fund* accounts for deposits placed by bidders and developers to guarantee performance pursuant to bid or contract. These funds are held by the City as agent for individuals and businesses.

D. Assets, Liabilities and Fund Equity

1. Cash and cash equivalents

Cash and cash equivalents represents all investments that are short term, highly liquid, and readily convertible to a specified cash value. These investments generally have original maturities of three months or less. Cash equivalents consist of cash in banks and on hand.

2. Investments

Investments consist of U.S. Treasury Securities, U.S. Government Agency Securities, common stock, guaranteed investment contracts and the Local Government Surplus Funds Trust Fund Investment pool (Pool). The Local Government Surplus Funds Trust Fund is administered by the Florida State Board of Administration, which is not a registrant with the Securities and Exchange Commission. However, the Board has adopted operating procedures consistent with the requirements for a 2a-7 fund. In accordance with the regulations of 2a-7 like pools, the City's share of investments held at the State Board of Administration are reported at amortized cost, which approximates fair value. This pool is regulated by the State and the fair value of the position in the pool is the same as the value of the pool share. Investment earnings of the Pool are allocated to the participating funds at the end of each month based upon the ratio of each participant's investment to the total pooled investments. Except for the Pool, investments, including the Police Officers' Pension Fund, are reported at their fair value based on the quoted market price or the best available information.

3. Interfund Receivables and Payables

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds". Due to and from other funds are eliminated in the Statement of Net Assets. There were no interfund loans between the Governmental funds and Proprietary funds as of September 30, 2006.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. There were no advances between the Governmental funds and Proprietary funds as of September 30, 2006.

4. Receivables

Receivables consist of trade receivables, due from other governments and interest receivable (see Note IV.C. on page 37 for detail) and are recorded at the net realizable value. The City, as of September 30, 2006, has no allowance for doubtful accounts, since all receivables are considered collectible.

5. Inventory and Prepaid Items

Inventory is valued at cost using the average cost method. Inventory in the General fund consists of materials and supplies held for consumption. The cost is recorded as an expenditure/expense at the time the individual inventory items are consumed. Inventory in the Golf Course fund consists of supplies held for resale.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

6. Restricted Assets

Certain net assets of the City are classified as restricted assets on the statement of net assets because their use is limited either by law through constitutional provision or enabling legislation; or by restrictions imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. In a fund with both restricted and unrestricted assets, qualified expenses are considered to be paid first from restricted net assets and then from unrestricted net assets.

7. Capital Assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, 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, individual cost of more than \$750 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, if purchased, and at fair market value at date of gift, if donated. Major additions are capitalized while maintenance and repairs that do not improve or extend the life of the respective assets are expensed.

All infrastructure assets acquired prior to the implementation of GASB Statement 34 were capitalized as projects and were completed or assets were acquired. Therefore, the initial capitalization of general infrastructure assets was not necessary.

Capital asset depreciation is recognized using the straight-line method over the estimated useful lives as follows:

<u>Classification</u>	<u>Range of Lives</u>
Buildings and improvements	10-40 years
Public domain infrastructure	40-50 years
System infrastructure	15-30 years
Improvements other than buildings	10-40 years
Machinery, equipment and other	5-15 years
Airport runways	20 years

8. Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick leave benefits and are accounted for using the termination payment method. All vacation and sick leave amounts are accrued in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

9. Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The nature and purpose of these reserves are explained as follows:

- Reserved for encumbrance* – represents encumbrances outstanding at year end that the City intends to honor as commitments.
- Reserved for debt service* – represents, in accordance with legal restrictions, amounts for payment of principal and interest maturing in later years.
- Reserved for capital projects* – represents amounts restricted for capital projects.
- Reserved for property and casualty* – represents amounts restricted for property and casualty claims.
- Reserved for cemetery care* – represents amounts restricted for use in cemetery maintenance.
- Reserved for law enforcement* – represents, in accordance with State Statutes, funds required to be spent on drug education and awareness activities.
- Reserved for emergency services* – represents amount restricted for natural disasters.
- Reserved for equipment replacement* – represents amounts restricted for the replacement of capital assets.

Designations of unreserved fund balances are not required by law or accounting principles, but are further classifications of fund equity to identify funds that are not earmarked for specific purposes.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets.

“Total fund balances” of the City’s governmental funds (\$21,918,531) differs from “net assets” of governmental activities (\$33,942,143) reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheet. The effect of the differences is illustrated below.

Capital related items

When capital assets (property, plant, equipment) that are to be used in the governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets included those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 44,853,107
Accumulated depreciation	(15,208,972)
Total	<u>\$ 29,644,135</u>

Net pension obligation

When net pension obligation is a negative amount, the amount is presented as an asset on the statement of net assets.

Negative net pension obligation	<u>\$ 148,607</u>
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Long-term debt transactions

Long-term liabilities applicable to the City’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities (both current and long-term) are reported in the statement of net assets. Balances at September 30, 2006 were:

Bonds payable:		
Infrastructure sales surtax revenue bonds, Series 2003	\$(7,955,000)	
Less: Deferred charge for issuance costs	<u>224,170</u>	\$(7,730,830)
Infrastructure sales surtax revenue bonds, Series 2003A	(1,870,000)	
Less: Deferred charge for issuance costs	<u>87,695</u>	(1,782,305)
Stormwater utility revenue bonds, Series 2003	(5,055,000)	
Less: Deferred charge for issuance costs	171,143	
Less: Deferred charge for bond discounts	<u>12,915</u>	(4,870,942)
Notes payable	(1,790,544)	
Less: Deferred charge for issuance costs	<u>5,232</u>	(1,785,312)
Capital lease payable	(288,252)	
Less: Deferred charge for issuance costs	<u>3,016</u>	(285,236)
Compensated absences		<u>(1,044,670)</u>
Total		<u>\$ (17,499,295)</u>

Accrued interest

Accrued liabilities in the statement of net assets differs from the amount reported in governmental funds due to accrued interest on bonds payable, notes payable, and capital lease.

Bonds	\$ (258,800)
Notes	(7,453)
Capital lease	<u>(7,431)</u>
Total	<u>\$ (273,684)</u>

Deferred revenues

Deferred revenues in the statement of net assets differ from the amount reported in the governmental funds due to special assessment receivables. Governmental fund financial statements report unearned revenues or revenues which are measurable but not available as deferred revenues. However, deferred revenues in governmental funds are susceptible to full accrual on government-wide financial statements.

Deferred revenues reduced	\$ 3,849
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B. Explanation of Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The "net change in fund balances" for governmental funds (\$1,843,896) differs from the "change in net assets" for governmental activities (\$2,361,520) reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Capital related items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Capital outlay	\$ 1,464,502
Depreciation expense	(1,928,734)
Difference	\$ (464,232)

In the statement of activities, only the gain and loss on the sale of capital assets are reported. However, in the governmental funds, the proceeds from the sale increase financial resources.

Loss on sale of fixed assets	\$ (223,024)
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Pension obligation

When net pension obligation is a negative amount, the amount represents over funding and reduces the expenses in the statement of activities.

Increase in negative net pension obligation	\$ 26,187
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Long-term debt transactions

Repayments of bond principal, notes payable principal, and capital lease principal are reported as expenditures in the governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. However, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Bond principal payment made	\$ 900,000
Notes payable principal payment made	214,174
Capital lease principal payment made	134,204
Total	\$ 1,248,378

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

Net change in compensated absences	\$ (42,064)
Net accrued bond interest expense	9,277
Net accrued notes interest expense	891
Net accrued capital lease interest expense	3,459
Amortization of issuance costs	(41,248)
Net adjustment	\$ (69,685)

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budgets are prepared annually on a modified accrual basis with encumbrance accounting for all governmental funds except the capital project funds, which are approved on a "life of the project basis", and the permanent fund, which is not budgeted. All annual appropriations lapse at year end.

On or before the third Friday in May of each year, all agencies of the government submit requests for appropriations to the government's City Manager so that a budget may be prepared. Before July 31, the proposed budget is presented to the government's council for review. The council holds budget workshops and public hearings and a final budget must be prepared and adopted no later than September 30.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General, Special Revenue, Debt Service, and Capital Projects funds. Encumbrances outstanding at year end are carried forward and reappropriated to the next year's budget.

Actual results of operations presented in accordance with U.S. generally accepted accounting principles (GAAP basis) and the City's accounting policies do not recognize encumbrances as expenditures until the period in which the actual goods or services are received and a liability is incurred. It is necessary to include budgetary encumbrances to reflect actual revenues and expenditures on a basis consistent with the City's legally adopted budget. (See page 49 through page 53)

IV. DETAIL NOTES ON ALL FUNDS

A. Deposits

At September 30, 2006, the carrying amount of the City of Sebastian's deposits with banks was \$425,743 and the bank balance was \$388,521. All the deposits were covered by the FDIC or collateralized in accordance with the "Florida Security for Public Deposits Act". Under the Act, every qualified public depository shall deposit with the Treasurer eligible collateral having a market value equal to 50% of the average daily balance for each month that all public deposits are in excess of any applicable deposit insurance. If the public deposits exceed the total amount of the regulatory capital accounts of a bank or the regulatory net worth of a savings association, the required collateral shall have a market value equal to 125% of the deposits.

B. Investments

On April 23, 2003, Sebastian City Council formally adopted an investment policy pursuant to Section 218.415, Florida Statutes that established permitted investments, asset allocation limits and issuer limits, credit ratings requirements and maturity limits to protect City's cash and investment assets. The City maintains a common cash and investment pool for the use of all funds. Pension Trust Funds are held with third party trustees and are governed by rules established by Florida Statute Chapter 185.

As of September 30, 2006, the City had the following investments and effective duration presented in terms of years:

Investment Type	Fair Value	Less Than 1	Investment Maturity (Year)		
			From 1-3	From 4-6	Over 7
Government-wide					
U.S Agencies	\$ 10,918,360	\$ -	\$ 10,918,360	\$ -	\$ -
Guaranteed investment contract	4,894,344	4,894,344	-	-	-
Certificate of deposit	-	-	-	-	-
Local government surplus fund trust					
fund investment pool	8,065,688	8,065,688	-	-	-
	<u>23,878,392</u>	<u>12,960,032</u>	<u>10,918,360</u>	<u>-</u>	<u>-</u>
Fiduciary Funds					
United States Treasuries	436,213	-	179,450	197,953	58,810
United States Agencies	723,537	-	63,964	127,336	532,237
Domestic corporate bonds	531,853	-	-	92,396	439,457
Domestic corporate equities	2,422,543	2,422,543	-	-	-
	<u>4,114,146</u>	<u>2,422,543</u>	<u>243,414</u>	<u>417,685</u>	<u>1,030,504</u>
Total fair value	<u>\$ 27,992,538</u>	<u>\$ 15,382,575</u>	<u>\$ 11,161,774</u>	<u>\$ 417,685</u>	<u>\$ 1,030,504</u>

Investment holdings consist of \$10,918,360 in direct obligations of the United States Treasury Securities and Federal instrumentalities which are reported at fair value in accordance with GASB Statement No.31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". These investments are held in trust by the City's bank depository in the City's name.

Section 218.415, Florida Statutes, limits the types of investments that the City can invest in unless specially authorized in the City's investment policy. The City has a formal investment policy that allows for the following investments: Florida Local Government Surplus Funds Trust Fund, United States Government Securities, United States Government Agencies, Federal Instrumentalities, Interest Bearing Time Deposit or Saving Accounts, Repurchase Agreements, Commercial Paper, High Grade Corporate Notes, Bankers' Acceptances, State and/or Local Government Taxable and/or Tax-Exempt Debt, Registered Investment Companies (Money Market Mutual Funds), and Intergovernmental Investment Pool.

Florida Statutes Chapter 185 regulates the types of investment that may be held by the Police Pension Trust Fund. The investment guidelines have been augmented by City ordinance that have adopted specific investment policies. Compliance with the policies and guidelines has been evaluated by the pension board.

Interest receivable on the government-wide and fiduciary investment portfolios amounted to \$177,057 and \$21,151, respectively, as of September 30, 2006.

Interest Rate Risk

The City's investment policy limits interest rate risk by attempting to match investment maturities with known cash needs and anticipated cash flow requirements. Investment maturities shall not exceed thirty-six (36) months. Investments of construction funds shall have a term appropriate to the need for funds and in accordance with debt covenants.

Included in the government-wide investment portfolio, the City has \$10,918,360 in Federal Instrumentalities that have embedded options consisting of the option at the discretion of the issuer to call their obligation or pay a stated increase in the interest rate. These securities have different call dates, and mature in 2006, 2007, 2008, and 2009.

Credit Risk

The City investment policy permits for investments in the following investments, which are limited to credit quality ratings from nationally recognized agencies as follows:

Mutual funds shall be rated "m" or "AAM-G" or better by Standard & Poor's, or the equivalent by another rating agency. State and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds, rated at least "Aa" by Moody's and "AA" by Standard & Poor's for long-term debt, or rated at least "MIG-2" by Moody's and 'SP-2" by Standard & Poor's for short-term debt. Bankers' acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time of purchase, the short-term paper is rated, at a minimum, "P-1" by Moody's Investors Services and "A-1" Standard & Poor's. Commercial paper of any United States company that is rated, at the time of purchase, "Prime-1" by Moody's and "A-1" by Standard & Poor's (prime commercial paper). Corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time of purchase, at a minimum "Aa" by Moody's and a minimum long term debt rating of "AA" by Standard & Poor's.

As of September 30, 2006, the City's investment securities were all individually rated AAA by Standard & Poor's and Aaa by Moody's Investor Services.

The City's \$8,065,688 investment deposit in the Local Government Surplus Funds Trust Fund investment pool was unrated as of September 30, 2006.

The City's \$4,894,344 guaranteed investment contract represents the investment of construction funds, which has a term appropriate to the need for funds and in accordance with debt covenants. The investment contract is with Citigroup, which is Aa1/AA-rated Company. The investment was unrated as of September 30, 2006.

Investment in the City's pension trust funds are limited by State Statutes Chapter 185 and by an investment policy adopted by the fund's Board of Trustees. The allowable investment instruments include United States Government Obligations, Certificates of Deposit, and Repurchase Agreements with major money center banks, Commercial Paper rated A-1 by Standard & Poor's or P-1 by Moody's or better, with the exception of the custodian's savings account. In addition, common stocks and equity securities having prospects of attractive returns from a combination of appreciation are also allowed.

Custodial Credit Risk

The City's investment policy pursuant to Section 218.415(18), Florida Statutes requires securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by the City should be properly designated as an asset of the City. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States, which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposits maintained by book-entry at the issuing bank shall clearly identify the City as the owner.

As of September 30, 2006, the City's investment portfolio was held with a third-party custodian as required by the City's investment policy.

Concentration of Credit Risk

The City's investment policy has established asset allocation and issuer limits on the following investments, which are designed to reduce concentration of credit risk of the City's investment portfolio.

A maximum of 100% of available funds may be invested in the SBA and in the United States Government Securities, 50% of available funds may be invested in United States Government agencies with a 25% limit on individual issuers, 80% of available funds may be invested in Federal Instrumentalities with a 40% limit on individual issuers, 25% of available funds may be invested in non-negotiable interest bearing time certificates of deposits with a 15% limits on individual issuers, 50% of available funds may be invested in repurchase agreements excluding one (1) business day agreements and overnight sweep agreements with a 25% limit on any one institution, 25% of available funds may be directly invested in prime commercial paper with a 10% limit on individual issuers, 15% of available funds may be directly invested in corporate notes with a 5% limit on individual issuers, 25% of available funds may be directly invested in Bankers' Acceptances with a 10% limit on individual issuers, 20% of available funds may be invested in taxable and tax-exempt debts, 50% of available funds may be invested in money market mutual fund with a 25% limit on individual issuers, 10% of available funds may be invested in intergovernmental investment pools.

The City's pension trust funds investment policy adopted by the fund's Board of Trustees has established asset allocation and issuer limits on the following investments, which are designed to focus on performance.

A maximum of 100% of available funds may be invested in fixed income securities and a maximum of 50% of available funds may be invested in equity securities.

As of September 30, 2006, the City had the following issuer concentration based on fair value:

Issuer	Government-wide		Fiduciary Funds	
	Amount	Percentage of Portfolio	Amount	Percentage of Portfolio
Local government surplus funds trust fund ("SBA")	\$ 8,065,688	33.78%	\$ -	0.00%
United States Treasuries	-	0.00%	436,213	10.60%
United States Agencies	10,918,360	45.72%	723,537	17.59%
Guaranteed investment contract	4,894,344	20.50%	-	0.00%
Domestic corporate bonds	-	0.00%	531,853	12.93%
Domestic corporate equities	-	0.00%	2,422,543	58.88%
Total	\$ 23,878,392	100.00%	\$ 4,114,146	100.00%

C. Receivable and Payable Balances

Receivables

Receivables at September 30, 2006 were as follows:

	Interest	Accounts	Due From Other Governments	
			Due From Other Governments	Total
Governmental activities:				
General	\$ 48,806	\$ 337,454	\$ 328,984	\$ 715,244
Discretionary sales tax	12,963	-	226,039	239,002
Riverfront redevelopment	4,318	-	-	4,318
Stormwater utility improvements	50,237	-	2,798	53,035
Other governmental	48,463	-	100,570	149,033
Total - governmental activities	\$ 164,787	\$ 337,454	\$ 658,391	\$ 1,160,632
Business-type activities:				
Golf course	\$ 3,253	\$ -	\$ -	\$ 3,253
Airport	97	39,172	41,737	81,006
Building	8,920	-	-	8,920
Total - business-type activities	\$ 12,270	\$ 39,172	\$ 41,737	\$ 93,179

All receivables are anticipated to be collected.

Payables

Payables at September 30, 2006 were as follows:

	Vendors	Retainage	Salaries and Benefits	Due to Other Government	Total
Governmental activities:					
General	\$ 265,901	\$ -	\$ 255,398	\$ 210,827	\$ 732,126
Riverfront redevelopment	632	-	-	-	632
Stormwater utility improvements	1,170	-	-	-	1,170
Other governmental	109,246	5,690	-	-	114,936
Total - governmental activities	\$ 376,949	\$ 5,690	\$ 255,398	\$ 210,827	\$ 848,864
Business-type activities:					
Golf course	\$ 33,426	\$ -	\$ 10,166	\$ 8,083	\$ 51,675
Airport	98,268	-	6,919	252	105,439
Building	1,747	-	18,219	-	19,966
Total - business-type activities	\$ 133,441	\$ -	\$ 35,304	\$ 8,335	\$ 177,080

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At September 30, 2006, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Deferred
Special assessments not yet due (General fund)	\$ 3,849	\$ -
Occupational licenses received in advance (General Fund)	-	65,292
Total deferred/unearned revenue for governmental funds	\$ 3,849	\$ 65,292

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,489,774	\$ -	\$ (187,827)	\$ 5,301,947
Construction in progress	1,006,241	894,386	(733,420)	1,167,207
Total capital assets, not being depreciated	6,496,015	894,386	(921,247)	6,469,154
Capital assets, being depreciated:				
Buildings	9,890,903	106,118	(38,831)	9,958,190
Improvements other than buildings	4,152,943	461,383	-	4,614,326
Machinery and equipment	6,100,906	564,097	(228,765)	6,436,238
Infrastructure	17,203,261	171,938	-	17,375,199
Total capital assets being depreciated	37,348,013	1,303,536	(267,596)	38,383,953
Less accumulated depreciation for:				
Buildings	(1,277,135)	(312,914)	4,783	(1,585,266)
Improvements other than buildings	(961,944)	(205,052)	-	(1,166,996)
Machinery and equipment	(3,974,287)	(755,623)	227,616	(4,502,294)
Infrastructure	(7,299,271)	(655,145)	-	(7,954,416)
Total accumulated depreciation	(13,512,637)	(1,928,734)	232,399	(15,208,972)
Total capital assets, being depreciated, net	23,835,376	(625,198)	(35,197)	23,174,981
Governmental activities capital assets, net	\$ 30,331,391	\$ 269,188	\$ (956,444)	\$ 29,644,135

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 9,060	\$ -	\$ -	\$ 9,060
Construction in progress	4,857,192	1,605,258	(3,691,514)	2,770,936
Total capital assets, not being depreciated	4,866,252	1,605,258	(3,691,514)	2,779,996
Capital assets, being depreciated:				
Buildings	1,555,358	280,100	(3,310)	1,832,148
Improvements other than buildings	779,905	437,932	(36,785)	1,181,052
Machinery and equipment	585,282	55,324	(1,680)	638,926
Infrastructure	3,313,755	2,972,927	(273,719)	6,012,963
Total capital assets being depreciated	6,234,300	3,746,283	(315,494)	9,665,089
Less accumulated depreciation for:				
Buildings	(319,851)	(39,929)	3,050	(356,730)
Improvements other than buildings	(213,578)	(47,219)	25,527	(235,270)
Machinery and equipment	(457,626)	(57,596)	1,680	(513,542)
Infrastructure	(1,292,175)	(152,540)	13,686	(1,431,029)
Total accumulated depreciation	(2,283,230)	(297,284)	43,943	(2,536,571)
Total capital assets, being depreciated, net	3,951,070	3,448,999	(271,551)	7,128,518
Business-type activities capital assets, net	\$ 8,817,322	\$ 5,054,257	\$ (3,963,065)	\$ 9,908,514

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

Governmental activities:		
General government		\$ 346,823
Public safety		413,538
Transportation		516,737
Physical environment		372,114
Cultural and recreation		279,522
Total depreciation expense-governmental activities		<u>\$ 1,928,734</u>
Business-type activities:		
Golf Course		\$ 105,058
Airport		186,955
Building		5,271
Total depreciation expense-business-type activities		<u>\$ 297,284</u>

Construction Commitments

The City has various construction commitments outstanding at September 30, 2006. The major construction commitments include school building renovation, various park projects, and Louisiana Avenue Improvements.

Project	Spent-to date	Remaining Commitment	Major Funding Source
School Building Renovation	\$ 92,617	\$ 820,149	Discretionary Sales Tax Revenue Bonds, Series 2003, and Historic Preservation Grant
Bryan Court Park Playground	4,250	30,635	Recreation impact fees
Blossom Park Playground	94	38,720	Recreation impact fees
Middle Stonecrop Improvements	142,862	52,017	Stormwater Revenue Bonds, Series 2003
Louisiana Avenue Improvements	1,080,005	54,041	Discretionary sales tax
Construct Access Road	68,667	26,071	FDOT
Airfield Lighting and Signage	44,472	26,114	FDOT
Total	<u>\$ 1,432,967</u>	<u>\$ 1,047,747</u>	

E. Interfund Balances

Interfund balances at September 30, 2006 consisted of the following amount:

Due to General Fund from:	
Nonmajor governmental funds:	
Local Option Gas Tax	\$ 108,269
Total	<u>\$ 108,269</u>

The balance of \$108,269 due to the general fund from the local option gas tax fund represents short-term cash loans that will be repaid within the next twelve months.

F. Interfund Transfers

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) utilize reserved revenues collected in the General fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) utilize discretionary sales tax revenues for infrastructure improvements and equipment purchases which must be accounted for in other funds. Following is a schedule of Interfund Transfers:

	<u>Transfers In</u>					Total
	General Fund	Discretionary Sales Tax Fund	Nonmajor Governmental Funds	Airport Capital Project Fund	Building Fund	
<u>Transfers Out:</u>						
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 1,139,289	\$ 1,139,289
Stormwater Utility Improvements	50,000	6,960	3,619	-	-	60,579
Discretionary Sales Tax Fund	203,904	-	1,835,776	274,916	-	2,314,596
Nonmajor Governmental Funds	646,657	-	1,039,065	-	-	1,685,722
Total Transfers Out	<u>\$ 900,561</u>	<u>\$ 6,960</u>	<u>\$ 2,878,460</u>	<u>\$ 274,916</u>	<u>\$ 1,139,289</u>	<u>\$ 5,200,186</u>

G. Leases

1. Operating Leases-Lessee

The City is obligated under certain leases for land and golf carts accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. Total costs for such leases were \$227,250 for the fiscal year ended September 30, 2006. The following is a schedule by years for future minimum rental payments required under operating leases in the Golf Course Proprietary fund that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2006:

<u>Year Ending September 30,</u>	<u>Golf Course</u>	
	to: Airport	Golf Carts
2007	\$ 175,000	\$ 107,988
2008	175,000	-
2009	175,000	-
2010	175,000	-
2011	250,000	-
2012-2015	1,000,000	-
Totals	<u>\$ 1,950,000</u>	<u>\$ 107,988</u>

2. Capital Leases-Lessee

The City has entered into a lease agreement as lessee for financing the acquisition of heavy construction equipment for its public works department. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The property being leased is included in the statement of net assets governmental activities column and has a cost of \$859,859 and a carrying value of \$319,865. For fiscal year 2006, total depreciation expense for the leased equipment is \$100,344. The assets acquired through the capital lease are as follows:

	Governmental Activities
Asset:	
Machinery and equipment	\$ 859,859
Less: Accumulated depreciation	(539,994)
Total	<u>\$ 319,865</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2006 were as follows:

<u>Year Ending September 30,</u>	Governmental Activities
2007	\$ 154,694
2008	154,694
Total minimum lease payments	<u>309,388</u>
Less: amount representing interest	(21,136)
Present value of minimum lease payments	<u>\$ 288,252</u>

3. Operating Leases-Lessor

The City is the lessor of two communication tower leases with lease terms of twenty-five years. Following is a schedule by year of minimum future rental income on noncancelable operating leases:

<u>Year Ending September 30,</u>	Governmental Activities
2007	\$ 35,833
2008	39,135
2009	40,074
2010	41,049
2011	42,064
2012-2016	238,544
2017-2021	287,452
2022-2025	198,346
Total minimum future rentals	<u>\$ 922,497</u>

The airport is the lessor of various properties (land with a cost basis of \$9,060) with lease terms varying from twenty to thirty years. Following is a schedule by year of minimum future rental income on noncancelable operating leases:

<u>Year Ending September 30,</u>	Business-type Activities
2007	\$ 274,389
2008	276,304
2009	278,277
2010	280,309
2011	357,401
2012-2016	1,567,062
2017-2021	558,308
2022-2026	624,011
2027-2031	681,497
2032-2035	481,881
Total minimum future rentals	<u>\$ 5,379,439</u>

H. Long-term Obligations

1. Revenue Bonds/Notes

Revenue bonds/notes are secured by and payable from the revenues of the respective funds that issued them.

- a. The City entered into a fifteen (15) year loan agreement in 1998 with a local bank for \$3,268,890 to provide financing to repave certain roads in the City. The City pledged Local Option Gas Tax and Municipal Gas Tax to repay the note payable. The funds are accumulated in the Local Option Gas Tax Special Revenue fund for repayment of principal and interest.
- b. The City issued a ten (10) year, \$2,435,000 Recreational Facilities Improvement and Refunding Revenue Bonds, Series 2001 in March 2001. The City has pledged Golf Course revenues along with a covenant to budget and appropriate for repayment of principal and interest.
- c. The City issued a fifteen (15) year, \$9,500,000 Infrastructure Sales Surtax Revenue Bonds, Series 2003 in April 2003. The City has pledged Infrastructure Sales Surtax revenues for repayment of principal and interest.
- d. The City issued a fifteen (15) year, \$2,125,000 Infrastructure Sales Surtax Revenue Bonds, Series 2003A in December 2003. The City has pledged Infrastructure Sales Surtax revenues for repayment of principal and interest.
- e. The City issued a nineteen (19) year, \$5,630,000 Stormwater Utility Revenue Bonds, Series 2003 in November 2003. The City has pledged Stormwater Fee Revenues along with a covenant to budget and appropriate for repayment of principal and interest.

2. Bond Coverage

- a. The City has covenanted in the Recreational Facilities Improvement and Refunding Revenue Bonds, Series 2001 Bond Resolution to fix, establish and maintain such rates, fees, rentals and other charges and collect such fees, rates, rentals, and other charges for the product, services, facilities and use of its facilities, and revise the same from time to time, whenever necessary, as will always provide in each fiscal year net revenues equal to at least one hundred twenty-five percent (125%) of the annual debt service becoming due in such fiscal year.

The following table indicates the degree of compliance with the bond resolution covenants in the Golf Course Fund at September 30, 2006.

Gross revenues available for compliance (charges for services, interest, and rent revenues)	\$ 1,628,015
Operating and maintenance expenses (excluding depreciation expense, amortization, airport lease payment, and one time hurricane repair expenses)	<u>1,165,411</u>
Amount of revenue over direct operating expenses	<u>\$ 462,604</u>
Debt service requirement	<u>\$ 311,690</u>
Percent coverage for the year ended September 30, 2006	<u>148%</u>

City management continues to monitor the Golf Course operation and intends to adjust rates whenever necessary to meet the bond coverage requirement.

- b. The City has covenanted in the Stormwater Utility Revenue Bonds, Series 2003 Bond Resolution to fix, establish, maintain and collect stormwater fees, and revise the same from time to time whenever necessary, so as to always provide in each fiscal year stormwater fee revenues and investment earnings equal to at least one hundred thirty-five percent (135%) of the annual debt service becoming due in each fiscal year.

The following table indicates the degree of compliance with the bond resolution covenants in the stormwater utility fund at September 30, 2006.

Gross revenues available for compliance	<u>\$ 908,576</u>
Debt service requirement	<u>\$ 436,973</u>
Percent coverage for the year ended September 30, 2006	<u>208%</u>

3. Changes in Long-term Liabilities

The following is a summary of changes in Long-Term Liabilities of the City for the year ended September 30, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
Bonds payable:					
Infrastructure Sales Surtax Revenue Bonds, Series 2003	\$ 8,490,000	\$ -	\$ 535,000	\$ 7,955,000	\$ 550,000
Infrastructure Sales Surtax Revenue Bonds, Series 2003A	2,000,000	-	130,000	1,870,000	130,000
Stormwater Utility Revenue Bonds, Series 2003	5,290,000	-	235,000	5,055,000	240,000
Total bonds payable	15,780,000	-	900,000	14,880,000	920,000
Notes payable	2,004,718	-	214,174	1,790,544	223,646
Capital leases	422,456	-	134,204	288,252	140,713
Compensated absences	1,077,664	545,681	578,675	1,044,670	100,987
Governmental activity long-term liabilities	<u>\$ 19,284,838</u>	<u>\$ 545,681</u>	<u>\$ 1,827,053</u>	<u>\$ 18,003,466</u>	<u>\$ 1,385,346</u>
Business-type activities:					
Bonds payable:					
Recreational Facilities Improvement and Refunding Revenue Bonds, Series 2001	\$ 1,395,000	\$ -	\$ 255,000	\$ 1,140,000	\$ -
Less deferred amount:					
Issuance premium	3,987	-	797	3,190	-
Loss on refunding	(41,610)	-	(8,322)	(33,288)	-
Total bonds payable	1,357,377	-	247,475	1,109,902	-
Compensated absences	83,166	171,609	105,929	148,846	6,276
Business-type activity long-term liabilities	<u>\$ 1,440,543</u>	<u>\$ 171,609</u>	<u>\$ 353,404</u>	<u>\$ 1,258,748</u>	<u>\$ 6,276</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

4. Debt Service Requirements to Maturity

The annual requirement to amortize all bonded debt outstanding at September 30, 2006, including interest requirements, is as follows:

Fiscal Year	Governmental Activities								
	Roadway Improvement Note Payable 4.40%		Infrastructure Sales Surtax Revenue Bonds, Series 2003 2% to 4.125%		Infrastructure Sales Surtax Revenue Bonds, Series 2003A 2% to 4%		Stormwater Utility Revenue Bonds, Series 2003 2% to 4.5%		
	Interest		Interest		Interest		Interest		Interest
2007	\$ 223,650	\$ 76,350	\$ 550,000	\$ 286,319	\$ 130,000	\$ 66,888	\$ 240,000	\$ 197,272	
2008	233,598	66,402	565,000	269,819	135,000	63,800	245,000	191,873	
2009	243,990	56,010	585,000	252,869	135,000	60,088	255,000	185,135	
2010	254,843	45,157	600,000	233,856	145,000	56,037	260,000	177,485	
2011	266,180	33,820	620,000	214,356	145,000	51,325	270,000	169,035	
2012-2016	568,283	31,717	3,460,000	723,054	810,000	172,463	1,515,000	681,477	
2017-2021	-	-	1,575,000	97,212	370,000	22,200	1,850,000	347,510	
2022-2022	-	-	-	-	-	-	420,000	18,900	
	<u>\$ 1,790,544</u>	<u>\$ 309,456</u>	<u>\$ 7,955,000</u>	<u>\$ 2,077,485</u>	<u>\$ 1,870,000</u>	<u>\$ 492,801</u>	<u>\$ 5,055,000</u>	<u>\$ 1,968,687</u>	

Fiscal Year	Business-type Activities	
	Golf Course Refunding Bonds, Series 2001 4% to 4.2%	
		Interest
2007*	\$ -	\$ 23,245
2008	270,000	41,090
2009	280,000	30,090
2010	290,000	18,545
2011	300,000	6,300
Less unamortized Bond premium	3,190	-
Loss on refunding	(33,288)	-
	<u>\$ 1,109,902</u>	<u>\$ 119,270</u>

*principal (\$255,000) and interest (\$28,345) due on October 1, 2006 was paid on September 30, 2006.

I. Restricted Assets:

Certain cash and claims to cash, that are legally restricted, have been shown as restricted in the statement of net assets as follows:

	Governmental Activities	Business-type Activities
Debt service	\$ 49,313	\$ 316,490
Capital projects	9,058,356	-
Renewal and replacement	-	69,091
Rent	-	175,000
Cemetery perpetual care	649,998	-
Total	<u>\$ 9,757,667</u>	<u>\$ 560,581</u>

J. Restricted Net Assets:

The government-wide statement of net assets reports \$5,629,164 of restricted net assets, of which all is restricted by enabling legislation.

V. OTHER INFORMATION

A. Property Tax

The City is permitted by State law to levy taxes up to 10 mills on assessed valuation. The millage rate levied by the City for the fiscal year ended September 30, 2006, was 3.9325 mills. Total tax collections were approximately 96.62% of the total tax levy.

The tax levy of the City is established by City Council. Under Florida law, the assessment of all properties and the collection of municipal taxes are provided by offices of the County's Property Appraiser and Tax Collector. Ad Valorem taxes are lien on property values as of January 1. The fiscal year for which taxes are levied begins October 1. Taxes are due November 1 and become delinquent on April 1. All taxes unpaid as of May 30 are subject to a tax certificate sale. Property tax revenues are recognized in the fiscal year for which they are levied and also become due and payable.

B. Grants from Other Governmental Units

Federal, State and local government grants represent an important source of supplementary funding used to finance infrastructure, recreation, law enforcement, and environmental activities beneficial to the community. These grants are recorded in the General, Special Revenue, Capital Project, and Enterprise funds. A grant receivable is recorded when the City has a right to reimbursement and expects to receive the grant within a year under the related grant. The grants normally specify the purpose for which the funds may be used and are subject to audit by the grantor agency or its representative.

The following is the amount of grant revenue for fiscal year 2006.

<u>Primary Government</u>	<u>Amount</u>
General government	\$ 30,870
Public safety	138,546
Physical environment	2,273
Transportation	900,365
Economic environment	30,059
Cultural/Recreation	224,383
Airport	1,056,562
Golf course	6,998
Total reporting entity	<u>\$ 2,390,056</u>

C. Police Pension Plan - Defined Benefit Plan

Plan Description. The Police Officers' Pension Plan is a Florida Statute Chapter 185 single-employer defined benefit plan. Only City police officers participate in the Police Pension Plan. The state provides a contribution to the Police Pension Plan through a distribution of funds collected from insurance premium taxes. The Pension plan data provided in these Financial Statements are from the actuarial report dated July 26, 2005. Although the Police Officers' Pension Plan provides separate reporting, which may be obtained in the Finance department, it is also a component unit (reporting as a Pension Trust Fund) of the City's financial reporting entity.

Employee membership data as of the actuarial report for period ending October 1, 2004, dated October 11, 2005 is as follows:

	<u>Police Pension Plan 2004</u>
Retirees and beneficiaries currently receiving benefits	3
Terminated employees entitled to refund of employee contribution but not yet received	1
Fully, partially, and non-vested active plan participants	<u>33</u>
Total	<u>37</u>

Benefit Provisions and Contribution Requirements. The Police Officers' Pension Plan provides retirement and disability benefits to plan members and beneficiaries. This Plan is administered by a separate local Board of Trustees. Chapter 185, Florida Statutes, as amended governs all benefit provisions of the Plan. Contribution requirements, in accordance with Chapter 185, Florida Statutes, are established by City ordinance, as provided in Chapter 58, Article III of the Sebastian City Code. The City Council has the authority to amend funding requirements.

Funding Policy. The employer, employee, and State contribution requirements are applicable to the Plan and actuarially determined on a bi-annual basis in accordance with Florida State Statute. Administration costs of the pension plan are financed by the Plan. The employee contribution rate, expressed as a percentage of compensation, was 5.0% for the 2005-2006 fiscal year. The employer contribution rate, expressed as a percentage of compensation, was 13.1% for the 2005-2006 fiscal year. The employer contribution is

\$219,898 and the State contribution is \$117,621, which represents state shared revenue that is levied on property and casualty insurance premiums and collected by the State. The State contribution was recognized and recorded in the general fund and the corresponding expenditure was recorded as public safety expenditure. The City is required to contribute the remaining amounts to ensure that the Plan is actuarially sound.

Required trend information for the Police Officers' Pension Plan was as follows:

	<u>Amount</u>
<u>Actuarially Determined Contribution</u>	
2003	\$ 140,721
2004	\$ 173,025
2005	\$ 212,636
 <u>Percentage of APC contributed</u>	
2003	109.00%
2004	101.00%
2005	113.00%

Since the employer contribution exceeded the annual pension costs, there is no net pension obligation for the plan.

The annual required contribution for the Police Officers' Pension Plan was determined as part of the October 1, 2004, actuarial valuation using the aggregate actuarial cost method. This method does not identify or separately amortize unfunded actuarial accrued liabilities. The actuarial assumptions included (a) an 8.0% rate of return (net of administrative costs) and (b) projected salary increases of 6% per year, including inflation at 3%. There is no unfunded actuarial accrued liability as of September 30, 2005.

Reserves. All of the net assets of the Police Pension Plan are legally reserved for plan participant benefits.

Basis of Accounting. Financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due, and the employer has made formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments and Concentration of Investments. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value. Investments in securities of a single organization (excluding mutual funds and those issued or guaranteed by the U.S. government) held by the pension plan did not exceed five percent of the total plan assets.

Development of Net Pension Obligation (NPO)

This municipal Defined Benefit Plan has been subject to the minimum funding standards since the adoption of the "Florida Protection of Public Employee Retirement Benefit Act" (Part VII of Chapter 112, Florida Statutes) in 1980. Accordingly, the sponsor has funded the actuarially determined required contributions for all years from October 1, 1987, through the transition date, October 1, 1997. Thus, the NPO on October 1, 1997, is \$0.

The development of the Net Pension Obligation as of September 30, 2005 is as follows:

	<u>9/30/2003</u>	<u>9/30/2004</u>	<u>9/30/2005</u>
Actuarially Determined Contribution (A)	\$ 140,721	\$ 173,025	\$ 212,636
Interest on NPO	(8,867)	(9,760)	(9,794)
Adjustment to (A)	10,083	11,100	11,138
	<hr/>	<hr/>	<hr/>
Annual Pension Cost	141,937	174,365	213,980
Contributions made	153,111	174,780	240,167
	<hr/>	<hr/>	<hr/>
Increase in NPO	(11,174)	(415)	(26,187)
NPO beginning of year	(110,832)	(122,005)	(122,420)
	<hr/>	<hr/>	<hr/>
NPO end of year	<u>\$ (122,006)</u>	<u>\$ (122,420)</u>	<u>\$ (148,607)</u>

D. CWA/ ITU Negotiated Pension Plan – Defined Benefit Plan

Plan Description: The CWA/ITU Negotiated Pension Plan (NPP), which began in 1967, is a multi-employer, defined benefit plan. The Plan is available to any Communication Workers of America (CWA) bargaining unit member, and benefits are portable from one contributing employer to another.

Benefits

Normal Pension: Minimum age 65: 5 years of Service Credit required if any portion of service credit was earned after January 1, 1989. 10 years of Service Credit required if employees' coverage ended before January 1, 1989. Once the Service Credit amount is accrued, the employee is vested and cannot lose the right to a pension.

Early Pension: Minimum age 60: 20 years of Service Credit required if employed after January 1, 1989. 25 years of Service Credit required if employment ended before January 1, 1993. Pension amounts are permanently reduced based on age on the effective date, because the payments are expected to be made for a longer period of time.

Disability Pension: No minimum age and the pension amount is not reduced for age; there must be a Social Security Disability Award, 10 years of actual Service Credit and a contribution for covered employment must have been made within five calendar years preceding the entitlement date to Social Security Disability Pension. An application must be filed with the Plan within 6 months of the Social Security Notice of Award date to receive pension retroactive to the Social Security entitlement date.

Lump Sum Disability Benefit: If the employee is in receipt of a Social Security Disability Award and is vested, but not immediately eligible to receive any pension described above, the employee may be eligible for a lump sum equal to total contributions credited on the employees' behalf (or 36 times the Normal Pension amount, if greater). If the employee is immediately eligible for a pension but not yet receiving one, the employee can still qualify for a lump sum if the employee submits two physicians' written statements that the disability will lead to death within one year of the date of application.

Death Benefit: If the employee dies before becoming a pensioner and has at least \$250 contributed on the employees' behalf, a lump sum death benefit equal to total contributions credited on the employees' behalf or 36 times the Normal Pension amount, if greater, will be paid to employees' beneficiary. If the employee is married at the time of death, the spouse will have the choice of a lump sum or a monthly survivor benefit.

Withdrawal Benefit: If the employee did not earn enough Service Credit to qualify for a Normal Pension, the employee may be eligible for a lump sum withdrawal benefit, based on total contributions, after the employee has incurred a break in service.

Benefit Provisions and Contribution Requirements: The NPP provides retirement and disability benefits to plan members and beneficiaries. The plan is administered at the Plan Office in Colorado Springs, Colorado. Contribution requirements are established by the CWA contract, effective date October 1, 2003, which is negotiated every 3 years, and approved by City Council.

Funding Policy: Administration costs of the pension plan are financed by the plan. The employer contribution rate, expressed as a percentage of compensation, was 9.00% for the 2005-2006 fiscal year. Employees do not contribute to this plan. Contributions to the CWA Pension Plan for the fiscal years ended September 30, 2004, 2005 and 2006 were \$205,056, \$216,464, and \$229,159 respectively, which are equal to 100% of the required contribution for each year.

E. 401 Plan – Defined Contribution Plan

Plan Description: The ICMA Retirement Corporation's 401 Retirement Plan is a Defined Contribution Plan "qualified" under Section 401(a) of the Internal Revenue Code. Each participant has a plan account to which contributions are made. Plan benefits are based on the total amount of money in the employees' account at retirement or other eligible event. The Plan is available to all management staff of the City of Sebastian, and may be rolled over to another "qualified" employer plan that accepts rollovers, or Traditional IRA's.

Benefits

Periodic Payments: Retirement benefits can be paid monthly, quarterly, semi-annual (at six-month intervals only) or annual payments until assets are fully paid out.

Rollover: Retirement benefits can be rolled over to another employer plan (including a 457 deferred compensation plan) that accepts rollovers, or to a Traditional IRA.

Lump Sum: Retirement benefits can be paid either partially or by total distribution of the employees' account balance.

Annuities: Retirement benefits can be utilized to purchase an annuity.

Benefit Provisions and Contribution Requirements: The 401 provides retirement benefits to plan members and beneficiaries. The plan is administered by the ICMA Retirement Corporation. Contribution requirements are established by the City of Sebastian, Management Benefit Package, revised October 1, 2003, and approved by the City Manager.

Funding Policy: Administration costs of the pension plan are financed by the Plan. The employer contribution rate, expressed as a percentage of compensation, was 9.00% for the 2005-2006 fiscal year. Employees do not contribute to this Plan. Contributions to the 401 Defined Contribution Plan for the fiscal years ended September 30, 2004, 2005, and 2006 were \$125,745, \$146,840, and \$142,002 respectively, which are equal to 100% of the required contribution for each year.

F. Insurance

The City is exposed to various risks of loss related to torts; theft of or damage to and destruction of assets; errors and omissions; and natural disasters. The City purchases commercial insurance with various deductibles for different types of losses. The cost of this insurance is accounted for in the general fund, golf course fund, airport fund, and building fund. Settled claims have not exceeded this commercial coverage in the past three fiscal years.

G. Litigation

Various suits and claims are currently pending against the City. It is impossible for the City to accurately quantify the exposure involved given the jury's latitude in assessing compensatory and punitive damages, and the court's latitude in awarding attorney's fees. The City intends to vigorously defend against these lawsuits and believes it has a good chance of prevailing on their merits.

The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of management and based on the advice of legal counsel, the ultimate disposition of lawsuits will not have a material adverse effect on the financial position of the City.

H. Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. If any expenditures were disallowed as a result of these audits, the claims for reimbursement to the grantor agency would become a liability of the City. In the opinion of management, any such adjustments would not be significant.

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended September 30, 2006

	Budget Amounts		Actual Amounts on a Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 4,233,424	\$ 4,233,424	\$ 4,306,213	\$ 72,789
Public utility	2,018,250	2,018,250	2,183,164	164,914
Franchise fees	879,700	879,700	1,253,749	374,049
Licenses and permits	243,280	243,280	244,370	1,090
Intergovernmental	2,288,405	2,640,943	2,617,774	(23,169)
Charges for services	481,669	481,669	457,780	(23,889)
Fines	71,625	71,625	62,648	(8,977)
Investment earnings	105,000	105,000	295,123	190,123
Contributions and donations	21,200	46,145	41,110	(5,035)
Other revenue	41,520	76,606	247,357	170,751
Total revenues	<u>10,384,073</u>	<u>10,796,642</u>	<u>11,709,288</u>	<u>912,646</u>
EXPENDITURES:				
Current:				
General government	2,797,340	2,866,374	2,492,908	373,466
Public safety	4,165,239	4,375,871	4,074,675	301,196
Physical environment	1,424,183	1,965,454	1,924,606	40,848
Transportation	1,550,740	1,653,693	1,603,794	49,899
Culture and recreation	997,096	1,065,313	975,839	89,474
Total expenditures	<u>10,934,598</u>	<u>11,926,705</u>	<u>11,071,822</u>	<u>854,883</u>
Excess (deficiency) of revenues over (under) expenditures	(550,525)	(1,130,063)	637,466	1,767,529
OTHER FINANCING SOURCES (USES)				
Transfers in	643,362	938,281	900,561	(37,720)
Transfers out	(802,490)	(1,139,289)	(1,139,289)	-
Total other financing sources (uses)	<u>(159,128)</u>	<u>(201,008)</u>	<u>(238,728)</u>	<u>(37,720)</u>
Net changes in fund balances	(709,653)	(1,331,071)	398,738	1,729,809
Fund balances - beginning	6,103,467	6,103,467	6,103,467	-
Fund balances - ending	<u>\$ 5,393,814</u>	<u>\$ 4,772,396</u>	<u>6,502,205</u>	<u>\$ 1,729,809</u>

Explanation of differences:

Encumbrances for equipment and supplies ordered but not received are reported in the year the orders are placed for budgetary purposes, but are reported in the year the equipment and supplies are received for GAAP purposes.

Current year encumbrances

58,020

Prior year encumbrances

(81,153)

Amount reported as ending fund balance in the statement of revenues, expenditures and changes in fund balance for the General Fund.

\$ 6,479,072

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Sebastian, Florida
Schedule of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretionary Sales Tax Special Revenue Fund
For the Year Ended September 30, 2006

	<u>Budget Amounts</u>		<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Sales	\$ 2,500,000	\$ 2,500,000	\$ 2,724,742	\$ 224,742
Investment earnings	25,000	25,000	107,965	82,965
Total revenues	<u>2,525,000</u>	<u>2,525,000</u>	<u>2,832,707</u>	<u>307,707</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	6,960	6,960	-
Transfers out	(1,727,787)	(2,363,397)	(2,314,596)	48,801
Total other financing sources (uses)	<u>(1,727,787)</u>	<u>(2,356,437)</u>	<u>(2,307,636)</u>	<u>48,801</u>
Net changes in fund balances	797,213	168,563	525,071	356,508
Fund balances - beginning	<u>1,279,261</u>	<u>1,279,261</u>	<u>1,279,261</u>	-
Fund balances - ending	<u>\$ 2,076,474</u>	<u>\$ 1,447,824</u>	<u>\$ 1,804,332</u>	<u>\$ 356,508</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

City of Sebastian, Florida
Schedule of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual
Riverfront Redevelopment Agency Special Revenue Fund
For the Year Ended September 30, 2006

	<u>Budget Amounts</u>		<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Property	\$ 363,444	\$ 363,444	\$ 338,837	\$ (24,607)
Investment earnings	10,000	10,000	28,400	18,400
Other revenue	-	-	100	100
Total revenues	<u>373,444</u>	<u>373,444</u>	<u>367,337</u>	<u>(6,107)</u>
EXPENDITURES:				
Current:				
Economic environment	192,281	287,537	163,858	123,679
Total expenditures	<u>192,281</u>	<u>287,537</u>	<u>163,858</u>	<u>123,679</u>
Excess of revenues over over expenditures	181,163	85,907	203,479	117,572
Fund balances - beginning	376,682	376,682	376,682	-
Fund balances - ending	<u>\$ 557,845</u>	<u>\$ 462,589</u>	580,161	<u>\$ 117,572</u>

Explanation of differences:

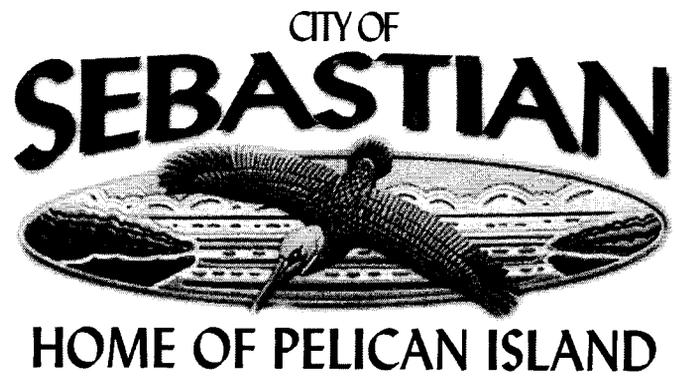
Encumbrances for professional services contracted but not completed is reported in the year the service is contracted for budgetary purposes, but are reported in the year the services are received for GAAP purposes.

Current year encumbrances	<u>95,256</u>
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Amount reported as ending fund balance in the statement of revenues, expenditures and changes in fund balance for the Community Development Block Grant Fund.

<u>\$ 675,417</u>

The accompanying notes to required supplementary information are an integral part of this schedule.



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City of Sebastian, Florida
Notes to the Required Supplementary Information – Budget Comparisons
September 30, 2006

A. Budgetary Basis

Annual budgets are adopted for all governmental funds except the capital project funds, which are approved on a “life of the project basis”, and the permanent fund, which is not budgeted. Since all accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with U.S. generally accepted accounting principles, reconciliations of the resultant timing differences have been provided on page 49 through page 51. All annual appropriations lapse at year-end.

B. Budgetary Information

The appropriated budget is prepared by fund, function, and department. The government’s department heads, with the City manager’s approval, may make transfers of appropriations within a department or division. Transfers of appropriations between departments and/or divisions require approval of the City council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. The council made four supplementary budgetary appropriations throughout the year. The 1st quarter budget amendment highlighted a net increase of \$120,529 for the general fund, which represents fund balance carried over from prior fiscal year to fund outstanding encumbrances and hurricane repairs. The 2nd quarter budget amendment highlighted a net increase of \$512,509 for the general fund, which represents FEMA and State reimbursement received in the 2nd quarter for hurricane damage and fund balance carried forward from prior fiscal year for building department fiscal year 2005 net operating result. The building department has officially being separated from the General Fund operation on October 1, 2005. The building department has been reclassified as an enterprise fund due to the nature of the revenue sources. A one-time transfer of accumulated reserve for building code enforcement has been transferred to the building fund. The total transfer for this transition is \$1,139,289. The 3rd quarter budget amendment highlighted a net increase of \$159,212 for the general fund, which represents property insurance and Federal Highway Administration reimbursements received in the 3rd quarter for hurricane damage and grant awarded by Florida Department of Agriculture and Consumer Services Division of Forestry. The 4th quarter budget amendment highlighted a net increase of \$347,621 for the general fund, which represents the additional transfer from stormwater utility fund for ditch and swale mowing contract and the State contribution for Police Pension.

C. Budgeted Expenditures Exceeded Revenues

Budgeted expenditures exceeded revenues in the stormwater utility special revenue fund and the discretionary sales surtax revenue bonds 2003 debt service fund. However, this is pursuant to the legally adopted budget to expend available fund equity (cash carry forward) and does not constitute a deficit.

City of Sebastian, Florida
REQUIRED SUPPLEMENTARY INFORMATION

Police Officers' Pension Plan

Governmental Accounting Standards Board Statements No. 25 and 27, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Accounting for Pensions by State and Local Governmental Employers require supplementary information be reported on the local pension plans in addition to that provided in the Notes to the Financial Statements. This information is presented in the following schedules:

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER
AND OTHER CONTRIBUTING ENTITIES
LAST SIX FISCAL YEARS

Fiscal Year	Annual Required Contributions	City Contribution	State Contribution	Percentage Contributed
2005	\$ 330,257	\$ 240,166	\$ 117,621	108.34%
2004	279,741	174,780	106,716	100.63%
2003	233,435	153,111	92,714	105.31%
2002	61,342	8,620	82,877	149.16%
2001	80,740	29,134	68,646	121.10%
2000	68,954	27,704	112,773	203.73%

The information presented in the required supplementary schedules was determined as part of the actuarial evaluation at the date indicated. Additional information as of the latest actuarial valuation is as follows:

Contribution rates as of 9/30/05	
City	14.4%
Plan members	5.0%
Annual pension cost	\$ 212,636
Contributions made	\$ 240,166
Valuation date	10/1/2002
Actuarial cost method	Frozen Entry Age
Amortization method	Level Percentage of Pay, Closed
Remaining amortization period	30 Years (as of 1/01/2002)
Asset valuation method	Market Value

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Community Redevelopment Block Grant Fund – This fund is used to account for the Small Cities Grant for infrastructure improvements in the Louisiana Avenue area of the City.

Local Option Gas Tax Fund – This fund is used to account for the government's share of motor fuel tax revenues that are legally restricted to transportation related expenditures within the government's boundaries.

Recreation Impact Fee Fund – This fund is used to account for recreation impact fees that are restricted for use in the expansion or construction of recreational facilities.

Stormwater Utility Fee Fund – This fund is used to account for fees collected on a per unit basis that are restricted for the purposes of managing the City's Stormwater system.

Law Enforcement Forfeiture Fund – This fund is used to account for the receipt of forfeited cash and equipment associated with police activities and is restricted to police related equipment purchases and community education initiatives.

G.R.E.A.T. Program Fund – This fund is used to account for a federal law enforcement grant to be used for gang resistance, education and training for school children from grade school through middle school.

Debt Service Fund

Debt service funds are used to account for the accumulation of pledged funds that are legally restricted to pay debts.

Stormwater Utility Revenue Bonds Debt Service Fund – This fund is used to account for the accumulation of stormwater utility fees pledged to pay the principal, interest, and fiscal charges on the Stormwater Utility Revenue Bonds.

Discretionary Sales Surtax Revenue Bonds Debt Service Fund – This fund is used to account for the accumulation of discretionary sales tax monies pledged to pay the principal, interest, and fiscal charges on the Discretionary Sales Surtax Revenue bonds.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

General Capital Projects Fund – This fund is used to account for the construction of non-stormwater related improvements and general capital construction projects. Governmental resources and State grant revenues are used to finance the improvements in this fund.

Capital Improvements Fund – This fund is used to account for the accumulated resources associated with infrastructure improvements such as parks and building.

Transportation Improvements Fund – This fund is used to account for transportation related construction such as, roads, intersections, and sidewalks and is funded with governmental resources, impact fees and State grants.

Public Facilities Improvements Fund – This fund accounts for the resources associated with debt for the purpose of constructing and equipping a new city hall complex and renovation and expansion of the police station.

Permanent Fund

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Cemetery Permanent Fund – This fund is used to account for principal trust amounts received, sale of cemetery lots and related interest income. One-half of the cemetery lot sales and the interest portion of the trust can be used to maintain the community cemetery.

City of Sebastian, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2006

	Special Revenue Funds			
	Community Development Block Grant	Local Option Gas Tax	Recreation Impact Fee	Stormwater Utility
ASSETS				
Cash and cash equivalents	\$ 52	\$ 8,382	\$ 26,655	\$ 20,309
Investments	-	165,406	1,242,007	1,550,131
Due from other governments	-	64,881	-	10,084
Interest receivable	-	2,167	8,614	11,136
Prepaid items	-	-	-	-
Total assets	\$ 52	\$ 240,836	\$ 1,277,276	\$ 1,591,660
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 110	\$ 61	\$ 4,601
Retainage payable	-	-	-	-
Due to other funds	-	108,269	-	-
Total liabilities	-	108,379	61	4,601
Fund balances:				
Reserved for:				
Encumbrance	-	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Cemetery care	-	-	-	-
Law enforcement	-	-	-	-
Unreserved	52	132,457	1,277,215	1,587,059
Total fund balances	52	132,457	1,277,215	1,587,059
Total liabilities and fund balances	\$ 52	\$ 240,836	\$ 1,277,276	\$ 1,591,660

			Debt Service Funds		
Law Enforcement Forfeiture	G.R.E.A.T. Program	Total	Stormwater Utlity Revenue Bonds 2003	Discretionary Sales Surtax Revenue Bonds 2003	Total
\$ 11,398	\$ 780	\$ 67,576	\$ 27	\$ 29	\$ 56
22,627	-	2,980,171	20,293	28,964	49,257
-	-	74,965	-	-	-
44	3	21,964	-	-	-
-	-	-	-	176,603	176,603
<u>\$ 34,069</u>	<u>\$ 783</u>	<u>\$ 3,144,676</u>	<u>\$ 20,320</u>	<u>\$ 205,596</u>	<u>\$ 225,916</u>
\$ 1,730	\$ -	\$ 6,502	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	108,269	-	-	-
<u>1,730</u>	<u>-</u>	<u>114,771</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	20,320	205,596	225,916
-	-	-	-	-	-
-	-	-	-	-	-
32,339	783	33,122	-	-	-
-	-	2,996,783	-	-	-
<u>32,339</u>	<u>783</u>	<u>3,029,905</u>	<u>20,320</u>	<u>205,596</u>	<u>225,916</u>
<u>\$ 34,069</u>	<u>\$ 783</u>	<u>\$ 3,144,676</u>	<u>\$ 20,320</u>	<u>\$ 205,596</u>	<u>\$ 225,916</u>

City of Sebastian, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2006
(Continued)

Capital Projects Funds

	General Capital Projects	Capital Improvements	Transportation Improvements	Public Facilities Improvements	Total
ASSETS					
Cash and cash equivalents	\$ 14,946	\$ 17,843	\$ 5,074	\$ 14,057	\$ 51,920
Investments	285,664	1,231,489	1,918,414	584,220	4,019,787
Due from other governments	-	-	-	25,605	25,605
Interest receivable	550	11,089	8,600	54	20,293
Prepaid items	-	-	-	-	-
Total assets	\$ 301,160	\$ 1,260,421	\$ 1,932,088	\$ 623,936	\$ 4,117,605
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 5	\$ 102,633	\$ 62	\$ -	\$ 102,700
Retainage payable	-	-	-	5,690	5,690
Due to other funds	-	-	-	-	-
Total liabilities	5	102,633	62	5,690	108,390
Fund balances:					
Reserved for:					
Encumbrance	-	101,460	223,870	618,246	943,576
Debt service	-	-	-	-	-
Capital projects	301,155	1,056,328	1,708,156	-	3,065,639
Cemetery care	-	-	-	-	-
Law enforcement	-	-	-	-	-
Unreserved	-	-	-	-	-
Total fund balances	301,155	1,157,788	1,932,026	618,246	4,009,215
Total liabilities and fund balances	\$ 301,160	\$ 1,260,421	\$ 1,932,088	\$ 623,936	\$ 4,117,605

<u>Permanent Fund</u>		<u>Total Other Governmental Funds</u>
Cemetery		
\$ 13,055	\$	132,607
636,943		7,686,158
-		100,570
6,206		48,463
-		176,603
\$ 656,204	\$	8,144,401

\$ 44	\$	109,246
-		5,690
-		108,269
44		223,205

-		943,576
-		225,916
-		3,065,639
656,160		656,160
-		33,122
-		2,996,783
656,160		7,921,196
\$ 656,204	\$	8,144,401

City of Sebastian, Florida
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2006

	Special Revenue Funds				
	Community Development Block Grant	Local Option Gas Tax	Recreation Impact Fee	Stormwater Utility	Law Enforcement Forfeiture
REVENUES:					
Taxes:					
Motor fuel	\$ -	\$ 716,495	\$ -	\$ -	\$ -
Intergovernmental	30,059	16,998	-	-	-
Impact fees	-	-	337,675	-	-
Charges for services	-	-	-	819,286	-
Fines	-	-	-	-	15,128
Investment earnings	-	48,145	46,310	89,289	1,454
Contributions and donations	-	-	-	-	1,740
Other revenue	-	-	-	1	972
Total revenues	30,059	781,638	383,985	908,576	19,294
EXPENDITURES:					
Current:					
Public safety	-	-	-	-	3,260
Physical environment	-	-	-	6,765	-
Transportation	-	210,935	-	-	-
Economic environment	30,059	-	-	-	-
Debt Service:					
Principal	-	214,174	-	-	-
Interest and fiscal charges	-	85,826	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	30,059	510,935	-	6,765	3,260
Excess (deficiency) of revenues over (under) expenditures	-	270,703	383,985	901,811	16,034
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	17,654	3,619	-
Transfers out	-	(489,438)	(95,000)	(1,076,004)	-
Total other financing sources (uses)	-	(489,438)	(77,346)	(1,072,385)	-
Net changes in fund balances	-	(218,735)	306,639	(170,574)	16,034
Fund balances - beginning	52	351,192	970,576	1,757,633	16,305
Fund balances - ending	\$ 52	\$ 132,457	\$ 1,277,215	\$ 1,587,059	\$ 32,339

Debt service Funds				
G.R.E.A.T. Program	Total	Stormwater Utility Revenue Bonds 2003	Discretionary Sales Surtax Revenue Bonds 2003	Total
\$ -	\$ 716,495	\$ -	\$ -	\$ -
-	47,057	-	-	-
-	337,675	-	-	-
-	819,286	-	-	-
-	15,128	-	-	-
47	185,245	972	1,402	2,374
-	1,740	-	-	-
-	973	-	-	-
47	2,123,599	972	1,402	2,374
-	3,260	-	-	-
-	6,765	-	-	-
-	210,935	-	-	-
-	30,059	-	-	-
-	214,174	235,000	665,000	900,000
-	85,826	202,848	369,519	572,367
-	-	-	-	-
-	551,019	437,848	1,034,519	1,472,367
47	1,572,580	(436,876)	(1,033,117)	(1,469,993)
-	21,273	436,973	1,025,525	1,462,498
-	(1,660,442)	-	-	-
-	(1,639,169)	436,973	1,025,525	1,462,498
47	(66,589)	97	(7,592)	(7,495)
736	3,096,494	20,223	213,188	233,411
\$ 783	\$ 3,029,905	\$ 20,320	\$ 205,596	\$ 225,916

City of Sebastian, Florida
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2006
(Continued)

	Capital Projects Funds				Total
	General Capital Projects	Capital Improvements	Transportation Improvements	Public Facilities Improvements	
REVENUES:					
Taxes:					
Motor fuel	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	161,857	-	25,605	187,462
Impact fees	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines	-	-	-	-	-
Investment earnings	1,155	27,597	21,394	29,640	79,786
Contributions and donations	-	2,315	-	-	2,315
Other revenue	-	-	-	-	-
Total revenues	1,155	191,769	21,394	55,245	269,563
EXPENDITURES:					
Current:					
Public safety	-	-	-	-	-
Physical environment	-	-	-	-	-
Transportation	-	-	-	-	-
Economic environment	-	-	-	-	-
Debt Service:					
Principal	134,204	-	-	-	134,204
Interest and fiscal charges	20,489	-	-	-	20,489
Capital outlay	-	653,335	7,264	80,958	741,557
Total expenditures	154,693	653,335	7,264	80,958	896,250
Excess (deficiency) of revenues over (under) expenditures	(153,538)	(461,566)	14,130	(25,713)	(626,687)
OTHER FINANCING SOURCES (USES)					
Transfers in	454,693	95,000	844,996	-	1,394,689
Transfers out	-	(17,654)	-	-	(17,654)
Total other financing sources (uses)	454,693	77,346	844,996	-	1,377,035
Net changes in fund balances	301,155	(384,220)	859,126	(25,713)	750,348
Fund balances - beginning	-	1,542,008	1,072,900	643,959	3,258,867
Fund balances - ending	\$ 301,155	\$ 1,157,788	\$ 1,932,026	\$ 618,246	\$ 4,009,215

<u>Permanent Fund</u>	<u>Total Other Governmental Funds</u>
<u>Cemetery</u>	
\$ -	\$ 716,495
-	234,519
-	337,675
59,825	879,111
-	15,128
24,494	291,899
-	4,055
1,100	2,073
85,419	2,480,955
-	3,260
-	6,765
-	210,935
-	30,059
-	1,248,378
-	678,682
-	741,557
-	2,919,636
85,419	(438,681)
-	2,878,460
(7,626)	(1,685,722)
(7,626)	1,192,738
77,793	754,057
578,367	7,167,139
\$ 656,160	\$ 7,921,196

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Community Development Block Grant Special Revenue Fund
For the Year Ended September 30, 2006

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Intergovernmental	\$ 30,060	\$ 30,059	\$ (1)
Total revenues	<u>30,060</u>	<u>30,059</u>	<u>(1)</u>
EXPENDITURES:			
Current:			
Economic Environment	30,060	30,059	1
Total expenditures	<u>30,060</u>	<u>30,059</u>	<u>1</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-
OTHER FINANCING USES			
Transfers out	-	-	-
Net changes in fund balances	-	-	-
Fund balances - beginning	52	52	-
Fund balances - ending	<u>\$ 52</u>	<u>52</u>	<u>\$ -</u>

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Local Option Gas Tax Special Revenue Fund
For the Year Ended September 30, 2006

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Motor fuel taxes	\$ 760,000	\$ 716,495	\$ (43,505)
Intergovernmental	-	16,998	16,998
Investment earnings	12,000	48,145	36,145
Total revenues	<u>772,000</u>	<u>781,638</u>	<u>9,638</u>
EXPENDITURES:			
Current:			
Transportation	211,429	210,935	494
Debt service:			
Principal	214,121	214,174	(53)
Interest and fiscal charges	85,879	85,826	53
Total expenditures	<u>511,429</u>	<u>510,935</u>	<u>494</u>
Excess of revenues over expenditures	260,571	270,703	10,132
OTHER FINANCING USES			
Transfers out	<u>(489,438)</u>	<u>(489,438)</u>	<u>-</u>
Net changes in fund balances	(228,867)	(218,735)	10,132
Fund balances - beginning	351,192	351,192	-
Fund balances - ending	<u>\$ 122,325</u>	<u>\$ 132,457</u>	<u>\$ 10,132</u>

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Recreation Impact Fee Special Revenue Fund
For the Year Ended September 30, 2006

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Impact fees	\$ 360,000	\$ 337,675	\$ (22,325)
Investment earnings	12,000	46,310	34,310
Total revenues	<u>372,000</u>	<u>383,985</u>	<u>11,985</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	17,654	17,654	-
Transfers out	(95,000)	(95,000)	-
Total other financing sources (uses)	<u>(77,346)</u>	<u>(77,346)</u>	<u>-</u>
Net changes in fund balances	294,654	306,639	11,985
Fund balances - beginning	970,576	970,576	-
Fund balances - ending	<u>\$ 1,265,230</u>	<u>\$ 1,277,215</u>	<u>\$ 11,985</u>

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Stormwater Utility Special Revenue Fund
For the Year Ended September 30, 2006

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Charges for services	\$ 804,980	\$ 819,286	\$ 14,306
Investment earnings	45,119	89,289	44,170
Miscellaneous	-	1	1
Total revenues	<u>850,099</u>	<u>908,576</u>	<u>58,477</u>
EXPENDITURES:			
Current:			
Physical environment	<u>7,119</u>	<u>6,765</u>	<u>354</u>
Total expenditures	<u>7,119</u>	<u>6,765</u>	<u>354</u>
 Excess of revenues over expenditures	 842,980	 901,811	 58,831
OTHER FINANCING SOURCES (USES)			
Transfers in	-	3,619	3,619
Transfers out	<u>(1,076,599)</u>	<u>(1,076,004)</u>	<u>595</u>
Total other financing sources (uses)	<u>(1,076,599)</u>	<u>(1,072,385)</u>	<u>4,214</u>
 Net changes in fund balances	 (233,619)	 (170,574)	 63,045
Fund balances - beginning	<u>1,757,633</u>	<u>1,757,633</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,524,014</u>	<u>\$ 1,587,059</u>	<u>\$ 63,045</u>

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Law Enforcement Forfeiture Special Revenue Fund
For the Year Ended September 30, 2006

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Fines	\$ 5,000	\$ 15,128	\$ 10,128
Investment earnings	-	1,454	1,454
Contributions	5,000	1,740	(3,260)
Other revenues	-	972	972
Total revenues	<u>10,000</u>	<u>19,294</u>	<u>9,294</u>
EXPENDITURES:			
Current:			
Public safety	<u>10,000</u>	<u>3,260</u>	<u>6,740</u>
Total expenditures	<u>10,000</u>	<u>3,260</u>	<u>6,740</u>
Excess of revenues over expenditures	-	16,034	16,034
Fund balances - beginning	<u>16,305</u>	<u>16,305</u>	-
Fund balances - ending	<u>\$ 16,305</u>	<u>\$ 32,339</u>	<u>\$ 16,034</u>

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
G.R.E.A.T. Program Special Revenue Fund
For the Year Ended September 30, 2006

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Intergovernmental	\$ 9,894	\$ -	\$ (9,894)
Investment earnings	-	47	47
Total revenues	<u>9,894</u>	<u>47</u>	<u>(9,847)</u>
EXPENDITURES:			
Current:			
Public safety	<u>9,894</u>	<u>-</u>	<u>9,894</u>
Total expenditures	<u>9,894</u>	<u>-</u>	<u>9,894</u>
Excess of revenues over expenditures	-	47	47
Fund balances - beginning	<u>736</u>	<u>736</u>	-
Fund balances - ending	<u>\$ 736</u>	<u>\$ 783</u>	<u>\$ 47</u>

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Stormwater Utility Revenue Bonds 2003 Debt Service Fund
For the Year Ended September 30, 2006

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Investment earnings	\$ 280	\$ 972	\$ 692
Total revenues	<u>280</u>	<u>972</u>	<u>692</u>
EXPENDITURES:			
Debt service:			
Principal	235,000	235,000	-
Interest and fiscal charges	<u>202,848</u>	<u>202,848</u>	<u>-</u>
Total expenditures	<u>437,848</u>	<u>437,848</u>	<u>-</u>
Deficiency of revenues under expenditures	(437,568)	(436,876)	692
OTHER FINANCING SOURCES			
Transfers in	<u>437,568</u>	<u>436,973</u>	<u>(595)</u>
Total other financing sources	<u>437,568</u>	<u>436,973</u>	<u>(595)</u>
Net changes in fund balances	-	97	97
Fund balances - beginning	20,223	20,223	-
Fund balances - ending	<u>\$ 20,223</u>	<u>\$ 20,320</u>	<u>\$ 97</u>

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretionary Sales Surtax Revenue Bonds 2003 Debt Service Fund
For the Year Ended September 30, 2006

	Final Budget	Actual Amounts on a Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES:			
Investment earnings	\$ 7,700	\$ 1,402	\$ (6,298)
Total revenues	<u>7,700</u>	<u>1,402</u>	<u>(6,298)</u>
EXPENDITURES:			
Current:			
Physical environment	300	-	300
Debt service:			
Principal	665,000	665,000	-
Interest and fiscal charges	370,544	369,519	1,025
Total expenditures	<u>1,035,844</u>	<u>1,034,519</u>	<u>1,325</u>
Deficiency of revenues under expenditures	(1,028,144)	(1,033,117)	(4,973)
OTHER FINANCING SOURCES			
Transfers in	1,032,844	1,025,525	(7,319)
Total other financing sources	<u>1,032,844</u>	<u>1,025,525</u>	<u>(7,319)</u>
Net changes in fund balances	4,700	(7,592)	(12,292)
Fund balances - beginning	213,188	213,188	-
Fund balances - ending	<u>\$ 217,888</u>	<u>\$ 205,596</u>	<u>\$ (12,292)</u>

City of Sebastian, Florida
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended September 30, 2006

	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2006</u>
ASSETS				
Cash and cash equivalents	\$ 165,340	\$ 4,891	\$ 5,141	\$ 165,090
Total assets	<u>\$ 165,340</u>	<u>\$ 4,891</u>	<u>\$ 5,141</u>	<u>\$ 165,090</u>
LIABILITIES				
Performance deposits held in escrow	<u>165,340</u>	<u>-</u>	<u>250</u>	<u>165,090</u>
Total liabilities	<u>\$ 165,340</u>	<u>\$ -</u>	<u>\$ 250</u>	<u>\$ 165,090</u>

City of Sebastian, Florida
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedule By Source
September 30, 2006

Governmental Funds capital assets:	<u>FY 2005</u>	<u>FY 2006</u>
Land	\$ 5,487,774	\$ 5,301,947
Buildings and structures	9,890,903	9,958,190
Improvement other than buildings	4,152,943	4,614,326
Machinery and equipment	6,100,906	6,436,238
Infrastructure	17,203,261	17,375,199
Capital projects	<u>1,006,241</u>	<u>1,167,207</u>
 Total capital assets	 <u>\$ 43,842,028</u>	 <u>\$ 44,853,107</u>

Investment in Governmental Funds capital assets by sources:

Federal grants	\$ 1,725,772	\$ 1,888,342
State grants	1,278,258	1,278,258
County grants	712,211	715,009
General fund	10,469,659	10,588,964
Law enforcement trust fund	48,737	42,953
Recreational impact fee	200,186	400,532
Stormwater utility fee	16,241	16,255
Cemetery trust fund	184,185	181,463
Donations	2,296,054	2,324,027
Sales taxes	7,314,896	7,779,639
Motor fuel taxes	4,378,033	4,378,033
Revenue bond debt	14,213,555	14,092,425
Capital projects	<u>1,006,241</u>	<u>1,167,207</u>
 Total investment in capital assets	 <u>\$ 43,844,028</u>	 <u>\$ 44,853,107</u>

City of Sebastian, Florida
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
September 30, 2006

Function and Activity	Land	Buildings	Improvements Other than Buildings	Machinery and Equipment	Infrastructure	Totals
General government:						
Legislative	\$ -	\$ -	\$ 1,100	\$ 2,886	\$ -	\$ 3,986
City manager	-	-	-	4,341	-	4,341
City clerk	-	-	-	166,998	-	166,998
City attorney	-	-	-	2,114	-	2,114
Finance	-	-	-	56,063	-	56,063
MIS	-	5,841	-	113,821	-	119,662
Human resources	-	-	-	4,942	-	4,942
Building maintenance	-	120,192	4,926	88,270	-	213,388
Growth management	-	85,555	-	23,428	-	108,983
Non-departmental	3,239,771	5,114,963	260,202	424,314	212,700	9,251,950
Subtotal	<u>3,239,771</u>	<u>5,326,551</u>	<u>266,228</u>	<u>887,177</u>	<u>212,700</u>	<u>9,932,427</u>
Public safety:						
Special operations	-	-	-	33,674	-	33,674
Administration	9,560	3,347,150	81,014	283,082	-	3,720,806
School resource	-	-	-	45,383	-	45,383
Road patrol	-	-	-	1,371,890	-	1,371,890
Community policing	-	-	-	123,243	-	123,243
Code enforcement	-	-	-	36,583	-	36,583
Professional Std.	-	-	-	20,651	-	20,651
Investigations	-	-	-	179,131	-	179,131
Support services	-	-	-	60,757	-	60,757
Communications	-	-	-	81,829	-	81,829
Building department	-	-	-	90,752	-	90,752
Subtotal	<u>9,560</u>	<u>3,347,150</u>	<u>81,014</u>	<u>2,326,975</u>	<u>-</u>	<u>5,764,699</u>
Transportation:						
Engineering	78	146,361	155,293	170,907	276,100	748,739
Central garage	-	111,654	82,419	135,225	-	329,298
Roads and drainage	47,047	102,784	536,673	962,912	10,135,057	11,784,473
Subtotal	<u>47,125</u>	<u>360,799</u>	<u>774,385</u>	<u>1,269,044</u>	<u>10,411,157</u>	<u>12,862,510</u>
Physical Environment:						
Stormwater	-	-	-	1,443,246	5,354,520	6,797,766
Cemetery	272,190	47,519	78,354	38,700	22,717	459,480
Subtotal	<u>272,190</u>	<u>47,519</u>	<u>78,354</u>	<u>1,481,946</u>	<u>5,377,237</u>	<u>7,257,246</u>
Culture/Recreation:						
Parks and recreation	1,733,301	876,171	3,414,345	471,096	1,374,105	7,869,018
Subtotal	<u>1,733,301</u>	<u>876,171</u>	<u>3,414,345</u>	<u>471,096</u>	<u>1,374,105</u>	<u>7,869,018</u>
Total	<u>\$ 5,301,947</u>	<u>\$ 9,958,190</u>	<u>\$ 4,614,326</u>	<u>\$ 6,436,238</u>	<u>\$ 17,375,199</u>	<u>\$ 43,685,900</u>
Construction in progress						1,167,207
Total						<u>\$ 44,853,107</u>

City of Sebastian, Florida
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
September 30, 2006

Function and Activity	Governmental Funds Capital Assets October 1, 2005	Additions	Deletions	Transfers In	Transfers Out	Governmental Funds Capital Assets September 30, 2005
General government:						
Legislative	\$ 12,582	\$ -	\$ 7,808	\$ -	\$ 788	\$ 3,986
City manager	4,341	-	-	-	-	4,341
City clerk	184,324	11,574	12,937	-	15,963	166,998
City attorney	5,970	-	-	-	3,856	2,114
Finance	60,521	-	1,281	-	3,177	56,063
MIS	100,096	19,222	1,171	1,515	-	119,662
Human resources	5,467	-	-	-	525	4,942
Building maintenance	121,445	-	-	91,943	-	213,388
Growth management	105,259	-	-	3,724	-	108,983
Non-departmental	9,441,941	-	202,213	12,222	-	9,251,950
Subtotal	<u>10,041,946</u>	<u>30,796</u>	<u>225,410</u>	<u>109,404</u>	<u>24,309</u>	<u>9,932,427</u>
Public Safety:						
Special operations	2,051	31,623	-	-	-	33,674
Administration	3,710,201	10,605	-	-	-	3,720,806
School resource	26,855	38,539	20,011	-	-	45,383
Road patrol	1,196,867	177,023	-	-	2,000	1,371,890
Community policing	162,581	1,522	40,860	-	-	123,243
Code enforcement	49,277	5,058	16,050	-	1,702	36,583
Professional Stnd.	21,822	-	-	-	1,171	20,651
Investigations	175,098	5,204	-	-	1,171	179,131
Support services	58,304	2,529	-	2,000	2,076	60,757
Communications	80,860	2,140	1,171	-	-	81,829
Building department	107,352	-	2,641	-	13,959	90,752
Subtotal	<u>5,591,268</u>	<u>274,243</u>	<u>80,733</u>	<u>2,000</u>	<u>22,079</u>	<u>5,764,699</u>
Transportation:						
Engineering	757,863	7,294	16,418	-	-	748,739
Central garage	328,522	5,407	3,780	-	851	329,298
Roads and drainage	11,870,609	123,452	53,460	-	156,128	11,784,473
Subtotal	<u>12,956,994</u>	<u>136,153</u>	<u>73,658</u>	<u>-</u>	<u>156,979</u>	<u>12,862,510</u>
Physical Environment:						
Stormwater	6,619,466	193,324	33,524	18,500	-	6,797,766
Building maintenance	-	-	-	-	-	-
Cemetery	451,854	7,626	-	-	-	459,480
Subtotal	<u>7,071,320</u>	<u>200,950</u>	<u>33,524</u>	<u>18,500</u>	<u>-</u>	<u>7,257,246</u>
Culture & Recreation:						
Parks and recreation	7,176,259	661,394	42,098	73,463	-	7,869,018
Subtotal	<u>7,176,259</u>	<u>661,394</u>	<u>42,098</u>	<u>73,463</u>	<u>-</u>	<u>7,869,018</u>
Total	42,837,787	1,303,536	455,423	203,367	203,367	43,685,900
Construction in progress	1,006,241	894,386	733,420	-	-	1,167,207
Total	\$ 43,844,028	\$ 2,197,922	\$ 1,188,843	\$ 203,367	\$ 203,367	\$ 44,853,107

Statistical Section

This part of the City of Sebastian, Florida'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 city's overall financial health.

<u>Contents</u>	<u>Page(s)</u>
Financial Trends These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.	78-89
Revenue Capacity These schedules contain information to help the reader assess the city's most significant local revenue source, the property tax, and the municipal sales tax.	90-95
Debt Capacity These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.	96-101
Economic and Demographic Information These schedules offer economic and demographic indicators to help the reader understand the environment within which the city's financial activities take place.	102-104
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the city's financial report relates to the services the city provides and the activities it performs.	105-107

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in 2001; schedules presenting government-wide information include information beginning in that year.

City of Sebastian, Florida
Net Assets by Component
Last Six Fiscal Years
(accrual basis of accounting)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Governmental Activities			
Invested in Capital Assets, Net of Related Debt	\$ 17,579,683	\$ 17,103,399	\$ 16,412,401
Restricted	5,068,583	5,395,879	4,059,674
Unrestricted	<u>11,293,877 (2)</u>	<u>9,081,345 (1)</u>	<u>7,171,123 (1)</u>
<i>Total Governmental Activities Net Assets</i>	<u>\$ 33,942,143</u>	<u>\$ 31,580,623</u>	<u>\$ 27,643,198</u>
Business-Type Activities			
Invested in Capital Assets, Net of Related Debt	\$ 8,798,612	\$ 7,459,945	\$ 4,264,961
Restricted	560,581	574,105	506,006
Unrestricted	<u>1,896,539</u>	<u>738,519</u>	<u>1,712,657</u>
<i>Total Business-Type Activities Net Assets</i>	<u>\$ 11,255,732</u>	<u>\$ 8,772,569</u>	<u>\$ 6,483,624</u>
Primary government			
Invested in Capital Assets, Net of Related Debt	\$ 26,378,295	\$ 24,563,344	\$ 20,677,362
Restricted	5,629,164	5,969,984	4,565,680
Unrestricted	<u>13,190,416</u>	<u>9,819,864</u>	<u>8,883,780</u>
<i>Total Primary Government Net Assets</i>	<u>\$ 45,197,875</u>	<u>\$ 40,353,192</u>	<u>\$ 34,126,822</u>

(1) The large increases in unrestricted net assets from 2003 to 2004 and from 2004 to 2005 are mainly due to increase in State revenue sharing, sales and use taxes, and tax revenues.

(2) The large increase in unrestricted net assets from 2005 to 2006 is mainly due to increase in tax revenues, franchise fees, and interest earnings.

<u>2003</u>	<u>2002</u>	<u>2001</u>
\$ 16,339,222	\$ 14,242,832	\$ 12,778,007
3,235,266	3,289,670	2,270,654
<u>5,461,224</u>	<u>5,865,388</u>	<u>5,417,630</u>
<u>\$ 25,035,712</u>	<u>\$ 23,397,890</u>	<u>\$ 20,466,291</u>
\$ 1,545,867	\$ 363,827	\$ 150,722
505,435	458,014	640,973
<u>1,471,457</u>	<u>1,120,224</u>	<u>985,863</u>
<u>\$ 3,522,759</u>	<u>\$ 1,942,065</u>	<u>\$ 1,777,558</u>
\$ 17,885,089	\$ 14,606,659	\$ 12,928,729
3,740,701	3,747,684	2,911,627
<u>6,932,681</u>	<u>6,985,612</u>	<u>6,403,493</u>
<u>\$ 28,558,471</u>	<u>\$ 25,339,955</u>	<u>\$ 22,243,849</u>

City of Sebastian, Florida
Changes in Net Assets
Last Six Fiscal Years
(accrual basis of accounting)

	2006	2005	2004
Program Revenues			
Governmental Activities:			
Charges for Services:			
General Government	\$ 533,482	\$ 370,609	\$ 376,327
Public Safety	140,545	1,356,385	1,660,032
Physical Environment	887,819	828,907	850,887
Economic Environment	-	-	-
Cultural/Recreation	72,472	56,199	48,590
Operating Grants and Contributions	407,898	2,802,511	1,144,528
Capital Grants and Contributions	1,301,438	1,781,954	1,353,959
<i>Total Governmental Activities Program Revenues</i>	<u>\$ 3,343,654</u>	<u>\$ 7,196,565</u>	<u>\$ 5,434,323</u>
Business-Type Activities:			
Charges for Services:			
Golf Course	1,580,407	\$ 1,381,817	\$ 1,648,308
Airport	375,768	434,818	201,890
Building	936,793	(1)	(1)
Operating Grants and Contributions	6,998	13,582	67,576
Capital Grants and Contributions	1,056,562	2,289,986	2,451,212
<i>Total Business-Type Activities Program Revenues</i>	<u>\$ 3,956,528</u>	<u>\$ 4,120,203</u>	<u>\$ 4,368,986</u>
<i>Total Primary Government Program Revenues</i>	<u>\$ 7,300,182</u>	<u>\$ 11,316,768</u>	<u>\$ 9,803,309</u>
Expenses			
Governmental Activities:			
General Government	\$ 3,129,723	\$ 3,262,276	\$ 2,414,865
Public Safety	4,191,295	4,816,614	4,502,109
Physical Environment	2,193,589	1,283,889	1,279,257
Transportation	2,173,071	4,034,900	3,288,532
Economic Environment	98,661	32,128	86,041
Cultural/Recreation	1,208,288	1,260,395	823,974
Interest and Fiscal Charges	706,303	740,372	722,007
<i>Total Governmental Activities Expenses</i>	<u>\$ 13,700,930</u>	<u>\$ 15,430,574</u>	<u>\$ 13,116,785</u>
Business-Type Activities:			
Golf Course	1,558,338	\$ 1,464,532	\$ 1,527,051
Airport	801,967	519,235	350,949
Building	936,793	(1)	(1)
<i>Total Business-Type Activities Expenses</i>	<u>\$ 3,297,098</u>	<u>\$ 1,983,767</u>	<u>\$ 1,878,000</u>
<i>Total Primary Government Expenses</i>	<u>\$ 16,998,028</u>	<u>\$ 17,414,341</u>	<u>\$ 14,994,785</u>

(1) The building operation was reclassified from being part of the general fund operation to an enterprise fund operation at the beginning of fiscal year 2006.

2003	2002	2001
\$ 247,774	\$ 172,135	\$ 183,502
824,821	625,924	554,350
799,637	785,683	-
-	24,869	18,753
46,736	73,013	35,050
920,829	958,229	902,001
640,894	872,490	581,941
<u>\$ 3,480,691</u>	<u>\$ 3,512,343</u>	<u>\$ 2,275,597</u>
\$ 1,377,245	\$ 1,365,027	\$ 1,088,104
168,451	179,373	193,649
(1)	(1)	(1)
-	51,087	123,673
1,149,437	214,175	299,334
<u>\$ 2,695,133</u>	<u>\$ 1,809,662</u>	<u>\$ 1,704,760</u>
<u>\$ 6,175,824</u>	<u>\$ 5,322,005</u>	<u>\$ 3,980,357</u>
\$ 1,620,616	\$ 2,010,288	\$ 1,676,383
3,391,831	2,945,701	2,526,514
1,920,200	508,616	452,116
2,401,037	2,258,181	1,630,098
166,024	223,207	241,692
747,910	881,260	768,802
312,367	168,749	160,954
<u>\$ 10,559,985</u>	<u>\$ 8,996,002</u>	<u>\$ 7,456,559</u>
\$ 1,363,359	\$ 1,393,551	\$ 1,341,001
315,941	283,726	313,877
(1)	(1)	(1)
<u>\$ 1,679,300</u>	<u>\$ 1,677,277</u>	<u>\$ 1,654,878</u>
<u>\$ 12,239,285</u>	<u>\$ 10,673,279</u>	<u>\$ 9,111,437</u>

(continued)

City of Sebastian, Florida
Changes in Net Assets (continued)
Last Six Fiscal Years
(accrual basis of accounting)

	2006	2005	2004
Net (Expense)/Revenue			
Governmental Activities	\$(10,357,276)	\$ (8,234,009)	\$ (7,682,462)
Business-Type Activities	659,430	2,136,436	2,490,986
<i>Total Primary Government Net Expense</i>	<u>\$ (9,697,846)</u>	<u>\$ (6,097,573)</u>	<u>\$ (5,191,476)</u>
General Revenues and Other Changes in Net Assets			
Governmental Activities:			
Property Taxes, Levied for General Purposes	\$ 4,645,050	\$ 4,017,555	\$ 3,420,971
Sales and Use Taxes	4,907,906	4,718,691	4,035,545
Franchise Fees	1,253,749	886,390	770,600
State Shared Revenues	2,242,292	2,138,020	1,721,956
Interest Earnings	827,224	398,518	398,158
Miscellaneous	256,780	118,760	388,562
Transfers	(1,414,205) (2)	(106,500)	(445,844)
<i>Total Governmental Activities</i>	<u>\$ 12,718,796</u>	<u>\$ 12,171,434</u>	<u>\$ 10,289,948</u>
Business-Type Activities:			
Interest Earnings	\$ 125,498	\$ 45,709	\$ 23,774
Miscellaneous	-	300	261
Transfers	1,414,205	106,500	445,844
<i>Total Business-Type Activities</i>	<u>\$ 1,539,703</u>	<u>\$ 152,509</u>	<u>\$ 469,879</u>
<i>Total Primary Government</i>	<u>\$ 14,258,499</u>	<u>\$ 12,323,943</u>	<u>\$ 10,759,827</u>
Change in Net Assets			
Governmental Activities	\$ 2,361,520	\$ 3,937,425	\$ 2,607,486
Business-Type Activities	2,483,163	2,288,945	2,960,865
<i>Total Primary Government Change in Net Assets</i>	<u>\$ 4,844,683</u>	<u>\$ 6,226,370</u>	<u>\$ 5,568,351</u>

(2) The large increase in transfers from 2005 to 2006 is mainly due to the one time transfer of building reserve to building fund due to the reclassification of fund type for the building operation.

2003	2002	2001
\$ (7,079,294)	\$ (5,483,659)	\$ (5,180,962)
1,015,833	132,385	49,882
<u>\$ (6,063,461)</u>	<u>\$ (5,351,274)</u>	<u>\$ (5,131,080)</u>
\$ 2,944,456	\$ 2,615,939	\$ 2,557,333
3,705,922	2,844,825	3,013,293
756,194	766,901	753,024
1,523,524	2,068,753	1,336,046
241,358	118,840	236,307
79,662	-	-
(534,000)	-	-
<u>\$ 8,717,116</u>	<u>\$ 8,415,258</u>	<u>\$ 7,896,003</u>
\$ 21,789	\$ 32,122	\$ 99,521
9,072	-	-
534,000	-	-
<u>\$ 564,861</u>	<u>\$ 32,122</u>	<u>\$ 99,521</u>
<u>\$ 9,281,977</u>	<u>\$ 8,447,380</u>	<u>\$ 7,995,524</u>
\$ 1,637,822	\$ 2,931,599	\$ 2,715,041
1,580,694	164,507	149,403
<u>\$ 3,218,516</u>	<u>\$ 3,096,106</u>	<u>\$ 2,864,444</u>

City of Sebastian, Florida
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General Fund					
Reserved	\$ 1,815,187	\$ 2,848,726	\$ 2,693,710	\$ 1,402,398	\$ 232,088
Unreserved	<u>4,663,885</u>	<u>3,254,741</u>	<u>2,421,182</u>	<u>2,479,452</u>	<u>3,690,659</u>
Total General Fund	<u>\$ 6,479,072</u>	<u>\$ 6,103,467</u>	<u>\$ 5,114,892</u>	<u>\$ 3,881,850</u>	<u>\$ 3,922,747</u>
All Other Governmental Funds					
Reserved	\$ 10,058,183 (1)	\$ 828,819	\$ 4,208,170	\$ 1,596,981	\$ 1,503,172
Unreserved, Reported in:					
Special Revenue funds	5,381,276	4,735,396	3,355,229	2,211,585	1,808,288
Capital Projects funds	<u>- (2)</u>	<u>8,406,953</u>	<u>6,795,371</u>	<u>9,993,933 (3)</u>	<u>2,384,557</u>
Total All Other Governmental Funds	<u>\$ 15,439,459</u>	<u>\$ 13,971,168</u>	<u>\$ 14,358,770</u>	<u>\$ 13,802,499</u>	<u>\$ 5,696,017</u>
Total Governmental Funds	<u><u>\$ 21,918,531</u></u>	<u><u>\$ 20,074,635</u></u>	<u><u>\$ 19,473,662</u></u>	<u><u>\$ 17,684,349</u></u>	<u><u>\$ 9,618,764</u></u>

(1) The significant change in reserved fund balance from 2005 to 2006 is due to the reclassification of unreserved reported in capital projects funds to reserved.

(2) The significant change in unreserved reported in capital projects funds from 2005 to 2006 is due to the reclassification of unreserved reported in capital projects funds to reserved.

(3) The large increase in unreserved fund balance reported in capital projects funds from 2002 to 2003 is due to the issuance of City's Infrastructure Sales Surtax Revenue Bonds, Series 2003.

<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
\$ 121,256	\$ 64,341	\$ 43,113	\$ 3,303,761	\$ 7,940
<u>3,406,083</u>	<u>2,786,252</u>	<u>2,699,955</u>	<u>3,468,381</u>	<u>3,710,621</u>
\$ 3,527,339	\$ 2,850,593	\$ 2,743,068	\$ 6,772,142	\$ 3,718,561
\$ 1,306,269	\$ 2,021,740	\$ 605,270	\$ 168,093	\$ 167,980
548,174	456,461	217,969	-	-
<u>2,609,201</u>	<u>1,562,299</u>	<u>4,027,673</u>	<u>-</u>	<u>-</u>
\$ 4,463,644	\$ 4,040,500	\$ 4,850,912	\$ 168,093	\$ 167,980
<u>\$ 7,990,983</u>	<u>\$ 6,891,093</u>	<u>\$ 7,593,980</u>	<u>\$ 6,940,235</u>	<u>\$ 3,886,541</u>

City of Sebastian, Florida
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2006	2005	2004
Revenues			
Property and Other Local Taxes	\$ 10,269,451	\$ 9,483,664	\$ 8,179,344
Franchise Fees	1,253,749	886,390	770,600
Charges for Services	179,930	936,530	962,677
Licenses and Permits	244,370	1,587,675	1,867,920
Fines	77,776	95,699	118,918
Intergovernmental	2,852,293	5,561,695	3,115,520
Impact Fees	337,675	385,775	557,700
Special Assessments	819,286	11,023	28,424
Investment Earnings	827,224	398,518	398,158
Miscellaneous	632,370	144,057	378,268
<i>Total Revenues</i>	<u>17,494,124</u>	<u>19,491,026</u>	<u>16,377,529</u>
Expenditures			
Current:			
General Government	2,494,863	2,974,736	2,231,532
Public Safety	3,813,908	4,349,639	3,950,228
Physical Environment	1,850,642	910,794	1,125,727
Transportation	1,672,983	3,616,076	2,863,397
Economic Environment	98,661	32,128	86,041
Cultural and Recreation	926,846	995,406	747,131
Debt service:			
Principal Retirement	1,248,378	1,218,023	985,974
Interest and Fiscal Charges	678,682	711,736	887,564
Capital Outlay	1,451,060	3,975,015	9,021,558
<i>Total Expenditures</i>	<u>14,236,023</u>	<u>18,783,553</u>	<u>21,899,152</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>3,258,101</u>	<u>707,473</u>	<u>(5,521,623)</u>
Other Financing Sources (Uses)			
Debt Proceeds	-	-	7,756,780
Transfers In	3,785,981	3,745,265	2,745,754
Transfers Out	(5,200,186)	(3,851,765)	(3,191,598)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,414,205)</u>	<u>(106,500)</u>	<u>7,310,936</u>
<i>Net Change in Fund Balances</i>	<u>\$ 1,843,896</u>	<u>\$ 600,973</u>	<u>\$ 1,789,313</u>
Debt Service as a Percentage of Noncapital Expenditures	15.1%	13.0%	14.5%

2003	2002	2001	2000	1999	1998	1997
\$ 7,325,932	\$ 6,228,107	\$ 6,223,280	\$ 6,273,070	\$ 5,837,968	\$ 5,612,313	\$ 5,250,861
756,194	766,901	753,024	-	-	-	-
921,119	1,123,670	300,046	159,701	33,097	74,485	84,051
878,097	578,695	487,618	475,345	448,928	388,936	345,463
119,752	127,027	148,676	140,672	89,697	72,723	59,198
1,785,237	2,841,315	1,968,416	2,318,091	1,865,375	1,697,747	1,332,676
395,850	255,775	-	-	-	-	-
22,560	31,756	28,528	128,154	44,964	30,522	68,474
241,358	206,567	417,707	689,395	512,407	290,406	261,548
91,078	126,823	196,311	246,774	650	-	-
12,537,177	12,286,636	10,523,606	10,431,202	8,833,086	8,167,132	7,402,271
1,977,033	2,230,870	1,647,858	1,946,702	1,837,031	2,074,479	1,879,432
3,427,711	2,588,526	2,482,393	2,129,662	2,122,823	1,847,503	1,706,546
1,247,452	508,616	452,116	345,844	412,990	82,699	79,528
1,610,761	1,427,992	1,084,401	1,228,234	1,007,426	1,160,404	1,273,318
166,024	327,911	273,927	617	4,830	8,492	64,657
629,835	732,729	612,038	555,584	488,499	348,546	190,651
361,024	344,553	222,954	212,860	225,243	182,434	173,471
158,043	174,864	152,093	151,536	160,940	29,522	40,704
3,859,709	2,322,794	3,402,365	4,713,604	1,915,620	2,640,389	1,331,130
13,437,592	10,658,855	10,330,145	11,284,643	8,175,402	8,374,468	6,739,437
(900,415)	1,627,781	193,461	(853,441)	657,684	(207,336)	662,834
9,500,000	-	900,000	-	-	3,261,030	-
2,992,908	2,009,173	2,130,744	2,134,510	1,861,364	258	2,720
(3,526,908)	(2,009,173)	(2,130,744)	(2,134,510)	(1,861,364)	(258)	(2,720)
8,966,000	-	900,000	-	-	3,261,030	-
\$ 8,065,585	\$ 1,627,781	\$ 1,093,461	\$ (853,441)	\$ 657,684	\$ 3,053,694	\$ 662,834
5.4%	6.2%	5.4%	5.5%	6.2%	3.7%	4.0%

City of Sebastian, Florida
Program Revenues by Function/Program
Last Six Fiscal Years
(accrual basis of accounting)

Function/Program	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Governmental Activities:				
General Government	\$ 579,591	\$ 587,527	\$ 392,471	\$ 1,095,902
Public Safety	306,702	1,537,557	1,850,710	929,952
Physical Environment	890,092	898,821	914,318	1,136,507
Transportation	900,365	3,392,883	1,670,534	1,580,076
Economic Environment	30,059	-	-	-
Cultural/Recreation	636,845	779,777	606,290	663,459
<i>Total Governmental Activities</i>	<u>\$ 3,343,654</u>	<u>\$ 7,196,565</u>	<u>\$ 5,434,323</u>	<u>\$ 5,405,896</u>
Business-type activities:				
Golf Course	\$ 1,587,405	\$ 1,395,399	\$ 1,715,884	\$ 1,377,245
Airport	1,432,330	2,724,804	2,653,102	1,317,888
Building	1,220,823	(1)	(1)	(1)
<i>Total Business-Type Activities</i>	<u>\$ 4,240,558</u>	<u>\$ 4,120,203</u>	<u>\$ 4,368,986</u>	<u>\$ 2,695,133</u>
<i>Total Primary Government</i>	<u>\$ 7,584,212</u>	<u>\$ 11,316,768</u>	<u>\$ 9,803,309</u>	<u>\$ 8,101,029</u>

(1) The building operation was reclassified from being part of the general fund operation to an enterprise fund operation at the beginning of fiscal year 2006.

2002	2001
\$ 172,135	\$ 226,786
785,373	633,230
785,683	779,837
3,038,913	2,285,809
24,869	18,753
566,959	168,335
<u>\$ 5,373,932</u>	<u>\$ 4,112,750</u>
\$ 1,365,517	\$ 1,088,104
444,145	616,656
<u>\$ 1,809,662</u>	<u>\$ 1,704,760</u>
<u>\$ 7,183,594</u>	<u>\$ 5,817,510</u>

City of Sebastian, Florida
Tax Revenues by Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>Public Utility</u>	<u>Sales Tax</u>	<u>Motor Fuel</u>	<u>Total</u>
2006 (1)	\$ 4,645,050	\$ 2,183,164	\$ 2,724,742	\$ 716,495	\$ 10,269,451
2005	4,017,555	2,005,124	2,713,567	747,418	9,483,664
2004	3,420,971	1,854,632	2,180,913	722,828	8,179,344
2003	2,944,456	1,780,717	1,925,205	675,554	7,325,932
2002 (2)	2,717,564	983,236	1,861,589	665,718	6,228,107
2001	2,608,989	1,151,685	1,861,608	600,998	6,223,280
2000 (3)	2,323,566	1,044,595	1,704,749	549,800	5,622,710
1999 (4)	2,734,068	413,045	1,553,672	484,054	5,184,839
1998	2,810,622	370,170	1,412,207	440,843	5,033,842
1997	2,664,153	345,977	1,244,543	453,858	4,708,531

- (1) Fiscal Year 2006 property tax revenue reflects a change in the property tax millage rate from 4.5904 to 3.9325.
(2) Fiscal Year 2002 property tax revenue reflects a change in the property tax millage rate from 5.0000 to 4.5904.
(3) Fiscal Year 2000 property tax revenue reflects a change in the property tax millage rate from 6.5000 to 5.0000.
(4) Fiscal Year 1999 property tax revenue reflects a change in the property tax millage rate from 6.9000 to 6.5000.
Millage Rate represents the dollar of tax per one thousand dollars of taxable valuation.

City of Sebastian, Florida
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	City of Sebastian			Total County ⁽¹⁾ Millage	Indian River County School Board			Other ⁽²⁾
	Operating Millage	Debt Service Millage	Total City Millage		Operating Millage	Debt Service Millage	Total School Millage	
1997	6.9000	--	6.9000	8.56874	9.15400	1.16500	10.31900	2.64544
1998	6.9000	--	6.9000	8.30490	9.00300	1.13700	10.14000	2.49690
1999	6.5000	--	6.5000	8.33160	8.61400	1.00000	9.61400	⁽³⁾
2000	5.0000	--	5.0000	8.24360	8.61400	1.00000	9.61400	1.52091
2001	5.0000	--	5.0000	8.24860	8.67700	0.88000	9.55700	1.62899
2002	4.5904	--	4.5904	8.08410	8.40200	0.68000	9.08200	1.14845
2003	4.5904	--	4.5904	8.03020	8.10200	0.63000	8.73200	1.43875
2004	4.5904	--	4.5904	7.93960	8.17900	0.53100	8.71000	1.69278
2005	4.5904	--	4.5904	7.35050	8.01900	0.48000	8.49900	1.43029
2006	3.9325	--	3.9325	5.69040	7.88000	0.36000	8.24000	1.60850

- (1) Millage includes General Fund, M.S.T.U.s, Emergency Services District and Land Bonds.
- (2) All Special Taxing Districts.
- (3) Information not available.

Source: Indian River County Property Appraiser's Office

City of Sebastian, Florida
 Assessed Valuation and Estimated True Values of Taxable Property
 Last Ten Fiscal Years

Fiscal Year	Real Property		Personal Property		Exemptions Real Property
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1997	563,855,210	704,819,013	30,303,882	30,303,882	172,478,432
1998	587,811,960	734,764,950	31,210,876	31,210,876	177,515,747
1999	626,274,970	782,843,713	46,027,721	46,027,721	187,751,454
2000	656,619,860	820,774,825	42,216,162	41,533,985	190,327,263
2001	754,577,150	943,221,438	45,195,579	45,195,579	198,445,669
2002	829,224,615	1,036,530,769	45,355,170	45,355,170	205,977,066
2003	946,293,950	1,182,867,438	48,613,628	48,613,628	217,554,663
2004	1,157,275,164	1,446,593,955	51,330,277	51,330,277	228,262,825
2005	1,526,923,406	1,908,654,258	51,827,624	51,827,624	271,466,364
2006	2,124,615,672	2,655,769,590	55,913,696	55,913,696	322,318,753

Source: Indian River County Property Appraiser

(1) Total assessed value based on approximately 80 percent of estimated actual value.



<u>Total Assessed Value</u>	<u>Total Estimated Actual Value</u>
594,159,092	735,122,895
619,022,836	765,975,826
672,302,691	828,871,434
698,836,022	862,308,810
799,772,729	988,417,017
874,579,785	1,081,885,939
994,907,578	1,231,481,066
1,208,605,441	1,497,924,232
1,578,751,030	1,960,481,882
2,180,529,368	2,711,683,286

City of Sebastian, Florida

Principal Taxpayers

Year 2006 and Year 1998

Taxpayer	2006			1998 (1)		
	Real Property Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Real Property Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Florida Power & Light	\$ 16,484,295	1	2.34%	\$ 6,448,890	3	1.02%
Chance Holding LLC	12,308,330	2	1.75%	--		--
Wal-Mart Stores Inc.	12,293,340	3	1.74%	7,843,080	2	1.24%
KB Homes Treasure Coast LLC	11,865,150	4	1.68%	--		--
Maronda Homes Inc.	8,979,100	5	1.27%	--		--
Adams Homes of Northwest FL	8,312,010	6	1.18%	--		--
512 Commerce Center LLC	7,368,920	7	1.05%	--		--
BellSouth Communications	7,344,000	8	1.04%	7,930,440	1	1.26%
BW US 1 Inc	6,863,460	9	0.97%	--		--
Park Place MHP Ltd	5,897,160	10	0.84%	2,737,650	5	0.43%
Lynch, Robert N. (Bishop)	--		--	3,665,790	4	0.58%
Grace's Landing Ltd	--		--	2,111,580	6	0.34%
Falcon Cable Media	--		--	1,618,367	7	0.26%
Winn Dixie Stores Inc.	--		--	1,586,073	8	0.25%
Sebastian Center Ltd	--		--	1,316,420	9	0.21%
Ringhaver Equipment	--		--	780,155	10	0.12%
	<u>\$ 97,715,765</u>		<u>13.86%</u>	<u>\$ 36,038,445</u>		<u>5.71%</u>
Total Assessed Valuation	<u>\$ 1,133,374,977</u>			<u>\$ 630,218,290</u>		

(1) Principal property tax payers for nine years ago is not available. The information is available from 1998 and forward.

Source: Indian River County Property Appraiser's Office

City of Sebastian, Florida
Property Tax Levies And Collections
Last Ten Fiscal Years

Year	Total Tax Levy	Current Tax Collections	Percent of Current Tax Collections To Tax Levy	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections To Tax Levy
2006	\$ 4,456,997	\$ 4,300,217	96 %	\$ 39	\$ 4,300,256	96 %
2005	3,888,488	3,723,912	96	1,712	3,725,624	96
2004	3,216,940	3,130,521	97	34,247	3,164,768	98
2003	2,862,650	2,725,515	95	26,908	2,752,423	96
2002	2,635,277	2,489,854	94	36,421	2,526,275	96
2001	2,542,544	2,455,930	97	51,690	2,507,620	99
2000	2,422,756	2,283,898	94	35,050	2,318,948	96
1999	2,869,796	2,726,857	95	2,912	2,729,769	95
1998	2,909,597	2,679,819	92	130,803	2,810,622	97
1997	2,727,083	2,513,627	92	150,526	2,664,153	98

(1) Does not include penalties and interest on delinquent taxes.

Source: Indian river County Property Appraiser and Tax Collector

City of Sebastian, Florida
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Year	Governmental Activities				Business-type	Total Primary Government	Per Capita
	Water Line Assessment Bonds	Roadway Improvement Notes	Infrastructure Sales Tax Bonds	Stormwater Utility Revenue Bonds	Golf Course Revenue Bonds		
2006	\$ -	\$1,790,544	\$ 9,825,000	\$ 5,055,000	\$ 1,140,000	\$17,810,544	822
2005	-	2,004,718	10,490,000	5,290,000	1,395,000	19,179,718	957
2004	-	2,209,745	11,140,000	5,525,000	1,885,000	20,759,745	1,072
2003	77,615	2,406,028	9,500,000	-	2,115,000	14,098,643	765
2002	134,299	2,593,939	-	-	2,335,000	5,063,238	295
2001	187,901	2,773,847	-	-	2,435,000 (1)	5,396,748	324
2000	238,589	2,946,113	-	-	1,500,000	4,684,702	290
1999	286,521	3,111,041	-	-	1,610,000	5,007,562	319
1998	322,044	3,268,890 (2)	-	-	1,715,000	5,305,934	351
1997	367,764	158,250	-	-	1,815,000	2,341,014	162

(1) Golf Course Revenue Bonds, Series 1996 was refunded in 2001.

(2) The City issued a \$3,268,890 promissory note to finance costs of roadway improvements in 1998.

City of Sebastian, Florida
Computation of Legal Debt Margin
September 30, 2006

Assessed Valuation		
Assessed taxable real property value	\$	1,802,296,919
Add back: exempt real property		322,318,753
Total assessed value of real property	\$	<u>2,124,615,672</u>
 Legal debt margin:		
Debt limitation - 5 percent of total assessed real property value (1)	\$	106,230,784
Debt applicable to limitation		
Total bonded debt	\$	16,958,796
Less: revenue bonds		<u>(14,880,000)</u>
Total applicable to limitation		<u>2,078,796</u>
Legal debt margin	\$	<u>104,151,988</u>

(1) City adopted financial policies state the City will limit its total outstanding general obligation debt to five percent of the assessed valuation of real property.

City of Sebastian, Florida
Direct and Overlapping Governmental Activities Debt
General Obligation Bonds
September 30, 2006

The City of Sebastian has no overlapping general obligation bonded debt.

City of Sebastian, Florida
Ratios of General Bonded Debt Outstanding and Legal Debt Margin
Last Eight Fiscal Year

	<u>2,006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Debt Limit (1)	\$ 76,346,170	\$ 76,346,170	\$ 57,863,758	\$ 47,314,698
Total net debt applicable to limit	<u>2,078,796</u>	<u>2,427,174</u>	<u>2,760,196</u>	<u>3,078,556</u>
Legal debt margin	<u>\$ 74,267,374</u>	<u>\$ 73,918,996</u>	<u>\$ 55,103,562</u>	<u>\$ 44,236,142</u>
Total net debt applicable to the limit as a percentage of debt limit	2.72%	3.18%	4.77%	6.51%

(1) Under the City's adopted financial policies, the City's outstanding general obligation debt should not exceed 5% of the assessed valuation of real property. The percentage was dropped from 10% to 5% in fiscal year 2003.

*Data from 1997 through 1998 not available

2002	2001	2000	1999
\$ 82,922,462	\$ 75,457,715	\$ 65,661,986	\$ 62,627,497
3,382,896	3,673,847	2,946,113	3,111,041
<u>\$ 79,539,566</u>	<u>\$ 71,783,868</u>	<u>\$ 62,715,873</u>	<u>\$ 59,516,456</u>

4.08%

4.87%

4.49%

4.97%

City of Sebastian, Florida

Pledged-Revenue Coverage

Last Ten Fiscal Years

Recreational Facilities Improvement and Refunding Revenue Bonds, Series 2001							
Fiscal Year	Gross Revenues ⁽¹⁾	Less: Operating Expenses ⁽²⁾	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
1997	\$1,356,609	\$ 833,382	\$ 523,227	\$ 95,000	\$ 112,600	\$ 207,600 ⁽³⁾	2.52 ⁽⁴⁾
1998	1,351,368	874,334	477,034	100,000	107,850	207,850 ⁽³⁾	2.30 ⁽⁴⁾
1999	1,414,976	891,914	523,062	105,000	102,650	207,650 ⁽³⁾	2.52 ⁽⁴⁾
2000	1,450,487	947,145	503,342	110,000	96,980	206,980 ⁽³⁾	2.43 ⁽⁴⁾
2001	1,165,091 ⁽⁵⁾	1,043,741 ⁽⁵⁾	121,350	--	--	-- ⁽⁶⁾	-- ⁽⁷⁾
2002	1,386,424	1,020,640	365,784	100,000	104,481	204,481 ⁽⁶⁾	1.79 ⁽⁷⁾
2003	1,400,154	968,052	432,102	220,000	89,890	309,890 ⁽⁶⁾	1.39 ⁽⁷⁾
2004	1,497,053	1,108,770	388,283	230,000	80,890	310,890 ⁽⁶⁾	1.25 ⁽⁷⁾
2005	1,395,436	1,023,002	372,434	240,000	71,490	311,490 ⁽⁶⁾	1.20 ⁽⁷⁾
2006	1,628,015	1,165,411	462,604	250,000	61,690	311,690 ⁽⁶⁾	1.48 ⁽⁷⁾

Note: Detail regarding the City's outstanding debt can be found in the notes to the financial statements.

- (1) Total revenues including charges for services, rents, and interest.
- (2) Total direct operating expenses excludes depreciation, amortization, annual Airport lease payment, and one time hurricane repairs and upgrade.
- (3) Golf Course Bond, Series 1985 refunded in 1992 with Series 1992.
- (4) Required coverage is 1.0.
- (5) Golf Course closed for four months for renovations.
- (6) Golf Course Bond, Series 1992 refunded with Recreational Facilities Improvement and Refunding Revenue Bonds, Series 2001.
- (7) Required coverage is 1.25.
- (8) Total revenues consist of stormwater utility fees and interest.
- (9) Required coverage is 1.35.

Stormwater Utility Revenue Bonds, Series 2003

Gross Revenues ⁽⁸⁾	Debt Service			Coverage ⁽⁹⁾
	Principal	Interest	Total	
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
\$ 779,724	\$ 105,000	\$ 104,386	\$ 209,386	3.72
792,886	235,000	206,673	441,673	1.80
908,576	235,000	201,973	436,973	2.08

City of Sebastian, Florida
Demographic and Economic Statistics
Last Ten Years

Year	Population	Total Personal Income (1)	Per Capita Personal Income (1)	Median Household Income (1)	Median Age (2)
2006	21,666	(5)	(5)	(5)	(5)
2005	20,048	(5)	(5)	(5)	(5)
2004	19,365	\$ 5,071,395,000	\$ 40,677	(5)	(5)
2003	18,425	4,831,037,000	40,162	\$ 40,291	(5)
2002	17,167	4,680,414,000	39,683	39,615	(5)
2001	16,667	4,552,238,000	39,470	39,359	(5)
2000	16,181	4,207,683,000	37,110	40,063	49.2
1999	15,707	3,983,019,000	35,788	37,947	(5)
1998	15,115	3,770,896,000	34,608	37,398	(5)
1997	14,470	3,494,975,000	32,881	35,895	(5)

Sources:

- (1) Florida Research & Economic Database. Information available for Indian River County only.
- (2) U.S. Census Bureau
- (3) Indian River County School Board
- (4) Indian River County Property Appraiser
- (5) Information not available

Educational Attainment: Bachelor's Degree or higher (2)	School Enrollment (3)	Unemployment Rate (1)	Total Assessed Property Value (4)
(5) %	5,604	4.1 %	\$ 2,180,529,368
(5)	5,258	4.0	1,578,751,030
(5)	4,917	7.6	1,208,605,441
(5)	4,340	7.5	994,907,578
(5)	4,309	7.8	874,579,785
(5)	1,371	7.4	799,772,729
23.1	1,342	6.5	698,836,022
(5)	1,383	7.5	672,302,691
(5)	1,410	7.9	619,022,836
(5)	1,324	8.1	594,159,092

City of Sebastian, Florida
Principal Employers
Year 2005 and Six Years Ago

2005		
Employer	Number of Employees	Percentage of Total County Employment
The New Piper Aircraft	1,100	1.91 %
Publix Supermarket	950	1.65
Sebastian River Medical Center	525	0.91
John's Island	475	0.82
Hale Indian River Groves	470	0.81
Wal-Mart	462	0.80
Indian River Estate	434	0.75
Disney's Vero Beach Resort	310	0.54
Grand Harbor Management	303	0.53
Visiting Nurse Association	297	0.51
Total	4,226	7.33 %
 Total County Employees	 57,689	

1999		
Employer	Number of Employees	Percentage of Total County Employment
The New Piper Aircraft	1249	2.87 %
Publix Supermarket	792	1.82
Wal-Mart	774	1.78
Sun Ag. Inc.	550	1.26
Winn-Dixie	520	1.19
Hale Indian River Groves	505	1.16
Gracewood Fruit Packing	500	1.15
Dodgertown Complex	438	1.00
John's Island	415	0.95
Graves Brothers	400	0.92
Total	6,143	14.09 %
 Total County Employees	 43,592	

Source: Indian River County Chamber of Commerce

* Principal employers information available for Indian River County only.

City of Sebastian, Florida
Full-Time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years

<u>Function/program</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
General Government:										
City Council	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
City Manager	2.0	5.0	4.0	4.0	4.0	4.0	3.0	3.0	3.0	3.0
City Clerk	4.5	4.0	4.0	4.0	5.0	5.0	5.0	5.0	5.0	5.0
City Attorney	2.0	2.0	1.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0
Finance	6.0	5.0	5.0	5.0	6.0	6.0	5.0	5.0	5.0	5.0
Mgmt Information Svcs	3.0	2.0	2.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Human Resources	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.0	2.0	2.0
Building Maintenance	2.0	2.0	0.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Growth Management	4.0	4.0	4.0	4.0	4.0	4.0	4.0	6.0	0.0	0.0
Public Safety:										
Police Department	58.0 (2)	59.0	56.5	54.5	53.0	52.5	50.0	47.0	45.0	43.0
Building Department	11.0	9.0	8.0	7.0	7.0	6.0	6.0	6.0	0.0	0.0
Code Enforcement	3.0 (2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transportation:										
Roads & Drainage	12.5	12.5	14.5	11.5 (1)	23.5	26.5	27.5	24.0	22.0	27.0
Central Garage	3.5	3.0	3.0	3.0	3.0	3.0	3.0	3.5	3.5	3.5
Airport	4.0	3.5	2.5	2.5	1.5	1.0	0.5	0.5	0.5	0.5
Physical Environment:										
Engineering	8.0	8.0	8.0	7.5	8.0	6.5	6.5	6.0	6.0	6.5
Stormwater Utility	13.0	13.0	12.0	12.0 (1)	1.0	0.0	0.0	0.0	0.0	0.0
Cultural/Recreation:										
Parks & Recreation	24.5	23.5	17.5	16.5	14.0	14.0	10.0	10.0	10.0	5.0
Cemetery	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Golf Course	12.5	12.5	13.5	13.5	14.5	12.5	12.5	11.5	11.5	11.5
Totals:	<u>181.0</u>	<u>175.5</u>	<u>163.0</u>	<u>159.5</u>	<u>157.0</u>	<u>153.5</u>	<u>145.5</u>	<u>138.0</u>	<u>122.0</u>	<u>120.5</u>

(1) Eleven employees were moved from roads & drainage to stormwater starting fiscal year 2003.

(2) Code enforcement division was transferred out from the Police Department starting fiscal year 2006.

Source: City of Sebastian, Florida 1997-2006 Annual Budgets

Method: Using 1.0 for each full-time employee, and 0.50 for each part-time and seasonal employee

City of Sebastian, Florida
Operating Indicators by Function/Program
Last Eight Fiscal Years

Function/program	2006	2005	2004	2003	2002	2001	2000	1999
General Government								
Number of Annexation Approved	1	1	6	3	0	1	1	0
Acres of Annexed Property	3.3	25.55	484	80	0	80	6	0
Purchase Orders Issued	293	369	408	372	357	411	406	397
Public Safety								
Police Department								
Physical Arrest	744	786	653	557	515	627	738	481
Traffic Violations	6,291	5,457	5,431	1,939	2,528	2,781	3,562	2,413
Parking Violations	880	303	3,801	632	207	198	305	53
Building Department								
Construction Permits Issued	506	774	577	544	363	315	317	210
Estimated Value of Construction (in millions)	\$88.3	\$114.7	\$112.3	\$ 82.7	\$ 38.9	\$ 29.0	(1)	\$ 9.8
Transportation								
Road Maintenance (man hours)*	512	100	878	850	827	(1)	(1)	(1)
Asphalt for road maintenance (tons)	127	125	88	79	75	(1)	(1)	(1)
Concrete for road maintenance (yards) (2)	300	0	283	277	275	(1)	(1)	(1)
Physical Environment								
Cemetery								
Cemetery Internments	76	79	69	81	73	78	77	52
Grave Deeds Sold	56	56	86	45	54	67	85	34
Stormwater								
Mile of Swales Maintained	280	280	280	280	280	280	(1)	(1)
Mile of Ditches Maintained	50	50	50	50	50	50	(1)	(1)
Road Crossing Maintained	30	30	30	30	30	30	(1)	(1)
Catch Basins/Culverts	275	275	275	275	250	248	(1)	(1)
Recreation								
Recreation Center attendance	8,004	5,504	7,498	(1)	(1)	(1)	(1)	(1)
Number of Discount Cards	2,690	1,000	993	855	890	746	791	(1)
Number of Golf Course Memberships	119	85	116	137	169	190	212	(1)
Average daily golf revenue	\$4,209	\$3,854	\$4,207	\$3,693	\$3,588	\$2,844	\$8,348	\$4,996

(1) Information not available

(2) All road maintenance utilized asphalt, no concrete curbing was installed.

Sources: City of Sebastian Police Department, Growth Management, Public Works, Engineering Department, Golf Course, and Building Department.

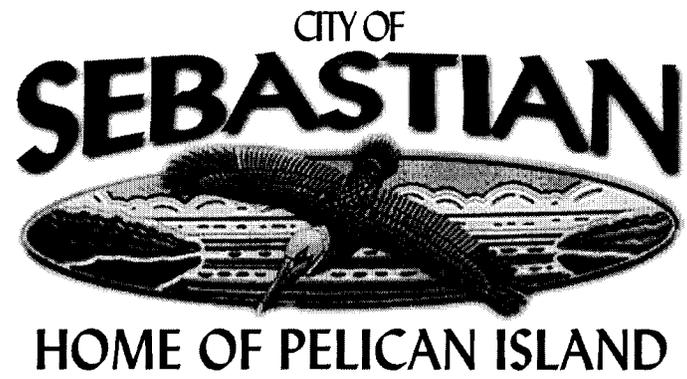
*Data from 1997 through 1998 not available

City of Sebastian, Florida
Capital Asset Statistics by Function/Program
Last Eight Fiscal Years

Function/program	2006	2005	2004	2003	2002	2001	2000	1999
General Government								
Square Footage Occupied	21,500	21,500	5,516	5,516	5,516	5,516	5,516	5,516
Departmental Vehicles	3	5	2	2	2	3	3	3
Public Safety								
Police Stations	1	1	1	1	1	1	1	1
Square Footage of Police Department	25,600	25,600	8,700	8,700	8,700	8,700	8,700	8,700
Square Footage of Building Department	2,500	2,500	1,716	1,716	1,716	1,716	1,716	1,716
Police Vehicles	53	52	47	42	40	33	32	24
Building Inspector Vehicles	6	5	4	4	5	4	3	2
Transportation								
Streets (miles)	156	156	156	149.6	140.0	140.0	140.0	140.0
Number of Streetlights	3,808	3,555	3,543	3,543	3,531	3,531	3,319	1,156
Airport	1	1	1	1	1	1	1	1
Public Service Vehicles	19	14	24	18	22	19	16	16
Physical Environment								
Public Service Vehicles	12	13	6	7	4	4	4	4
Recreation								
Number of Parks	14	12	12	12	10	10	10	9
Recreation Centers	2	2	2	2	2	2	2	2
Park Acreage	229.37	223.37	223.37	223.37	207.85	196.47	196.47	194.38
Recreation Center Square Footage	4,859	4,859	4,859	4,859	4,859	4,859	4,859	4,859
Park Maintenance Vehicles	11	10	8	6	6	5	5	5
Golf Course	1	1	1	1	1	1	1	1

Sources: City of Sebastian Finance Department and Growth Management Department

*Data from 1997 through 1998 not available

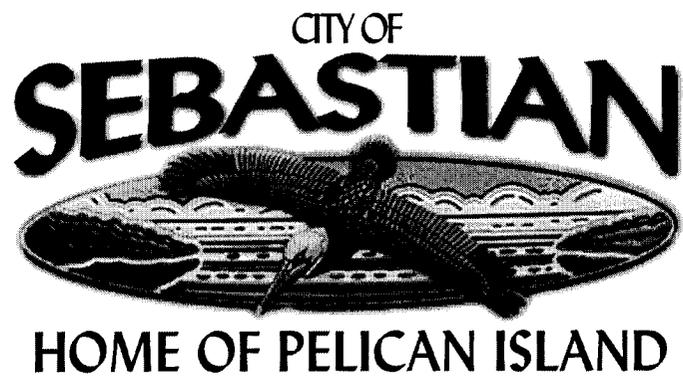


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SINGLE AUDIT SECTION

The Single Audit Section contains various independent auditor's reports and schedules as required by the Florida Single Audit Act, Chapter 215.97, Florida Statutes for state and local governments that receive state assistance.

- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards
- Independent Auditor's Report on Compliance and Internal Control over Compliance to Each Major State Project
- Schedule of Findings and Questioned Costs – State Projects
- Schedule of Expenditures of State Financial Assistance



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Certified Public Accountants - Chartered

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**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Honorable Mayor and Members of City Council
City of Sebastian
Sebastian, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sebastian, Florida as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Sebastian, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sebastian, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Sebastian in a separate letter, Independent Auditors' Management Letter Comments, dated December 8, 2006.

Honorable Mayor and Members of City Council
City of Sebastian
Page two

This report is intended solely for the information and use of the City of Sebastian, Florida and management, state awarding agencies and pass-through entities, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

*Harris, Cotherman, Jones, Price & Associates
Certified Public Accountants - Chartered*

Harris, Cotherman, Jones, Price & Associates, Chartered
Certified Public Accountants

December 8, 2006



**Harris, Cotherman,
Jones, Price & Associates**

Certified Public Accountants - Chartered

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Tel 772-234-8484
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**Independent Auditors' Report on Compliance and Internal Control Over Compliance
to Each Major State Project**

Honorable Mayor and Members of City Council
City of Sebastian
Sebastian, Florida

Compliance

We have audited the compliance of the City of Sebastian, Florida with the types of compliance requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major state projects for the year ended September 30, 2006. The City of Sebastian, Florida's major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state projects is the responsibility of the City of Sebastian, Florida's management. Our responsibility is to express an opinion on the City of Sebastian, Florida's compliance based on our audit.

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 Chapter 10.550, Rules of the Auditor General. These standards and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the City of Sebastian, Florida'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 of Sebastian, Florida's compliance with those requirements.

In our opinion, the City of Sebastian, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major state projects for the year ended September 30, 2006. However, we noted a certain matter that we reported to management of the City of Sebastian in a separate letter, Independent Auditors' Management Letter Comments, dated December 8, 2006.

Honorable Mayor and Members of City Council
City of Sebastian
Page two

Internal Control Over Compliance

The management of the City of Sebastian, Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state projects. In planning and performing our audit, we considered the City of Sebastian, Florida's internal control over compliance with requirements that could have a direct and material effect on a major state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with Chapter 10.550, Rules of the Auditor General.

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

This report is intended solely for the information and use of the City of Sebastian, Florida and management, state awarding agencies and pass-through entities, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

*Harris, Cotherman, Jones, Price & Associates
Certified Public Accountants - Chartered*

Harris, Cotherman, Jones, Price & Associates, Chartered
Certified Public Accountants

December 8, 2006

CITY OF SEBASTIAN, FLORIDA
Schedule of Findings and Questioned Costs
State Projects
Fiscal Year Ended September 30, 2006

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Internal control over major State projects:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified not considered
to be material weaknesses? _____ Yes X None reported

Type of auditors’ report issued on compliance for
major projects: **Unqualified**

Any audit findings disclosed that are required to be
reported in accordance with Chapter 10.550,
rules of the Auditor General? _____ Yes X No

Identification of major State projects:

<u>Name of State Project</u>	<u>State CSFA No.</u>
Florida Department of Transportation:	
Security Improvements	55.004
Construct Fuel Farm	55.004
Infrastructure Development	55.004
Construct Access Roads	55.004
Install Security Upgrades	55.004
Business Plan	55.004
Install Airfield Signage and Lighting	55.004
Rehab Taxiway A and Apron and Construction	
Administration Building Apron	55.004
Florida Department of Environmental Protection:	
Riverview Park Expansion	37.017
Dollar threshold used to distinguish between Type A and Type B projects:	<u>\$300,000</u>

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR STATE PROJECTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR STATE PROJECTS

No matters were reported.

City of Sebastian, Florida
Schedule of Expenditures of State Financial Assistance
For the year ended September 30, 2006

State Agency		Contract	
Pass-through Entity	CSFA	Grant	
<u>State Project</u>	<u>No.</u>	<u>No.</u>	<u>Expenditures</u>
 Department of Environmental Protection			
Direct Project			
Florida Recreation Development Assistance Program			
Riverview Park Expansion	37.017	F03394	\$ 161,857
Total Department of Environmental Protection			<u>161,857</u>
 Department of Transportation			
Direct Projects:			
Joint Participation Agreement with Florida			
Department of Transportation Aviation			
Administration:			
Infrastructure Development	55.004	407682-1-94-01	175,241
Construct Access Roads	55.004	407706-1-94-01	35,601
Install Security Upgrades	55.004	412373-1-94-01	355,550
Security Improvements	55.004	236232-1-94-01	143,160
Rehab Taxiway A & Apron and Construct Administration			
Building Apron	55.004	415216-1-94-01	3,293
Construct Fuel Farm	55.004	412399-1-94-01	30,580
Business Plan	55.004	236223-1-94-01	26,404
Install Airfield Signage and Lighting	55.004	412374-1-94-01	35,577
 District Maintenance			
Lighting Maintenance and Compensation Agreement	55.023	405122-1-72-10	16,998
Total Department of Transportation			<u>822,404</u>
 Department of State			
Direct Project			
Division of Historical Resources			
2002 Special Category Grant	45.032	SC356	25,605
Total Department of State			<u>25,605</u>
 TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE:			 <u>\$ 1,009,866</u>

The accompanying notes are an integral part of the audit.

City of Sebastian, Florida
Notes to Schedule of Expenditures of State Financial Assistance
September 30, 2006

The accounting policies and presentation of the Single Audit Report of City of Sebastian, Florida, (the "City") have been designed to conform to generally accepted accounting principles as applicable to governmental unites, including the reporting and compliance requirements of the Audits of State, Local Governments, and Non-Profit Organizations and the Florida Single Audit Act.

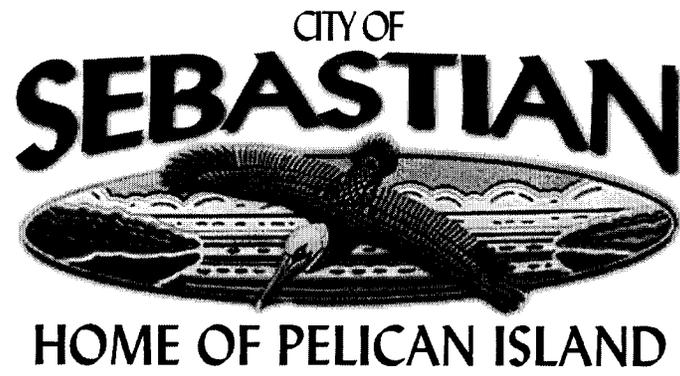
A. Reporting Entity

The reporting entity consists of City of Sebastian, the primary government, and each of its component units. The City includes a Schedule of Expenditures of State Financial Assistance in the Single Audit Section. For FY 2005-06, none of the federal awarded program expenditures has met the Federal Single Audit threshold; therefore, the Schedule of Expenditures of Federal Awards is not applicable in the Single Audit Section.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurements made, regardless of the measurement focus.

The modified accrual basis of accounting is followed in the Schedule of Expenditures of State Financial Assistance. Under the modified accrual basis, revenues are recognized when they become 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 considered revenues to be available if they are collected within one year after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.



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**Harris, Cotherman,
Jones, Price & Associates**

Certified Public Accountants - Chartered

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Vero Beach, FL 32963
Tel 772-234-8484
Fax 772-234-8488

**Independent Auditors'
Management Letter**

Honorable Mayor and Members of City Council
City of Sebastian
Sebastian, Florida

We have audited the financial statements of the City of Sebastian, Florida, as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated December 8, 2006.

We conducted our audit in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Florida Single Audit Act. We have issued our Independent Auditors' Report on Compliance and Internal Control over financial reporting, Independent Auditors' Report on Compliance and Internal Control over Compliance applicable to each major State Project, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated December 8, 2006, should be considered in conjunction with this management letter.

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

The rules of the Auditor General (Section 10.554(1)(h)1) require that we address in the management letter, if not already addressed in the auditors' reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. All findings and comments in the prior year have been resolved to our satisfaction.

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

The Rules of the Auditor General (Section 10.554(1)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such findings.

The Rules of the Auditor General (Section 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on compliance and internal controls or schedule of findings and questioned costs: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures, (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the

Honorable Mayor and Members of City Council
City of Sebastian
Page two

financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. We noted the following matter in regards to non-compliance with F.S. 189.418(3):

During the current year it was noted that the City of Sebastian's Community Redevelopment Agency (CRA) did have an approved budget as required by Florida Statutes. However, the CRA's budget was not authorized by resolution as per F.S. 189.418(3). We recommend the CRA's budget be adopted by resolution annually to meet this State requirement for compliance.

The Rules of the Auditor General (Section 10.554(1)(h)5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The legal authority for the City of Sebastian, Florida is disclosed in the footnotes. The City of Sebastian, Florida's component unit, the Police Officer's Pension Plan, was established under Section 58-46 through 58-54 Code of Ordinances in October 1989.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.a), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit, we determined that the City of Sebastian, Florida has not met any of the financial emergency conditions described in Section 218.503(1), Florida Statutes.

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

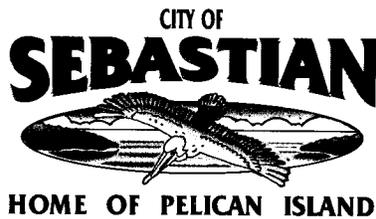
As required by the Rules of the Auditor General (Section 10.554(1)(h)6.c. and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same.

This report is intended solely for the information and use of the City of Sebastian, Florida and management, federal and state awarding agencies and pass through entities, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Harris, Cotherman, Jones, Price & Associates
Certified Public Accountants - Chartered

Harris, Cotherman, Jones, Price & Associates, Chartered
Certified Public Accountants

December 8, 2006



1225 MAIN STREET • SEBASTIAN, FLORIDA 32958
TELEPHONE: (772) 589-5330 • FAX (772) 589-5570

January 25, 2007

Harris, Cotherman, Jones, Price, & Associates
5070 North Highway, A1A, Suite 250
Vero Beach, Florida 32963

Gentlemen:

The following is my response to the management comment for the FY 2005-2006.

Community Redevelopment Agency (CRA) Budget Authorization:

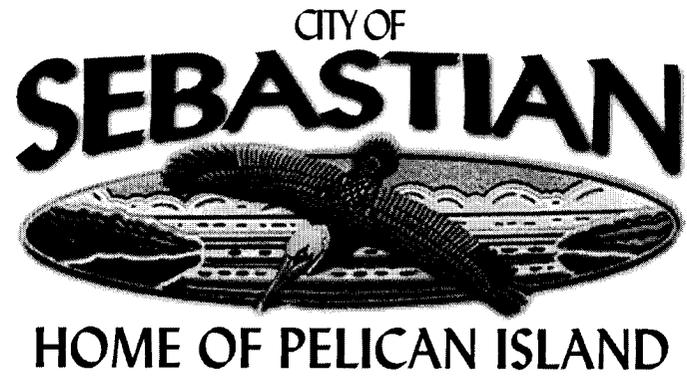
We concur with your finding as to what is stated in the comment; the City did have an approved CRA budget for FY 2005-2006 as required by Florida State Statutes. However, the CRA FY 2005-2006 budget was not authorized by resolution as per F.S. 189.418(3). The City has corrected this compliance issue by adopting the CRA FY 2006-2007 annual budget with a resolution.

I would like to thank your audit staff for their professional assistance and comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Al Winner", with a long horizontal flourish extending to the right.

Al Winner
City Manager



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