

COMPREHENSIVE ANNUAL FINANCIAL REPORT



**For the Fiscal Year
October 1, 2003
through
September 30, 2004**

**CITY OF
SEBASTIAN
Florida**



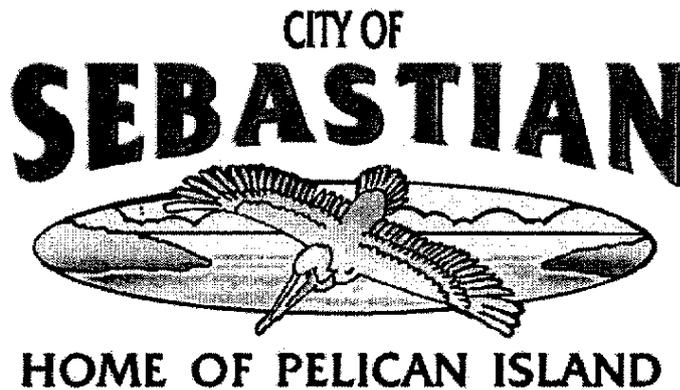
City of Sebastian Municipal Complex and Police Department Expansion

In 2003, the City of Sebastian issued two (2) series of infrastructure sales surtax revenue bonds in the amounts of \$9,500,000 and \$2,125,000 respectively, to be used to finance the construction and equipping of a new city hall complex, renovation and expansion of the police station, renovation of an existing historic school building (old city hall), and construction of a city hall park.

The groundbreaking ceremony was held on September 25, 2003. REG Architects, West Palm Beach, FL designed a Florida Mediterranean Vernacular style City Hall and Police Station expansion. The new two-story, 23,000 square foot City Hall design complements the current City Hall building, which will be converted for community use. The Police Station is a one-story 19,000 square foot facility. The new City Council chambers features a state of the art broadcast and production center.

The total construction period for the new City Hall and Police Department expansion was approximately 14 months. The Municipal Complex Dedication Ceremony was held December 8, 2004 at the new city hall courtyard area. Festivities included an open house for both buildings. Our city staff as well as various past and present City Officials hosted this gala, with tours of both buildings provided for staff family and citizens of our community.

CITY OF SEBASTIAN, FLORIDA



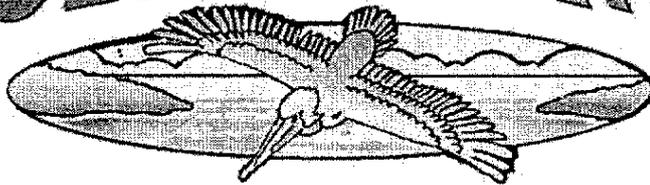
Comprehensive Annual Financial Report For the Year Ended September 30, 2004

CITY COUNCIL

Nathan McCollum Mayor
Joe Barczyk Vice-Mayor
Ray Coniglio..... Councilmember
Mike Heptinstall Councilmember
Lisanne Monier..... Councilmember

Prepared By: Shai Francis, CPA, CGFO
Director of Finance

CITY OF
SEBASTIAN



HOME OF PELICAN ISLAND

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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, 2003
- Organizational Chart
- List of Officials

CITY OF SEBASTIAN, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2004

TABLE OF CONTENTS

INTRODUCTORY SECTION	Page
Title Page.....	i
Table of Contents.....	iv
Letter of Transmittal.....	vii
Certificate of Achievement for Excellence in Financial Reporting.....	xi
Organizational Chart.....	xii
List of Officials.....	xiii
 FINANCIAL SECTION	
Independent Auditor’s Report.....	3
Management’s Discussion and Analysis.....	5
<u>Basic Financial Statements</u>	
<u>Government-wide Financial Statements:</u>	
Statement of Net Assets.....	15
Statement of Activities.....	16
<u>Fund Financial Statements:</u>	
Balance Sheet – Governmental Funds.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	19
Statement of Net Assets – Proprietary Funds.....	20
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.....	21
Statement of Cash Flows – Proprietary Funds.....	22
Statement of Fiduciary Net Assets – Fiduciary Funds.....	24
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund.....	25
<u>Notes to Financial Statements</u>	26
<u>Required Supplementary Information:</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.....	44
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Discretionary Sales Tax Special Revenue Fund.....	45
Notes to the Required Supplementary Information – Budget Comparisons.....	46
Police Officers’ Pension Plan – Schedule of Contributions from the Employer and other Contributing Entities.....	47
<u>Combining and Individual Fund Statements and Schedules</u>	
Combining Balance Sheet – Nonmajor Governmental Funds.....	50
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	54
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Community Development Block Grant Fund.....	57
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Local Option Gas Tax Special Revenue Fund.....	58
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Riverfront Redevelopment Special Revenue Fund.....	59
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Recreation Impact Fee Special Revenue Fund.....	60
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Stormwater Utility Special Revenue Fund.....	61
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Law Enforcement Forfeiture Special Revenue Fund.....	62

	<u>Page</u>
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – G.R.E.A.T. Program Special Revenue Fund	62
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Special Assessment Revenue Bonds 1996 Debt Service Fund	63
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Stormwater Utility Revenue Bonds 2003 Debt Service Fund	64
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Discretionary Sales Surtax Revenue Bonds 2003 Debt Service Fund	65
Statement of Changes in Assets and Liabilities – Agency Fund.....	66
Capital Assets Used in the Operation of Governmental Funds – Comparative Schedule by Source.....	67
Capital Assets Used in the Operation of Governmental Funds – Schedule by Function and Activity	68
Capital Assets Used in the Operation of Governmental Funds – Schedule of Changes by Function and Activity	69

STATISTICAL SECTION (Unaudited)

Financial Trends

Net assets by Component – Last Four Fiscal Years	73
Changes in Net Assets – Last Four Fiscal Years	74
Fund Balances, Governmental Funds – Last Ten Fiscal Years	76
Changes in Fund Balances, Governmental Funds – Last Ten Fiscal Years	78
Program Revenues by Function/Program – Last Four Fiscal Years	80

Revenue Capacity

Tax Revenues by Source, Governmental Funds – Last Ten Fiscal Years	81
Property Tax Rates, Direct and Overlapping Governments – Last Ten Fiscal Years	82
Assessed Valuation and Estimated True Values of Taxable Property – Last Ten Fiscal Years	84
Principal Taxpayers – Year 2004 and Year 1998	86
Property Tax Levies and Collections – Last Ten Fiscal Years	87

Debt Capacity

Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	88
Computation of Legal Debt Margin – September 30, 2004	89
Direct and Overlapping Governmental Activities Debt, General Obligation Bonds – September 30, 2004	89
Ratios of General Bonded Debt Outstanding and Legal Debt Margin – Last Six Fiscal Years	90
Pledged Revenue Coverage – Last Ten Fiscal Years	92

Economic and Demographic Information

Demographic and Economic Statistics – Last Ten Years	94
Principal Employers – Year 2003 and Five Years Ago	96

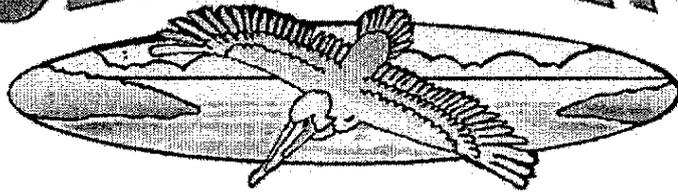
Operating Information

Full-time Equivalent City Government Employees by Function/Program – Last Nine Fiscal Years	97
Operating Indicators by Function/Program – Last Six Fiscal Years	98
Capital Asset Statistics by Function/Program – Last Six Fiscal Years	99

SINGLE AUDIT SECTION

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 <u>Governmental Auditing Standards</u>	103
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	105
Schedule of Findings and Questioned Costs – Federal Programs and State Projects	107
Schedule of Expenditures of Federal Awards and State Financial Assistance	111
Independent Auditor's Management Letter	113

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HOME OF PELICAN ISLAND

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

February 28, 2005

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, 2004, as prepared by the City's Finance department. Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the Management of the City.

The Comprehensive Annual Financial Report is presented in four sections:

1. Introductory section, including a table of contents, this letter of transmittal, the organizational chart, and list of officials.
2. Financial section, including the Management Discussion and Analysis, basic financial statements accompanied by our independent auditor's report, notes to financial statements, required supplementary information, and the combining and individual fund financial statements and schedules.
3. Statistical section, including selected financial and demographic and economic information, generally presented for the past 10 years.
4. Single audit section, including our independent auditor's reports and Schedule of Expenditures of Federal Awards and State Financial Assistance.

The report also complies in all material respects with the authoritative promulgations by the Governmental Accounting Standards Board (GASB). An explanation of the City's accounting policies is contained in the Notes to Financial Statements, which are an integral part of this Report. These Notes explain the basis of accounting, funds and accounts used, and other significant accounting information.

U.S. generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Sebastian's MD&A can be found on page 5 following the report of the independent auditors.

INDEPENDENT AUDIT

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, Hoyman, Dobson & Company, P.A, has issued an unqualified ("clean") opinion on the City of Sebastian's financial Statements for the year ended September 30, 2004. The independent auditor's report is located on page 3 and 4.

REPORTING ENTITY

The City of Sebastian is located on the central east coast of Florida, "the Treasure Coast", in Indian River

County. The City is a Florida municipal corporation with a five-member City Council comprised of five council members with a Mayor selected from the five members. The City operates under a Council-City Manager form of government. The Director of Finance reports to the City Manager and he/she is responsible for the administration of City finances. The City provides a wide range of services including general government administration, police protection, public works, a golf course, and a general aviation airport.

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.

FACTORS AFFECTING FINANCIAL CONDITIONS

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

Local Economy

The City of Sebastian currently enjoys a favorable economic environment and local indicators (building permits, both commercial and residential) suggest continued stability. The region, though agricultural in nature, also enjoys light industrial as well as a strong retail base, which draws numerous visitors from around the area.

The region (which includes the City of Sebastian and the surrounding unincorporated area with 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 6.5% and 9.7% over the past ten years.

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.

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% and the assessed value for real property has increased by 21.5%. Construction activity in fiscal year 2004 was strong with 577 permits being issued for new construction with a value of \$112 million. This was an increase of 35.9% from last year and sets a new record for annual construction value.

Six major annexations were adopted by City Council in fiscal year 2004, adding 484 acres to our city limits. These properties will provide 1,118 residential single-family lots and 14 acres of commercial development. There are three additional annexations currently under review. The annexations will have a significant impact on the property tax base and property tax revenues. In fiscal year 2004, a site plan was approved for an apartment complex containing 150 dwelling units, which is currently under construction. A number of other commercial projects have been completed during the fiscal year including, two general retail buildings, a hotel addition, a bait shop, a contractor trade building, an animal hospital, a mini-warehouse building, a gym, and several buildings at the airport.

FINANCIAL INFORMATION

Internal Accounting Controls

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurances regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and

(2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits requires estimates and judgments of management. All internal control evaluations occur within this framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Control

Budgetary control is maintained at the budget account level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Open encumbrances are reported as reservations of fund balances as of September 30, 2004. Appropriations are approved on an annual basis and are subject to regular review by City Management and a quarterly review by the City Council. Monthly budget reports are submitted to senior administrative officials and are available to the City Council.

Cash Management

In accordance with Section 218.415, Florida Statutes, the City adopted an investment policy, which guides the investment of City surplus funds. This policy establishes investment objectives, maturity and liquidity requirements, portfolio composition, risk and diversification requirements, and authorized investments. The primary objectives of the investment activities are to preserve capital and maintain sufficient liquidity to meet anticipated cash flow needs. The secondary objective is to obtain competitive returns on the investment of City's surplus funds. Surplus funds were invested in U.S. agency obligations, the Florida Local Government Surplus Funds Trust Fund, and Certificate of Deposits. Funds were invested with local banks, which are considered Qualified Public Depositories as described in the Florida Security for Public Deposits Act. In addition, the City maintains a zero balance disbursement account system whereby excess funds are cleared from the checking account at the end of each banking day and automatically invested in an overnight repurchase agreement. During fiscal year 2004, City investments had yields ranging from 1.972% to 3.075%. The average yield of the portfolio as of September 30, 2004 was 2.683%.

Risk Management

All risk management activities are recorded in each particular fund, including general property liability insurance premiums and related costs, and workers compensation. The City administers both policies under the direction of the Finance and Human Resources departments, respectively. In addition, the City has a Safety Committee that reviews all workers compensation accidents and provides recommendations for corrective action.

Retirement Commitments

Police Officers' Pension Plan – There were 34 active and retired members in the Police Officers' Pension Plan as of September 30, 2004. This pension plan is a single employer, defined benefit plan and is administered by a Board of Trustees. The actuarially determined funding requirements are based upon the market value of the pension plan's investment portfolios. The City's policy of funding to meet the actuarially determined requirements was met for 2004. Contributions to the pension plan totaled \$353,719, which includes \$174,780 from the City, \$72,224 from employees, and \$106,715 from the State of Florida.

Other Retirement Plans – The City offers a CWA/ITU Negotiated Plan for non-exempt employees and a 401 Plan for exempt employees. The CWA/ITU Negotiated Plan is a defined benefit plan. The contribution rate from the City was 9% for fiscal year 2003-2004. Employees do not contribute to the plan. There is a five years of service credit required for normal pension. The 401 Plan is a defined contribution plan. The contribution rate from the City was 9% for fiscal year 2003-2004. Employees do not contribute to the plan. There is no vesting period requirement.

MAJOR INITIATIVES

City Hall Municipal Complex - In 2003, the City of Sebastian issued two (2) series of infrastructure sales surtax revenue bonds in the amounts of \$9,500,000 and \$2,125,000 respectively, to be used to finance the

Construction and equipping of a new city hall complex, renovation and expansion of the police station, renovation of an existing historic school building (old city hall), and construction of a city hall park. The total construction period for the new City Hall and Police Department expansion was approximately 14 months. The Municipal Complex Dedication Ceremony was held December 8, 2004. The contractors are presently constructing the city hall park, to be followed by the renovation of the old city hall.

Airport – In 2004, the municipal airport had two (2) major projects underway totaling over \$2.6 million. The first major project is the rehabilitation of Runway 9/27, Phase II, which includes the refurbishment of the existing pavement and the construction of a new parallel taxiway. The estimated costs for the project are \$1.2 million, with \$1.1 million funded through the FAA, \$61,500 funded through the FDOT, and \$61,500 funded by the airport operating fund. Also under construction is the airport administration building with total estimated costs of \$1.9 million. This facility will house the public works, engineering and airport administration staff, as well as a police evidence compound. The FDOT is providing \$833,500 in assistance for this project.

Stormwater Drainage Improvements – In 2003, the City of Sebastian issued one (1) series of stormwater utility revenue bonds in the amount of \$5,630,000, to be used for stormwater improvements in accordance with the City's Stormwater Master Plan. There are eight (8) projects (problem areas) that have been selected for stormwater drainage problems, with the biggest project involving conversion of a canal to wet detention, including dredging and seawall modification. Engineers are presently working on the design and permitting.

Louisiana Avenue Improvements – In 2003, the City of Sebastian was awarded a Community Development Block Grant (CDBG) in the amount of \$700,000. This neighborhood revitalization program is being utilized for the engineering, realigning and reconstruction of Louisiana Avenue. As of 9/30/04, the notice to proceed for construction to begin was being approved.

REPORTING ACHIEVEMENT

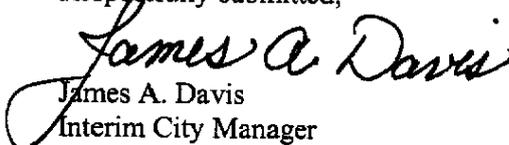
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sebastian for its comprehensive annual financial report for the fiscal year ended September 30, 2003. The Certificate of Achievement 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.

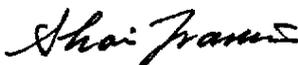
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

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,


James A. Davis
Interim 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, 2003

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



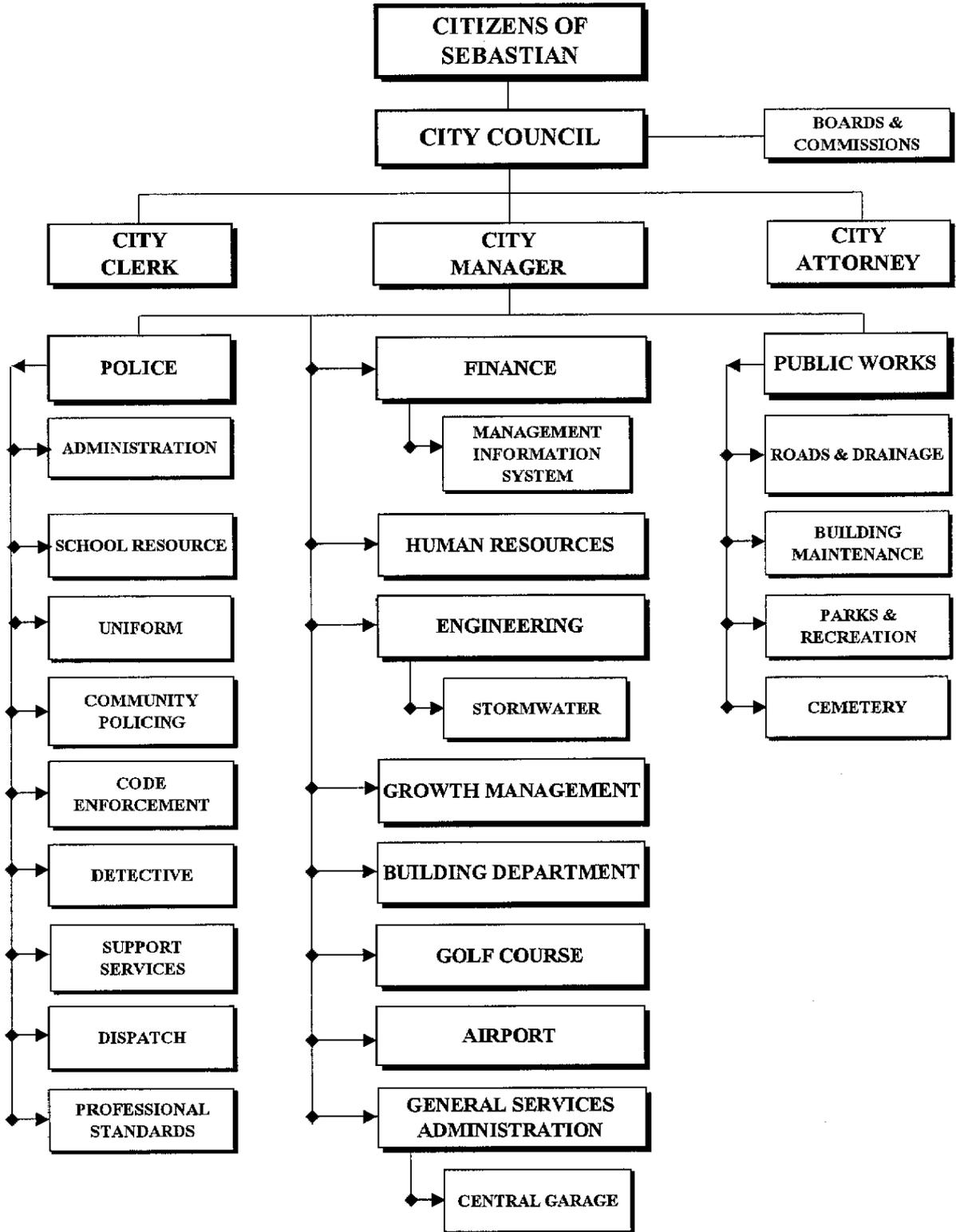
Nancy L. Zielle

President

Jeffrey R. Emer

Executive Director

**CITY OF SEBASTIAN, FLORIDA
ORGANIZATIONAL CHART**



CITY OF SEBASTIAN, FLORIDA

CITY OFFICIALS

Interim City Manager

JAMES A. DAVIS

City Clerk

SALLY A. MAIO, CMC

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.

Public Works Director

TERRY HILL

Growth Management Director

TRACY HASS

Building Director

WAYNE ESELTINE

Human Resources Director

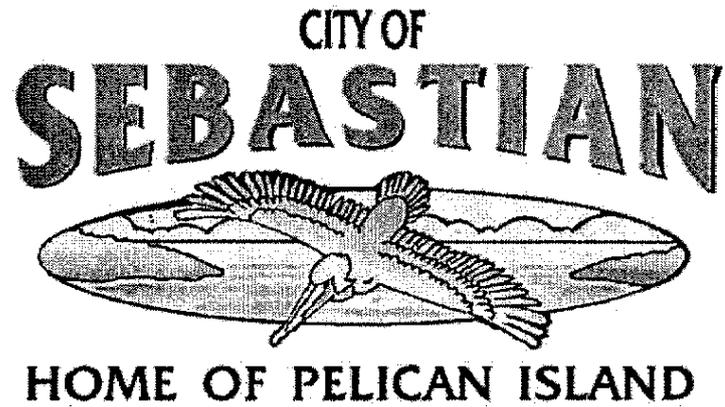
JAMES SEXTON

Golf Course Manager

GREG GARDNER

Airport Manager

JASON MILEWSKI



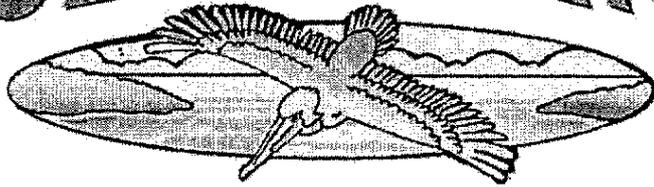
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FINANCIAL SECTION

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

CITY OF
SEBASTIAN



HOME OF PELICAN ISLAND

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Charles W. Hoyman, Jr.
Barbara J. Oswald
Thomas L. Kirk
Karen E. Kirkland
Deborah A. Bradley
DIRECTOR EMERITUS
Roger W. Dobson
Eugene K. Bjerning

Independent Auditor's 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, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of 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 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, 2004, 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 Government Auditing Standards, we have also issued our report dated February 23, 2005, on our consideration of the City of Sebastian, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5-14 and the required supplementary information on pages 44-47 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sebastian, Florida's basic financial statements. The introductory section, combining and individual fund statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules 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 the statistical section 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 federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; 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.

Hoyman, Dobson & Company, P.A.
Hoyman, Dobson & Company, P.A.
February 23, 2005

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 vii) 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 2004 by \$34,126,822 (net assets). Of this amount, \$8,883,780 (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 \$5,568,351. The increase is mainly attributable to increases in tax revenues, building permit fees, and airport grants.
- As of the close of current fiscal year, the City's governmental funds reported combined ending fund balance of 19,473,662, an increase of \$1,789,313 in comparison with the prior year. Approximately 65% of this amount, \$12,566,642, 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 \$2,416,042, or a 14% increase from prior year general fund unreserved and undesignated fund balance. The key factor in this increase was the increase in tax revenue collections.
- The City's total debt increased by \$6,866,468 (44%) during the current fiscal year. The key factor in this increase was the issuance of \$2,125,000 Infrastructure Sales Surtax Revenue Bonds, Series 2003A and \$5,630,000 Stormwater Utility Revenue Bonds, Series 2003.

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 and 16) 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 17. 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. Property 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 and Airport are reported here.

Fund Financial Statements

Our analysis of the City's major funds begins on page 17. 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, stormwater utility improvements capital project fund, and public facility 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 48.

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 17-19 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 20-23 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 24 and 25. 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 26-43 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 44-47 of this report.

THE CITY AS A WHOLE

Financial Analysis of the City as a Whole

The City's combined net assets increased \$5.5 million from \$28.6 million to \$34.1 million or 19%. 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, 2004 and 2003
(in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 22,069	\$ 19,393	\$ 3,079	\$ 2,254	\$ 25,148	\$ 21,647
Capital assets	28,114	20,243	6,105	3,608	34,219	23,851
Total assets	<u>\$ 50,183</u>	<u>\$ 39,636</u>	<u>\$ 9,184</u>	<u>\$ 5,862</u>	<u>\$ 59,367</u>	<u>\$ 45,498</u>
Non-current liabilities	\$ 19,561	\$ 12,505	\$ 1,663	\$ 1,832	\$ 21,224	\$ 14,337
Other liabilities	2,979	2,095	1,037	507	4,016	2,602
Total liabilities	<u>\$ 22,540</u>	<u>\$ 14,600</u>	<u>\$ 2,700</u>	<u>\$ 2,339</u>	<u>\$ 25,240</u>	<u>\$ 16,939</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 16,412	\$ 16,339	\$ 4,265	\$ 1,546	\$ 20,677	\$ 17,885
Restricted	4,060	3,236	506	505	4,566	3,741
Unrestricted	7,171	5,461	1,713	1,472	8,884	6,933
Total net assets	<u>\$ 27,643</u>	<u>\$ 25,036</u>	<u>\$ 6,484</u>	<u>\$ 3,523</u>	<u>\$ 34,127</u>	<u>\$ 28,559</u>

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

Total net assets of the governmental activities increased from \$25.036 million to \$27.643 million. Total net assets for business-type activities increased from \$3.523 million to \$6.484 million.

The increase in governmental activities current and other assets and long-term and current liabilities is primarily due to the increase in tax revenue collections, building permit fees and issuance of the Series 2003A Infrastructure Sales Surtax Revenue Bonds (\$2.125 million) and Series 2003 Stormwater Utility Revenue Bonds. (\$5.63 million). The bond proceeds from the Infrastructure Sales Surtax Revenue Bonds, Series 2003A will be used to pay for construction of the new city hall complex, renovation and expansion of the police station, renovation of the old city hall, and construction of a city hall park. The bond proceeds from the Stormwater Utility Revenue Bonds, Series 2003 will be used to fund stormwater related capital projects in accordance with the City's stormwater master plan. Governmental activities capital assets increased due to ongoing road paving, public facilities, transportation, and stormwater and drainage projects.

The increase in net assets of the City's business-type activities is primarily due to capital grants from the Federal Aviation Administration and the Florida Department of Transportation for the City's municipal airport. Net assets – invested in capital assets, increased due to capitalization of the City's ongoing airport projects.

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, 2004 and 2003
(in thousands)**

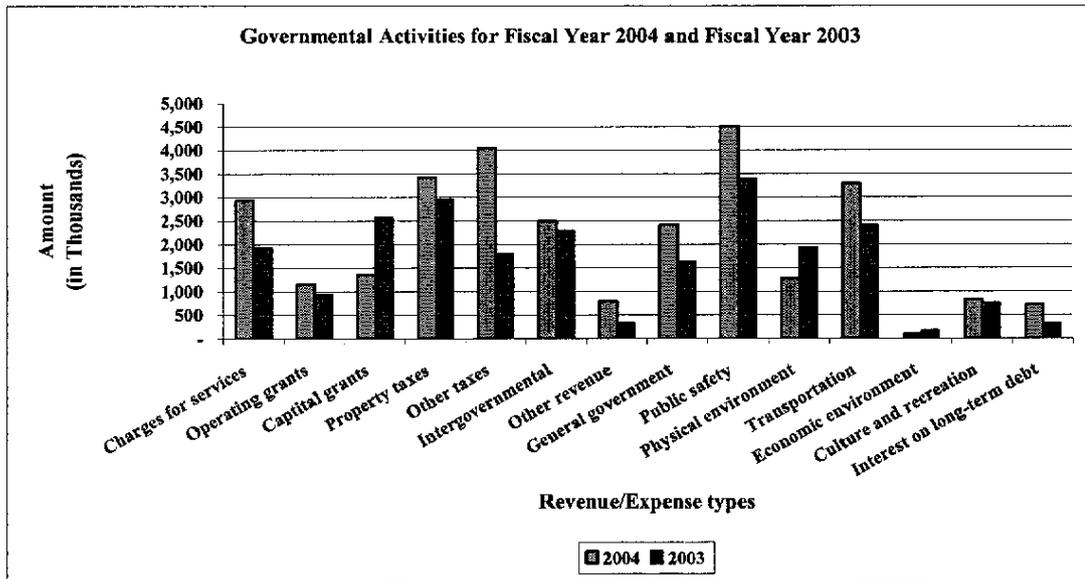
	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
REVENUES						
Program revenues:						
Charges for services	\$ 2,936	\$ 1,919	\$ 1,850	\$ 1,546	\$ 4,786	\$ 3,465
Operating grants and contributions	1,145	921	68	-	1,213	921
Capital grants and contributions	1,354	2,566	2,451	1,149	3,805	3,715
General revenues:						
Property taxes	3,421	2,944	-	-	3,421	2,944
Other taxes	4,035	1,781	-	-	4,035	1,781
Intergovernmental	2,493	2,280	-	-	2,493	2,280
Other	786	321	24	31	810	352
Total revenues	16,170	12,732	4,393	2,726	20,563	15,458
EXPENSES						
General government	2,415	1,621	-	-	2,415	1,621
Public safety	4,502	3,392	-	-	4,502	3,392
Physical environment	1,279	1,920	-	-	1,279	1,920
Transportation	3,289	2,401	-	-	3,289	2,401
Economic environment	86	166	-	-	86	166
Culture and recreation	824	748	-	-	824	748
Golf Course	-	-	1,527	1,363	1,527	1,363
Airport	-	-	351	316	351	316
Interest and fiscal charges	722	312	-	-	722	312
Total expenses	13,117	10,560	1,878	1,679	14,995	12,239
Change in net assets before transfers	3,053	2,172	2,515	1,047	5,568	3,219
Transfers	(446)	(534)	446	534	-	-
Increase in net assets	2,607	1,638	2,961	1,581	5,568	3,219
Net assets - October 1, 2003	25,036	23,398	3,523	1,942	28,559	25,340
Net assets - September 30, 2004	\$ 27,643	\$ 25,036	\$ 6,484	\$ 3,523	\$ 34,127	\$ 28,559

Overall the total revenues increased \$5.105 million from the previous year. The total cost of all programs increased by 22.5% (\$2.756 million). Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

Governmental activities revenues exceed expenses by \$3.053 million. Total revenues increased approximately \$3,438 million from the previous year. Increases in property values generated an increase in property taxes. The strong local economy plus population growth of the City contributed to increases in charges for services, sales taxes and state shared revenues. The increase also includes the anticipated FEMA reimbursements and property insurance reimbursements for the two major hurricanes, which impacted the City during the last month of operations. Total expenses increased \$2.557 million from the previous year. Increased spending during the last month of operations due to the hurricanes for public safety (law enforcement) and transportation is primarily responsible for the increase in expenses.

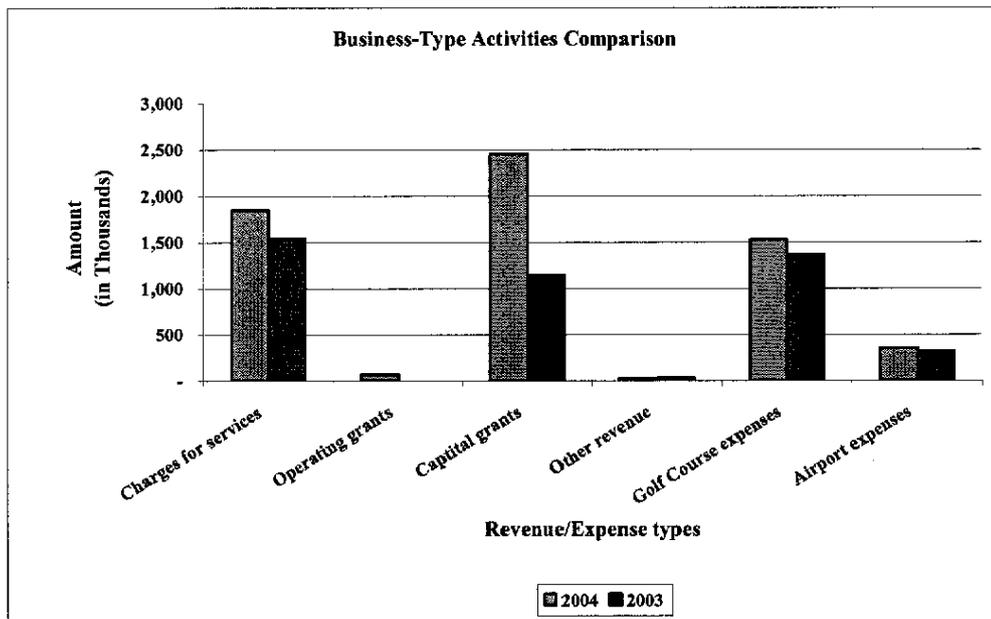
The following is a graphic illustration of the comparison for governmental activities revenue and expenses.



Business-type Activities

Revenues of the City's business-type activities (see Table 2) increased by 61% (\$4.393 million in fiscal year 2004 compared to \$2.726 million in fiscal year 2003) and expenses rose 11.85%. The City's Municipal Airport enjoys a continued interest by the Florida Department of Transportation-Aviation Section to upgrade the airport facilities as evidenced by repeated support via grant funding. Capital contributions increased by 113%, which constitutes a major part of the program revenue increases.

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 page 17) reported a combined fund balance of \$19.5 million, which is an increase of \$1.8 million over the prior year of \$17.7 million. Approximately 64.6% of this total amount (\$12.6 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 liquidate contracts and purchase orders of the prior period (\$3,246,083), 2) to pay debt service (\$468,744), 3) to fund the advances from general fund to airport capital project (\$1,000,000) 4) to fund the building code enforcement reserve (\$802,490), 5) to generate income to pay for the perpetual care of the municipal cemetery (\$542,999), or 6) for a variety of other restricted purposes (\$846,704).

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 \$2,416,042, while total fund balance reached \$5,114,892. 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 23 percent of total general fund expenditures, while total fund balance represents 49 percent of that same amount.

The fund balance of the City's general fund increased by \$1,233,042 during the current fiscal year. Key factors in this growth are as follows:

- Licenses and permits revenues increased significantly by \$989,823, as a result of annexations and area growth.
- Tax revenues increased by \$491,468, as a result of property value and population increase.

The **discretionary sales tax revenue special revenue fund** has a total fund balance of \$392,988, all of which is unreserved and undesignated. The slight increase of the total fund balance from prior year (\$330,656) is due to an increase in discretionary sales surtax collection, which is population driven.

The **stormwater utility improvements capital project fund** has a total fund balance of \$5,359,493. 15% of the total fund balance is reserved for encumbrances. The remaining 85% is available for spending at the City's discretion. The significant increase of the total fund balance from prior year (\$19,793) is due to the debt proceeds of the Stormwater Utility Revenue Bonds, Series 2003.

The **public facilities improvements capital project fund** has a total fund balance of \$2,364,545. 94% of the total fund balance is reserved for encumbrances. The remaining 6% is available for spending at the City's discretion. The significant decrease of the total fund balance from prior year (\$8,592,963) is due to the completion of the municipal complex project.

Proprietary Funds

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

Unrestricted net assets of the **golf course fund** at the end of the fiscal year amounted to \$661,077, and those for the **airport fund** amounted to \$1,051,580. The total growth in unrestricted net assets for both funds was \$140,330 and \$100,870, respectively. Other factors concerning the finances of these two 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 2003). 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 \$1,483,943 for tax revenues, encumbrances carried forward, and intergovernmental revenues. Following are the main components of the increase:

- \$979,628 supplemental appropriation to the public works department and police department for the debris clean up, property damages, and emergency overtime costs associated with the two major hurricanes impacted the City during the last month of its operations;
- \$136,414 supplemental appropriation to adequately fund management information system expenditures and workers' comp insurance premiums; and
- \$365,612 supplemental appropriation to all general fund departments for increase in insurance premiums as well as the encumbered amount carried forward from the prior fiscal year.

The increase is possible because of additional anticipated revenues. Those revenues included grant revenues associated with FEMA and the State for reimbursement of hurricane costs (\$690,573), insurance reimbursements associated with hurricane damages (\$281,348), an increase in actual collection of property taxes (\$78,949), an increase in collection of the building permit fees (\$53,369), and the encumbered amount carried forward from the prior fiscal year (\$281,860).

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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004 the City had \$48,096,853 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 \$11,416,042, or 31%, over last year. The following table illustrates the changes in capital assets. See page 34 and page 35 in the notes to the financial statements for detailed changes in capital assets.

Table 3

	Governmental		Business-type		Totals	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Land	\$ 4,653,603	\$ 4,653,603	\$ 9,060	\$ 9,060	\$ 4,662,663	\$ 4,662,663
Buildings	2,194,247	2,591,420	1,554,008	397,759	3,748,255	2,989,179
Improvements	2,431,270	2,310,380	710,405	797,517	3,141,675	3,107,897
Equipment	5,186,908	5,049,563	560,111	499,522	5,747,019	5,549,085
Infrastructure	15,766,358	15,021,381	2,547,667	2,374,021	18,314,025	17,395,402
Construction-in-Progress	9,769,145	1,634,161	2,714,071	1,342,424	12,483,216	2,976,585
Totals	\$ 40,001,531	\$ 31,260,508	\$ 8,095,322	\$ 5,420,303	\$ 48,096,853	\$ 36,680,811

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

- An increase in construction in progress mainly due to the new City Hall Complex project and Police Department expansion.

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

- An increase in construction in progress primarily due to the rehab of Runway 9-27 phase II and airport Access Road projects.
- An increase in building primarily due to the completion of the airport T-Hangar project.

Debt

At September 30, 2004, the City had \$21,265,049 in bonds, notes and capital leases outstanding versus \$14,718,499 at September 30, 2003 – an increase of 45% – as shown in the following table:

Table 4

	Governmental		Business-type		Totals	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Special assessment debt with governmental commitment	\$ -	\$ 77,615	\$ -	\$ -	\$ -	\$ 77,615
Infrastructure sales surtax revenue bonds, Series 2003	9,015,000	9,500,000	-	-	9,015,000	9,500,000
Infrastructure sales surtax revenue bonds, Series 2003A	2,125,000	-	-	-	2,125,000	-
Stormwater utility revenue bonds, Series 2003	5,525,000	-	-	-	5,525,000	-
Notes payable (backed by local option gas tax)	2,209,745	2,406,028	-	-	2,209,745	2,406,028
Capital lease obligation (backed by City)	550,451	672,528	-	-	550,451	672,528
Recreational facilities improvements and refunding revenue bonds, series 2001	-	-	1,839,853	2,062,328	1,839,853	2,062,328
Totals	\$ 19,425,196	\$ 12,656,171	\$ 1,839,853	\$ 2,062,328	\$ 21,265,049	\$ 14,718,499

The increase in debt is solely attributable to the issuance of Infrastructure Sales Surtax Revenue Bonds, Series 2003A and Stormwater Utility Revenue Bonds, Series 2003. The Infrastructure Sales Surtax Revenue Bonds,

Series 2003A (\$2,125,000) debt is to finance the additional construction costs of the new city hall complex, police department expansion, old city hall renovation and construction of a city hall park. Since the Infrastructure Sales Surtax Revenue Bonds, Series 2003A are insured by AAA rated insurance agencies, the bonds are rated AAA, which is the highest rating given by rating agencies. The Stormwater Utility Revenue Bonds, Series 2003 (\$5,630,000) debt is to finance the City's stormwater projects in accordance with the City's stormwater master plan. Since the Stormwater Utility Revenue Bonds, Series 2003 are insured by AAA rated insurance agencies, the bonds are rated AAA, which is the highest rating given by rating agencies.

The City's revenue refunding bond 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 37 through 39 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2005 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 2004 was 7.6% up slightly from 7.5% in the previous year and down from a high of 11% in 1994. This indicates that business growth in the area remains strong as evidenced by the construction of several new commercial establishments in the area. Still, employment in the county fluctuates seasonally due to farm workers. Continued stability and the increase of annual residential building permits issued provides a trend for steady economic development in the area.

These indicators were taken into account when adopting the General Fund budget for fiscal year 2005. Amounts available for appropriation in the General Fund budget are \$11,121,267, an increase of 3.4% from the final fiscal year 2004 budget of \$10,749,985. This is mainly due to increases in estimated property taxes and public services taxes to be received due to growth. The City will use these increases in revenues to finance programs we currently offer, as well as, the effect that we expect inflation to have on program costs. Budgeted expenditures are expected to increase 3.45%, to \$11,121,267 in fiscal year 2005, from \$10,749,985 in fiscal year 2004. This is due to the significant health insurance premium increases. In addition, the police PBA union contract negotiations that were not finalized at the end of September, had a significant impact on personnel cost projections, but were not included in the FY 2004-2005 General Fund adopted budget. If these estimates are realized, we anticipate the General Fund fiscal year 2005 result will be moderate.

As for the City's business-type activities, we expect the fiscal year 2005 results will also be moderate based upon current and future initiatives:

- The Airport is undergoing a reconstruction and economic development revitalization, as a result of master planning initiatives, primarily funded with Federal Aviation Administration and Florida State grants. In addition, the airport has entered into a lease agreement for T-hangers that are anticipated to increase revenue upon completion of construction. The results of operations, however, are expected to be modest for several years.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 552,009	\$ 70,558	\$ 622,567
Investments	8,579,364	1,530,153	10,109,517
Receivables	2,019,257	897,775	2,917,032
Special assessment receivable	14,872	-	14,872
Internal balances	19,906	(19,906)	-
Prepaid items	6,443	1,575	8,018
Inventory	33,572	9,189	42,761
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	49,555	-	49,555
Investments	9,613,612	506,006	10,119,618
Permanently restricted:			
Investments	472,313	-	472,313
Overfunded pension costs	122,006	-	122,006
Deferred charges	586,667	83,382	670,049
Capital assets not being depreciated:			
Land	4,653,603	9,060	4,662,663
Construction in progress	9,769,145	2,714,071	12,483,216
Capital assets (net of accumulated depreciation):			
Buildings	1,143,489	1,273,972	2,417,461
Improvements other than buildings	1,605,023	539,927	2,144,950
Machinery and equipment	1,873,369	156,628	2,029,997
Infrastructure	9,068,931	1,411,156	10,480,087
Total assets	<u>50,183,136</u>	<u>9,183,546</u>	<u>59,366,682</u>
LIABILITIES			
Accounts payable and other current liabilities	1,722,288	707,174	2,429,462
Matured bonds payable	885,000	240,000	1,125,000
Accrued interest payable	299,923	38,145	338,068
Due to other government	10,372	1,188	11,560
Deferred revenues	61,197	20,598	81,795
Rent concession liability	-	30,000	30,000
Non-current liabilities:			
Due within one year	411,510	2,129	413,639
Due in more than one year	19,149,648	1,660,688	20,810,336
Total liabilities	<u>22,539,938</u>	<u>2,699,922</u>	<u>25,239,860</u>
NET ASSETS			
Invested in capital assets, net of related debt	16,412,401	4,264,961	20,677,362
Restricted for:			
Capital projects	1,275,824	-	1,275,824
Debt service	468,744	316,690	785,434
Road projects	956,296	-	956,296
Perpetual care:			
Expendable	70,686	-	70,686
Nonexpendable	472,313	-	472,313
Building code enforcement	802,490	-	802,490
Other purposes	13,321	189,316	202,637
Unrestricted	7,171,123	1,712,657	8,883,780
Total net assets	<u>\$ 27,643,198</u>	<u>\$ 6,483,624</u>	<u>\$ 34,126,822</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, 2004

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,414,865	\$ 376,327	\$ 16,144	\$ -	\$ (2,022,394)	\$ -	\$ (2,022,394)
Public safety	4,502,109	1,660,032	180,678	10,000	(2,651,399)	-	(2,651,399)
Physical environment	1,279,257	850,887	-	63,431	(364,939)	-	(364,939)
Transportation	3,288,532	-	947,706	722,828	(1,617,998)	-	(1,617,998)
Economic environment	86,041	-	-	-	(86,041)	-	(86,041)
Cultural/recreation	823,974	48,590	-	557,700	(217,684)	-	(217,684)
Interest and fiscal charges	722,007	-	-	-	(722,007)	-	(722,007)
Total governmental activities	13,116,785	2,935,836	1,144,528	1,353,959	(7,682,462)	-	(7,682,462)
Business-type activities:							
Golf Course	1,527,051	1,648,308	67,576	-	-	188,833	188,833
Airport	350,949	201,890	-	2,451,212	-	2,302,153	2,302,153
Total business-type activities	1,878,000	1,850,198	67,576	2,451,212	-	2,490,986	2,490,986
Total government	\$ 14,994,785	\$ 4,786,034	\$ 1,212,104	\$ 3,805,171	(7,682,462)	2,490,986	(5,191,476)
General Revenues:							
Property taxes, levied for general purposes					3,420,971	-	3,420,971
Sales and use taxes					4,035,545	-	4,035,545
Franchise fees					770,600	-	770,600
State shared revenues					1,721,956	-	1,721,956
Interest earnings					398,158	23,774	421,932
Miscellaneous					388,562	261	388,823
Total general revenues					10,735,792	24,035	10,759,827
Transfers					(445,844)	445,844	-
Total general revenues and transfers					10,289,948	469,879	10,759,827
Change in net assets					2,607,486	2,960,865	5,568,351
Net assets - beginning					25,035,712	3,522,759	28,558,471
Net assets - ending					\$ 27,643,198	\$ 6,483,624	\$ 34,126,822

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

City of Sebastian, Florida

Balance Sheet

Governmental Funds

September 30, 2004

	General	Discretionary Sales Tax	Stormwater Utility Improvements	Public Facilities Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 81,796	\$ 19,177	\$ 15,971	\$ 7,310	\$ 477,310	\$ 601,564
Investments	4,568,314	177,413	5,346,203	2,843,901	5,729,458	18,665,289
Accounts receivables	491,316	-	-	4,393	-	495,709
Special assessments receivable	14,872	-	-	-	-	14,872
Due from other funds	9,778	-	-	-	-	9,778
Due from other governments	1,117,849	196,391	-	-	92,237	1,406,477
Interest receivable	21,497	7	60,963	27,329	7,275	117,071
Inventory	33,572	-	-	-	-	33,572
Prepaid items	6,443	-	-	-	-	6,443
Advance to other funds	19,906	-	-	-	-	19,906
Total assets	\$ 6,365,343	\$ 392,988	\$ 5,423,137	\$ 2,882,933	\$ 6,306,280	\$ 21,370,681
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 1,164,010	\$ -	\$ 63,644	\$ 229,635	\$ 54,758	\$ 1,512,047
Retainage payable	-	-	-	288,753	-	288,753
Due to other governments	-	-	-	-	9,778	9,778
Advance from other funds	10,372	-	-	-	-	10,372
Deferred revenues	76,069	-	-	-	-	76,069
Total liabilities	1,250,451	0	63,644	518,388	64,536	1,897,019
Fund balances:						
Reserved for:						
Encumbrances	62,977	-	814,541	2,213,095	155,470	3,246,083
Advance to other funds	19,906	-	-	-	-	19,906
Debt service	-	-	-	-	468,744	468,744
Capital projects	980,094	-	-	-	-	980,094
Property and casualty	100,000	-	-	-	-	100,000
Cemetery care	-	-	-	-	542,999	542,999
Law enforcement	-	-	-	-	13,321	13,321
Emergency services	350,000	-	-	-	-	350,000
Equipment replacement	378,243	-	-	-	-	378,243
Building code enforcement	802,490	-	-	-	-	802,490
Unreserved:						
Designated for employee events	5,140	-	-	-	-	5,140
Undesignated, reported in:						
General fund	2,416,042	-	-	-	-	2,416,042
Special revenue funds	-	392,988	-	-	2,962,241	3,355,229
Capital project funds	-	-	4,544,952	151,450	2,098,969	6,795,371
Total fund balances	5,114,892	392,988	5,359,493	2,364,545	6,241,744	19,473,662
Total liabilities and fund balances	\$ 6,365,343	\$ 392,988	\$ 5,423,137	\$ 2,882,933	\$ 6,306,280	

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.	28,113,560
Negative net pension obligation resulting from overfunding of the police officers' pension plan.	122,006
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(19,780,979)
Accrued long term debt interest expenses are not financial uses, therefore, are not reported in the funds.	(299,923)
Special assessment receivables are not financial resources in the current period, therefore, are reported as deferred revenues.	14,872
Net assets of governmental activities	\$ 27,643,198

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

City of Sebastian, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2004

	General	Discretionary Sales Tax	Stormwater Utility Improvements	Public Facilities Improvements	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes:						
Property	\$ 3,169,976	\$ -	\$ -	\$ -	\$ 250,995	\$ 3,420,971
Public utility	1,854,632					1,854,632
Sales	-	2,180,913				2,180,913
Motor fuel	-				722,828	722,828
Franchise fees	770,600					770,600
Licenses and permits	1,867,920					1,867,920
Intergovernmental	2,844,245				271,275	3,115,520
Impact fees	-				557,700	557,700
Charges for services	118,965				843,712	962,677
Fines	108,788				10,130	118,918
Special assessments	-				28,424	28,424
Investment earnings	87,650	15,976	101,620	117,601	75,311	398,158
Contributions and donations	16,344				6,816	23,160
Other revenue	353,892				1,216	355,108
Total revenues	11,193,012	2,196,889	101,620	117,601	2,768,407	16,377,529
EXPENDITURES:						
Current:						
General government	2,269,504				152	2,269,656
Public safety	4,138,381				21,238	4,159,619
Physical environment	978,843				164,062	1,142,905
Transportation	2,280,756				633,179	2,913,935
Economic environment	-				86,041	86,041
Culture and recreation	769,042				2,177	771,219
Debt Service:						
Principal	-				985,974	985,974
Interest and fiscal charges	-				887,564	887,564
Capital projects	-		168,880	8,352,519	160,840	8,682,239
Total expenditures	10,436,526		168,880	8,352,519	2,941,227	21,899,152
Excess (deficiency) of revenues over (under) expenditures	756,486	2,196,889	(67,260)	(8,234,918)	(172,820)	(5,521,623)
OTHER FINANCING SOURCES (USES)						
Transfers in	428,140		6,960	6,500	2,304,154	2,745,754
Transfers out	(6,500)	(2,134,557)			(1,050,541)	(3,191,598)
Debt proceeds	-		5,400,000	2,000,000	356,780	7,756,780
Total other financing sources (uses)	421,640	(2,134,557)	5,406,960	2,006,500	1,610,393	7,310,936
Net changes in fund balances	1,178,126	62,332	5,339,700	(6,228,418)	1,437,573	1,789,313
Fund balances - beginning	3,881,850	330,656	19,793	8,592,963	4,859,087	17,684,349
Residual fund equity transfer	54,916				(54,916)	-
Fund balances - ending	\$ 5,114,892	\$ 392,988	\$ 5,359,493	\$ 2,364,545	\$ 6,241,744	\$ 19,473,662

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

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, 2004

Net change in fund balances - total governmental funds	\$ 1,789,313
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.	8,164,720
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.	(294,186)
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.	11,174
Debt proceeds provide current financial resources to governmental funds, but debt increases long-term liabilities in the statement of net assets.	(7,424,744)
Repayment of bond principal, notes principal, and capital lease principal are expenditures in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets.	985,974
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.	(395,369)
Some revenues reported in the governmental funds have been recognized as revenues in the prior fiscal year in the statement of activities.	(30,500)
Governmental funds report non-exchange transactions when the applicable eligibility requirements have been met and resources are available. However, in the statement of activities, non-exchange transactions are recognized when the eligibility requirements are met.	<u>(198,896)</u>
Change in net assets of governmental activities	<u>\$ 2,607,486</u>

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, 2004

	Enterprise Funds		
	Golf Course	Airport	Totals
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 19,030	\$ 51,528	\$ 70,558
Investments	458,631	1,071,522	1,530,153
Restricted cash, cash equivalents and investments:			
Revenue bond covenant accounts	506,006	-	506,006
Accounts receivable	165,709	11,924	177,633
Due from other governments	67,576	652,563	720,139
Interest receivable	1	2	3
Inventory	9,189	-	9,189
Prepaid expenses	1,575	-	1,575
Total current assets	<u>1,227,717</u>	<u>1,787,539</u>	<u>3,015,256</u>
Noncurrent assets:			
Deferred charges	83,382	-	83,382
Capital assets:			
Land	-	9,060	9,060
Buildings	333,189	1,220,820	1,554,009
Improvements other than buildings	147,406	562,999	710,405
Machinery and equipment	316,633	243,477	560,110
Infrastructure	1,616,948	930,719	2,547,667
Construction in process	-	2,714,071	2,714,071
Less accumulated depreciation	(1,451,772)	(538,736)	(1,990,508)
Total noncurrent assets	<u>1,045,786</u>	<u>5,142,410</u>	<u>6,188,196</u>
Total assets	<u>2,273,503</u>	<u>6,929,949</u>	<u>9,203,452</u>
LIABILITIES			
Current liabilities:			
Accounts payable	18,337	633,469	651,806
Advance from other fund	-	19,906	19,906
Due to other governments	858	330	1,188
Deferred revenues	13,779	6,819	20,598
Compensated absences	548	1,581	2,129
Retainage payable	-	55,368	55,368
Matured interest payable	38,145	-	38,145
Matured bonds payable	240,000	-	240,000
Total current liabilities	<u>311,667</u>	<u>717,473</u>	<u>1,029,140</u>
Non-current liabilities:			
Compensated absences	42,349	18486	60,835
Rent concession liability	30,000	-	30,000
Bonds payable (net of unamortized premium and deferred amount on refunding)	1,599,853	-	1,599,853
Total non-current liabilities	<u>1,672,202</u>	<u>18,486</u>	<u>1,690,688</u>
Total liabilities	<u>1,983,869</u>	<u>735,959</u>	<u>2,719,828</u>
NET ASSETS			
Invested in capital assets, net of related debt	(877,449)	5,142,410	4,264,961
Restricted for:			
Debt service	316,690	-	316,690
Other purposes	189,316	-	189,316
Unrestricted	661,077	1,051,580	1,712,657
Total net assets	<u>\$ 289,634</u>	<u>\$ 6,193,990</u>	<u>\$ 6,483,624</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, 2004

	Enterprise Funds		
	Golf Course	Airport	Totals
Operating revenues:			
Charges for fees and rents:			
Golf course fees pledged as security for revenue bonds	\$ 1,447,314	\$ -	\$ 1,447,314
Rents	26,959	183,164	210,123
Other revenue	174,035	18,726	192,761
Total operating revenues	<u>1,648,308</u>	<u>201,890</u>	<u>1,850,198</u>
Operating expenses:			
Salaries, wages and employee benefits	332,396	148,300	480,696
Contractual services, materials and supplies	930,844	76,022	1,006,866
Depreciation	111,347	126,353	237,700
Total operating expenses	<u>1,374,587</u>	<u>350,675</u>	<u>1,725,262</u>
Operating income (loss)	273,721	(148,785)	124,936
Nonoperating revenues (expenses):			
Interest income	-	11,091	11,091
Interest income pledged as security for revenue bonds	12,683	-	12,683
Intergovernmental	67,576	-	67,576
Gain on disposal of fixed assets	261	-	261
Interest expense	(83,815)	-	(83,815)
Bond amortization expense	(13,897)	-	(13,897)
Loss on disposal of fixed assets	(54,752)	(274)	(55,026)
Total nonoperating revenues (expenses)	<u>(71,944)</u>	<u>10,817</u>	<u>(61,127)</u>
Income before capital contribution and transfers	201,777	(137,968)	63,809
Capital contributions	-	2,451,212	2,451,212
Transfers in	-	445,844	445,844
Change in net assets	201,777	2,759,088	2,960,865
Total net assets - beginning	<u>87,857</u>	<u>3,434,902</u>	<u>3,522,759</u>
Total net assets - ending	<u>\$ 289,634</u>	<u>\$ 6,193,990</u>	<u>\$ 6,483,624</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, 2004

	Enterprise Funds		
	Golf Course	Airport	Totals
CASH FLOWS FROM OPERATING			
ACTIVITIES:			
Cash received from customers and users	\$ 1,457,131	\$ 223,792	\$ 1,680,923
Cash payments to suppliers	(903,036)	(75,977)	(979,013)
Cash payments for employee services	(292,722)	(130,572)	(423,294)
Net cash provided by operating activities	<u>261,373</u>	<u>17,243</u>	<u>278,616</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(4,500)	(2,259,656)	(2,264,156)
Receipts from capital grants	-	1,938,129	1,938,129
Receipt from capital transfers	-	445,844	445,844
Receipt from sale of assets	261	-	261
Receipt from advance from other fund	-	19,906	19,906
Principal paid on revenue bond maturities	(230,000)	-	(230,000)
Bond issuance costs	7,525	-	7,525
Interest paid on revenue bonds	(88,415)	-	(88,415)
Net cash provided (used) by capital and related financing activities	<u>(315,129)</u>	<u>144,223</u>	<u>(170,906)</u>
CASH FLOWS FROM INVESTING			
ACTIVITIES:			
Interest on investments	12,683	11,089	23,772
Net cash provided by investing activities	<u>12,683</u>	<u>11,089</u>	<u>23,772</u>
Net increase (decrease) in cash and cash equivalents	(41,073)	172,555	131,482
Cash and cash equivalents, October 1	1,024,740	950,495	1,975,235
Cash and cash equivalents, September 30	<u>\$ 983,667</u>	<u>\$ 1,123,050</u>	<u>\$ 2,106,717</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, 2004
(Continued)

	Enterprise Funds		
	Golf Course	Airport	Totals
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 273,721	\$ (148,785)	\$ 124,936
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	111,347	126,353	237,700
(Increase) Decrease in assets:			
Accounts receivable	(165,595)	15,602	(149,993)
Prepaid expenses	2,129	250	2,379
Inventories	1,279	-	1,279
Increase (Decrease) in liabilities:			
Accounts payable	660	-	660
Due to other governments	(6,260)	(205)	(6,465)
Rent concession liability	30,000	-	30,000
Customer deposits	-	(200)	(200)
Accrued compensated absences	39,674	17,728	57,402
Deferred revenues	(25,582)	6,500	(19,082)
Total adjustments	(12,348)	166,028	153,680
Net cash provided (used) by operating activities	<u>\$ 261,373</u>	<u>\$ 17,243</u>	<u>\$ 278,616</u>
Cash and cash equivalents reconciliation:			
Current assets:			
Cash and cash equivalents	\$ 19,030	\$ 51,528	\$ 70,558
Investments	458,631	1,071,522	1,530,153
Restricted asset:			
Investments	506,006	-	506,006
Cash and cash equivalents at September 30	<u>\$ 983,667</u>	<u>\$ 1,123,050</u>	<u>\$ 2,106,717</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, 2004

	Pension Trust Police Officers' Pension	Agency Performance Deposits
ASSETS		
Cash and cash equivalents	\$ 202,202	\$ 148,760
Receivables:		
Interest and dividends	11,316	-
Total receivables	213,518	148,760
Investments, at fair value:		
U.S. government obligations	694,255	-
Federal agency notes	675,404	-
Federal agencies - mortgage back	334,597	-
Common stock	1,607,634	-
Total investments	3,311,890	-
Total assets	3,525,408	148,760
LIABILITIES		
Refunds payable	-	148,760
Total liabilities	-	148,760
NET ASSETS		
Held in trust for pension benefits	\$ 3,525,408	\$ -

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, 2004

	<u>Police Officers' Pension</u>
ADDITIONS	
Contributions:	
Employer	\$ 174,780
Plan members	72,224
State	<u>106,715</u>
Total contributions	<u>353,719</u>
Investment earnings:	
Net increase in fair value of investments	101,820
Interest and dividends	<u>94,946</u>
Total investment earnings	196,766
Less investment expenses	<u>(20,391)</u>
Net investment earnings	<u>176,375</u>
Total additions	<u>530,094</u>
DEDUCTIONS	
Benefits	49,877
Refunded contributions	3,002
Administrative expenses	<u>4,564</u>
Total deductions	<u>57,443</u>
Change in net assets	472,651
Net assets - beginning of year	<u>3,052,757</u>
Net assets - end of year	<u><u>\$ 3,525,408</u></u>

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, 2004

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 19,365 living in an area of approximately 14.556 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".

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 (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 are charges to customers for sales and 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, 2004. 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 *stormwater utility improvements fund* accounts for the resources associated with debt and stormwater assessment fees for the purpose of constructing stormwater related improvements.

The *public facilities improvements fund* accounts for the resources associated with debt for the purposes of constructing and equipping a new city hall complex and renovation and expansion of the police station.

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.

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 and for deposits for use of City owned buildings and parks to guarantee performance pursuant to 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, 2004.

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. As of September 30, 2004, the General Fund has an advance to the Airport Capital Project Fund in the amount of \$19,906. The advance is a loan authorized by the City Council to the Airport Capital Project Fund for capital improvements.

4. Receivables

Receivables consist of trade receivables, due from other governments and interest receivable (see Note IV.C. on page 33 for detail) and are recorded at the net realizable value. The City, as of September 30, 2004, 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 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 encumbrances – represents encumbrances outstanding at year-end that the City intends to honor as commitments.

Reserved for advance to other funds – represents long-term interfund loan.

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.

Reserve for emergency services – represents amount restricted for natural disasters.

Reserve for equipment replacement – represents amounts restricted for the replacement of capital assets.

Reserve for building code enforcement – represents, in accordance with Florida Statutes, amount restricted to be spent on building code enforcement.

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 (\$19,473,662) differs from "net assets" of governmental activities (\$27,643,198) 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		\$ 40,001,531
Accumulated depreciation		(11,887,971)
Total		<u>\$ 28,113,560</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>\$ 122,006</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, 2004 were:

Bonds payable:		
Infrastructure sales surtax revenue bonds, Series 2003	(9,015,000)	
Less: Deferred charge for issuance costs	<u>263,156</u>	\$(8,751,844)
Infrastructure sales surtax revenue bonds, Series 2003A	(2,125,000)	
Less: Deferred charge for issuance costs	<u>102,947</u>	(2,022,053)
Stormwater utility revenue bonds, Series 2003	(5,525,000)	
Less: Deferred charge for issuance costs	193,227	
Less: Deferred charge for bond discounts	<u>14,581</u>	(5,317,192)
Notes payable	(2,209,745)	
Less: Deferred charge for issuance costs	<u>6,726</u>	(2,203,019)
Capital lease payable	(550,452)	
Less: Deferred charge for issuance costs	<u>6,030</u>	(544,422)
Compensated absences		<u>(942,449)</u>
Total		<u><u>\$(19,780,979)</u></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	\$ (276,536)
Notes	(9,197)
Capital lease	<u>(14,190)</u>
Total	<u><u>\$ (299,923)</u></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	<u>\$ 14,872</u>
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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 (\$1,789,313) differs from the "change in net assets" for governmental activities (\$2,607,486) 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	\$ 9,502,883
Depreciation expense	<u>(1,338,163)</u>
Difference	<u>\$ 8,164,720</u>

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.

Gain on sale of fixed assets	\$ 31,674
Loss on sale of fixed assets	<u>(325,860)</u>
Net adjustment	<u>\$ (294,186)</u>

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	<u>\$ 11,174</u>
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Long-term debt transactions

In the statement of activities, debt proceeds increase long-term liabilities. However, in the governmental funds, debt proceeds are treated as other financing resources since they provide current financial resources to governmental funds.

Debt proceeds	\$ (7,755,000)
Less: Deferred charges for issuance costs and bond discount	<u>330,256</u>
Net adjustment	<u>\$ (7,424,744)</u>

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	\$ 667,615
Notes payable principal payment made	196,283
Capital lease principal payment made	<u>122,076</u>
Total	<u>\$ 985,974</u>

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	\$ (230,670)
Net accrued bond interest expense	(127,414)
Net accrued notes interest expense	817
Net accrued capital lease interest expense	3,146
Amortization of issuance costs	<u>(41,248)</u>
Net adjustment	<u>\$ (395,369)</u>

Special assessment revenues

Revenues collected on special assessments are reported in the governmental funds. However, in the statement of activities, the assessment revenues are recognized when they are earned.

Special assessment revenues	<u>\$ (30,500)</u>
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Accrued grant revenues

Some grant revenues are not recognized in the current period because the resources are not available; therefore, these revenues are not reported in the fund.

Net change in accrued grant revenues	<u>\$ (198,896)</u>
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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 to the next years' budget and are reported as a reservation of fund balance in the current financial statements since they do not constitute actual expenditures or liabilities.

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 44)

IV. DETAIL NOTES ON ALL FUNDS

A. Deposits

At September 30, 2004, the carrying amount of the City of Sebastian's deposits with banks was \$818,952 and the bank balance was \$838,421. 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

Statutes, ordinances, and policies authorize the City to invest in the Local Government Surplus Trust Fund administered by the Florida State Board of Administration, direct obligations of the United States or agencies thereof, interest bearing time deposits or savings accounts, overnight repurchase agreements, mutual funds, stocks, and bonds.

The City's investments are categorized to give an indication of the level of risk assumed by the entity at September 30, 2004.

- (1)—Includes investments that are insured or registered or for which the securities are held by the City or its safekeeping agent in the City's name.
- (2)—Includes investments that are uninsured or unregistered securities held by the pledging financial institution's trust department or agent in the City's name.
- (3)—Includes investments that are uninsured or unregistered securities held by the pledging financial institution or its trust department or agent, but not in the City's name.

	Category 1	Fair Value
<u>Primary Government</u>		
U.S. Treasury Securities	\$ 694,255	\$ 694,255
Common Stock	1,607,634	1,607,634
U.S. Government Agencies	4,009,610	4,009,610
Sub-total	<u>\$ 6,311,499</u>	<u>6,311,499</u>
Investments not subject to categorization:		
Local Government Surplus		
Funds Trust Fund		9,492,876
Certificate of Deposits		1,500,000
Guaranteed Investment Contracts		6,708,963
Total Investments		<u>\$ 24,013,338</u>

C. Receivable and Payable Balances

Receivables

Receivables at September 30, 2004 were as follows:

	Interest	Accounts	Due From Other Governments	Total
Governmental activities:				
General	\$ 21,497	\$ 491,316	\$ 1,117,849	\$ 1,630,662
Discretionary sales tax	7	-	196,391	196,398
Stormwater utility improvements	60,963	-	-	60,963
Public facilities improvements	27,329	4,393	-	31,722
Other governmental	7,275	-	92,237	99,512
Total - governmental activities	\$ 117,071	\$ 495,709	\$ 1,406,477	\$ 2,019,257
Business-type activities:				
Golf course	\$ 1	\$ 165,709	\$ 67,576	\$ 233,286
Airport	2	11,924	652,563	664,489
Total - business-type activities	\$ 3	\$ 177,633	\$ 720,139	\$ 897,775

All receivables are anticipated to be collected.

Payables

Payables at September 30, 2004 were as follows:

	Vendors	Retainage	Salaries and Benefits	Total
Governmental activities:				
General	\$ 810,703	\$ -	\$ 274,795	\$ 1,085,498
Discretionary sales tax	-	-	-	-
Stormwater utility improvements	63,644	-	-	63,644
Public facilities improvements	229,635	288,753	-	518,388
Other governmental	54,758	-	-	54,758
Total - governmental activities	\$ 1,158,740	\$ 288,753	\$ 274,795	\$ 1,722,288
Business-type activities:				
Golf course	\$ 10,523	\$ -	\$ 7,814	\$ 18,337
Airport	627,890	55,368	5,579	688,837
Total - business-type activities	\$ 638,413	\$ 55,368	\$ 13,393	\$ 707,174

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, 2004, 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)	\$ 14,872	\$ -
Occupational licenses received in advance (General Fund)	-	61,197
Total deferred/unearned revenue for governmental funds	\$ 14,872	\$ 61,197

D. Capital Assets

Capital asset activity for the year ended September 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,653,603	\$ -	\$ -	\$ 4,653,603
Construction in progress	1,634,161	8,682,239	(547,255)	9,769,145
Total capital assets, not being depreciated	6,287,764	8,682,239	(547,255)	14,422,748
Capital assets, being depreciated:				
Buildings	2,591,420	4,952	(402,125)	2,194,247
Improvements other than buildings	2,310,380	235,023	(114,133)	2,431,270
Machinery and equipment	5,049,563	378,656	(241,311)	5,186,908
Infrastructure	15,021,381	780,942	(35,965)	15,766,358
Total capital assets being depreciated	24,972,744	1,399,573	(793,534)	25,578,783
Less accumulated depreciation for:				
Buildings	(1,136,884)	(63,455)	149,581	(1,050,758)
Improvements other than buildings	(777,658)	(105,169)	56,580	(826,247)
Machinery and equipment	(2,928,050)	(611,038)	225,549	(3,313,539)
Infrastructure	(6,174,890)	(558,501)	35,964	(6,697,427)
Total accumulated depreciation	(11,017,482)	(1,338,163)	467,674	(11,887,971)
Total capital assets, being depreciated, net	13,955,262	61,410	(325,860)	13,690,812
Governmental activities capital assets, net	\$ 20,243,026	\$ 8,743,649	\$ (873,115)	\$ 28,113,560
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 9,060	\$ -	\$ -	\$ 9,060
Construction in progress	1,342,424	1,637,674	(266,027)	2,714,071
Total capital assets, not being depreciated	1,351,484	1,637,674	(266,027)	2,723,131
Capital assets, being depreciated:				
Buildings	397,758	1,156,250	-	1,554,008
Improvements other than buildings	797,517	-	(87,112)	710,405
Machinery and equipment	499,523	86,451	(25,863)	560,111
Infrastructure	2,374,021	174,996	(1,350)	2,547,667
Total capital assets being depreciated	4,068,819	1,417,697	(114,325)	5,372,191
Less accumulated depreciation for:				
Buildings	(261,710)	(18,326)	-	(280,036)
Improvements other than buildings	(157,264)	(45,319)	32,105	(170,478)
Machinery and equipment	(367,527)	(61,799)	25,843	(403,483)
Infrastructure	(1,025,605)	(112,256)	1,350	(1,136,511)
Total accumulated depreciation	(1,812,106)	(237,700)	59,298	(1,990,508)
Total capital assets, being depreciated, net	2,256,713	1,179,997	(55,027)	3,381,683
Business-type activities capital assets, net	\$ 3,608,197	\$ 2,817,671	\$ (321,054)	\$ 6,104,814

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

Governmental activities:	
General government	\$ 85,879
Public safety	260,711
Transportation	685,966
Physical environment	154,357
Cultural and recreation	151,250
Total depreciation expense-governmental activities	<u>\$ 1,338,163</u>
Business-type activities:	
Golf Course	\$ 111,347
Airport	126,353
Total depreciation expense-business-type activities	<u>\$ 237,700</u>

Construction Commitments

The government has active construction projects as of September 30, 2004. The projects include realignment & reconstruction of Louisiana Avenue, construction and renovation of the City Hall Municipal Complex and construction and rehabilitation of facilities at the Municipal Airport.

<u>Project</u>	<u>Spent-to date</u>	<u>Remaining Commitment</u>	<u>Major Funding Source</u>
Louisiana Avenue improvements	\$ 159,514	\$ 908,702	CDBG Grant
Public facility municipal complex	8,743,542	2,213,095	Revenue Bonds
Rehab Runway 9-27 Phase II	563,029	618,360	FAA Grant
Municipal airport administration building	296,900	1,639,618	FDOT Grant
Total	<u>\$ 9,762,985</u>	<u>\$ 5,379,775</u>	

E. Interfund Balances

Interfund balances at September 30, 2004 consisted of the following amount:

Due to General Fund from:	
Nonmajor governmental funds:	
G.R.E.A.T. Program Fund	\$ 9,134
Community Development Block Grant	644
Total	<u>\$ 9,778</u>

The balance of \$9,778 due to the general fund from the G.R.E.A.T. Program Fund and Community Development block Grant 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 unrestricted 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:

	Transfers In					Total
	General Fund	Stormwater Utility Improvements Fund	Public Facility Improvements Fund	Nonmajor Governmental Funds	Airport Capital Project Fund	
<u>Transfers Out:</u>						
General fund	\$ -	\$ -	\$ 6,500	\$ -	\$ -	\$ 6,500
Discretionary sales tax fund	198,162	-	-	1,761,395	175,000	\$ 2,134,557
Nonmajor governmental funds	229,978	6,960	-	542,759	270,844	\$ 1,050,541
Total transfers out	<u>\$ 428,140</u>	<u>\$ 6,960</u>	<u>\$ 6,500</u>	<u>\$ 2,304,154</u>	<u>\$ 445,844</u>	<u>\$ 3,191,598</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 \$172,250 for the fiscal year ended September 30, 2004. 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, 2004:

<u>Year Ending September 30,</u>	Golf Course	
	to: Airport	Golf Carts
2005	120,000	52,250
2006	175,000	52,250
2007	175,000	107,988
2008	175,000	-
2009	175,000	-
2010-2014	1,175,000	-
2015	250,000	-
Totals	<u>\$ 2,245,000</u>	<u>\$ 212,488</u>

The operating lease has been accrued on a systematic and rational basis in connection with the airport land-operating lease. As of September 30, 2004, \$30,000 has been accrued as rental costs and rent concession liability in Golf Course Fund.

2. Capital Leases-Lessee

The government 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 assets acquired through the capital lease are as follows:

Asset:	Governmental Activities
Machinery and equipment	\$ 859,859
Less: Accumulated depreciation	(339,308)
Total	<u>\$ 520,551</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2004 were as follows:

<u>Year Ending September 30.</u>	<u>Governmental Activities</u>
2005	154,693
2006	154,694
2007	154,694
2008	154,694
Total minimum lease payments	618,775
Less: amount representing interest	(68,322)
Present value of minimum lease payments	<u>\$ 550,453</u>

3. Operating Leases-Lessor

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>	<u>Amount</u>
2005	179,454
2006	234,454
2007	234,454
2008	234,454
2009	234,454
2010-2014	1,472,270
2015-2019	504,944
2020-2024	196,636
2025-2029	193,670
2030-2034	98,878
Total minimum future rentals	<u>\$ 3,583,668</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 issued a ten (10) year, \$527,993 Revenue Bonds, Series 1996 for the purpose of financing the construction costs of a waterline along the City's riverfront. The principal and interest are paid from special assessments received on an annual basis. The City is obligated by a covenant to budget and appropriate in the event revenues collected and/or defaults occur which are less than debt service requirements. As of September 30, 2004, the City has \$3,849 in default assessments. In fiscal year 2004, the Series 1996 Revenue Bonds were defeased. Remaining receivable and deferred revenue balances were transferred to the General Fund as a residual equity transfer.
- b. 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.
- c. 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.
- d. 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.
- e. 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.
- f. 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, 2004.

Gross revenues available for compliance	\$ 1,728,828
Operating and maintenance expenses (excluding depreciation expense)	<u>1,263,240</u>
Amount of revenue over direct operating expenses	<u>\$ 465,588</u>
Debt service requirement	<u>\$ 306,290</u>
Percent coverage for the year ended September 30, 2004	<u>152%</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 1.35% 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, 2004.

Gross revenues available for compliance	<u>\$ 779,724</u>
Debt service requirement	<u>\$ 209,386</u>
Percent coverage for the year ended September 30, 2004	<u>372%</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, 2004:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental activities:					
Bonds payable:					
Special Assessment Bonds with Governmental Commitment, Series 1996	\$ 77,615	\$ -	\$ 77,615	\$ -	\$ -
Infrastructure Sales Surtax Revenue Bonds, Series 2003	9,500,000	-	485,000	9,015,000	525,000
Infrastructure Sales Surtax Revenue Bonds, Series 2003A	-	2,125,000	-	2,125,000	125,000
Stormwater Utility Revenue Bonds, Series 2003	-	5,630,000	105,000	5,525,000	235,000
Total bonds payable	<u>9,577,615</u>	<u>7,755,000</u>	<u>667,615</u>	<u>16,665,000</u>	<u>885,000</u>
Notes payable	2,406,028	-	196,283	2,209,745	205,002
Capital leases	672,528	-	122,076	550,452	127,996
Compensated absences	758,445	640,918	378,402	1,020,961	78,512
Governmental activity long-term liabilities	<u>\$ 13,414,616</u>	<u>\$ 8,395,918</u>	<u>\$ 1,364,376</u>	<u>\$ 20,446,158</u>	<u>\$ 1,296,510</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Business-type activities:					
Bonds payable:					
Recreational Facilities Improvement and Refunding Revenue Bonds, Series 2001	\$ 2,115,000	\$ -	\$ 230,000	\$ 1,885,000	\$ 240,000
Less deferred amount:					
Issuance premium	5,582	-	797	4,785	-
Loss on refunding	(58,254)	-	(8,322)	(49,932)	-
Total bonds payable	2,062,328	-	222,475	1,839,853	240,000
Compensated absences	5,562	71,307	13,905	62,964	2,129
Business-type activity long-term liabilities	\$ 2,067,890	\$ 71,307	\$ 236,380	\$ 1,902,817	\$ 242,129

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, 2004, including interest requirements, is as follows:

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
2005	\$ 205,002	\$ 94,998	\$ 525,000	\$ 308,856	\$ 125,000	\$ 71,987	\$ 235,000	206,672
2006	214,121	85,880	535,000	298,356	130,000	69,488	235,000	201,973
2007	223,646	76,354	550,000	286,319	130,000	66,888	240,000	197,272
2008	233,594	66,406	565,000	269,819	135,000	63,800	245,000	191,873
2009	243,986	56,015	585,000	252,869	135,000	60,088	255,000	185,135
2010-2014	1,089,396	110,584	3,220,000	957,973	755,000	229,424	1,405,000	790,263
2015-2019	-	-	3,035,000	310,506	715,000	72,600	1,705,000	494,120
2020-2022	-	-	-	-	-	-	1,205,000	110,025
	\$ 2,209,745	\$ 490,237	\$ 9,015,000	\$ 2,990,866	\$ 2,125,000	\$ 634,275	\$ 5,525,000	\$ 2,377,333

Business-type Activities		
Golf Course Refunding Bonds, Series 2001		
Year	4% to 4.2%	Interest
2005	240,000	76,290
2006	250,000	66,690
2007	255,000	56,690
2008	270,000	46,490
2009	280,000	35,690
2010-2011	590,000	37,090
Less unamortized Bond premium	4,785	-
Loss on refunding	(49,932)	-
	\$ 1,839,853	\$ 318,940

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:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Debt service	\$ 468,744	\$ 316,690
Road paving	956,296	-
Capital projects	1,275,824	-
Building code enforcement	802,490	-
Renewal and replacement	-	69,316
Rent	-	120,000
Cemetery perpetual care	542,999	-
Law enforcement	13,321	-
Total	<u>\$ 4,059,674</u>	<u>\$ 506,006</u>

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, 2004, was 4.5904 mills. Total tax collections were approximately 98.7% 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 liened 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, 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.

In September of 2004, the City was impacted by two hurricanes. The actual costs of clean up, overtime, and other costs associated with hurricanes for the fiscal year ended September 30, 2004 were \$1,027,779. The City has received funding agreements for both hurricanes from State of Florida Department of Community Affairs, which guarantee grant funds from FEMA and the State to reimburse the City's qualified costs. Total receivable and grant revenue accrued for the fiscal year ended September 30, 2004 is \$985,347, which represents the reimbursable amount. The receivable is reflected in due from other governments and the revenue is included in various related line items under program revenues - operating grants and contributions on the statement of activities and grant revenues in fund financial statements. The expenditures/expenses have been recorded in respective functional areas of the government-wide statement of activities as follows:

Public Safety	\$ 148,214
Transportation	808,432
Golf Course	<u>71,133</u>
Total	<u>\$ 1,027,779</u>

The City believes they will be able to obtain the full reimbursement for the accrued amount within twelve months after fiscal year ended September 30, 2004.

The following is the amount of grant revenue for fiscal year 2004.

<u>Primary Government</u>	<u>Amount</u>
General government	\$ 16,144
Public safety	190,678
Physical environment	63,431
Transportation	1,670,534
Cultural/Recreation	557,700
Airport	2,451,212
Golf course	67,576
Total reporting entity	<u>\$ 5,017,275</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 October 1, 2002. 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, 2002, dated December 29, 2003 is as follows:

	<u>Police Pension Plan 2002</u>
Retirees and beneficiaries currently receiving benefits	2
Terminated employees entitled to refund of employee contribution but not yet received	0
Fully, partially, and non-vested active plan participants	<u>29</u>
Total	<u>31</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 2003-2004 fiscal year. The employer contribution rate, expressed as a percentage of compensation, was 12.1% for the 2003-2004 fiscal year. The employer contribution is \$174,780 and the State contribution is \$106,715, 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>	
2001	\$ 12,094
2002	\$ 0
2003	\$ 140,721
<u>Percentage of APC contributed</u>	
2001	241.00%
2002	100.00%
2003	109.00%

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, 2002, 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, 2004.

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, 2003 is as follows:

	9/30/2001	9/30/2002	9/30/2003
Actuarially Determined Contribution (A)	\$ 12,094	\$ -	\$ 140,721
Interest on NPO	(6,981)	(8,268)	(8,867)
Adjustment to (A)	7,939	9,402	10,083
Annual Pension Cost	13,052	1,134	141,937
Contributions made	29,134	8,620	153,111
Increase in NPO	(16,082)	(7,486)	(11,174)
NPO beginning of year	(87,264)	(103,346)	(110,832)
NPO end of year	\$ (103,346)	\$ (110,832)	\$ (122,006)

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 2003-2004 fiscal year. Employees do not contribute to this plan. Contributions to the CWA Pension Plan for the fiscal years ended September 30, 2002, 2003 and 2004 were \$173,716, \$190,422 and \$205,056 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 2003-2004 fiscal year. Employees do not contribute to this plan. Contributions to the 401 Defined Contribution Plan for the fiscal years ended September 30, 2002, 2003 and 2004 were \$96,397, \$113,653 and \$125,745 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 and airport fund. Settled claims have not exceeded this commercial coverage in the past three fiscal years. In September of 2004, the City was impacted by two hurricanes. Insurance reimbursements related to the hurricanes recorded as of September 30, 2004 in the general fund and golf course fund are \$283,788 and \$163,677 respectively, for a total of \$447,465. A total of \$413,677 has been recorded subsequent to year-end and prior to issuance of this report.

G. Subsequent Events

On October 4, 2004, a \$1,000,000 certificate of deposit was liquidated without penalty to fund emergency operations due to the hurricanes.

On October 27, 2004, City Council approved contract award to Dickerson Florida, Inc. in the amount of \$1,225,708 to rehabilitate taxiway 'A' and construct aircraft parking apron.

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended September 30, 2004

	Budget Amounts		Actual Amounts on a Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 3,056,093	\$ 3,135,042	\$ 3,169,976	\$ 34,934
Public utility	1,800,002	1,800,002	1,854,632	54,630
Franchise fees	748,840	748,840	770,600	21,760
Licenses and permits	998,587	1,078,466	1,867,920	789,454
Intergovernmental	1,701,954	2,392,527	2,844,245	451,718
Charges for services	183,454	186,454	118,965	(67,489)
Fines	126,064	126,064	108,788	(17,276)
Investment earnings	75,948	75,948	87,650	11,702
Contributions and donations	20,060	20,060	16,344	(3,716)
Other revenue	56,302	337,650	353,892	16,242
Total revenues	8,767,304	9,901,053	11,193,012	1,291,959
EXPENDITURES:				
Current:				
General government	2,285,506	2,333,822	2,178,488	155,334
Public safety	3,768,722	4,148,824	4,126,858	21,966
Physical environment	935,326	1,065,866	978,843	87,023
Transportation	1,436,008	2,134,110	2,247,191	(113,081)
Culture and recreation	694,297	779,514	773,725	5,789
Total expenditures	9,119,859	10,462,136	10,305,105	157,031
Excess (deficiency) of revenues over (under) expenditures	(352,555)	(561,083)	887,907	1,448,990
OTHER FINANCING SOURCES (USES)				
Transfers in	367,556	429,390	428,140	(1,250)
Transfers out	-	(6,500)	(6,500)	-
Total other financing sources (uses)	367,556	422,890	421,640	(1,250)
Net changes in fund balances	15,001	(138,193)	1,309,547	1,447,740
Fund balances - beginning	3,881,850	3,881,850	3,881,850	-
Residual fund equity transfer	-	-	54,916	54,916
Fund balances - ending	\$ 3,896,851	\$ 3,743,657	5,246,313	1,502,656

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

62,977

Prior year encumbrances

(194,398)

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

\$ 5,114,892

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, 2004

	<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	\$ 2,043,599	\$ 2,093,829	\$ 2,180,913	\$ 87,084
Investment earnings	29,609	29,609	15,976	(13,633)
Total revenues	<u>2,073,208</u>	<u>2,123,438</u>	<u>2,196,889</u>	<u>73,451</u>
OTHER FINANCING USES				
Transfers out	(2,044,399)	(2,134,557)	(2,134,557)	-
Net changes in fund balances	28,809	(11,119)	62,332	73,451
Fund balances - beginning	330,656	330,656	330,656	-
Fund balances - ending	<u>\$ 359,465</u>	<u>\$ 319,537</u>	<u>\$ 392,988</u>	<u>\$ 73,451</u>

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

CITY OF SEBASTIAN, FLORIDA
Notes to the Required Supplementary Information – Budget Comparisons
September 30, 2004

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, a reconciliation of the resultant timing differences has been provided on page 44. 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 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 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 \$365,612, which represents fund balance carried over from prior fiscal year to fund the health insurance premium increase and outstanding encumbrances, and increase in building permit fees to fund additional personnel. The 3rd quarter budget amendment highlighted a net increase of \$113,684, which represents increases in property tax and state shared revenue to reflect actual collections. The 4th quarter budget amendment highlighted a net increase of \$979,628, which represents the initial FEMA and State reimbursement estimate and property insurance reimbursement due to hurricanes. Other supplemental budgetary appropriations made in the general fund were not material.

C. Budgeted Expenditures Exceeded Revenues

Budgeted expenditures exceeded revenues in the general fund and discretionary sales tax special revenue fund. However, this is pursuant to the legally adopted budget to expend available fund equity (cash carry forward) and does not constitute a deficit.

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
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%
1999	129,435	103,548	46,790	116.15%
1998	102,215	96,039	39,753	132.85%

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 9/30/03	
City	10.7%
Plan members	5.0%
Annual pension cost	\$ 140,721
Contributions made	\$ 153,111
Valuation date	10/1/2000
Actuarial cost method	Aggregate
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market Value
Actuarial return assumptions	
Investment rate of return	8.0%
Projected salary increase*	6.0%
* Includes inflation at	3.0%
Post retirement COLA	0.0%

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 Development 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.

Riverfront Redevelopment Fund – This fund is used to account for tax increment revenues that are legally restricted for the redevelopment of the City's riverfront area.

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.

Special Assessment Revenue Bonds Debt Service Fund – This fund is used to account for the receipt of special assessments and the associated repayment of debt.

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.

Road Paving Program Fund – This fund accounts for the resources associated with debt for the purposes of reconstructing and paving roads.

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, 2004

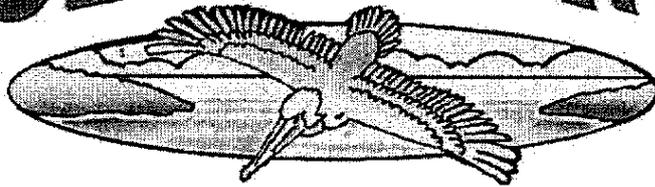
	Special Revenue Funds					
	Community Development Block Grant	Local Option Gas Tax	Riverfront Redevelopment	Recreation Impact Fee	Stormwater Utility	Law Enforcement Forfeiture
ASSETS						
Cash and cash equivalents	\$ -	\$ 19,422	\$ 576	\$ 28,862	\$ 50,179	\$ 16,082
Investments	-	193,310	91,040	869,658	1,660,832	-
Due from other governments	644	81,431	-	-	1,028	-
Interest receivable	-	83	-	2,018	80	1
Total assets	\$ 644	\$ 294,246	\$ 91,616	\$ 900,538	\$ 1,712,119	\$ 16,083
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ 15,293	\$ 791	\$ 98	\$ 125	\$ 1,148
Retainage payable	-	-	-	-	-	-
Due to other funds	644	-	-	-	-	-
Total liabilities	644	15,293	791	98	125	1,148
Fund balances:						
Reserved for:						
Encumbrances	-	19,971	-	-	-	2,348
Debt service	-	-	-	-	-	-
Cemetery care	-	-	-	-	-	-
Law enforcement	-	-	-	-	-	12,587
Unreserved	-	258,982	90,825	900,440	1,711,994	-
Total fund balances	-	278,953	90,825	900,440	1,711,994	14,935
Total liabilities and fund balances	\$ 644	\$ 294,246	\$ 91,616	\$ 900,538	\$ 1,712,119	\$ 16,083

		Debt Service Funds		
G.R.E.A.T. Program	Total	Stormwater Utility Revenue Bonds 2003	Discretionary Sales Surtax Revenue Bonds 2003	Total
\$ 734	\$ 115,855	\$ 20,060	\$ 29,495	\$ 49,555
-	2,814,840	615	418,572	419,187
9,134	92,237	-	-	-
-	2,182	1	1	2
\$ 9,868	\$ 3,025,114	\$ 20,676	\$ 448,068	\$ 468,744
\$ -	\$ 17,455	\$ -	\$ -	-
-	-	-	-	-
9,134	9,778	-	-	-
9,134	27,233	-	-	-
-	22,319	-	-	-
-	-	20,676	448,068	468,744
-	-	-	-	-
734	13,321	-	-	-
-	2,962,241	-	-	-
734	2,997,881	20,676	448,068	468,744
\$ 9,868	\$ 3,025,114	\$ 20,676	\$ 448,068	\$ 468,744

City of Sebastian, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2004
(Continued)

	Capital Projects Funds				Permanent	Total
	General Capital Projects	Capital Improvements	Transportation Improvements	Total	Fund Cemetery	
ASSETS						
Cash and cash equivalents	\$ -	\$ 160,355	\$ 143,639	\$ 303,994	\$ 7,906	\$ 477,310
Investments	-	1,130,646	834,471	1,965,117	530,314	5,729,458
Due from other governments	-	-	-	-	-	92,237
Interest receivable	-	-	158	158	4,933	7,275
Total assets	\$ -	\$ 1,291,001	\$ 978,268	\$ 2,269,269	\$ 543,153	\$ 6,306,280
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ 15,177	\$ 21,972	\$ 37,149	\$ -	\$ 54,604
Retainage payable	-	-	-	-	154	154
Due to other funds	-	-	-	-	-	9,778
Total liabilities	-	15,177	21,972	37,149	154	64,536
Fund balances:						
Reserved for:						
Encumbrances	-	92,560	40,591	133,151	-	155,470
Debt service	-	-	-	-	-	468,744
Cemetery care	-	-	-	-	542,999	542,999
Law enforcement	-	-	-	-	-	13,321
Unreserved	-	1,183,264	915,705	2,098,969	-	5,061,210
Total fund balances	-	1,275,824	956,296	2,232,120	542,999	6,241,744
Total liabilities and fund balances	\$ -	\$ 1,291,001	\$ 978,268	\$ 2,269,269	\$ 543,153	\$ 6,306,280

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City of Sebastian, Florida
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2004

	Special Revenue Funds					
	Community Development Block Grant	Local Option Gas Tax	Riverfront Redevelopment	Recreation Impact Fee	Stormwater Utility	Law Enforcement Forfeiture
REVENUES:						
Taxes:						
Property	\$ -	\$ -	\$ 250,995	\$ -	\$ -	\$ -
Motor fuel	-	722,828	-	-	-	-
Intergovernmental	63,300	21,086	-	-	-	-
Impact fees	-	-	-	557,700	-	-
Charges for services	-	-	-	-	757,712	-
Fines	-	-	-	-	-	10,130
Special assessments	-	-	-	-	-	-
Investment earnings	-	12,447	2,737	8,987	21,512	-
Contributions and donations	-	-	-	-	-	6,816
Other revenue	-	-	-	-	500	716
Total revenues	63,300	756,361	253,732	566,687	779,724	17,662
EXPENDITURES:						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	10,959
Physical environment	-	-	-	-	13,050	-
Transportation	15,678	206,883	-	-	-	-
Economic environment	-	-	86,041	-	-	-
Cultural recreation	-	-	-	2,177	-	-
Debt Service:						
Principal	-	196,283	-	-	-	-
Interest and fiscal charges	-	103,717	-	-	-	-
Capital projects	-	-	-	-	-	-
Total expenditures	15,678	506,883	86,041	2,177	13,050	10,959
Excess (deficiency) of revenues over (under) expenditures	47,622	249,478	167,691	564,510	766,674	6,703
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(47,622)	(211,672)	-	(135,750)	(363,943)	-
Debt proceeds	-	-	-	-	-	-
Total other financing sources (uses)	(47,622)	(211,672)	-	(135,750)	(363,943)	-
Net changes in fund balances	-	37,806	167,691	428,760	402,731	6,703
Fund balances - beginning	-	241,147	(76,866)	471,680	1,309,263	8,232
Residual fund equity transfer	-	-	-	-	-	-
Fund balances - ending	\$ -	\$ 278,953	\$ 90,825	\$ 900,440	\$ 1,711,994	\$ 14,935

Debt Service Funds

G.R.E.A.T. Program	Total	Special Assessment Revenue Bonds 1996	Stormwater Utility Revenue Bonds 2003	Discretionary Sales Surtax Revenue Bonds 2003	Total
\$ -	\$ 250,995	\$ -	\$ -	\$ -	\$ -
-	722,828	-	-	-	-
11,105	95,491	-	-	-	-
-	557,700	-	-	-	-
-	757,712	-	-	-	-
-	10,130	-	-	-	-
-	-	28,424	-	-	28,424
-	45,683	12,690	499	3,395	16,584
-	6,816	-	-	-	-
-	1,216	-	-	-	-
11,105	2,448,571	41,114	499	3,395	45,008
-	-	152	-	-	152
10,279	21,238	-	-	-	-
-	13,050	-	-	-	-
-	222,561	-	-	-	-
-	86,041	-	-	-	-
-	2,177	-	-	-	-
-	196,283	77,615	105,000	485,000	667,615
-	103,717	4,376	314,210	432,643	751,229
-	-	-	-	-	-
10,279	645,067	82,143	419,210	917,643	1,418,996
826	1,803,504	(41,029)	(418,711)	(914,248)	(1,373,988)
-	-	-	209,387	842,702	1,052,089
-	(758,987)	-	-	-	-
-	-	-	230,000	126,780	356,780
-	(758,987)	-	439,387	969,482	1,408,869
826	1,044,517	(41,029)	20,676	55,234	34,881
(92)	1,953,364	95,945	-	392,834	488,779
-	-	(54,916)	-	-	(54,916)
\$ 734	\$ 2,997,881	\$ -	\$ 20,676	\$ 448,068	\$ 468,744

City of Sebastian, Florida
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2004
(Continued)

	Capital Projects Funds					Permanent Fund	Total Other Governmental Funds
	General Capital Projects	Capital Improvements	Transportation Improvements	Road Paving	Total	Cemetery	
REVENUES:							
Taxes:							
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250,995
Motor fuel	-	-	-	-	-	-	722,828
Intergovernmental	-	175,784	-	-	175,784	-	271,275
Impact fees	-	-	-	-	-	-	557,700
Charges for services	-	-	-	-	-	86,000	843,712
Fines	-	-	-	-	-	-	10,130
Special assessments	-	-	-	-	-	-	28,424
Investment earnings	-	-	1,771	476	2,247	10,797	75,311
Contributions and donations	-	-	-	-	-	-	6,816
Other revenue	-	-	-	-	-	-	1,216
Total revenues	-	175,784	1,771	476	178,031	96,797	2,768,407
EXPENDITURES:							
Current:							
General government	-	-	-	-	-	-	152
Public safety	-	-	-	-	-	-	21,238
Physical environment	-	147,562	-	-	147,562	3,450	164,062
Transportation	-	-	410,618	-	410,618	-	633,179
Economic environment	-	-	-	-	-	-	86,041
Cultural recreation	-	-	-	-	-	-	2,177
Debt Service:							
Principal	122,076	-	-	-	122,076	-	985,974
Interest and fiscal charges	32,618	-	-	-	32,618	-	887,564
Capital outlay	-	42,511	118,329	-	160,840	-	160,840
Total expenditures	154,694	190,073	528,947	-	873,714	3,450	2,941,227
Excess (deficiency) of revenues over (under) expenditures	(154,694)	(14,289)	(527,176)	476	(695,683)	93,347	(172,820)
OTHER FINANCING SOURCES (USES)							
Transfers in	154,693	569,750	527,622	-	1,252,065	-	2,304,154
Transfers out	(207,056)	(70,748)	-	-	(277,804)	(13,750)	(1,050,541)
Debt proceeds	-	-	-	-	-	-	356,780
Total other financing sources (uses)	(52,363)	499,002	527,622	-	974,261	(13,750)	1,610,393
Net changes in fund balances	(207,057)	484,713	446	476	278,578	79,597	1,437,573
Fund balances - beginning	207,057	791,111	912,205	43,169	1,953,542	463,402	4,859,087
Residual fund equity transfer	-	-	43,645	(43,645)	-	-	(54,916)
Fund balances - ending	\$ -	\$ 1,275,824	\$ 956,296	\$ -	\$ 2,232,120	\$ 542,999	\$ 6,241,744

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Community Development Block Grant
For the Year Ended September 30, 2004

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Intergovernmental	\$ 700,000	\$ 63,300	\$ (636,700)
Total revenues	<u>700,000</u>	<u>63,300</u>	<u>(636,700)</u>
EXPENDITURES:			
Current:			
Transportation	<u>56,000</u>	<u>15,678</u>	<u>40,322</u>
Total expenditures	<u>56,000</u>	<u>15,678</u>	<u>40,322</u>
Excess of revenues over expenditures	644,000	47,622	(596,378)
OTHER FINANCING USES			
Transfers out	<u>(644,000)</u>	<u>(47,622)</u>	<u>596,378</u>
Net changes in fund balances	-	-	-
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</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, 2004

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Motor fuel taxes	\$ 705,595	\$ 722,828	\$ 17,233
Intergovernmental	32,016	21,086	(10,930)
Investment earnings	10,533	12,447	1,914
Total revenues	<u>748,144</u>	<u>756,361</u>	<u>8,217</u>
EXPENDITURES:			
Current:			
Transportation	237,117	206,883	30,234
Debt service:			
Principal	196,271	196,283	(12)
Interest and fiscal charges	103,729	103,717	12
Total expenditures	<u>537,117</u>	<u>506,883</u>	<u>30,234</u>
Excess of revenues over expenditures	211,027	249,478	38,451
OTHER FINANCING USES			
Transfers out	<u>(211,672)</u>	<u>(211,672)</u>	-
Net changes in fund balances	(645)	37,806	38,451
Fund balances - beginning	241,147	241,147	-
Fund balances - ending	<u>\$ 240,502</u>	<u>\$ 278,953</u>	<u>\$ 38,451</u>

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Riverfront Redevelopment Special Revenue Fund
For the Year Ended September 30, 2004

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Tax increment	\$ 244,495	\$ 250,995	\$ 6,500
Investment earnings	<u>2,735</u>	<u>2,737</u>	<u>2</u>
Total revenues	<u>247,230</u>	<u>253,732</u>	<u>6,502</u>
EXPENDITURES:			
Current:			
Economic environment	<u>209,987</u>	<u>86,041</u>	<u>123,946</u>
Total expenditures	<u>209,987</u>	<u>86,041</u>	<u>123,946</u>
Excess of revenues over expenditures	37,243	167,691	130,448
Fund balances - beginning	<u>(76,866)</u>	<u>(76,866)</u>	<u>-</u>
Fund balances - ending	<u>\$ (39,623)</u>	<u>\$ 90,825</u>	<u>\$ 130,448</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, 2004

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Impact fees	\$ 286,010	\$ 557,700	\$ 271,690
Investment earnings	2,953	8,987	6,034
Total revenues	<u>288,963</u>	<u>566,687</u>	<u>277,724</u>
EXPENDITURES:			
Current:			
Economic environment	<u>2,178</u>	<u>2,177</u>	<u>1</u>
Total expenditures	<u>2,178</u>	<u>2,177</u>	<u>1</u>
Excess of revenues over expenditures	286,785	564,510	277,725
OTHER FINANCING USES			
Transfers out	<u>(135,750)</u>	<u>(135,750)</u>	<u>-</u>
Net changes in fund balances	151,035	428,760	277,725
Fund balances - beginning	<u>471,680</u>	<u>471,680</u>	<u>-</u>
Fund balances - ending	<u>\$ 622,715</u>	<u>\$ 900,440</u>	<u>\$ 277,725</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, 2004

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Charges for services	\$ 772,781	\$ 757,712	\$ (15,069)
Investment earnings	13,098	21,512	8,414
Miscellaneous	-	500	500
Total revenues	<u>785,879</u>	<u>779,724</u>	<u>(6,155)</u>
EXPENDITURES:			
Current:			
Physical environment	<u>13,950</u>	<u>13,050</u>	<u>900</u>
Total expenditures	<u>13,950</u>	<u>13,050</u>	<u>900</u>
Excess of revenues over expenditures	771,929	766,674	(5,255)
OTHER FINANCING USES			
Transfers out	<u>(363,943)</u>	<u>(363,943)</u>	<u>-</u>
Total other financing uses	<u>(363,943)</u>	<u>(363,943)</u>	<u>-</u>
Net changes in fund balances	407,986	402,731	(5,255)
Fund balances - beginning	<u>1,309,263</u>	<u>1,309,263</u>	<u>-</u>
Fund balances - ending	<u>\$ 1,717,249</u>	<u>\$ 1,711,994</u>	<u>\$ (5,255)</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, 2004

	Final Budget	Actual Amounts on a Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES:			
Fines	\$ 10,000	\$ 10,130	\$ 130
Contributions	4,600	6,816	2,216
Miscellaneous	27	716	689
Total revenues	<u>14,627</u>	<u>17,662</u>	<u>3,035</u>
EXPENDITURES:			
Current:			
Public safety	<u>14,300</u>	<u>10,959</u>	<u>3,341</u>
Total expenditures	<u>14,300</u>	<u>10,959</u>	<u>3,341</u>
Excess of revenues over expenditures	327	6,703	6,376
Fund balances - beginning	<u>8,232</u>	<u>8,232</u>	<u>-</u>
Fund balances - ending	<u>\$ 8,559</u>	<u>\$ 14,935</u>	<u>\$ 6,376</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, 2004

	Final Budget	Actual Amounts on a Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES:			
Intergovernmental	\$ 11,104	\$ 11,105	\$ 1
Total revenues	<u>11,104</u>	<u>11,105</u>	<u>1</u>
EXPENDITURES:			
Current:			
Public safety	<u>11,104</u>	<u>10,279</u>	<u>825</u>
Total expenditures	<u>11,104</u>	<u>10,279</u>	<u>825</u>
Excess of revenues over expenditures	-	826	826
Fund balances - beginning	<u>(92)</u>	<u>(92)</u>	<u>-</u>
Fund balances - ending	<u>\$ (92)</u>	<u>\$ 734</u>	<u>\$ 826</u>

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Assessment Revenue Bonds 1996
For the Year Ended September 30, 2004

	<u>Final Budget</u>	<u>Actual Amounts on a Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES:			
Special assessments	\$ 18,680	\$ 28,424	\$ 9,744
Investment earnings and other revenues	2,674	12,690	10,016
Total revenues	<u>21,354</u>	<u>41,114</u>	<u>19,760</u>
EXPENDITURES:			
Current:			
General government	160	152	8
Debt service:			
Principal	77,615	77,615	-
Interest and fiscal charges	4,463	4,376	87
Total expenditures	<u>82,238</u>	<u>82,143</u>	<u>95</u>
Deficiency of revenues under expenditures	(60,884)	(41,029)	19,855
Fund balances - beginning	95,945	95,945	-
Residual fund equity transfer	(35,061)	(54,916)	(19,855)
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Stormwater Utility Revenue Bonds 2003
For the Year Ended September 30, 2004

	Final Budget	Actual Amounts on a Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES:			
Investment earnings	\$ -	\$ 499	\$ 499
Total revenues	<u>-</u>	<u>499</u>	<u>499</u>
EXPENDITURES:			
Debt service:			
Principal	105,000	105,000	-
Interest and fiscal charges	<u>334,387</u>	<u>314,210</u>	<u>20,177</u>
Total expenditures	<u>439,387</u>	<u>419,210</u>	<u>20,177</u>
Deficiency of revenues under expenditures	(439,387)	(418,711)	(19,678)
OTHER FINANCING SOURCES			
Transfers in	209,387	209,387	-
Debt proceeds	<u>230,000</u>	<u>230,000</u>	<u>-</u>
Total other financing sources	<u>439,387</u>	<u>439,387</u>	<u>-</u>
Net changes in fund balances	-	20,676	(19,678)
Fund balances - beginning	-	-	-
Fund balances - ending	<u>\$ -</u>	<u>\$ 20,676</u>	<u>\$ (19,678)</u>

City of Sebastian, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretionary Sales Surtax Revenue Bonds 2003
For the Year Ended September 30, 2004

	Final Budget	Actual Amounts on a Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES:			
Investment earnings	\$ -	\$ 3,395	\$ 3,395
Total revenues	<u>-</u>	<u>3,395</u>	<u>3,395</u>
EXPENDITURES:			
Current:			
Physical environment	300	-	300
Debt service:			
Principal	485,000	485,000	-
Interest and fiscal charges	464,482	432,643	31,839
Total expenditures	<u>949,782</u>	<u>917,643</u>	<u>32,139</u>
Deficiency of revenues under expenditures	(949,782)	(914,248)	(28,744)
OTHER FINANCING SOURCES			
Transfers in	842,702	842,702	-
Debt proceeds	126,780	126,780	-
Total other financing sources	<u>969,482</u>	<u>969,482</u>	<u>-</u>
Net changes in fund balances	19,700	55,234	(28,744)
Fund balances - beginning	392,834	392,834	-
Fund balances - ending	<u>\$ 412,534</u>	<u>\$ 448,068</u>	<u>\$ (28,744)</u>

City of Sebastian, Florida
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended September 30, 2004

	<u>Balance October 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2004</u>
ASSETS				
Cash and cash equivalents	\$ 2,752	\$ 247,010	\$ 101,002	\$ 148,760
Total assets	<u>\$ 2,752</u>	<u>\$ 247,010</u>	<u>\$ 101,002</u>	<u>\$ 148,760</u>
 LIABILITIES				
Accounts payable	\$ 250	\$ 100,540	\$ 100,790	\$ -
Deposits refunds payable	392	-	392	-
Performance deposits held in escrow	<u>2,110</u>	<u>247,920</u>	<u>101,270</u>	<u>148,760</u>
Total liabilities	<u>\$ 2,752</u>	<u>\$ 348,460</u>	<u>\$ 202,452</u>	<u>\$ 148,760</u>

City of Sebastian, Florida
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedule By Source
September 30, 2004

Governmental Funds capital assets:	<u>FY 2003</u>	<u>FY 2004</u>
Land	\$ 4,653,603	\$ 4,653,603
Buildings and structures	2,591,420	2,194,246
Improvement other than buildings	2,310,380	2,431,270
Machinery and equipment	5,049,563	5,186,908
Infrastructure	15,021,381	15,766,359
Capital projects	<u>1,634,161</u>	<u>9,769,145</u>
 Total capital assets	 <u>\$ 31,260,508</u>	 <u>\$ 40,001,531</u>

Investment in governmental Funds capital assets by sources:

Federal grants	\$ 903,074	\$ 903,074
State grants	868,172	1,005,706
County grants	712,211	712,211
General fund	10,727,762	10,324,160
Law enforcement trust fund	57,174	58,377
Recreational impact fee	-	164,063
Cemetery trust fund	186,395	186,395
Donations	2,332,158	2,319,828
Sales taxes	6,418,349	6,917,821
Motor fuel taxes	4,158,145	4,377,844
Revenue bond debt	3,262,907	3,262,907
Capital projects	<u>1,634,161</u>	<u>9,769,145</u>
 Total investment in capital assets	 <u>\$ 31,260,508</u>	 <u>\$ 40,001,531</u>

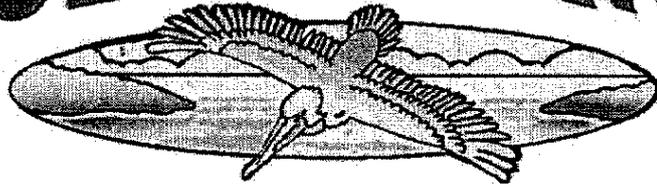
City of Sebastian, Florida
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
September 30, 2004

Function and Activity	Land	Buildings	Improvements Other than Buildings	Machinery and Equipment	Infrastructure	Totals
General government:						
Legislative	\$ -	\$ -	\$ 1,100	\$ 16,081	\$ -	\$ 17,181
City manager	-	-	-	22,075	-	22,075
City clerk	-	-	-	74,728	-	74,728
City attorney	-	-	-	2,114	-	2,114
Finance	-	-	-	62,541	-	62,541
MIS	-	-	-	95,405	-	95,405
Human resources	-	-	-	6,982	-	6,982
Growth management	-	85,553	-	22,700	-	108,253
Building department	-	15,183	-	77,537	-	92,720
Non-departmental	2,662,551	631,324	50,026	173,635	-	3,517,536
Subtotal	<u>2,662,551</u>	<u>732,060</u>	<u>51,126</u>	<u>553,798</u>	<u>-</u>	<u>3,999,535</u>
Public safety:						
Administration	9,560	528,191	61,682	96,627	-	696,060
School resource	-	-	-	46,866	-	46,866
Road patrol	-	-	-	1,047,273	-	1,047,273
Community policing	-	-	-	134,796	-	134,796
Code enforcement	-	-	-	33,227	-	33,227
Professional Std.	-	-	-	18,607	-	18,607
Investigations	-	7,774	-	146,787	-	154,561
Support services	-	-	-	58,304	-	58,304
Communications	-	-	-	73,362	-	73,362
Subtotal	<u>9,560</u>	<u>535,965</u>	<u>61,682</u>	<u>1,655,849</u>	<u>-</u>	<u>2,263,056</u>
Transportation:						
Engineering	78	146,361	120,529	174,566	-	441,534
Central garage	-	111,654	82,419	94,435	-	288,508
Roads and drainage	-	208,918	661,808	979,075	14,338,477	16,188,278
Subtotal	<u>78</u>	<u>466,933</u>	<u>864,756</u>	<u>1,248,076</u>	<u>14,338,477</u>	<u>16,918,320</u>
Physical Environment:						
Stormwater	-	-	-	1,309,269	129,282	1,438,551
Cemetery	272,190	47,519	78,354	34,190	21,473	453,726
Subtotal	<u>272,190</u>	<u>47,519</u>	<u>78,354</u>	<u>1,343,459</u>	<u>150,755</u>	<u>1,892,277</u>
Culture/Recreation:						
Parks and recreation	1,709,224	411,770	1,375,352	385,726	1,277,126	5,159,198
Subtotal	<u>1,709,224</u>	<u>411,770</u>	<u>1,375,352</u>	<u>385,726</u>	<u>1,277,126</u>	<u>5,159,198</u>
Total	<u>\$ 4,653,603</u>	<u>\$ 2,194,247</u>	<u>\$ 2,431,270</u>	<u>\$ 5,186,908</u>	<u>\$ 15,766,358</u>	<u>\$ 30,232,386</u>
Construction in progress						9,769,145
Total						<u>\$ 40,001,531</u>

City of Sebastian, Florida
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
September 30, 2004

Function and Activity	Governmental Funds Capital Assets October 1, 2003	Additions	Deletions	Transfers In	Transfers Out	Governmental Funds Capital Assets September 30, 2004
General government:						
Legislative	\$ 18,493	\$ -	\$ -	\$ 788	\$ 2,100	\$ 17,181
City manager	22,075	-	-	-	-	22,075
City clerk	72,705	2,100	-	1,514	1,591	74,728
City attorney	2,114	-	-	-	-	2,114
Finance	61,676	4,789	-	-	3,924	62,541
MIS	72,731	30,073	4,335	3,571	6,635	95,405
Human resources	5,820	1,162	-	-	-	6,982
Growth management	121,876	-	11,478	4,033	6,178	108,253
Building department	93,224	-	-	4,515	5,019	92,720
Non-departmental	3,531,700	-	40,738	26,574	-	3,517,536
Subtotal	<u>4,002,414</u>	<u>38,124</u>	<u>56,551</u>	<u>40,995</u>	<u>25,447</u>	<u>3,999,535</u>
Public Safety:						
Administration	1,259,519	15,305	400,056	30,940	209,648	696,060
School resource	47,817	-	-	24,329	25,280	46,866
Road patrol	806,022	187,689	17,740	139,924	68,622	1,047,273
Community policing	109,074	1,701	16,196	58,925	18,708	134,796
Code enforcement	35,585	-	-	-	2,358	33,227
Professional Std.	-	-	-	18,607	-	18,607
Investigations	120,570	38,315	52,146	89,909	42,087	154,561
Support services	52,102	-	-	6,202	-	58,304
Communications	77,211	-	-	7,463	11,312	73,362
Subtotal	<u>2,507,900</u>	<u>243,010</u>	<u>486,138</u>	<u>376,299</u>	<u>378,015</u>	<u>2,263,056</u>
Transportation:						
Engineering	381,110	60,379	4,889	6,216	1,282	441,534
Central garage	296,545	2,175	8,162	-	2,050	288,508
Roads and drainage	15,558,359	457,864	60,165	233,337	1,116	16,188,279
Subtotal	<u>16,236,014</u>	<u>520,418</u>	<u>73,216</u>	<u>239,553</u>	<u>4,448</u>	<u>16,918,321</u>
Physical Environment:						
Stormwater	1,467,788	4,058	33,295	-	-	1,438,551
Building maintenance	452,740	-	21,066	-	431,674	-
Cemetery	451,277	13,120	-	2,000	12,671	453,726
Subtotal	<u>2,371,805</u>	<u>17,178</u>	<u>54,361</u>	<u>2,000</u>	<u>444,345</u>	<u>1,892,277</u>
Culture & Recreation:						
Parks and recreation	4,508,214	580,844	123,269	195,408	2,000	5,159,197
Subtotal	<u>4,508,214</u>	<u>580,844</u>	<u>123,269</u>	<u>195,408</u>	<u>2,000</u>	<u>5,159,197</u>
Total	29,626,347	1,399,574	793,535	854,255	854,255	30,232,386
Construction in progress	1,634,161	8,682,239	547,255	-	-	9,769,145
Total	\$ 31,260,508	\$ 10,081,813	\$ 1,340,790	\$ 854,255	\$ 854,255	\$ 40,001,531

CITY OF
SEBASTIAN



HOME OF PELICAN ISLAND

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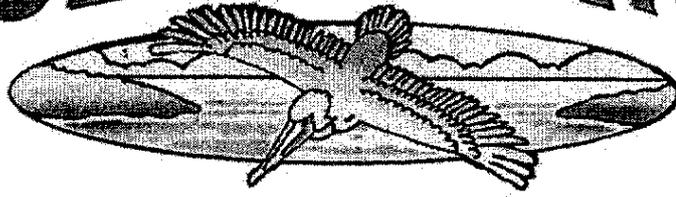
Statistical Section

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.	73-80
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.	81-87
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.	88-93
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.	94-96
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.	97-99

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



HOME OF PELICAN ISLAND

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Governmental Activities				
Invested in Capital Assets, Net of Related Debt	\$ 16,412,401	\$ 16,339,222	\$ 14,242,832	\$ 12,778,007
Restricted	4,059,674	3,235,266	3,289,670	2,270,654
Unrestricted	<u>7,171,123 (1)</u>	<u>5,461,224</u>	<u>5,865,388</u>	<u>5,417,630</u>
<i>Total Governmental Activities Net Assets</i>	<u>\$ 27,643,198</u>	<u>\$ 25,035,712</u>	<u>\$ 23,397,890</u>	<u>\$ 20,466,291</u>
Business-Type Activities				
Invested in Capital Assets, Net of Related Debt	\$ 4,264,961	\$ 1,545,867	\$ 363,827	\$ 150,722
Restricted	506,006	505,435	458,014	640,973
Unrestricted	<u>1,712,657</u>	<u>1,471,457</u>	<u>1,120,224</u>	<u>985,863</u>
<i>Total Business-Type Activities Net Assets</i>	<u>\$ 6,483,624</u>	<u>\$ 3,522,759</u>	<u>\$ 1,942,065</u>	<u>\$ 1,777,558</u>
Primary government				
Invested in Capital Assets, Net of Related Debt	\$ 20,677,362	\$ 17,885,089	\$ 14,606,659	\$ 12,928,729
Restricted	4,565,680	3,740,701	3,747,684	2,911,627
Unrestricted	<u>8,883,780</u>	<u>6,932,681</u>	<u>6,985,612</u>	<u>6,403,493</u>
<i>Total Primary Government Net Assets</i>	<u>\$ 34,126,822</u>	<u>\$ 28,558,471</u>	<u>\$ 25,339,955</u>	<u>\$ 22,243,849</u>

(1) The large increase for unrestricted net assets from 2003 to 2004 is mainly due to increase in State revenue sharing and tax revenues.

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

	2004	2003	2002	2001
Program Revenues				
Governmental Activities:				
Charges for Services:				
General Government	\$ 376,327	\$ 247,774	\$ 172,135	\$ 183,502
Public Safety	1,660,032	824,821	625,924	554,350
Physical Environment	850,887	799,637	785,683	-
Economic Development	-	-	24,869	18,753
Cultural/Recreation	48,590	46,736	73,013	35,050
Operating Grants and Contributions	1,144,528	920,829	958,229	902,001
Capital Grants and Contributions	1,353,959	640,894	872,490	581,941
<i>Total Governmental Activities Program Revenues</i>	<u>\$ 5,434,323</u>	<u>\$ 3,480,691</u>	<u>\$ 3,512,343</u>	<u>\$ 2,275,597</u>
Business-Type Activities:				
Charges for Services:				
Golf Course	\$ 1,648,308	\$ 1,377,245	\$ 1,365,027	\$ 1,088,104
Airport	201,890	168,451	179,373	193,649
Operating Grants and Contributions	67,576	-	51,087	123,673
Capital Grants and Contributions	2,451,212	1,149,437	214,175	299,334
<i>Total Business-Type Activities Program Revenues</i>	<u>\$ 4,368,986</u>	<u>\$ 2,695,133</u>	<u>\$ 1,809,662</u>	<u>\$ 1,704,760</u>
<i>Total Primary Government Program Revenues</i>	<u>\$ 9,803,309</u>	<u>\$ 6,175,824</u>	<u>\$ 5,322,005</u>	<u>\$ 3,980,357</u>
Expenses				
Governmental Activities:				
General Government	\$ 2,414,865	\$ 1,620,616	\$ 2,010,288	\$ 1,676,383
Public Safety	4,502,109	3,391,831	2,945,701	2,526,514
Physical Environment	1,279,257	1,920,200	508,616	452,116
Transportation	3,288,532	2,401,037	2,258,181	1,630,098
Economic Development	86,041	166,024	223,207	241,692
Cultural/Recreation	823,974	747,910	881,260	768,802
Interest and Fiscal Charges	722,007	312,367	168,749	160,954
<i>Total Governmental Activities Expenses</i>	<u>\$ 13,116,785</u>	<u>\$10,559,985</u>	<u>\$ 8,996,002</u>	<u>\$ 7,456,559</u>
Business-Type Activities:				
Golf Course	\$ 1,527,051	\$ 1,363,359	\$ 1,393,551	\$ 1,341,001
Airport	350,949	315,941	283,726	313,877
<i>Total Business-Type Activities Expenses</i>	<u>\$ 1,878,000</u>	<u>\$ 1,679,300</u>	<u>\$ 1,677,277</u>	<u>\$ 1,654,878</u>
<i>Total Primary Government Expenses</i>	<u>\$ 14,994,785</u>	<u>\$12,239,285</u>	<u>\$10,673,279</u>	<u>\$ 9,111,437</u>

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

	2004	2003	2002	2001
Net (Expense)/Revenue				
Governmental Activities	\$ (7,682,462)	\$ (7,079,294)	\$ (5,483,659)	\$ (5,180,962)
Business-Type Activities	2,490,986	1,015,833	132,385	49,882
<i>Total Primary Government Net Expense</i>	<u>\$ (5,191,476)</u>	<u>\$ (6,063,461)</u>	<u>\$ (5,351,274)</u>	<u>\$ (5,131,080)</u>
General Revenues and Other Changes in Net Assets				
Governmental Activities:				
Property Taxes, Levied for General Purposes	\$ 3,420,971	\$ 2,944,456	\$ 2,615,939	\$ 2,557,333
Sales and Use Taxes	4,035,545	3,705,922	2,844,825	3,013,293
Franchise Fees	770,600	756,194	766,901	753,024
State Shared Revenues	1,721,956	1,523,524	2,068,753	1,336,046
Interest Earnings	398,158	241,358	118,840	236,307
Miscellaneous	388,562	79,662	-	-
Transfers	(445,844)	(534,000)	-	-
<i>Total Governmental Activities</i>	<u>\$ 10,289,948</u>	<u>\$ 8,717,116</u>	<u>\$ 8,415,258</u>	<u>\$ 7,896,003</u>
Business-Type Activities:				
Interest Earnings	\$ 23,774	\$ 21,789	\$ 32,122	\$ 99,521
Miscellaneous	261	9,072	-	-
Transfers	445,844	534,000	-	-
<i>Total Business-Type Activities</i>	<u>\$ 469,879</u>	<u>\$ 564,861</u>	<u>\$ 32,122</u>	<u>\$ 99,521</u>
<i>Total Primary Government</i>	<u>\$ 10,759,827</u>	<u>\$ 9,281,977</u>	<u>\$ 8,447,380</u>	<u>\$ 7,995,524</u>
Change in Net Assets				
Governmental Activities	\$ 2,607,486	\$ 1,637,822	\$ 2,931,599	\$ 2,715,041
Business-Type Activities	2,960,865	1,580,694	164,507	149,403
<i>Total Primary Government Change in Net Assets</i>	<u>\$ 5,568,351</u>	<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>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
General Fund				
Reserved	\$ 2,693,710	\$ 1,402,398	\$ 232,088	\$ 121,256
Unreserved	<u>2,421,182</u>	<u>2,479,452</u>	<u>3,690,659</u>	<u>3,406,083</u>
<i>Total General Fund</i>	<u>\$ 5,114,892</u>	<u>\$ 3,881,850</u>	<u>\$ 3,922,747</u>	<u>\$ 3,527,339</u>
All Other Governmental Funds				
Reserved	\$ 4,208,170	\$ 1,596,981	\$ 1,503,172	\$ 1,306,269
Unreserved, Reported in:				
Special Revenue funds	3,355,229	2,211,585	1,808,288	548,174
Capital Projects funds	6,795,371	9,993,933 (1)	2,384,557	2,609,201
Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total All Other Governmental Funds	<u>\$ 14,358,770</u>	<u>\$ 13,802,499</u>	<u>\$ 5,696,017</u>	<u>\$ 4,463,644</u>
<i>Total Governmental Funds</i>	<u><u>\$ 19,473,662</u></u>	<u><u>\$ 17,684,349</u></u>	<u><u>\$ 9,618,764</u></u>	<u><u>\$ 7,990,983</u></u>

(1) 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.

2000	1999	1998	1997	1996	1995
\$ 64,341	\$ 43,113	\$ 3,303,761	\$ 7,940	\$ 6,666	\$ 3,091
2,786,252	2,699,955	3,468,381	3,710,621	3,072,721	2,611,066
\$ 2,850,593	\$ 2,743,068	\$ 6,772,142	\$ 3,718,561	\$ 3,079,387	2,614,157
\$ 2,021,740	\$ 605,270	\$ 168,093	\$ 167,980	\$ 144,320	\$ 746,553
456,461	217,969	-	-	-	-
1,562,299	4,027,673	-	-	-	-
-	-	-	-	-	175,505
\$ 4,040,500	\$ 4,850,912	\$ 168,093	\$ 167,980	\$ 144,320	\$ 746,553
\$ 6,891,093	\$ 7,593,980	\$ 6,940,235	\$ 3,886,541	\$ 3,223,707	\$ 3,360,710

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

	2004	2003	2002
Revenues			
Property and Other Local Taxes	\$8,179,344	\$7,325,932	\$6,228,107
Franchise Fees	770,600	756,194	766,901
Charges for Services	962,677	921,119	1,123,670
Licenses, Permits and Fees	1,867,920	878,097	578,695
Fines and Forfeitures	118,918	119,752	127,027
Intergovernmental	3,115,520	1,785,237	2,841,315
Impact Fees	557,700	395,850	255,775
Special Assessments	28,424	22,560	31,756
Interest	398,158	241,358	206,567
Miscellaneous	378,268	91,078	126,823
<i>Total Revenues</i>	<u>16,377,529</u>	<u>12,537,177</u>	<u>12,286,636</u>
Expenditures			
Current:			
General Government	2,269,656	2,001,823	2,230,870
Public Safety	4,159,619	3,689,170	2,588,526
Physical Environment	1,142,905	1,392,071	508,616
Transportation	2,913,935	1,646,304	1,427,992
Economic Environment	86,041	166,024	327,911
Cultural and Recreation	771,219	672,179	732,729
Debt service:			
Principal Retirement	985,974	361,024	344,553
Interest and Fiscal Charges	887,564	158,043	174,864
Capital Projects	8,682,239	3,350,954	2,322,794
<i>Total Expenditures</i>	<u>21,899,152</u>	<u>13,437,592</u>	<u>10,658,855</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(5,521,623)</u>	<u>(900,415)</u>	<u>1,627,781</u>
Other Financing Sources (Uses)			
Debt Proceeds	7,756,780	9,500,000	-
Lease Proceeds	-	-	-
Transfers In	2,745,754	2,992,908	2,009,173
Transfers Out	<u>(3,191,598)</u>	<u>(3,526,908)</u>	<u>(2,009,173)</u>
<i>Total Other Financing Sources (Uses)</i>	<u>7,310,936</u>	<u>8,966,000</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	<u>\$1,789,313</u>	<u>\$8,065,585</u>	<u>\$1,627,781</u>
Debt Service as a Percentage of Noncapital Expenditures	15.2%	5.4%	6.3%

2001	2000	1999	1998	1997	1996	1995
\$6,223,280	\$6,273,070	\$5,837,968	\$5,612,313	\$5,250,861	\$4,931,996	\$4,486,685
753,024	-	-	-	-	-	-
300,046	159,701	33,097	74,485	84,051	74,657	82,653
487,618	475,345	448,928	388,936	345,463	321,149	278,618
148,676	140,672	89,697	72,723	59,198	82,477	67,774
1,968,416	2,318,091	1,865,375	1,697,747	1,332,676	1,166,881	961,887
-	-	-	-	-	-	-
28,528	128,154	44,964	30,522	68,474	135,336	-
417,707	689,395	512,407	290,406	261,548	260,414	297,780
196,311	246,774	650	-	-	-	-
<u>10,523,606</u>	<u>10,431,202</u>	<u>8,833,086</u>	<u>8,167,132</u>	<u>7,402,271</u>	<u>6,972,910</u>	<u>6,175,397</u>
1,647,858	1,946,702	1,837,031	2,074,479	1,879,432	2,625,066	1,986,873
2,482,393	2,129,662	2,122,823	1,847,503	1,706,546	1,627,955	1,585,901
452,116	345,844	412,990	82,699	79,528	80,941	78,945
1,084,401	1,228,234	1,007,426	1,160,404	1,273,318	1,187,354	1,189,014
273,927	617	4,830	8,492	64,657	26,342	-
612,038	555,584	488,499	348,546	190,651	174,303	187,003
222,954	212,860	225,243	182,434	173,471	227,526	103,659
152,093	151,536	160,940	29,522	40,704	27,771	29,349
3,402,365	4,713,604	1,915,620	2,640,389	1,331,130	1,124,542	609,079
<u>10,330,145</u>	<u>11,284,643</u>	<u>8,175,402</u>	<u>8,374,468</u>	<u>6,739,437</u>	<u>7,101,800</u>	<u>5,769,823</u>
193,461	(853,441)	657,684	(207,336)	662,834	(128,890)	405,574
900,000	-	-	3,261,030	-	527,993	-
-	-	-	-	-	34,942	-
2,130,744	2,134,510	1,861,364	258	2,720	4,030	3,800
<u>(2,130,744)</u>	<u>(2,134,510)</u>	<u>(1,861,364)</u>	<u>(258)</u>	<u>(2,720)</u>	<u>(4,030)</u>	<u>(3,800)</u>
900,000	-	-	3,261,030	-	562,935	-
<u>\$ 1,093,461</u>	<u>\$ (853,441)</u>	<u>\$ 657,684</u>	<u>\$ 3,053,694</u>	<u>\$ 662,834</u>	<u>\$ 434,045</u>	<u>\$ 405,574</u>
5.4%	5.5%	6.2%	3.7%	4.0%	4.3%	2.6%

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Function/Program				
Governmental Activities:				
General Government	\$ 392,471	\$ 1,095,902	\$ 172,135	\$ 226,786
Public Safety	1,850,710	929,952	785,373	633,230
Physical Environment	914,318	1,136,507	785,683	779,837
Transportation	1,670,534	1,580,076	3,038,913	2,285,809
Economic Environment	-	-	24,869	18,753
Cultural/Recreation	606,290	663,459	566,959	168,335
<i>Total Governmental Activities</i>	<u>\$ 5,434,323</u>	<u>\$ 5,405,896</u>	<u>\$ 5,373,932</u>	<u>\$ 4,112,750</u>
Business-type activities:				
Golf Course	\$ 1,715,884	\$ 1,377,245	\$ 1,365,517	\$ 1,088,104
Airport	2,653,102	1,317,888	444,145	616,656
<i>Total Business-Type Activities</i>	<u>\$ 4,368,986</u>	<u>\$ 2,695,133</u>	<u>\$ 1,809,662</u>	<u>\$ 1,704,760</u>
<i>Total Primary Government</i>	<u>\$ 9,803,309</u>	<u>\$ 8,101,029</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>
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	\$ 2,717,564 (1)	\$ 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	\$ 2,323,566 (2)	\$ 1,044,595	\$ 1,704,749	\$ 549,800	\$ 5,622,710
1999	\$ 2,734,068 (3)	\$ 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
1996	\$ 2,619,790	\$ 335,240	\$ 1,059,291	\$ 381,131	\$ 4,395,452
1995	\$ 2,461,390	(4)	(4)	(4)	\$ 2,461,390

(1) Fiscal Year 2002 property tax revenue reflects a change in the property tax millage rate from 5.0000 to 4.5904.

(2) Fiscal Year 2000 property tax revenue reflects a change in the property tax millage rate from 6.5000 to 5.0000.

(3) 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.

(4) Information not available

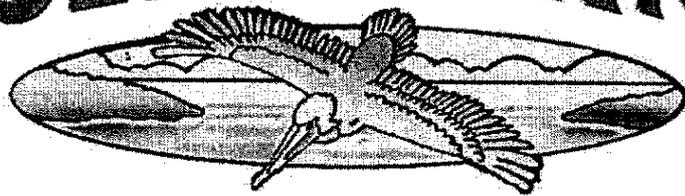
City of Sebastian, Florida
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

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	
1995	6.9000	--	6.9000	8.21258	8.98330	1.21500	10.19830	2.26023
1996	6.9000	--	6.9000	8.66433	9.13800	1.21000	10.34800	2.74083
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	1.61045
2003	4.5904	--	4.5904	7.93960	8.17900	0.53100	8.71000	1.69278
2004	4.5904	--	4.5904	7.35050	8.01900	0.48000	8.49900	1.43027

- (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

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

Fiscal Year	Real Property		Personal Property	
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value
1995	\$ 514,374,980	\$ 642,968,725	\$ 26,554,691	\$ 26,554,691
1996	531,461,580	664,326,975	24,774,960	24,774,960
1997	563,855,210	704,819,013	30,303,882	30,303,882
1998	587,811,960	734,764,950	31,210,876	31,210,876
1999	626,274,970	782,843,713	46,027,721	46,027,721
2000	656,619,860	820,774,825	42,216,162	41,533,985
2001	754,577,150	943,221,438	45,195,579	45,195,579
2002	829,224,615	1,036,530,769	45,355,170	45,355,170
2003	946,293,950	1,182,867,438	48,613,628	48,613,628
2004	1,157,275,164	1,446,593,955	51,330,277	51,330,277

Source: Indian River County Property Appraiser

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

Exemptions Real Property	Total Assessed Value	Total Estimated Actual Value
\$ 154,362,555	\$ 540,929,671	\$ 669,523,416
161,007,095	556,236,540	689,101,935
172,478,432	594,159,092	735,122,895
177,515,747	619,022,836	765,975,826
187,751,454	672,302,691	828,871,434
190,327,263	698,836,022	862,308,810
198,445,669	799,772,729	988,417,017
205,977,066	874,579,785	1,081,885,939
217,554,663	994,907,578	1,231,481,066
228,262,825	1,208,605,441	1,497,924,232

City of Sebastian, Florida

Principal Taxpayers

Year 2004 and Year 1998

Taxpayer	2004			1998		
	Real Property Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Real Property Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Florida Power & Light	\$ 13,513,562	1	1.11%	\$ 6,448,890	3	1.02%
Wal-Mart Stores Inc.	11,685,269	2	0.96%	7,843,080	2	1.24%
BellSouth Communications	8,096,914	3	0.66%	7,930,440	1	1.26%
BW US 1 Inc	6,289,500	4	0.52%	--	--	--
Ruth Guest House, Inc.	3,923,550	5	0.32%	--	--	--
Turner, James T.	3,784,200	6	0.31%	--	--	--
Seb. Inlet Marina & Trd. Co., Inc.	3,512,390	7	0.29%	--	--	--
Oyster Point Resort Condo	3,224,000	8	0.26%	--	--	--
Sandy Pines LTD	3,008,500	9	0.25%	--	--	--
512 Commerce Center LLC	2,736,990	10	0.22%	--	--	--
Lynch, Robert N. (Bishop)	--	--	--	3,665,790	4	0.58%
Park Place MHP Ltd	--	--	--	2,737,650	5	0.43%
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>\$ 59,774,875</u>		<u>4.90%</u>	<u>\$ 36,038,445</u>		<u>5.71%</u>
Total Assessed Valuation	<u><u>\$1,218,125,068</u></u>			<u><u>\$ 630,218,290</u></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

<u>Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Current Tax Collections To Tax Levy</u>	<u>Delinquent Tax Collections (1)</u>	<u>Total Tax Collections</u>	<u>Percent of Total Tax Collections To Tax Levy</u>
2004	\$3,216,940	\$3,130,521	97 %	\$ 34,247	\$ 3,164,768	98.38 %
2003	2,862,650	2,725,515	95	26,908	2,752,423	96.15
2002	2,635,277	2,489,854	94	36,421	2,526,275	95.86
2001	2,542,544	2,455,930	97	51,690	2,507,620	98.63
2000	2,422,756	2,283,898	94	35,050	2,318,948	95.72
1999	2,869,796	2,726,857	95	2,912	2,729,769	95.12
1998	2,909,597	2,679,819	92	130,803	2,810,622	96.60
1997	2,727,083	2,513,627	92	150,526	2,664,153	97.69
1996	2,667,313	2,463,039	92	156,752	2,619,791	98.22
1995	2,510,166	2,294,209	91	167,181	2,461,390	98.06

Source: Indian river County Property Appraiser and Tax Collector

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

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		
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	11,615,000	630
2002	134,299	2,593,939	-	-	2,335,000	2,335,000	136
2001	187,901	2,773,847	-	-	2,435,000	2,435,000	146
2000	238,589	2,946,113	-	-	1,500,000 (1)	1,500,000	93
1999	286,521	3,111,041	-	-	1,610,000	1,610,000	103
1998	322,044	3,268,890 (2)	-	-	1,715,000	1,715,000	113
1997	367,764	158,250	-	-	1,815,000	1,815,000	125
1996	415,303 (3)	276,566	-	-	1,910,000	1,910,000	137
1995	-	387,279	-	-	2,085,000	2,085,000	155

(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.

(3) The City issued a \$527,993 Revenue Bonds in 1996 for the the costs to construct a waterline along the riverfront.

City of Sebastian, Florida
 Computation of Legal Debt Margin
 September 30, 2004

Assessed Valuation	
Assessed taxable real property value	\$ 929,012,339
Add back: exempt real property	228,262,825
Total assessed value of real property	\$ 1,157,275,164
Legal debt margin:	
Debt limitation - 5 percent of total assessed real property value (1)	\$ 57,863,758
Debt applicable to limitation	
Total bonded debt	\$ 19,425,196
Less: revenue bonds	(16,665,000)
Total applicable to limitation	2,760,196
Legal debt margin	\$ 55,103,562

(1) City adopted financial policies states 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, 2004

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 Six Fiscal Years

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Debt Limit (1)	\$57,863,758	\$ 47,314,698	\$ 82,922,462	\$ 75,457,715
Total net debt applicable to limit	<u>2,760,196</u>	<u>3,078,556</u>	<u>3,382,896</u>	<u>3,673,847</u>
Legal debt margin	<u>\$55,103,562</u>	<u>\$ 44,236,142</u>	<u>\$ 79,539,566</u>	<u>\$ 71,783,868</u>
Total net debt applicable to the limit as a percentage of debt limit	4.77%	6.51%	4.08%	4.87%

(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 1995 through 1998 not available

<u>2,000</u>	<u>1999</u>
\$ 65,661,986	\$ 62,627,497
<u>2,946,113</u>	<u>3,111,041</u>
<u>\$ 62,715,873</u>	<u>\$ 59,516,456</u>

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	
1995	1,139,795	788,449	351,346	85,000	120,655	205,655	⁽³⁾ 1.71 ⁽⁴⁾
1996	1,213,952	854,479	359,473	90,000	116,830	206,830	⁽³⁾ 1.74 ⁽⁴⁾
1997	1,356,609	884,286	472,323	95,000	112,600	207,600	⁽³⁾ 2.28 ⁽⁴⁾
1998	1,351,368	926,174	425,194	100,000	107,850	207,850	⁽³⁾ 2.05 ⁽⁴⁾
1999	1,414,976	982,772	432,204	105,000	102,650	207,650	⁽³⁾ 2.08 ⁽⁴⁾
2000	1,471,743	1,004,760	466,983	110,000	96,980	206,980	⁽³⁾ 2.26 ⁽⁴⁾
2001	1,165,091 ⁽⁵⁾	1,163,741 ⁽⁵⁾	1,350	--	--	--	⁽⁶⁾ -- ⁽⁷⁾
2002	1,386,424	1,140,640	245,784	100,000	94,290	194,290	⁽⁶⁾ 1.27 ⁽⁷⁾
2003	1,400,154	1,088,052	312,102	220,000	85,490	305,490	⁽⁶⁾ 1.02 ⁽⁷⁾
2004	1,728,828	1,263,240	465,588	230,000	76,290	306,290	⁽⁶⁾ 1.52 ⁽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) and other non-operating revenues.
- (2) Total direct operating expenses and exclusive of depreciation and amortization.
- (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

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

<u>Year</u>	<u>Population</u>	<u>Total Personal Income (1)</u>	<u>Per Capita Personal Income (1)</u>	<u>Median Household Income (1)</u>	<u>Median Age (2)</u>	<u>Educational Attainment: Bachelor's Degree or higher (2)</u>
2004	19,365	(5)	(5)	(5)	(5)	(5)
2003	18,425	(5)	(5)	(5)	(5)	(5)
2002	17,167	683,761,610	\$39,830	(5)	(5)	(5)
2001	16,667	622,045,774	\$37,322	(5)	(5)	(5)
2000	16,181	576,415,763	\$35,623	\$40,063	49.2	23.1 %
1999	15,707	612,164,618	\$38,974	\$37,947	(5)	(5)
1998	15,115	568,626,300	\$37,620	\$37,398	(5)	(5)
1997	14,470	526,216,020	\$36,366	\$35,895	(5)	(5)
1996	13,967	479,221,737	\$34,311	(5)	(5)	(5)
1995	13,488	434,677,776	\$32,227	\$33,667	(5)	(5)

Sources:

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

<u>School Enrollment (3)</u>	<u>Unemployment Rate (1)</u>	<u>Total Assessed Property Value (4)</u>
4,917	7.6 %	\$ 1,208,605,441
4,340	7.5	994,907,578
4,309	7.8	874,579,785
1,371	7.4	799,772,729
1,342	6.5	698,836,022
1,383	7.5	672,302,691
1,410	7.9	619,022,836
1,324	8.1	594,159,092
1,313	9.0	556,236,540
1,413	9.7	540,929,671

City of Sebastian, Florida
Principal Employers
Year 2003 and Five Years Ago

2003		
Employer	Number of Employees	Percentage of Total County Employment
Publix Supermarket	931	1.76 %
The New Piper Aircraft	688	1.30
Hale Indian River Groves	650	1.23
Wal-Mart	505	0.95
John's Island	500	0.94
Indian River Estate	399	0.75
Gracewood Fruit Packing	330	0.62
Visiting Nurse Association	297	0.56
Grand Harbor Management	290	0.55
Disney's Vero Beach Resort	289	0.55
Macho Products, Inc.	200	0.38
Total	<u>5,079</u>	<u>9.60 %</u>
Total County Employments	<u>52,931</u>	

1999 (1)		
Employer	Employees	Percentage of Total County Employment
The new Piper Aircraft	1,249	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
Dodgettown Complex	438	1.00
John's Island	415	0.95
Graves Brothers	400	0.92
Total	<u>6,143</u>	<u>14.09 %</u>
Total County Employees	<u>43,592</u>	

(1) Data before 1999 not available.

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 Nine Fiscal Years

<u>Function/program</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>	<u>1996</u>
General Government:									
City Council	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
City Manager	4	4	4	4	3	3	3	3	4
City Clerk	4	4	5	5	5	5	5	5	5
City Attorney	1	1	1	1	1	0	0	0	0
Finance	5	5	6	6	5	5	5	5	7
Mgmt Information Svcs	2	2	0	0	0	0	0	0	0
Human Resources	3	3	3	3	3	2	2	2	2
Growth Management	4	4	4	4	4	6	0	0	0
Public Safety:									
Police Department	56.5	54.5	53	52.5	50	47	45	43	40.5
Building Department	8	7	7	6	6	6	0	0	0
Transportation:									
Roads & Drainage	14.5	15.5 (1)	27.5	26.5	27.5	24	22	27	26
Central Garage	3	3	3	3	3	3.5	3.5	3.5	3.5
Airport	2.5	2.5	1.5	1	0.5	0.5	0.5	0.5	0
Physical Environment:									
Engineering	8	7.5	8	6.5	6.5	6	6	6.5	6
Stormwater Utility	12	12 (1)	1	0	0	0	0	0	0
Cultural/Recreation:									
Parks & Recreation	17.5	16.5	14	14	10	10	10	5	5
Cemetery	2	2	2	2	2	2	2	2	2
Golf Course	13.5	13.5	14.5	12.5	12.5	11.5	11.5	11.5	11.5
Totals:	<u>163</u>	<u>159.5</u>	<u>157</u>	<u>149.5</u>	<u>141.5</u>	<u>134</u>	<u>118</u>	<u>117</u>	<u>115</u>

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

Source: City of Sebastian, Florida 1996-2004 Annual Budgets

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

*Data from 1995 not available

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

Function/program	2004	2003	2002	2001	2000	1999
General Government						
Number of Annexation Approved	6	3	0	1	1	0
Acres of Annexed Property	484	80	0	80	6	0
Purchase Orders Issued	408	372	357	411	406	397
Public Safety						
Police Department						
Physical Arrest	653	557	515	627	738	481
Traffic Violations	5,431	1,939	2,528	2,781	3,562	2,413
Parking Violations	3,801	632	207	198	305	53
Building Department						
Construction Permits Issued	577	544	363	315	317	210
Estimated Value of Construction (in millions)	\$ 112.3	\$ 82.7	\$ 38.9	\$ 29.0	(1)	\$ 9.8
Transportation						
Road Maintenance (man hours)*	878	850	827	(1)	(1)	(1)
Asphalt for road maintenance (tons)	88	79	75	(1)	(1)	(1)
Concrete for road maintenance (yards)	283	277	275	(1)	(1)	(1)
Physical Environment						
Cemetery						
Cemetery Internments	69	81	73	78	77	52
Grave Deeds Sold	86	45	54	67	85	34
Stormwater						
Mile of Swales Maintained	280	280	280	280	(1)	(1)
Mile of Ditches Maintained	50	50	50	50	(1)	(1)
Road Crossing Maintained	30	30	30	30	(1)	(1)
Catch Basins/Culverts	275	275	250	248	(1)	(1)
Recreation						
Recreation Center attendance	15,155	15,367	(1)	(1)	(1)	(1)
Number of Discount Cards	993	855	890	746	791	(1)
Number of Golf Course Memberships	116	137	169	190	212	(1)
Average daily golf revenue	\$9,258	\$8,498	\$8,451	\$7,227	\$8,348	\$4,996

(1) Information not available

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

*Data from 1995 through 1998 not available

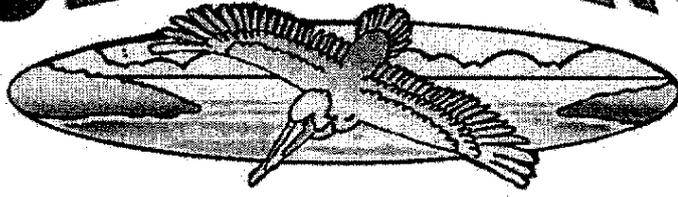
City of Sebastian, Florida
Capital Asset Statistics by Function/Program
Last Six Fiscal Years

Function/program	2004	2003	2002	2001	2000	1999
General Government						
Square Footage Occupied	5,516	5,516	5,516	5,516	5,516	5,516
Departmental Vehicles	2	2	2	3	3	3
Public Safety						
Police Stations	1	1	1	1	1	1
Square Footage of Police Department	8,700	8,700	8,700	8,700	8,700	8,700
Square Footage of Building Department	1,716	1,716	1,716	1,716	1,716	1,716
Police Vehicles	47	42	40	33	32	24
Building Inspector Vehicles	4	4	5	4	3	2
Transportation						
Streets (miles)	156	149.6	140.0	140.0	140.0	140.0
Number of Streetlights (per light bill)	3,543	3,543	3,531	3,531	3,319	1,156
Airport	1	1	1	1	1	1
Public Service Vehicles	24	18	22	19	16	16
Physical Environment						
Public Service Vehicles	6	7	4	4	4	4
Recreation						
Number of Parks	12	12	10	10	10	9
Recreation Centers	2	2	2	2	2	2
Park Acreage	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
Park Maintenance Vehicles	8	6	6	5	5	5
Golf Course	1	1	1	1	1	1
Golf Course Maintenance Vehicles	0	0	0	0	0	0

Sources: City of Sebastian Finance Department and Growth Management Department

*Data from 1995 through 1998 not available

CITY OF
SEBASTIAN



HOME OF PELICAN ISLAND

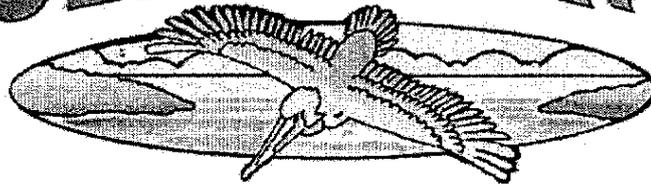
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SINGLE AUDIT SECTION

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 with requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133
- Schedule of Findings and Questioned Costs – Federal Programs and State Projects
- Schedule of Expenditures of Federal Awards and State Financial Assistance

CITY OF
SEBASTIAN



HOME OF PELICAN ISLAND

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

Charles W. Hoyman, Jr.
Barbara J. Oswalt
Thomas L. Kirk
Karen E. Kirkland
Deborah A. Bradley
DIRECTOR EMERITUS
Roger W. Dobson
Eugene K. Bjerning

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, 2004, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 23, 2005. 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 basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we reported to management of the City of Sebastian in a separate letter, Independent Auditor's Management Letter Comments, dated February 23, 2005.

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.

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.

Hoyman, Dobson & Company, P.A.
Hoyman, Dobson & Company, P.A.
February 23, 2005

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Charles W. Hoyman, Jr.
Barbara J. Oswald
Thomas L. Kirk
Karen E. Kirkland
Deborah A. Bradley
DIRECTOR EMERITUS
Roger W. Dobson
Eugene K. Bjerning

**Independent Auditor's Report on Compliance with Requirements Applicable
To Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

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 U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal programs and state projects for the year ended September 30, 2004. The City of Sebastian, Florida's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and 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; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and Chapter 10.550, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.550, 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 federal program or 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 federal programs and state projects for the year ended September 30, 2004. However, we noted a certain matter that we reported to management of the City of Sebastian in a separate letter, Independent Auditor's Management Letter Comments, dated February 23, 2005.

Internal Control Over Compliance

The management of the City of Sebastian, Florida is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City of Sebastian, Florida's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and 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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program or 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, 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.

Hoyman, Dobson & Company, P.A.
Hoyman, Dobson & Company, PA
February 23, 2005

CITY OF SEBASTIAN, FLORIDA
Schedule of Findings and Questioned Costs –
Federal Programs And State Projects
Fiscal Year Ended September 30, 2004

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of Auditor’s report issued:

Internal control over financial reporting:

Unqualified

Material weakness(es) identified? _____ yes X no

Reportable conditions(s) identified not considered
to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs and projects:

Material weakness(es) identified? _____ yes X no

Reportable conditions(s) identified not considered
to be material weaknesses? _____ yes X none reported

Type of Auditor’s report issued on compliance
for major programs and projects:

Unqualified

Identification of major programs:

Name of Federal Program

Federal CFDA No.

U.S. Department of Transportation – Airport Improvement
Program

20.106

Department of Homeland Security – Federal Emergency
Management Agency

97.036

Dollar threshold used to distinguish between
Type A and Type B programs

\$300,000

Auditee qualified as low-risk auditee? _____ yes X no

CITY OF SEBASTIAN, FLORIDA
Schedule of Findings and Questioned Costs (Continued)
Federal Programs And State Projects
Fiscal Year Ended September 30, 2004

State Awards

Internal control over major projects:

Material weakness(es) identified?	_____	yes	<u> X </u>	no
Reportable conditions(s) identified not considered To be material weaknesses?	_____	yes	<u> X </u>	none reported
Type of auditor's 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	<u> X </u>	no

Identification of major projects:

<u>Name of State Project</u>	<u>State CSFA No.</u>
Florida Department of Transportation -	
T Hangers and Lighting	55.004
Infrastructure Improvements	55.004
Rehab of Runway 9/27	55.004
Install Security Fencing	55.004
Clear Runway 9/27 Safety Areas	55.004
Construct Administration Building	55.004
Wetland and Environmental Mapping & Reports	55.004
Construct T-Hangers	55.004
Reactivate Runway 9/27, Phase II	55.004
Install Security Upgrades	55.004
Purchase Maintenance Equipment	55.004
Rehab Taxiway A and Apron and Construct Administration Building Apron	55.004
 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.

CITY OF SEBASTIAN, FLORIDA
Schedule of Findings and Questioned Costs (Continued)
Federal Programs And State Projects
Fiscal Year Ended September 30, 2004

SECTION III – FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS

No matters were reported.

SECTION IV – FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECTS

No matters were reported.

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**CITY OF SEBASTIAN, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

Federal / State Agency Pass-through Entity Federal Program / State Project	CFDA CSFA No.	Contract Grant No.	Expenditures	State Matching
U.S. Department of Justice				
Direct Programs:				
Office of Justice Programs				
COPS SRO Grant	16.710	2001SHWX0298	\$ 8,816	\$ -
Bulletproof Vest Partnership	16.607	N/A	3,245	-
Gang Resistance Education & Training (G.R.E.A.T.)	21.053	2004-JV-FX-0136	9,134	-
Indirect Programs:				
Passed through Florida Department of Law Enforcement				
Local Law Enforcement Block Grant	16.592	04-CJ-7N-10-40-02-125	<u>10,000</u>	<u>-</u>
Total U.S. Department of Justice			<u>31,195</u>	<u>-</u>
U.S. Department of Treasury				
Direct Programs				
Gang Resistance Education & Training (G.R.E.A.T.)	21.053	ATC03000250	<u>1,145</u>	<u>-</u>
Total U.S. Department of Treasury			<u>1,145</u>	<u>-</u>
U.S. Department of Transportation				
Direct Programs:				
Federal Aviation Administration - Airport Improvement Program				
Airfield Fencing / Access Control	20.106	3-12-0145-003-2002	165,927	-
Clear Runway 9/27 Safety Areas	20.106	3-12-0145-003-2002	9,165	-
Rehabilitate Runway 9/27; Construct Taxiway "B"	20.106	3-12-0145-004-2003	506,727	-
Rehabilitate Taxiway A; Construct General Aviation Terminal Apron	20.106	3-12-0145-005-2004	49,712	-
Indirect Program: Pass thru Indian River County				
Federal Highway Administration				
Disaster Relief Funding	20.205	FL-04-04	<u>82,496</u>	<u>-</u>
Total U.S. Department of Transportation			<u>814,027</u>	<u>-</u>
Department of Homeland Security				
Indirect Program - Pass thru Florida Department of Community Affairs				
Federal Emergency Management Agency				
Hurricane Frances	97.036	FEMA-1545-DR-FL	581,264	29,255
Hurricane Jeanne	97.036	FEMA-1561-DR-FL	<u>219,223</u>	<u>9,530</u>
Total Department of Homeland Security			<u>800,487</u>	<u>38,785</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS:			<u>\$ 1,646,854</u>	<u>\$ -</u>

CITY OF SEBASTIAN, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE (CONTINUED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

Federal / State Agency Pass-through Entity Federal Program / State Project	CFDA CSFA No.	Contract Grant No.	<u>Expenditures</u>
Department of Community Affairs			
Direct Projects:			
Small Cities Community Development Block Grant			
Lousiana Avenue Improvement Program	14.228	03DB-1A-10-40-02-N34	\$ 63,300
Total Department of Community Affairs			<u>63,300</u>
Department of Transportation			
Direct Projects:			
Joint Participation Agreement with Florida Department of Transportation Aviation Administration:			
T-Hangers & Lighting	55.004	407345-1-94-01	341,182
Infrastructure Improvements	55.004	236320-1-94-01	405,925
Rehab of Runway 9-27	55.004	412976-1-94-01	10,993
Install Security Fencing	55.004	412975-1-94-01	4,996
Clear Runway 9/27 Safety Areas	55.004	407552-1-94-01	509
Construct Administration Building	55.004	412382-1-94-01	124,817
Wetland and Environmental Mapping & Reports	55.004	407632-1-94-01	14,757
Construct T-Hangars	55.004	409864-1-94-01	500,000
Reactivate Runway 9/27, Phase II	55.004	412384-1-94-01	28,151
Install Security Upgrades	55.004	412373-1-94-01	43,405
Purchase Maintenance Equipment	55.004	415214-1-94-01	32,000
Rehab Taxiway A & Apron and Construct Administration Building Apron	55.004	415216-1-94-01	1,308
District Maintenance			
Lighting Maintenance and Compensation Agreement	55.023	405122-1-72-10	6,914
Total Department of Transportation			<u>1,514,957</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE:			<u>\$ 1,578,257</u>

This schedule is prepared on the accrual basis of accounting.

The accompanying notes are an integral part of the schedule.

Charles W. Hoyman, Jr.
Barbara J. Oswald
Thomas L. Kirk
Karen E. Kirkland
Deborah A. Bradley
DIRECTOR EMERITUS
Roger W. Dobson
Eugene K. Bjerning

Independent Auditor's 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, 2004, and have issued our report thereon dated February 23, 2005.

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 OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance with OMB Circular A-133 and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated February 23, 2005, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General. Those rules (Section 10.554(l)(g)l.a.) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. There were no findings of this nature in the prior year audit report.

The Rules of the Auditor General (Section 10.554(l)(g)l.b.) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. The status of the findings from the prior year management letter is as follows:

<u>Finding</u>	<u>Status</u>
1. Grant compliance - certified payrolls	Cleared
2. Grant compliance - periodic reviews	Repeated as #1
3. Budget compliance	Corrected
4. Noncompliance with debt covenant	Corrected

As required by the Rules of the Auditor General (Section 10.554(1)(g)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 Melbourne, Florida complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(g)4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's 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 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 matters:

1. Grant Compliance

Finding: While obtaining an understanding of internal controls over major federal programs, it came to our attention that management has not implemented a system to periodically conduct independent reviews of procurement and contracting activities to determine whether policies and procedures are being followed as intended.

Recommendation: Although we noted no significant issues during our testing, we recommend that the City implement some type of independent review of procurement and contracting activities, at regular intervals, to ensure that all policies and procedures are being followed.

Management response: The Purchasing Department concurs with your recommendation. The Purchasing Department staff is currently looking into the possibility of implementation of independent review of procurements and contracting activities at regular intervals to ensure that all policies and procedures are being followed.

2. Information Technology – Logical Access Controls

A. Finding: The City of Sebastian does not have a dedicated person to perform certain functions that would normally be performed by a security officer such as user administration management and system access review. The number of exceptions we noted supports this finding and the fact that the IT personnel are thinly stretched.

Recommendation: We believe that the reviewing of application and system logs is an important contributor to the bank's information security program and should be performed on a regular basis by an assigned employee in order to identify suspicious activities or system errors.

Management response: We concur with your finding. City has hired a part-time IT technician starting February 2005. One full-time IT personnel will be requested and programmed in the FY 2005-06 budget year.

B. Finding: We noted that there were certain ADMIN shares on the four servers we assessed that were configured to grant EVERYONE full access. For example, on the PURCHASE server the share USERDATA, which contains text files with unencrypted credit card information and other financial statements, granted the EVERYONE group Full Access.

Recommendation: We recommend that the access to application processing parameter databases or data files are restricted to authorized personnel through proper logical controls such as user profiles, passwords, and network rights configuration and management.

Management response: We concur with your finding. Since January 2005, the security for the Bank of America software Infospan has been tightened and restricted to authorized personnel only.

C. Finding: We noted that the password policy was the Microsoft default policy which is weak. We were informed that the reason for the current policy is due to administrative burden but it is important to note the security risk associated with this policy.

Recommendation: We recommend that password policies clearly outline the intervals within which system or network passwords must be changed and not set to "Never change" as were some user accounts at the time of our review. Furthermore, we suggest that the current policy is modified to adapt tighter security.

Management response: We concur with your finding. An information system password policy will be developed and implemented to address this issue.

D. Finding: We noted that users were assigned IDs and passwords to access the network and various applications but were also informed that no review was performed of those access rights once assigned to ensure that individuals have access only to those applications or files that are necessary to perform their duties.

Recommendation: We recommend that the City of Sebastian review all user access privileges and group memberships at least once every year in each application and the network. Reviews should include everyone who uses the system, including users who are given special privileges. This should be documented, including personnel responsible for the review, and stored in a secure location. It is important that those users, who need to have certain restrictions on the G/L, are reviewed periodically for accuracy.

Management response: We concur with your finding. A review will be conducted at least once a year to ensure individuals have access only to the applications or files that are necessary to perform their duties.

E. Finding: We noted from the list of terminated employees we reviewed that only one still had an active account on the network. We also noted that there were some accounts that had either NEVER accessed the organization's network or had not done so for over 30 days which poses the risk of these accounts being used to access the organization's systems without being noticed.

Recommendation: We recommend that policies governing the termination of employees clearly outline how to handle the password for terminated employees. The account should at a minimum be disabled and the password changed. The security officer should also perform periodic reviews of the active accounts on the network and in the various applications.

Management response: We concur with your finding. A policy will be developed to address the issues concerning access to the system of terminated employees.

3. Information Technology – Operations

A. Finding: We noted that there were no significant monitoring activities to ensure network administrative functions comply with organizational procedures and policies. Of the four servers we assessed they were missing many security patches, had potentially unnecessary services (FTP, SMTP, WWW, and Telnet) running, and had some improper configurations and unnecessary applications requiring security patches such as Media Player installed.

Recommendation: Since there is such a reliance on IT for the bank's survival it is important that all areas of the infrastructure is monitored for soundness and regularly monitored. Formal reporting and controlling measures should be implemented to ensure compliance with procedures. We recommend that procedures are established to monitor and report systems deficiencies. The procedure should specify standard tools and guidelines for their use. We recommend that the SNMP service is disabled from all network servers and/or devices where it is not needed or change the name of the community string, establish a procedure to manage the security patches, and remove any unnecessary applications, utilities or services from the servers.

Management response: We concur with your finding. Increasing MIS staff should address this issue.

B. Finding: We were informed that the backup tapes were removed from the tape drives only once a week and once a month a full backup for the LAN and the SCO box were taken off-site permanently.

Recommendation: We recommend that a more comprehensive backup procedure is implemented that includes daily removal of the SCO backup tape. The media should be sent to a secure, off-premise storage; alternatively, onsite backup tapes should be stored in a secured fire proof media safe. The procedure should also include provision for scheduled testing of the backup. We recommend that this test be performed quarterly and immediately after backup media is replaced. Finally the improved procedure should be documented.

Management response: To remove the SCO backup tape daily will not be cost effective. Currently the tapes are being stored off site weekly. A procedure will be developed and implemented for scheduled testing of the backup.

5. FEMA Expenditure

Finding: The City has spreadsheets and backup to support all of the hurricane expenditures that we tested. However, the timesheet for one of the forty payroll items we selected did not support the 12 hours of overtime included in the FEMA expenditures. This appears to be an isolated incident and does not affect the amount requested from FEMA since the City has additional expenditures they incurred to offset this amount.

Recommendation: Since the City has payroll costs in excess of amounts claimed, no action is necessary

Management Response: We concur with the finding. There is no corrective action necessary as indicated in the recommendation.

The Rules of the Auditor General (Section 10.554(1)(g)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)(g)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 is not in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(g)6.b.), we determined that the annual financial report for the City of Sebastian, Florida for the fiscal year ended September 30, 2004, filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2004.

As required by the Rules of the Auditor General (Section 10.554(1)(g)6.c. and 10.556), 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.

Hoyman, Dobson & Company, P.A.
Hoyman, Dobson & Company, PA
February 23, 2005

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