

**SANTA ROSA COUNTY, FLORIDA
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2005

**Santa Rosa County, Florida
FINANCIAL STATEMENTS
September 30, 2005**

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INDEPENDENT AUDITOR'S REPORT

Honorable Board of County Commissioners
Honorable Mary M. Johnson, Clerk and Accountant to the
Board of County Commissioners
Santa Rosa County, 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 Santa Rosa County, Florida, as of and for the year ended September 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Santa Rosa County, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Santa Rosa County, Florida, as of September 30, 2005, 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 January 27, 2006 on our consideration of Santa Rosa County, Florida's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 11 and budgetary comparison information on pages 47 through 51 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

O'Sullivan Creel, LLP

January 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Santa Rosa County, Florida
MANAGEMENT DISCUSSION AND ANALYSIS
September 30, 2005

Management's discussion and analysis provides an objective and easily readable analysis of the County's financial activities. The analysis provides summary financial information for the County and should be read in conjunction with the County's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The County's basic financial statements comprise three components; 1) *Government-wide financial statements*, 2) *Fund financial statements*, and 3) *Notes to the financial statements*. The *Government-wide financial statements* present an overall picture of the County's financial position and results of operations. The *Fund financial statements* present financial information for the County's major funds and non-major funds in the aggregate. The *Notes to the financial statements* provide additional information essential to a full understanding of the data provided in the Government-wide and Fund financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The *Government-wide financial statements* are the **statement of net assets** and the **statement of activities**. These statements use accounting methods similar to those used by private-sector companies. Emphasis is placed on the net assets of governmental activities and business-type activities and the change in net assets. Governmental Activities are primarily supported by property taxes, sales taxes, federal and state grants, and state shared revenues. Business-type Activities are supported by charges to the users of those activities, such as water and sewer service charges.

The **statement of net assets** presents information on all assets and liabilities of the County, with the difference between assets and liabilities reported as net assets. Net assets are reported in three categories; 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Assets, liabilities, and net assets are reported for all Governmental Activities separate from the assets, liabilities and net assets of Business-type Activities.

The **statement of activities** presents information on all revenues and expenses of the County and the change in net assets. Expenses are reported by major function and program revenues relating to those functions are reported, providing the net cost of all functions provided by the County. To assist in understanding the County's operations, expenses have been reported as governmental activities or business-type activities. Governmental Activities financed by the County include public safety, physical environment, transportation, economic environment, human services, culture and recreation, and general government services. Business-type Activities financed by user charges include water and sewer services, solid waste disposal, and hangar and industrial park leases.

Fund financial statements present financial information for governmental funds and proprietary funds. These statements provide financial information for the major funds of the County. Governmental fund financial statements provide information on the current assets and liabilities of the funds, changes in current financial resources (revenues and expenditures), and current available resources. The proprietary funds financial statements provide information on all assets and liabilities of the funds, changes in the economic resources (revenues and expenses), and total economic resources.

Fund financial statements include a **balance sheet** and a **statement of revenues, expenditures, and changes in fund balances** for all governmental funds. A **statement of revenues, expenditures, and changes in fund balances - budget and actual**, is provided for the County's General Fund and major governmental funds as required supplemental information. For the proprietary funds, which include an internal service fund in addition

Santa Rosa County, Florida
MANAGEMENT DISCUSSION AND ANALYSIS
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to business-type activities, a **statement of net assets**; a **statement of revenues, expenses, and changes in fund net assets**; and a **statement of cash flows** are presented. *Fund financial statements* provide more detailed information about the County's activities. Individual funds are established by the County to track revenues that are restricted to certain uses, comply with legal requirements, or account for the use of state and federal grants.

The *government-wide financial statements* and the *fund financial statements* provide different *pictures* of the County. The government-wide financial statements provide an overall picture of the County's financial standing, split between Governmental Activities and Business-type Activities. These statements are comparable to private-sector companies and give a good understanding of the County's overall financial health and how the County paid for the various activities, or functions, provided by the County. All assets of the County, including buildings, tangible property, land, roads, bridges, and similar infrastructure are reported in the **statement of net assets**. All liabilities, including principal outstanding on bonds, capital leases, and future employee benefits obligated but not paid by the County, are included. The **statement of activities** includes depreciation on all long lived assets of the County. The *fund financial statements* provide a picture of the major funds of the County and a column for all non-major funds. In the case of governmental activities, outlays for long lived assets are reported as expenditures and long-term liabilities are not included in the fund financial statements. Reconciliations are provided from the *fund financial statements* to the *government-wide financial statements* to facilitate a comparison between governmental funds and governmental activities. *Notes to the financial statements* provide additional detail concerning the financial activities and financial balances of the County. Additional information about the accounting practices of the County, investments of the County, long-term debt, and pension plans are some of the items included in the *notes to the financial statements*.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of government's financial position. In the case of the County, assets exceeded liabilities by \$81 million as of September 30, 2005.

The largest portion of the County's net assets (65%) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

There was a decrease in net assets from governmental activities of \$3.7 million. This consisted of a decrease of \$300,000 to invested in capital assets net of related debt, a decrease of \$2.4 million to unrestricted net assets and a decrease of \$1 million to restricted net assets. The primary reason for this net decrease was the County's expenses relating to recovery from Hurricanes Ivan, Dennis, Katrina and Rita.

Santa Rosa County, Florida
MANAGEMENT DISCUSSION AND ANALYSIS
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There was an increase in net assets from business-type activities of \$900,000. This consisted of a decrease of \$200,000 to invested in capital assets net of related debt, an increase of \$1 million to unrestricted net assets and an increase of \$100,000 to restricted net assets. The primary reasons for this net increase was the excess of revenues over expenses of \$1.5 million less transfers of \$500,000 to governmental activities.

Following is a comparative statement of net assets (amounts expressed in thousands):

	Governmental Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 54,196	\$ 49,259	\$ 13,711	\$ 12,183	\$ 67,907	\$ 61,442
Capital assets	<u>48,583</u>	<u>49,082</u>	<u>9,172</u>	<u>9,618</u>	<u>57,755</u>	<u>58,700</u>
Total assets	102,779	98,341	22,883	21,801	125,662	120,142
Long-term liabilities outstanding	19,168	20,076	10,378	10,081	29,546	30,157
Other liabilities	<u>15,291</u>	<u>6,275</u>	<u>258</u>	<u>390</u>	<u>15,549</u>	<u>6,665</u>
Total liabilities	<u>34,459</u>	<u>26,351</u>	<u>10,636</u>	<u>10,471</u>	<u>45,095</u>	<u>36,822</u>
Net Assets:						
Invested in capital assets, net of related debt	45,515	45,823	6,590	6,858	52,105	52,681
Restricted	9,210	10,217	1,409	1,278	10,619	11,495
Unrestricted	<u>13,595</u>	<u>15,950</u>	<u>4,248</u>	<u>3,194</u>	<u>17,843</u>	<u>19,144</u>
Total net assets	<u>\$ 68,320</u>	<u>\$ 71,990</u>	<u>\$ 12,247</u>	<u>\$ 11,330</u>	<u>\$ 80,567</u>	<u>\$ 83,320</u>

Financial Analysis of Governmental Funds

The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. 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. The County's governmental funds reported combined ending fund balances of \$38 million (75% is unreserved), a decrease of \$2.1 million from last year. The main reason for this decrease in fund balances is the County's expenditures related to recovery from Hurricanes Ivan, Dennis, Katrina and Rita.

Santa Rosa County, Florida
MANAGEMENT DISCUSSION AND ANALYSIS
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Following is a comparative statement of changes in net assets (amounts expressed in thousands):

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program revenues						
Charges for services	\$ 22,024	\$ 19,844	\$ 4,726	\$ 4,521	\$ 26,750	\$ 24,365
Operating grants & contributions	69,710	8,500	-	-	69,710	8,500
Capital grants & contributions	796	373	84	496	796	869
General revenues:						
Property tax	37,444	33,899	-	-	37,444	33,899
Sales, use and fuel tax	4,593	4,322	-	-	4,593	4,322
Communication services	1,120	1,093	-	-	1,120	1,093
Grants & contributions	14,120	11,711	-	-	14,120	11,711
Investment earnings	725	719	323	215	1,048	934
Other	<u>6,876</u>	<u>1,603</u>	<u>468</u>	<u>417</u>	<u>7,344</u>	<u>2,020</u>
Total revenues	157,408	82,064	5,601	5,649	163,009	87,713
Expenses:						
General government	32,404	24,181	-	-	32,404	24,181
Public safety	102,785	30,503	-	-	102,785	30,503
Physical environment	2,996	1,802	-	-	2,996	1,587
Transportation	14,417	14,335	-	-	14,417	14,335
Economic environment	1,918	1,676	-	-	1,918	1,802
Human services	4,066	3,905	-	-	4,066	3,905
Culture and recreation	2,608	2,393	-	-	2,608	2,393
Interest on long-term debt	347	391	-	-	347	391
Water and sewer	-	-	996	1,104	996	1,104
Airport	-	-	213	227	213	227
Industrial park	-	-	43	129	43	129
Landfill	-	-	<u>2,833</u>	<u>2,155</u>	<u>2,833</u>	<u>2,155</u>
Total expenses	<u>161,541</u>	<u>79,097</u>	<u>4,085</u>	<u>3,615</u>	<u>165,626</u>	<u>82,712</u>
Increase in net assets						
before transfers	(4,133)	2,967	1,516	2,034	(2,617)	5,001
Transfers	<u>463</u>	<u>(123)</u>	<u>(463)</u>	<u>123</u>	<u>-</u>	<u>-</u>
Change in net assets	(3,670)	2,844	1,053	2,157	(2,617)	5,001
Net assets, beg. of year	71,990	69,146	11,330	9,173	83,320	78,319
Prior period adjustment	-	-	(136)	-	(136)	-
Net assets,						
beg. of year, restated	<u>71,990</u>	<u>69,146</u>	<u>11,194</u>	<u>9,173</u>	<u>83,184</u>	<u>78,319</u>
Net assets, end of year	<u>\$ 68,320</u>	<u>\$ 71,990</u>	<u>\$ 12,247</u>	<u>\$ 11,330</u>	<u>\$ 80,567</u>	<u>\$ 83,320</u>

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The General fund is the primary operating fund of the County. Revenues exceeded expenditures by \$3.7 million. Net transfers to other funds reduced the excess by \$1.9 million resulting in an increase of \$1.8 million for the year. General government expenditures were down by \$3.5 million due to the reallocation of resources to hurricane recovery efforts.

The Road and Bridge fund accounts for fuel and other taxes designated for road improvements. During the year expenditures exceeded revenues by \$0.9 million. Planned net operating transfers reduced this deficit by \$3 million.

The Disaster fund is used to track revenues and expenditures relating to the recovery efforts from natural disasters. Significant expenditures were incurred this year as a result of Hurricanes Ivan, Dennis, Katrina and Rita. Federal and State disaster assistance expects to provide reimbursement of 87.5%-95% of allowable expenditures. Local match portions have been provided by transfers and loans from other funds.

Financial Analysis of Proprietary Funds

The Navarre Beach fund accounts for the operations of the Navarre Beach water and sewer system. Operating revenues were down by 56% due to the destruction caused by Hurricanes Ivan, Dennis, Katrina and Rita. This resulted in a decrease in net operating income of \$1 million from the prior year. The County also transferred out \$263 thousand to the Disaster fund to help in hurricane recovery efforts.

The Landfill fund is used to account for the solid waste disposal operations at the County landfills. The hurricane clean up efforts resulted in an increase in revenues of \$1.5 million from the prior year. Overall there was an increase to net assets of \$1.5 million to further reduce the accumulated deficits of prior years.

Budgetary Analysis

The General fund budget was increased by \$1.9 million from the original budget (an increase of 3%). The significant changes are summarized as follows:

- \$ 582,808 Reauthorize expenditures approved in prior year yet unspent.
- \$ 955,000 Farm Land Protection Program grant
- \$ 303,550 Emergency Communications capital improvements
- \$ 1,159,719 Local match to NRCS EWP Projects
- \$ 339,945 Loan to MSBU

Actual expenditures were less than the final budgeted expenditures by \$7.9 million. The reason for this variance is that the Board did not spend 1) \$955,000 for the Farm Land Protection Program grant, 2) \$800,000 for machinery and equipment, 3) \$500,000 in operating expenditures for the Sheriff, 4) \$600,000 in operating expenditures for the Tax Collector and 5) \$700,000 in operating expenditures for the Clerk.

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CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

As of September 30, 2005 the County had \$58.7 million invested in a broad range of capital assets, including land, buildings, equipment, park facilities, roads and other infrastructure. (See table below.) This amount represents a net decrease (including additions and deductions) of over \$0.9 million from last year.

Capital Assets at Year-end
(Net of Depreciation, in Thousands)

	Governmental		Business-type		Totals	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Land	\$ 10,220	\$ 9,946	\$1,604	\$1,817	\$11,824	\$11,763
Construction in progress	1,252	1,168	1,223	1,186	2,475	2,354
Buildings	15,647	16,854	638	714	16,285	17,568
Improvements other than buildings	9,092	9,285	4,865	4,998	13,957	14,283
Machinery, furniture and equipment	<u>12,372</u>	<u>11,829</u>	<u>842</u>	<u>903</u>	<u>13,214</u>	<u>12,732</u>
Totals	<u>\$48,583</u>	<u>\$49,082</u>	<u>\$9,172</u>	<u>\$9,618</u>	<u>\$57,755</u>	<u>\$58,700</u>

This year's major additions included:

Equipment for Sheriff	\$ 1,593,436
Equipment for Property Appraiser	\$ 13,054
Equipment for Clerk of Courts	\$ 177,913
Equipment for Tax Collector	\$ 23,066
Equipment for Supervisor of Elections	\$ 356,513
Equipment for Road Department	\$ 677,085
Veteran's Memorial Plaza	\$ 168,238
Improvements at New Para Park	\$ 81,822
Water Reclamation project	\$ 433,833
Expansion of Courthouse phone system	\$ 154,349
Retention pond in Industrial Park	\$ 329,555

Outstanding Debt at Year-end
(in Thousands)

	Governmental		Business-type		Totals	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Revenue bonds	\$ 2,697	\$ 2,887	\$ 2,698	\$ 2,888	\$ 5,395	\$ 5,775
Notes payable	4,713	5,733	-	-	4,713	5,733
Special assessment notes	1,461	1,271	-	-	1,461	1,271
Capital lease	<u>112</u>	<u>180</u>	<u>-</u>	<u>-</u>	<u>112</u>	<u>180</u>
Totals	<u>\$ 8,983</u>	<u>\$ 10,071</u>	<u>\$ 2,698</u>	<u>\$ 2,888</u>	<u>\$ 11,681</u>	<u>\$ 12,959</u>

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One note payable for acquisition and construction of facilities in the Bagdad Community Center was issued. Two special assessment notes for infrastructure improvements at Woodbine Springs and Grand Navarre Canal were issued. More detailed information about the County's capital assets and long term liabilities is presented in Notes G & H to the financial statements, respectively.

OTHER CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

In September 2004, the County was struck by the leading edge of Hurricane Ivan. In August 2005 the County was struck by Hurricane Dennis. The County suffered significant damage to its facilities on Navarre Beach. In addition many of the hotels and condominiums, as well as individual homes, sustained considerable structural damage. As a result, the County's water and sewer revenues as well as lease revenues are expected to continue to be lower than normal in the coming year. Additionally, during the summer of 2005, Hurricanes Katrina and Rita struck the Gulf Coast with minimal effect on the County.

BASIC FINANCIAL STATEMENTS

Santa Rosa County, Florida

STATEMENT OF NET ASSETS

September 30, 2005

ASSETS	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 20,017,893	\$ 2,760,550	\$ 22,778,443
Investments	8,605,866	3,910,597	12,516,463
Receivables (net)	30,100,939	2,149,553	32,250,492
Internal balances	(4,843,000)	4,843,000	--
Inventory	313,984	--	313,984
Deferred charges	--	48,194	48,194
Capital assets, net			
Nondepreciable	11,472,268	2,827,172	14,299,440
Depreciable	37,110,921	6,344,514	43,455,435
Total assets	<u>102,778,871</u>	<u>22,883,580</u>	<u>125,662,451</u>
LIABILITIES			
Accounts payable	12,103,925	172,487	12,276,412
Accrued wages payable	1,456,282	27,929	1,484,211
Interest payable	33,430	21,748	55,178
Due to other governments	446,025	32	446,057
Deposits	880,178	35,722	915,900
Unearned revenue	370,981	--	370,981
Noncurrent liabilities			
Due within one year	3,864,416	438,347	4,302,763
Due in more than one year	15,304,031	9,939,653	25,243,684
Total liabilities	<u>34,459,268</u>	<u>10,635,918</u>	<u>45,095,186</u>
NET ASSETS			
Invested in capital assets, net of related debt	45,515,267	6,590,386	52,105,653
Restricted for:			
Debt service	110,700	52,918	163,618
Landfill closure	--	1,356,353	1,356,353
Communications	809,441	--	809,441
Animal Services Education	43,344	--	43,344
Boating Improvement	345,885	--	345,885
Gas and Oil Preservation	3,551,666	--	3,551,666
Law Enforcement Trust Fund	104,575	--	104,575
Law Library	42,311	--	42,311
Tourist development	1,136,327	--	1,136,327
Construction commitments	1,928,653	--	1,928,653
Records modernization	677,751	--	677,751
Court technology	456,526	--	456,526
OSCA grant	2,091	--	2,091
Unrestricted	13,595,066	4,248,005	17,843,071
Total net assets	<u>\$ 68,319,603</u>	<u>\$ 12,247,662</u>	<u>\$ 80,567,265</u>

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

Santa Rosa County, Florida

STATEMENT OF ACTIVITIES

Year ended September 30, 2005

Functions/Programs:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 32,404,396	\$ 12,755,692	\$ 2,768,163	\$ --	\$ (16,880,541)	\$ --	\$ (16,880,541)
Public safety	102,785,102	8,698,781	106,388	246,381	(93,733,552)	--	(93,733,552)
Physical environment	2,995,824	--	1,507,191	89,406	(1,399,227)	--	(1,399,227)
Transportation	14,417,056	488,063	724,715	459,840	(12,744,438)	--	(12,744,438)
Economic environment	1,918,019	--	62,690,968	--	60,772,949	--	60,772,949
Human services	4,066,084	66,354	1,406,222	--	(2,593,508)	--	(2,593,508)
Culture and recreation	2,608,072	15,495	506,851	--	(2,085,726)	--	(2,085,726)
Interest on long-term debt	347,376	--	--	--	(347,376)	--	(347,376)
Total governmental activities	161,541,929	22,024,385	69,710,498	795,627	(69,011,419)		(69,011,419)
Business-type activities:							
Navarre Beach water and sewer	996,186	894,460	--	--	\$ (101,726)		(101,726)
Peter Prince Airport	212,532	4,845	--	84,061	(123,626)		(123,626)
Industrial park	42,648	--	--	--	(42,648)		(42,648)
Landfill	2,832,505	3,826,798	--	--	994,293		994,293
Total business-type activities	4,083,871	4,726,103	--	84,061	726,293		726,293
Total	165,625,800	26,750,488	69,710,498	879,688	(69,011,419)		(68,285,126)
General revenues:							
Taxes							
Property taxes					37,443,870	--	37,443,870
Sales, use and fuel taxes					4,593,266	--	4,593,266
Communication services taxes					1,120,137	--	1,120,137
Grants and contributions not restricted to specific programs					14,120,030	--	14,120,030
Unrestricted investment earnings					724,762	322,828	1,047,590
Miscellaneous					6,875,985	389,890	7,265,875
Gain on sale of assets					--	77,788	77,788
Transfers					463,217	(463,217)	--
Total general revenues and transfers					65,341,267	327,289	65,668,556
Change in net assets					(3,670,152)	1,053,582	(2,616,570)
Net assets - beginning					71,989,755	11,330,225	83,319,980
Prior period adjustment					--	(136,145)	(136,145)
Net assets - beginning, restated					71,989,755	11,194,080	83,183,835
Net assets - ending					\$ 68,319,603	\$ 12,247,662	\$ 80,567,265

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

Santa Rosa County, Florida

**RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS**

September 30, 2005

Total Governmental Funds Balances	\$ 37,668,498
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Prior periods investment in capital assets	79,719,063
Less accumulated depreciation	(30,647,648)
Current period additions to capital assets	4,339,585
Current period depreciation	(4,567,376)
Current period loss on disposal of capital assets	(271,111)
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Revenue bonds	(2,887,500)
Notes payable	(5,732,756)
Compensated absences	(6,908,771)
Special assessment notes payable	(1,271,125)
Capital leases	(180,422)
Interest payable	(33,430)
Current period revenue bond payments	190,000
Current period note payments	1,345,046
Current period change in compensated absences	(345,785)
Current period special assessment note payments	231,772
Current period capital lease payments	68,072
Current period debt proceeds	(747,000)
Internal service funds are used by management to charge the costs of providing insurance coverage to individual funds and therefore, the assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	
Assets	6,952,046
Liabilities	(8,601,555)
Net Assets of Governmental Activities	<u><u>\$ 68,319,603</u></u>

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

Santa Rosa County, Florida

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year ended September 30, 2005

	General	Road and Bridge	Electricity Franchise Fee	Gas and Oil Preservation	Disaster	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes	\$ 35,634,849	\$ 6,640,394	\$ 4,247,337	\$ --	\$ --	\$ 882,030	\$ 47,404,610
Licenses and permits	3,252,522	--	--	--	--	--	3,252,522
Intergovernmental	12,275,079	5,249,194	--	--	62,670,208	4,028,695	84,223,176
Charges for services	3,790,346	--	--	--	--	5,134,194	8,924,540
Fines and forfeits	262,169	--	--	--	--	16,743	278,912
Miscellaneous	1,599,628	284,270	85,779	2,865	21,411	3,267,503	5,261,456
Total revenues	56,814,593	12,173,858	4,333,116	2,865	62,691,619	13,329,165	149,345,216
Expenditures							
Current							
General government	17,642,350	--	--	--	--	4,158,152	21,800,502
Public safety	27,441,545	--	--	--	69,879,086	4,990,811	102,311,442
Physical environment	894,524	1,932,363	--	--	--	99,764	2,926,651
Transportation	878,253	11,150,579	--	--	--	2,118,394	14,147,226
Economic environment	132,415	--	--	--	--	1,781,947	1,914,362
Human services	3,869,204	--	--	--	--	202,759	4,071,963
Culture and recreation	2,186,784	--	--	--	--	25,489	2,212,273
Capital outlay	--	--	--	--	--	942,948	942,948
Debt service	74,783	--	--	--	--	2,124,676	2,199,459
Total expenditures	53,119,858	13,082,942	--	--	69,879,086	16,444,940	152,526,826
Excess (deficiency) of revenues over expenditures	3,694,735	(909,084)	4,333,116	2,865	(7,187,467)	(3,115,775)	(3,181,610)
Other financing sources (uses)							
Transfers in	255,340	3,198,962	--	--	2,185,046	3,535,018	9,174,366
Transfers out	(2,137,982)	(155,660)	(3,806,080)	(1,526,176)	--	(1,085,251)	(8,711,149)
New debt issuance	--	--	--	--	--	747,000	747,000
Total other financing sources (uses)	(1,882,642)	3,043,302	(3,806,080)	(1,526,176)	2,185,046	3,196,767	1,210,217
Net change in fund balances	1,812,093	2,134,218	527,036	(1,523,311)	(5,002,421)	80,992	(1,971,393)
Fund balances, beginning of year	8,064,279	2,280,558	9,006,922	5,074,977	--	15,343,436	39,770,172
Change in reserve for inventory	(8,363)	(121,918)	--	--	--	--	(130,281)
Fund balances, end of year	\$ 9,868,009	\$ 4,292,858	\$ 9,533,958	\$ 3,551,666	\$ (5,002,421)	\$ 15,424,428	\$ 37,668,498

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

Santa Rosa County, 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, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (1,971,393)

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

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense. In the current period
these amounts are:

Current period investment in capital assets	4,339,585
Current period depreciation	(4,567,376)
Current period loss on disposal of capital assets	(271,111)

In the statement of activities, interest is accrued on outstanding loans, whereas
in governmental funds, an interest expenditure is reported when due.

Change in interest payable	17,193
----------------------------	--------

Repayment of debt principal is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities in the statement of net assets.
Also debt proceeds are an other financing source in the governmental funds,
but the issuance increases long-term liabilities in the statement of net assets.

Current period change in compensated absences	(345,785)
Current period note payments	1,345,046
Current period revenue bond payments	190,000
Current period special assessment note payments	231,772
Current period capital lease payments	68,072
Current period debt proceeds	(747,000)

Internal service funds are used by management to charge the
costs of providing insurance coverage and therefore, the
change in net assets of the internal service fund is included
in governmental activities in the Statement of Activities.

(1,828,874)

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

Change in reserve for inventory	<u>(130,281)</u>
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Change in Net Assets of Governmental Activities \$ (3,670,152)

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

Santa Rosa County, Florida

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

September 30, 2005

ASSETS	Business-type Activities					Governmental
	Major Funds			Nonmajor Fund		Activities
	Navarre Beach	Landfill	Industrial Park	Peter Prince Field	Total Enterprise Funds	Internal Service Fund
Current assets:						
Cash and cash equivalents	\$ 164,179	\$ 1,984,236	\$ 475,423	\$ 136,712	\$ 2,760,550	\$ 594,483
Investments	940,075	319,030	1,018,115	219,733	2,496,953	2,397,401
Accounts receivable	121,262	562,557	7,752	--	691,571	3,929,723
Notes receivable - current portion	--	--	42,890	--	42,890	--
Interest	--	--	33,200	--	33,200	--
Due from other governments	--	--	--	75,561	75,561	19,763
Due from other funds	2,039,430	2,303,570	500,000	--	4,843,000	--
Total current assets	<u>3,264,946</u>	<u>5,169,393</u>	<u>2,077,380</u>	<u>432,006</u>	<u>10,943,725</u>	<u>6,941,370</u>
Noncurrent assets						
Restricted investments	--	1,413,644	--	--	1,413,644	--
Notes receivable - long-term portion	--	--	1,306,331	--	1,306,331	--
Deferred charges	--	48,194	--	--	48,194	--
Capital assets, net of accumulated depreciation	3,101,057	3,393,227	757,853	1,919,549	9,171,686	10,676
Total noncurrent assets	<u>3,101,057</u>	<u>4,855,065</u>	<u>2,064,184</u>	<u>1,919,549</u>	<u>11,939,855</u>	<u>10,676</u>
Total assets	<u>\$ 6,366,003</u>	<u>\$ 10,024,458</u>	<u>\$ 4,141,564</u>	<u>\$ 2,351,555</u>	<u>\$ 22,883,580</u>	<u>\$ 6,952,046</u>
LIABILITIES						
Current liabilities						
Accounts payable	\$ 120,114	\$ 47,806	\$ 693	\$ 3,874	\$ 172,487	\$ 446,169
Current portion of claims payable	--	--	--	--	--	1,921,126
Accrued wages payable	6,836	21,093	--	--	27,929	6,057
Due to other governments	--	--	--	32	32	--
Due to other funds	--	--	--	--	--	5,219,351
Compensated absences - current portion	30,127	23,140	--	--	53,267	--
Revenue bonds - current portion	--	195,000	--	--	195,000	--
Accrued interest	--	21,748	--	--	21,748	--
Deposits	3,100	32,622	--	--	35,722	--
Current portion of landfill closure costs	--	190,080	--	--	190,080	--
Total current liabilities	<u>160,177</u>	<u>531,489</u>	<u>693</u>	<u>3,906</u>	<u>696,265</u>	<u>7,592,703</u>
Noncurrent liabilities						
Long term portion of compensated absences	31,877	233,036	--	--	264,913	83,948
Long term portion of claims payable	--	--	--	--	--	924,904
Long term portion of landfill closure costs	--	7,288,440	--	--	7,288,440	--
Revenue bonds payable - net of discount	--	2,386,300	--	--	2,386,300	--
Total noncurrent liabilities	<u>31,877</u>	<u>9,907,776</u>	<u>--</u>	<u>--</u>	<u>9,939,653</u>	<u>1,008,852</u>
Total liabilities	<u>192,054</u>	<u>10,439,265</u>	<u>693</u>	<u>3,906</u>	<u>10,635,918</u>	<u>8,601,555</u>
NET ASSETS						
Invested in capital assets, net of related debt	3,101,057	811,927	757,853	1,919,549	6,590,386	10,676
Restricted for debt service	--	52,918	--	--	52,918	--
Restricted for landfill closure	--	1,356,353	--	--	1,356,353	--
Unrestricted	3,072,892	(2,636,005)	3,383,018	428,100	4,248,005	(1,660,185)
Total net assets	<u>6,173,949</u>	<u>(414,807)</u>	<u>4,140,871</u>	<u>2,347,649</u>	<u>12,247,662</u>	<u>(1,649,509)</u>
Total liabilities and net assets	<u>\$ 6,366,003</u>	<u>\$ 10,024,458</u>	<u>\$ 4,141,564</u>	<u>\$ 2,351,555</u>	<u>\$ 22,883,580</u>	<u>\$ 6,952,046</u>

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

Santa Rosa County, Florida
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - PROPRIETARY FUNDS
Year ended September 30, 2005

	Business-type Activities				Total Enterprise Funds	Governmental Activities
	Major Funds		Nonmajor Fund			Internal Service Fund
	Navarre Beach	Landfill	Industrial Park	Peter Prince Field		
Operating revenues						
Licenses and permits	\$ --	\$ 350	\$ --	\$ --	\$ 350	\$ --
Charges for services	894,460	3,826,448	--	4,845	4,725,753	2,078,261
Insurance proceeds	--	--	--	--	--	6,045,168
Miscellaneous	205	389,583	--	102	389,890	41
Total operating revenues	894,665	4,216,381	--	4,947	5,115,993	8,123,470
Operating expenses						
Personal services	347,966	979,240	--	--	1,327,206	218,760
Contract services	9,136	188,361	6,619	2,531	206,647	97,572
Supplies	94,545	53,392	--	--	147,937	19,563
Repairs and maintenance	217,589	292,101	15,937	1,526	527,153	1,442
Utilities	92,463	57,302	8,000	8,833	166,598	--
Depreciation	200,858	355,869	9,529	199,118	765,374	1,257
Travel and per diem	--	12,260	--	--	12,260	2,901
Insurance	9,475	17,425	--	--	26,900	731,274
Communications	3,652	4,642	--	524	8,818	733
Advertising	340	2,863	--	--	3,203	--
Fuel and oil	15,576	191,755	--	--	207,331	--
Rentals	1,589	12,513	--	--	14,102	--
Landfill closure and maintenance	--	467,029	--	--	467,029	--
Claims	--	--	--	--	--	8,858,716
State assessment	--	--	--	--	--	77,356
Miscellaneous	2,894	9,047	2,563	--	14,504	11,756
Total operating expenses	996,083	2,643,799	42,648	212,532	3,895,062	10,021,330
Operating income (loss)	(101,418)	1,572,582	(42,648)	(207,585)	1,220,931	(1,897,860)
Non-operating revenues (expenses)						
Sale of land	--	--	77,788	--	77,788	--
Interest income	73,641	104,436	135,437	9,314	322,828	63,686
Interest expense	--	(130,490)	--	--	(130,490)	--
Gain (loss) on disposal of assets	(103)	(3,041)	--	--	(3,144)	5,300
Federal and State grants	--	--	--	84,061	84,061	--
Aid to private organizations	--	(40,000)	--	--	(40,000)	--
Amortization & other bond costs	--	(15,175)	--	--	(15,175)	--
Total non-operating revenues (expenses)	73,538	(84,270)	213,225	93,375	295,868	68,986
Income (loss) before transfers	(27,880)	1,488,312	170,577	(114,210)	1,516,799	(1,828,874)
Transfers out	(463,217)	--	--	--	(463,217)	--
Change in net assets	(491,097)	1,488,312	170,577	(114,210)	1,053,582	(1,828,874)
Net assets, beginning of year	6,665,046	(1,766,974)	3,970,294	2,461,859	11,330,225	179,365
Prior period adjustment	--	(136,145)	--	--	(136,145)	--
Net assets, beginning of year restated	6,665,046	(1,903,119)	3,970,294	2,461,859	11,194,080	179,365
Net assets, end of year	\$ 6,173,949	\$ (414,807)	\$ 4,140,871	\$ 2,347,649	\$ 12,247,662	\$ (1,649,509)

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

Santa Rosa County, Florida
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended September 30, 2005

	Business-type Activities					Governmental Activities
	Major Funds			Nonmajor Fund		
	Navarre Beach	Landfill	Industrial Park	Peter Prince Field	Total Enterprise Funds	
Cash flows from operating activities						
Cash received from customers	\$ 893,952	\$ 4,013,325	\$ 43,118	\$ 6,354	\$ 4,956,749	\$ 41
Cash paid to suppliers	(356,276)	(832,050)	(33,281)	(29,296)	(1,250,903)	(865,241)
Cash paid to employees	(354,435)	(961,935)	--	--	(1,316,370)	(213,880)
Cash received from interfund services provided	--	--	--	--	--	4,234,287
Cash paid for internal services provided	--	--	--	--	--	(3,280,178)
Net cash provided (used) by operating activities	<u>183,241</u>	<u>2,219,340</u>	<u>9,837</u>	<u>(22,942)</u>	<u>2,389,476</u>	<u>(124,971)</u>
Cash flows from noncapital financing activities						
Transfers in (out)	(463,217)	--	--	--	(463,217)	--
Loans to other funds	(2,039,430)	(2,303,570)	(500,000)	--	(4,843,000)	--
State grants	--	--	--	38,532	38,532	--
Aid to private organizations	--	(40,000)	--	--	(40,000)	--
Net cash provided (used) by noncapital financing activities	<u>(2,502,647)</u>	<u>(2,343,570)</u>	<u>(500,000)</u>	<u>38,532</u>	<u>(5,307,685)</u>	<u>--</u>
Cash flows from capital and related financing activities						
Proceeds from sale of assets	775	5,250	154,784	--	160,809	5,300
Purchases of capital assets	(446,369)	(115,842)	(147,092)	(56,059)	(765,362)	(1,354)
Principal paid on capital debt	--	(190,000)	--	--	(190,000)	--
Interest paid on capital debt	--	(130,490)	--	--	(130,490)	--
Net cash provided (used) by capital and related financing activities	<u>(445,594)</u>	<u>(431,082)</u>	<u>7,692</u>	<u>(56,059)</u>	<u>(925,043)</u>	<u>3,946</u>
Cash flows from investing activities						
Interest and dividends	73,641	104,436	135,437	9,314	322,828	63,686
Payments received on notes receivable	--	--	48,093	--	48,093	--
Net sale (purchase) of investments	892,293	563,299	(236,348)	(5,926)	1,213,318	412,738
Net cash provided (used) by investing activities	<u>965,934</u>	<u>667,735</u>	<u>(52,818)</u>	<u>3,388</u>	<u>1,584,239</u>	<u>476,424</u>
Net increase (decrease) in cash and cash equivalents	(1,799,066)	112,423	(535,289)	(37,081)	(2,259,013)	355,399
Cash and cash equivalents at beginning of year	1,963,245	1,871,813	1,010,712	173,793	5,019,563	239,084
Cash and cash equivalents at end of year	<u>\$ 164,179</u>	<u>\$ 1,984,236</u>	<u>\$ 475,423</u>	<u>\$ 136,712</u>	<u>\$ 2,760,550</u>	<u>\$ 594,483</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities						
Operating income (loss)	\$ (101,418)	\$ 1,572,582	\$ (42,648)	\$ (207,585)	\$ 1,220,931	\$ (1,897,860)
Adjustments to reconcile operating income to net cash provided (used) by operating activities						
Depreciation expense	200,858	355,869	9,529	199,118	765,374	1,257
Landfill closure costs	--	467,029	--	--	467,029	--
Changes in assets and liabilities:						
Accounts receivable	(8,677)	(212,606)	43,118	1,407	(176,758)	(3,889,142)
Leases receivable	11,164	--	--	--	11,164	--
Due from other funds	--	--	--	--	--	161,950
Due from other governments	--	--	--	--	--	200,959
Accounts payable	90,983	9,611	(162)	(15,882)	84,550	287,033
Accrued compensation	(6,463)	2,239	--	--	(4,224)	2,083
Annual and sick leave	(6)	15,066	--	--	15,060	2,797
Claims payable	--	--	--	--	--	(168,259)
Deposits	(3,200)	9,550	--	--	6,350	--
Due to other funds	--	--	--	--	--	5,219,351
Due to other governments	--	--	--	--	--	(45,140)
Net cash provided (used) by operating activities	<u>\$ 183,241</u>	<u>\$ 2,219,340</u>	<u>\$ 9,837</u>	<u>\$ (22,942)</u>	<u>\$ 2,389,476</u>	<u>\$ (124,971)</u>

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

Santa Rosa County, Florida

STATEMENT OF FIDUCIARY NET ASSETS

September 30, 2005

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 4,673,896
Accounts receivable	39,603
Total assets	<u>\$ 4,713,499</u>
LIABILITIES	
Accounts payable	\$ 96,270
Escrow deposits	1,957,465
Due to other governments	2,610,507
Miscellaneous	49,257
Total liabilities	<u>\$ 4,713,499</u>

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

SANTA ROSA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005
GUIDE TO NOTES

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Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies applied consistently in the preparation of the financial statements follows:

1. Reporting Entity

The Governmental Accounting Standards Board (GASB) in its Statement No. 14, "The Financial Reporting Entity", established standards for defining the financial reporting entity. In developing these standards, the GASB assumed that all governmental organizations are responsible to elected officials at the federal, state, or local level. Financial reporting by a state or local government should report the elected officials' accountability for those organizations. As concluded by the GASB, the financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Santa Rosa County, Florida (the County) is a political subdivision of the State of Florida created pursuant to Article 8, Section 1(e), of the Constitution of the State of Florida and Chapter 7 of the Florida Statutes. It is governed by a five member Board of County Commissioners (the Board) elected from single-member districts. The Board has no powers other than those expressly vested in it by the Florida Statutes and its governmental powers cannot be delegated. The Board appoints an administrator to administer all policies emanating from its statutory powers and authority. In addition to the Board, there are five elected Constitutional Officers, pursuant to Article 8, Section 1(d) of the Constitution of the State of Florida: Clerk of Courts, Sheriff, Tax Collector, Property Appraiser and Supervisor of Elections.

These financial statements include the operating activities of the Board of County Commissioners, Clerk of Courts, Sheriff, Tax Collector, Property Appraiser and Supervisor of Elections.

Dependent Special Districts

Blackwater Soil & Water Conservation District - The Blackwater Soil & Water Conservation District (Blackwater) was created by the Florida Legislature in 1942 pursuant to Florida Statute Section 582 in response to a petition to the State Soil Conservation Board. Santa Rosa County was established as the local governing authority and is Blackwater's only source of funding. Blackwater does not meet the criteria as a legally separate entity in that it cannot buy, sell, own, lease and mortgage property in its own name. The activities of Blackwater are included in these financial statements as a department of the Board of County Commissioners within the General Fund.

Pace Property Finance Authority - The Pace Property Finance Authority (Authority) was created in 1990 by County Resolution No. 90-12 pursuant to Chapter 617 of the Florida Statutes. In accordance with Florida Statutes Section 189.403, the Authority qualifies as a dependent special district. Additionally, based on the criteria of GASB Statement No. 14 outlined above, the Authority is a component unit of Santa Rosa County. However, the Authority meets the criteria for inclusion in more than one reporting entity - Pace Water System as well as Santa Rosa County. GASB Statement No. 14 indicates that in these cases, judgment must be exercised by management of the reporting entities as to which reporting entity the organization should be included. The Authority has the same elected governing body as the Pace Water System. Additionally, both

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

the Authority and Pace Water System own portions of a single water/sewer system; thus, their fixed assets are part of an interconnected system. Finally, the Authority's debt was issued solely to finance the Pace water/sewer system improvements. Based on these facts, management has decided to include the Authority in the combined financial statements of Pace Water System rather than as a component unit of Santa Rosa County.

Santa Rosa County Health Facilities Authority - The Santa Rosa County Health Facilities Authority (Authority) was created in 1982 by County Ordinance No. 82-02 pursuant to Section 154, Florida Statutes. In accordance with Florida Statutes Section 189.403, the Authority qualifies as a dependent special district. Additionally, based on the criteria of GASB Statement No. 14 outlined above, the Authority is a component unit of Santa Rosa County. The Board of County Commissioners (Board) appoints the five (5) members of the Authority. Additionally, the Board may abolish the Authority at any time by ordinance or resolution as long as all bonded indebtedness incurred by the Authority has been paid. The Authority exists solely to assist health facilities within Santa Rosa County with the acquisition, construction, financing, and refinancing of projects. The Authority issued approximately \$15.8 million in bonds in 1983, lending the proceeds of the bonds to Gulf Breeze Hospital. These bonds were subsequently defeased in 1988 when the Authority issued approximately \$17.3 million in new bonds. The 1988 bonds were defeased in 1993 when the Authority issued approximately \$18.6 million in new bonds. The 1993 bonds were defeased in 2003 when the Authority issued approximately \$58 million in new bonds. The debt outstanding is a limited obligation of the Authority and not a general obligation of the Authority or Santa Rosa County. The Authority is not obligated to pay the principal and interest on the bonds except from the revenues of the Authority pursuant to its loan agreement with Gulf Breeze Hospital. The Authority has no financial activity and the bonds issued under the Authority's name are recorded in the books of the hospital.

Santa Rosa County Housing Finance Authority - The Santa Rosa County Housing Finance Authority (Authority) was created in 1984 by County Resolution No. 84-18 pursuant to Chapter 78-89, Laws of Florida codified as Chapter 159, Part IV, Section 159.601 through 159.623. In accordance with Florida Statutes Section 189.403, the Authority qualifies as a dependent special district. Additionally, based on the criteria of GASB Statement No. 14 outlined above, the Authority is a component unit of Santa Rosa County. The Santa Rosa County Board of County Commissioners, through various resolutions and interlocal agreements with the Escambia County Housing Finance Authority (ECHFA), has authorized ECHFA to allow qualified residents of Santa Rosa County to apply for and obtain preferential mortgages from proceeds generated by bonds issued by ECHFA. Accordingly, there is no financial activity related to the Santa Rosa County Housing Finance Authority to be reflected in these financial statements.

2. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Board groups its funds into two broad fund categories as either governmental or proprietary in nature. Governmental funds include the general, special revenue, debt service and capital projects funds. Proprietary funds include enterprise funds and an internal service fund.

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

3. Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which primarily rely on fees and charges for support. Fiduciary funds are excluded from the government-wide financial statements.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund financial statements.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the County and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the County.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. In a fund with both restricted and unrestricted assets, qualified expenses are considered to be paid first from restricted net assets then from unrestricted net assets.

FUND FINANCIAL STATEMENTS

The Fund financial statements, as presented herein, focus primarily on the major funds of the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

GOVERNMENTAL FUNDS

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

The major governmental funds are:

- General Fund – This is the County’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
- Road and Bridge Fund – Accounts for that portion of state fuel taxes and fees designated for road improvement projects.
- Electricity Franchise Fee Fund – Accounts for the collection and distribution of Electricity Franchise Fees.
- Gas and Oil Revenue Preservation Fund – Accounts for assets collected in prior years attributable to non-recurring gas and oil tax revenues.
- Disaster Fund – Accounts for revenues and expenditures related to significant events such as hurricanes.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within one month of year-end and available to pay obligations of the current period – except for certain grant revenues which are recognized as revenues in the same period the grant expenditures occurred). This includes investment earnings, property taxes, special assessments, fines and forfeitures. Certain state-levied locally shared taxes including motor vehicle license tax and fuel taxes are considered derived non-exchange transactions. These types of transactions are subject to income recognition when the underlying transaction occurs. Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Other revenues, including licenses and permits, certain charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on governmental long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

PROPRIETARY FUNDS

All proprietary funds use the accrual basis of accounting and the economic resources measurement focus. These funds account for operations that are primarily financed by user charges. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility service receivables are recorded at each year-end.

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 County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 all the county's enterprise funds and internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The major proprietary funds are:

- Navarre Beach Fund – Accounts for the operation and maintenance of the water and sewer system of Navarre Beach.
- Landfill Fund – Accounts for the operation of the solid waste disposal facilities of the County.
- Industrial Park Fund – Accounts for the assets and operations at the County's industrial park.

The Board's only internal service fund is the Self Insurance Fund. This fund accounts for the risk management activities of the Board and the other elected officials. Costs are billed to the departments and other elected officials at the actual and estimated costs of providing insurance coverage. At year-end, uncovered costs are billed to the departments, if necessary. Billings in excess of costs are credited to the departments. The policy of the Board is not to eliminate interfund activity in the government-wide statement of activities.

FIDUCIARY FUNDS

The County has sixteen agency fiduciary funds. Agency funds are unlike all other types of funds, reporting only assets and liabilities. Therefore agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

4. Budgets and Budgetary Accounting

Florida Statutes Chapters 129 and 200 govern the preparation, adoption, and administration of the County's annual budget. The budget must be balanced, i.e., the estimated revenues plus beginning fund balance brought forward must equal appropriations and be prepared on a basis consistent with generally accepted accounting principles (GAAP) as applicable to governmental units. The Board may, at any time within a fiscal year, amend a budget for that year as follows:

Appropriations for expenditures in any fund may be decreased and other appropriations in the same fund correspondingly increased by motion recorded in the minutes. The budget officer may authorize certain inter-departmental and intra-departmental budget amendments, provided that the total appropriation of the fund is not changed. All annual appropriations lapse at fiscal year end.

5. Cash and Cash Equivalents

For purposes of the statements of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

6. Investments

Investments in bank certificates of deposit, U.S. Treasury bills, government backed securities and the Florida Local Government Investment Trust Fund are recorded at fair value. Investments in the Local Government Surplus Funds Trust Fund are recorded at the County's equity position in the fund's share price.

7. Inventory

Inventory consists of gas, oil, automotive parts, road signs, culverts, and various other items used by the road department and insecticides used by mosquito control operations. Inventory is valued at cost (first in, first out). The cost is recorded as an expenditure at the time the inventory is purchased.

In the fund level statements, reported inventories are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

8. Accounting for Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (i.e. streets, drainage systems, culverts, traffic signals, and signs), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The County does not capitalize interest expense on borrowings used to finance construction of capital assets, as the capitalizable interest, after netting of interest earnings, is normally insignificant.

Property, plant and equipment of the County is depreciated using the straight line method over the following estimated useful lives:

Buildings	20 - 50 years
Water Distribution System	20 years
Improvements	10 - 20 years
Equipment	3 - 10 years
Infrastructure	40 years

9. Compensated Absences

It is the policy of the County to permit employees to accumulate a limited amount of earned but unused leave benefits which will be paid to employees upon separation from service. Unpaid compensated absences are recorded as a liability when the benefits are earned in the government-wide and proprietary fund financial statements. For governmental funds, there is no legal requirement to accumulated expendable available financial resources to liquidate the obligation; thus expenditures are recognized in the governmental funds when payments are made to employees. The valuation of accrued leave benefits is calculated in accordance with GASB Statement No. 16. The majority of the compensated absences liability has been paid out of the General (75%) and the Road and Bridge (25%) funds.

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

10. Property Taxes

Real and personal property valuations are determined each year as of January 1 by the Property Appraiser's office. Florida Statutes require that all property be assessed at 100 percent of just value.

All property taxes become due and payable on November 1, and are delinquent on April 1 of the following year. Discounts of 4, 3, 2 and 1 percent are allowed for early payment in November through February, respectively. The Tax Collector advertises as required by statute and sells tax certificates for unpaid taxes on real property. Certificates not sold are considered "County Held Certificates." Persons owning land upon which a tax certificate has been sold may redeem the land by paying the face amount of the tax certificate, plus interest and other costs.

Property taxes levied on property valuations as of January 1, 2005, and expected to be collected during the period November 2005 through March 2006 as follows:

General Fund	\$ 38,280,350
Road and Bridge Fund	\$ 2,847,160
Fine and Forfeiture Fund	\$ 263,320

These taxes, although measurable, are not recognized as revenue at September 30, 2005, since they are not considered to be collectible within the current period or soon enough thereafter to be used to pay current period liabilities.

11. Landfill Closure Costs

Under the terms of current state and federal regulations, the County is required to place a final cover on closed landfill areas, and to perform certain monitoring and maintenance functions for a period of up to thirty years after closure. The County recognizes these costs of closure and post-closure maintenance over the active life of each landfill area, based on landfill capacity used during the period.

12. Allowance for Uncollectible Amounts

Historically, differences between receivables and amounts collected have been insignificant. Accordingly, no provision has been made for uncollectible amounts.

NOTE B - CASH AND INVESTMENTS

At September 30, 2005, the bank held deposits of \$29,021,909 (before outstanding checks and deposits in transit) consisting of amounts held in checking, savings, money market or time deposit accounts. All deposits with financial institutions were 100% insured by federal depository insurance or by collateral pursuant to the Public Depository Security Act of the State of Florida.

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE B - CASH AND INVESTMENTS - Continued

The County's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Pursuant to Florida Statutes Section 218.415, the County adopted an investment policy which outlines the County's investment responsibilities, objectives, and policies. The County's investment policy authorizes the County to invest in the following:

- a. The Local Government Surplus Funds Trust Fund (SBA) (Maximum of 80%)*;
- b. Florida Local Government Investment Trust (FLGIT) (State Investment Trust) (Maximum of 40%)*;
- c. Qualified money market mutual funds (Maximum of 50%)*;
- d. U.S. Treasury bills, notes and bonds (100% allowed);
- e. Obligations guaranteed by the U.S. Government as to principal and interest such as obligations of the Government National Mortgage Association (GNMA) (Maximum of 5%)*;
- f. Non-callable Government Agency securities (Maximum of 25%)*:
 - (i) Federal Farm Credit Bank (FFCB),
 - (ii) Federal Home Loan Mortgage Corporation (FHLMC),
 - (iii) Federal Home Loan Bank (FHLB),
 - (iv) Federal National Mortgage Association (FNMA).This classification of government agency securities does not include any mortgage debt of any government agency;
- g. Time deposits and savings accounts in banks or savings and loan associations doing business in Florida (Maximum of 50%)*;
- h. Repurchase agreements for investments authorized in categories d, e, or f above. (Maximum of 40%)*

*To limit the County's concentration of credit risk these are the maximum percentages of the County's total portfolio that can be in each type of investment.

Interest rate risk is limited by no security having a maturity exceeding 2 years. The weighted average to maturity for the portfolio shall be less than 365 days or 1 year. Investments placed with the FLGIT, which typically invests in instruments with maturities of less than 5 years, are exempt from this limitation.

The Local Government Investment Pool is similar to a mutual fund in that funds are available on a same day basis. The Local Government Investment Pool is a "2a-7" like pool and is subject to regulatory oversight as specified in Chapter 19-7 of the Florida Administrative Code. As of September 30, 2005, the Local Government Investment Pool had total investments of approximately \$15.6 billion. The County allocates interest earned on investments held in the Local Government Surplus Trust Fund based on individual funds' principal balances.

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE B - CASH AND INVESTMENTS - Continued

The FLGIT is a local government investment pool created by the Florida Association of Court Clerks and Comptroller, and the Florida Association of Counties for the purpose of providing public entities with an investment program that focuses on longer term securities with the highest credit ratings. The effective maturity of the underlying investments is five years or less. At September 30, 2005, the FLGIT was invested in money markets, treasury notes, asset-backed securities, and Federal agency obligations. This investment type is subject to some market risk due to fluctuating prices and liquidity risk due to advance redemption notification requirements. However, it has a professional investment advisor and an investment advisory board, and provides diversity in the Fund's portfolio. The FLGIT maintains a credit rating of AAA by Standard & Poor's.

Schedule of Cash and Investments at September 30, 2005

	<u>Carrying Amount</u>
<u>Non-Categorized Investments</u>	
Florida Local Government Investment Trust Fund	\$ 4,779,313
Local Government Surplus Funds Trust Fund	<u>7,737,150</u>
Total Investments	12,516,463
 <u>Cash</u>	
Cash in Bank	22,777,318
Petty Cash	<u>1,125</u>
Total Cash	<u>22,778,443</u>
Total Cash and Investments	<u>\$35,294,906</u>

Restricted cash and investments typically consist of funds set aside for the payment of debt and funds set aside to ensure assets producing the pledged revenues are repaired and replaced as needed. These assets are restricted since their use is limited by the applicable bond indentures. Other restricted assets consist of funds restricted to the payment of future landfill closure costs.

Restricted investments by category and by fund are as follows:

	<u>Landfill Fund</u>
Debt service	\$ 52,918
Landfill escrow	<u>1,360,726</u>
	<u>\$ 1,413,644</u>

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE C - NONCASH INVESTING, FINANCING AND CAPITAL ACTIVITIES

There were no noncash investing, financing and capital activities during the year ended September 30, 2005.

NOTE D - DUE FROM OTHER GOVERNMENTAL UNITS

At September 30, 2005, amounts due from other governmental units were as follows:

Federal Government – Grants	\$ 20,727,224
State of Florida – Taxes	1,259,995
State of Florida – Grants	2,567,039
Other	<u>485,942</u>
Total	<u>\$ 25,040,200</u>

NOTE E - INTERFUND TRANSACTIONS

Interfund transfers for the year ended September 30, 2005 were as follows:

<u>Transfer From</u>	Transfer To					<u>Total</u>
	<u>General</u>	<u>Road & Bridge</u>	<u>Disaster</u>	<u>Non-Major Govern- mental</u>		
General	\$ --	\$ 1,159,719	\$ --	\$ 978,263	\$ 2,137,982	
Road & Bridge	--	--	--	155,660	155,660	
Electric						
Franchise Fee	153,670	2,012,113	--	1,640,297	3,806,080	
Gas & Oil	--	--	1,526,176	--	1,526,176	
Nonmajor						
Governmental	80,670	27,130	395,576	581,875	1,085,251	
Navarre Beach	<u>21,000</u>	<u>--</u>	<u>263,294</u>	<u>178,923</u>	<u>463,217</u>	
Total	<u>\$ 255,340</u>	<u>\$ 3,198,962</u>	<u>\$ 2,185,046</u>	<u>\$ 3,535,018</u>	<u>\$ 9,174,366</u>	

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) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE E - INTERFUND TRANSACTIONS - Continued

Interfund balances at September 30, 2005 consisted of the following:

Payables:	General	Gas & Oil	Disaster	NonMajor Governmental	Internal Service	Total
Receivables:						
General	\$ --	\$ --	\$ --	\$ 801,099	\$ 3,369,351	\$ 4,170,450
Road & Bridge	--	--	--	--	1,525,000	1,525,000
Electric Franchise						
Fee	--	--	8,525,000	--	--	8,525,000
Gas & Oil	--	--	3,551,667	--	--	3,551,667
Disaster	--	177,949	--	--	--	177,949
NonMajor Govern- mental	92,357	--	1,550,000	538,470	325,000	2,505,827
Navarre Beach	--	--	2,039,430	--	--	2,039,430
Landfill	--	--	2,303,430	--	--	2,303,570
NonMajor Business- Type	--	--	500,000	--	--	500,000
Total	<u>\$ 92,357</u>	<u>\$ 177,949</u>	<u>\$ 18,469,667</u>	<u>\$ 1,339,569</u>	<u>\$ 5,219,351</u>	<u>\$ 25,298,893</u>

Interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE F - RECEIVABLES

Governmental	General	Road and Bridge	Electric Franchise Fee	Disaster	Nonmajor Govern- mental	Self Insurance	Total
Accounts	\$ 41,184	\$ 276	\$ 866,938	\$ 496	\$ 157,216	\$ 3,929,723	\$ 4,995,833
Leases	140,467	--	--	--	--	--	140,467
Intergovernmental	1,225,161	2,096,485	--	20,941,749	931,774	19,763	24,964,639
Total	<u>\$ 1,406,812</u>	<u>\$ 2,096,761</u>	<u>\$ 866,938</u>	<u>\$ 20,942,245</u>	<u>\$ 1,088,990</u>	<u>\$ 3,949,486</u>	<u>\$ 30,100,939</u>

Business-Type	Navarre Beach	Landfill	Industrial Park	Nonmajor Business-Type	Total
Accounts	\$ 121,262	\$ 562,557	\$ 7,752	\$ --	\$ 691,571
Interest	--	--	33,200	--	33,200
Notes	--	--	1,349,221	--	1,349,221
Intergovernmental	--	--	--	75,561	75,561
Total	<u>\$ 121,262</u>	<u>\$ 562,557</u>	<u>\$ 1,390,173</u>	<u>\$ 75,561</u>	<u>\$ 2,149,553</u>

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE F - RECEIVABLES - Continued

The Board has a \$363,142 note receivable due from a company relating to the sale of land in the Industrial Park. The note is payable in monthly installments of \$4,620 including interest at 7% through September 2014.

The Board has a \$986,079 note receivable due from a company relating to the sale of a building and land in the Industrial Park. The note is payable in monthly installments of \$7,521 including interest at 7% through April 2008. A balloon payment of \$968,498 is due in May 2008.

NOTE G - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows (in thousands):

Governmental activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 9,946	\$ 388	\$ 114	\$ 10,220
Construction in progress	<u>1,168</u>	<u>112</u>	<u>28</u>	<u>1,252</u>
Total capital assets not being depreciated	11,114	500	142	11,472
Other capital assets:				
Buildings	30,378	55	--	30,433
Improvements other than buildings	10,134	332	--	10,466
Machinery and equipment	<u>28,105</u>	<u>3,546</u>	<u>1,851</u>	<u>29,800</u>
Total capital assets being depreciated	68,617	3,933	1,851	70,699
Less accumulated depreciation for:				
Buildings	13,524	1,312	50	14,786
Improvements other than buildings	849	525	--	1,374
Machinery and equipment	<u>16,276</u>	<u>2,732</u>	<u>1,580</u>	<u>17,428</u>
Total accumulated depreciation	<u>30,649</u>	<u>4,569</u>	<u>1,630</u>	<u>33,588</u>
Total capital assets, being depreciated, net	<u>37,968</u>	<u>(636)</u>	<u>221</u>	<u>37,111</u>
Governmental activities capital assets, net	<u>\$ 49,082</u>	<u>\$ (136)</u>	<u>\$ 363</u>	<u>\$ 48,583</u>

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE G - CAPITAL ASSETS - Continued

Business-type activities:	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 1,817	\$ --	\$ 213	\$ 1,604
Construction in progress	<u>1,186</u>	<u>444</u>	<u>407</u>	<u>1,223</u>
Total capital assets not being depreciated	3,003	444	620	2,827
Other capital assets:				
Buildings	1,366	--	--	1,366
Improvements other than buildings	13,571	386	--	13,957
Furniture, fixtures and equipment	<u>3,566</u>	<u>118</u>	<u>208</u>	<u>3,476</u>
Total capital assets being depreciated	<u>18,503</u>	<u>504</u>	<u>208</u>	<u>18,799</u>
Less accumulated depreciation for:				
Buildings	652	76	--	728
Improvements other than buildings	8,573	519	--	9,092
Furniture, fixtures and equipment	<u>2,663</u>	<u>170</u>	<u>199</u>	<u>2,634</u>
Total accumulated depreciation	<u>11,888</u>	<u>765</u>	<u>199</u>	<u>12,454</u>
Total capital assets, being depreciated, net	<u>6,615</u>	<u>(261)</u>	<u>9</u>	<u>6,345</u>
Business-type activities capital assets, net	<u>\$ 9,618</u>	<u>\$ 183</u>	<u>\$ 629</u>	<u>\$ 9,172</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 501,314
Public safety	2,189,615
Physical environment	78,348
Transportation	979,663
Economic environment	1,894
Human services	131,311
Culture and recreation	<u>686,488</u>
Total governmental activities depreciation expense	<u>\$ 4,568,633</u>
Business-type activities	
Water and sewer	\$ 200,858
Landfill	355,869
Industrial park	9,529
Hangar rental	<u>199,118</u>
Total business-type activities depreciation expense	<u>\$ 765,374</u>

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE H - LONG-TERM DEBT

1. Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year.

	Balance October 1, <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance September 30, <u>2005</u>	Amount Due within <u>One Year</u>
Governmental activities:					
Compensated absences	\$ 6,989,922	\$ 2,048,689	\$ 1,700,107	\$ 7,338,504	\$ 201,971
Claims payable	3,014,289	--	168,259	2,846,030	1,921,126
Capital lease	180,422	--	68,072	112,350	54,900
Revenue bonds	2,887,500	--	190,000	2,697,500	195,000
Notes payable	5,732,756	325,000	1,345,046	4,712,710	1,240,360
Special assessment notes	<u>1,271,125</u>	<u>422,000</u>	<u>231,772</u>	<u>1,461,353</u>	<u>251,059</u>
	<u>\$20,076,014</u>	<u>\$ 2,795,689</u>	<u>\$ 3,703,256</u>	<u>\$19,168,447</u>	<u>\$ 3,864,416</u>
Business-type activities:					
Compensated absences	\$ 309,577	\$ 15,066	\$ 6,463	\$ 318,180	\$ 53,267
Landfill closure costs	7,011,491	467,029	--	7,478,520	190,080
Revenue bonds	<u>2,887,500</u>	<u>--</u>	<u>190,000</u>	<u>2,697,500</u>	<u>195,000</u>
	<u>\$10,208,568</u>	<u>\$ 482,095</u>	<u>\$ 196,463</u>	<u>\$10,494,200</u>	<u>\$ 438,347</u>

Unamortized bond discounts totaling \$9,110 and deferred losses on refunding of bonds totaling \$107,090 are netted against the liability in the proprietary funds. Deferred bond issue costs were \$48,194 at year end.

Special assessment notes are fully secured by annual assessments made against property owners of the specific area benefited from the proceeds of the notes. The County has no legal obligation to levy ad valorem taxes or cover the notes in case of default by the property owners. The County does, however, maintain a moral commitment to cover the debt payments until such time as the property owners can make the payments.

2. Descriptions of Bonds and Notes

Bonds and notes payable at September 30, 2003 are comprised of the following:

General government - notes payable

\$575,000 Capital Improvement Refunding Revenue Note, Series 2003B payable to bank for refunding certain indebtedness of the County – due in quarterly payments of \$28,750 plus interest at 4.15%, secured by non-ad valorem revenues.

\$ 373,750

\$39,920 note payable to bank with a fixed rate of 6.75% for the Santa Rosa Clean Community System, Inc. (SRCCS) - due in annual payments of \$5,000 with a final payment due in 2006. The note is secured by a lien on the SRCCS property. Although this note is between the SRCCS and the bank, the obligation is recorded as a long-term liability of Santa Rosa County as the County committed to funding this note at \$5,000 per year for fifteen years.

11,897

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE H- LONG-TERM DEBT - Continued

\$45,541 Capital Improvement Refunding Revenue Note, Series 2003B payable to bank for refunding certain indebtedness of the County – due in 20 quarterly payments of \$2,277 plus interest at 3.43%, secured by non-ad valorem revenues.	25,048
\$562,324 Capital Improvement Refunding Revenue Note, Series 2003A payable to bank for refunding certain indebtedness of the County - due in 12 quarterly payments of \$46,860 plus interest at 1.63%, secured by non-ad valorem revenues.	140,581
\$1,340,693 Capital Improvement Refunding Revenue Note, Series 2003A payable to bank for refunding certain indebtedness of the County - due in 15 quarterly payments of \$71,528 to \$105,000 plus interest at 1.94%, secured by non-ad valorem revenues.	429,165
\$1,074,596 Capital Improvement Refunding Revenue Note, Series 2003A payable to bank for refunding certain indebtedness of the County - due in 16 quarterly payments of \$63,514 to \$70,000 plus interest at 1.94%, secured by non-ad valorem revenues.	444,596
\$3,700,000 note payable to bank for the acquisition and construction of facilities at the Pace Athletic Field. The note is due in 36 quarterly payments of \$90,763 to \$187,521 plus interest at 3.43%, secured by non-ad valorem revenues.	2,962,673
\$325,000 note payable to bank for the acquisition and construction of facilities in the Bagdad Community Center. The note is due in 28 quarterly payments of \$11,607 plus interest at 3.74%, secured by non-ad valorem revenues.	325,000
\$172,000 special assessment note payable to bank for the construction of certain infrastructure improvements in the Woodbine Springs Plantation Road Paving MSBU. Principal is due in 12 quarterly payments of \$13,268 to \$15,450 plus interest at 5.19%. Annual assessments are made against property owners in amounts sufficient to retire the maturing principal and interest. All assessments were collected by year end.	145,280
\$72,800 special assessment note payable to bank for the construction of a residential sewage system along Del Mar Drive. The note is due in 36 quarterly payments of \$2,600 including principal and interest at 5.71% with final payment due in 2006. Annual assessments will be made against property owners sufficient to retire the maturing principal and interest.	44,966
\$363,500 special assessment note payable to bank for the construction of infrastructure improvements on Grande Navarre Canal. The note is due in 32 quarterly payments of \$13,590 including principal and interest at 4.43% with final payment due in 2011. Annual assessments will be made against property owners sufficient to retire the maturing principal and interest.	279,986

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE H- LONG-TERM DEBT - Continued

\$250,000 special assessment note payable to bank for the construction of infrastructure improvements on Grande Navarre Canal. The note is due in 20 quarterly payments of \$10,925 to \$14,211 plus interest at 5.46% with final payment due in 2010. Annual assessments will be made against property owners sufficient to retire the maturing principal and interest. 227,998

\$900,000 special assessment note payable to bank for the construction of infrastructure improvements on Polynesian Island Canal. The note is due in 30 quarterly payments of \$26,984 to \$33,225 plus interest at 2.88% with final payment due in 2011. Annual assessments will be made against property owners sufficient to retire the maturing principal and interest. 763,123

General government - bonds payable

\$6,535,000 Capital Improvement Refunding Revenue Bonds, Series 2000-4.5 – 4.875% serial bonds due in annual installments of \$55,000 to \$610,000 from 2001 through 2016; Bonds are allocated 50% to governmental long-term debt and 50% to Landfill Fund. 2,697,500

Total general government bonds and notes payable \$ 8,871,563

Proprietary fund type - bonds payable

Enterprise Fund - Landfill

\$6,535,000 Capital Improvement Refunding Revenue Bonds, Series 2000-4.5 – 4.875% serial bonds due in annual installments of \$55,000 to \$610,000 from 2001 through 2016; Bonds are allocated 50% to governmental long-term debt and 50% to Landfill Fund. \$ 2,697,500

Total proprietary fund type bonds payable \$ 2,697,500

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE H- LONG-TERM DEBT - Continued

3. Debt Service Requirements

The annual requirements to amortize all bonds and notes outstanding at September 30, 2005 are as follows:

Governmental activities:

Year ended September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,686,419	\$ 317,249	\$ 2,003,668
2007	1,382,224	245,424	1,627,648
2008	1,049,911	221,546	1,271,457
2009	950,785	181,754	1,132,539
2010	944,409	145,672	1,090,081
2011-2015	2,552,815	309,174	2,861,989
2016-2020	305,000	14,869	319,869
	<u>\$ 8,871,563</u>	<u>\$ 1,455,688</u>	<u>\$10,307,251</u>

Business-type activities:

Year ended September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 195,000	\$ 122,510	\$ 317,510
2007	205,000	114,320	319,320
2008	215,000	105,607	320,607
2009	220,000	96,363	316,363
2010	232,500	86,792	319,292
2011-2015	1,325,000	266,636	1,591,636
2016-2020	305,000	14,869	319,869
	<u>\$ 2,697,500</u>	<u>\$ 807,097</u>	<u>\$ 3,504,597</u>

The annual requirements to amortize capital leases outstanding at September 30, 2005 are as follows:

Governmental activities:

Year ended September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 54,900	\$ 3,976	\$ 58,876
2007	57,450	1,426	58,876
2008	--	--	--
2009	--	--	--
2010	--	--	--
	<u>\$ 112,350</u>	<u>\$ 5,402</u>	<u>\$ 117,752</u>

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE H- LONG-TERM DEBT - Continued

4. Defeased Debt Outstanding

In prior years the County defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the County's financial statements. At September 30, 2005, \$7.9 million of bonds are considered defeased.

5. Capital Lease

The Sheriff entered into a capital lease related to the lease-purchase of automobiles for \$236,196 in 2004. Payments of \$5,371, including interest at 4.55 %, are due monthly through September 30, 2007.

NOTE I - CONDUIT DEBT OBLIGATIONS

From time to time Santa Rosa County has issued Industrial Development Revenue Bonds under the provisions of Chapter 159, Part II, Florida Statutes, to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Board, the State nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. Debt issues related to conduit financings outstanding at September 30, 2005 are as follows:

	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Amount Issued</u>	<u>Outstanding 9/30/2005</u>
Baptist Hospital, 2003	8/21/2003	10/1/2021	\$57,905,000	\$57,905,000
Holley Navarre Water System, 2004	6/2/2004	5/1/2024	<u>4,145,000</u>	<u>3,990,000</u>
Total			<u>\$62,050,000</u>	<u>\$61,895,000</u>

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE J - OPERATING LEASES

The County has entered into various lease agreements for office space. The minimum rental commitments under such leases are as follows:

Year ending <u>September 30,</u>	
2006	\$ 67,840
2007	64,498
2008	36,811
2009	--
2010	--
Thereafter	--
Total minimum payments required	<u>\$ 169,149</u>

Rental expense for the year ended September 30, 2005 was \$127,475.

NOTE K - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the County to place a final cover on its landfill sites when the landfill stops accepting waste and to perform certain maintenance and monitoring functions at sites for thirty years after closure. Although closure and postclosure care costs are paid only near or after the date that a landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$7.5 million reported as landfill closure and postclosure care liability (current and noncurrent) at September 30, 2005, represents the cumulative amount reported to date based on the following percentage usage of the estimated capacity of each of the County's landfills:

Central Class I Landfill	53%
Central Class III Landfill	Closed 10/98
Holley Landfill	Closed 06/94
Northwest Landfill	Closed 02/91

The estimated cost of postclosure care for the Central Class III, Holley and Northwest landfills have been recognized in prior years with any changes in estimates being recorded in the current year. The County will recognize the remaining estimated cost of closure and postclosure care for the Central Class I landfill in the amount of \$3.9 million as its remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2005. The estimated remaining life of the Central Class I Landfill is 15 years. Cost of closure and life estimates are based on the areas currently in use, and not on potential areas of expansion. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. At September 30, 2005, the County held investments of \$1,360,726 to cover the escrow requirement of \$1,356,353. These investments are reported as restricted assets. The County expects that future inflation costs will be paid from interest earnings on these restricted investments and from charges to future landfill users or future tax revenue.

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE L - COMMITMENTS AND CONTINGENCIES

1. Retirement Plan

Participation - Employees of the County participate in the Florida Retirement System, a cost-sharing multiple-employer retirement system, established by Chapter 121, Florida Statutes. Participation is compulsory for full-time and part-time employees working in regularly established positions. Elected officials may elect not to participate in the system. Eligible employees may elect to participate in the Deferred Retirement Option Program (DROP), deferring receipt of retirement benefits while continuing employment with a Florida Retirement System employer.

Contributions - Chapter 121 requires the employer to pay all contributions (employee noncontributory) based upon state-wide rates established by the State of Florida. During 2005, the County contributed an average of 7.5% of each qualified regular employee's gross salary, 15.23% percent of the elected officials' salary, 18.53% of each special risk employee's salary, and 9.17% for each DROP participant. The contributions, funded on a pay-as-you-go basis, were equal to the actuarially determined contribution requirements for each year and totaled \$3,808,559, \$3,464,172 and \$2,676,639 for the years ended September 30, 2005, 2004, and 2003, respectively.

Benefit Provisions - The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The FRS provides for vesting of benefits after 6 years of creditable service. Normal retirement benefits are available to employees who retire at or after age 62 with 10 or more years of service, or to those employees who have at least 30 years of creditable service, regardless of age. Early retirement is available after 10 years of service with a 5% reduction of benefits for each year prior to the normal retirement age. Retirement benefits are based upon age, average compensation and years-of-service credit where average compensation is computed as the average of an individual's five highest years of earnings. For DROP participants, the deferred monthly benefit plus interest compounded monthly, accrues for the specified period of the DROP participation. Upon retirement, the participant receives the total accumulated DROP benefits and begins to receive current benefits at the previously determined rate.

Financial Report of the Plan - The Florida Retirement System issues a stand-alone financial report. A copy can be obtained by contacting the State of Florida, Division of Retirement, Tallahassee, Florida.

2. Litigation

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County's attorney the resolution of these matters will not have a material adverse effect on the financial condition of the County.

3. Federal and State Grants

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

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE M - RESERVES AND DESIGNATIONS

The following is a list of reserves used by the County in the fund level financial statements:

General Fund:

Reserve for inventory	\$ 1,361
Reserve for communications	809,441
Reserve for animal services education	43,344
Reserve for debt service	110,700
Reserve for boating improvements	345,885
Reserve for long-term intergovernmental receivable	<u>25,000</u>
	1,335,731

Road and Bridge Fund:

Reserve for inventory	297,343
Reserve for long-term intergovernmental receivable	<u>92,177</u>
	389,520

Gas and Oil Preservation Fund:

Reserve for gas and oil preservation	3,551,666
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Nonmajor Governmental Funds:

Reserve for forfeited property	25,213
Reserve for law library	42,311
Reserve for tourist development	1,136,327
Reserve for records modernization trust fund	677,751
Reserve for law enforcement training	104,575
Reserve for court technology	456,526
Reserve for OSCA grant	2,091
Reserve for construction commitments	<u>1,928,653</u>
	<u>4,373,447</u>

Total Governmental Funds	<u>\$ 9,650,364</u>
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NOTE N - RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986 the County established a Self-Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program the County is self-insured with respect to the following exposures:

- Workers Compensation
- Auto Physical Damage
- Auto Liability
- Construction and Road Equipment

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE N - RISK MANAGEMENT - Continued

The County is covered by outside insurance for the following exposures:

- Portable Communication Equipment
- Boats
- Employee Fidelity
- General Liability, \$100,000 deductible
- Public Officials' Liability, \$100,000 deductible

Conventional insurance remains in effect for buildings, contents and Sheriff's general, automobile and professional liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Board of County Commissioners and other County elected officials participate in the program and make payments to the Self-Insurance Fund based on historical estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. The claims liability of \$2,846,030 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Liabilities for incurred losses to be settled by fixed or reasonably determined payments over a long period of time are reported at their present value using an expected future investment yield assumption of 5.5 to 8 percent. The undiscounted liability of these structured settlements is \$2,026,466. These liabilities are reported at their present value of \$953,680 at September 30, 2005.

Changes in the Fund's claims liability amount in fiscal years 2004 and 2005 were as follows:

	<u>Beginning-of- Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2003 - 2004	\$ 4,306,174	\$ 686,150	\$ 1,978,035	\$ 3,014,289
2004 - 2005	\$ 3,014,289	\$ 8,858,716	\$ 9,026,975	\$ 2,846,030

The following table presents a summary of the claims payable liability at year end:

Current claims payable	\$ 1,892,350
Current claims – structured settlements	<u>28,776</u>
Total claims payable, current	1,921,126
Long-term claims – structured settlements	<u>924,904</u>
Total claims payable	<u>\$ 2,846,030</u>

Santa Rosa County, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2005

NOTE N - RISK MANAGEMENT - Continued

The County is a member of the Florida Association of Counties Trust, a pooled liability program providing general liability coverage and public officials' liability coverage, excluding the Sheriff. The County pays an annual premium as a participant of the pooled liability program. During 1994, the first year of participation, the County paid an extraordinary loss fund payment of \$249,886. The liability coverage is not designed to be assessable; however, should the pool fail to meet its obligations, the County may be required to contribute additional funds or cover its own obligations. No accrual for future assessments has been recorded in the financial statements as such assessments do not appear probable based on past experience of the pool, and experience of the pool subsequent to the County's fiscal year end through the date of these financial statements. In the event the County elected to terminate its participation in the pool, the extraordinary loss fund payment would be refunded to the County, given adequate funding of the pool.

NOTE O - COMPLIANCE AND ACCOUNTABILITY

Accumulated Deficits

The Landfill Fund has a deficit in net assets due to the cumulative effect of the following:

Adoption of GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", which requires recognition of costs of closure and postclosure maintenance over the active life of each landfill area, based on landfill capacity used during the period.

Depreciation charged against operations.

Loss on bond refunding of \$443,769 in 1992.

Transfer of working capital to other funds.

The Board of County Commissioners and the Directors of this fund will evaluate the operation to determine if an increase in fees will be necessary to generate enough revenues to offset expenses.

The Disaster Fund has a deficit in net assets due to the costs associated with Hurricanes Ivan, Dennis and Katrina. Revenues from Federal and State sources covered 87.5% to 95% of allowable costs. Disallowed costs and the County's local match portion have not been fully funded from local sources as yet.

NOTE P - PRIOR PERIOD ADJUSTMENT

During the year ended September 30, 2005, a change was made to the retained earnings of the Landfill fund to correct the historical cost of land that had been recorded in previous years. The adjustment decreased retained earnings and land by \$136,145.

REQUIRED SUPPLEMENTAL INFORMATION

Santa Rosa County, Florida

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

Year ended September 30, 2005

	Original Budget	Final Budget	Actual
Revenues			
Taxes	\$ 35,817,570	\$ 35,817,570	\$ 35,634,849
Licenses and permits	2,028,250	2,028,250	3,252,522
Intergovernmental	8,517,077	10,065,247	12,275,079
Charges for services	4,105,002	4,390,235	3,790,346
Fines and forfeits	1,716,239	185,250	262,169
Miscellaneous	1,371,238	1,607,263	1,599,628
Total revenues	<u>53,555,376</u>	<u>54,093,815</u>	<u>56,814,593</u>
Expenditures			
Current			
General government	18,925,883	20,082,510	17,642,350
Public safety	29,067,028	29,220,578	27,441,545
Physical environment	1,058,980	1,058,980	894,524
Transportation	932,060	932,060	878,253
Economic environment	137,110	137,110	132,415
Human services	3,988,030	4,033,030	3,869,204
Culture and recreation	2,382,765	2,501,136	2,186,784
Debt service	--	--	74,783
Reserve for contingencies	2,606,020	3,075,250	--
Total expenditures	<u>59,097,876</u>	<u>61,040,654</u>	<u>53,119,858</u>
Excess (deficiency) of revenues over expenditures	(5,542,500)	(6,946,839)	3,694,735
Other financing sources (uses)			
Transfers in	205,000	424,340	255,340
Transfers out	(632,940)	(2,137,982)	(2,137,982)
Total other financing sources (uses)	<u>(427,940)</u>	<u>(1,713,642)</u>	<u>(1,882,642)</u>
Net change in fund balances	(5,970,440)	(8,660,481)	1,812,093
Fund balance, beginning of year	5,970,440	8,660,481	8,064,279
Change in reserve for inventory	--	--	(8,363)
Fund balance, end of year	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 9,868,009</u>

Santa Rosa County, Florida

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
ROAD AND BRIDGE FUND**

Year ended September 30, 2005

	Original Budget	Final Budget	Actual
Revenues			
Taxes	\$ 5,727,710	\$ 5,727,710	\$ 6,640,394
Intergovernmental	2,717,950	6,647,106	5,249,194
Miscellaneous	199,500	199,500	284,270
Total revenues	<u>8,645,160</u>	<u>12,574,316</u>	<u>12,173,858</u>
Expenditures			
Current			
Physical environment	--	4,638,875	1,932,363
Transportation	10,401,495	13,940,610	11,150,579
Reserve for contingencies	359,140	345,940	--
Total expenditures	<u>10,760,635</u>	<u>18,925,425</u>	<u>13,082,942</u>
Excess (deficiency) of revenues over expenditures	(2,115,475)	(6,351,109)	(909,084)
Other financing sources (uses)			
Transfers in	42,310	3,214,142	3,198,962
Transfers out	(155,660)	(155,660)	(155,660)
Total other financing sources (uses)	<u>(113,350)</u>	<u>3,058,482</u>	<u>3,043,302</u>
Net change in fund balances	(2,228,825)	(3,292,627)	2,134,218
Fund balance, beginning of year	2,228,825	3,292,627	2,280,558
Change in reserve for inventory	--	--	(121,918)
Fund balance, end of year	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 4,292,858</u>

Santa Rosa County, Florida

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
ELECTRICITY FRANCHISE FEE FUND**

Year ended September 30, 2005

	Original Budget	Final Budget	Actual
Revenues			
Taxes	\$ 3,800,000	\$ 3,800,000	\$ 4,247,337
Miscellaneous	--	--	85,779
Total revenues	<u>3,800,000</u>	<u>3,800,000</u>	<u>4,333,116</u>
Expenditures			
Current			
Reserve for contingencies	2,280,000	9,000,842	--
Total expenditures	<u>2,280,000</u>	<u>9,000,842</u>	<u>--</u>
Excess (deficiency) of revenues over expenditures	1,520,000	(5,200,842)	4,333,116
Other financing sources (uses)			
Transfer out	(1,520,000)	(3,806,080)	(3,806,080)
Total other financing sources (uses)	<u>(1,520,000)</u>	<u>(3,806,080)</u>	<u>(3,806,080)</u>
Net change in fund balances	--	(9,006,922)	527,036
Fund balance, beginning of year	<u>--</u>	<u>9,006,922</u>	<u>9,006,922</u>
Fund balance, end of year	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 9,533,958</u>

Santa Rosa County, Florida

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GAS AND OIL REVENUE PRESERVATION FUND**

Year ended September 30, 2005

	Original Budget	Final Budget	Actual
Revenues			
Miscellaneous	\$ 190,000	\$ 190,000	\$ 2,865
Total revenues	<u>190,000</u>	<u>190,000</u>	<u>2,865</u>
Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues over expenditures	190,000	190,000	2,865
Other financing sources (uses)			
Transfer out	(190,000)	(5,267,843)	(1,526,176)
Total other financing sources (uses)	<u>(190,000)</u>	<u>(5,267,843)</u>	<u>(1,526,176)</u>
Net change in fund balances	--	(5,077,843)	(1,523,311)
Fund balance, beginning of year	<u>--</u>	<u>5,077,843</u>	<u>5,074,977</u>
Fund balance, end of year	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 3,551,666</u>

Santa Rosa County, Florida

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DISASTER FUND**

Year ended September 30, 2005

	Original Budget	Final Budget	Actual
Revenues			
Intergovernmental	\$ --	\$ 62,670,209	\$ 62,670,208
Miscellaneous	--	--	21,411
Total revenues	<u> --</u>	<u>62,670,209</u>	<u>62,691,619</u>
Expenditures			
Current			
Public safety	--	68,428,331	69,879,086
Total expenditures	<u> --</u>	<u>68,428,331</u>	<u>69,879,086</u>
Excess (deficiency) of revenues over expenditures	--	(5,758,122)	(7,187,467)
Other financing sources (uses)			
Transfer in	--	5,758,122	2,185,046
Total other financing sources (uses)	<u> --</u>	<u>5,758,122</u>	<u>2,185,046</u>
Net change in fund balances	--	--	(5,002,421)
Fund balance, beginning of year	<u> --</u>	<u> --</u>	<u> --</u>
Fund balance, end of year	<u>\$ --</u>	<u>\$ --</u>	<u>\$ (5,002,421)</u>

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

Honorable Board of County Commissioners
Honorable Mary M. Johnson, Clerk and Accountant to the
Board of County Commissioners
Santa Rosa County, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Santa Rosa County, Florida, as of and for the year ended September 30, 2005, and have issued our report thereon dated January 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

As required by provisions of Chapter 10.550, Rules of the Auditor General, we have issued a separate management letter dated January 27, 2006, which should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the Board of County Commissioners, management and appropriate governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

O'Sullivan Creel, LLP

January 27, 2006

MANAGEMENT LETTER

Honorable Board of County Commissioners
Honorable Mary M. Johnson, Clerk and Accountant to the
Board of County Commissioners
Santa Rosa County, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Santa Rosa County, Florida, as of and for the fiscal year ended September 30, 2005, and have issued our report thereon dated January 27, 2006.

We have issued our Independent Auditor's Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards* dated January 27, 2006. Disclosures in that report, if any, should be considered in conjunction with this management letter.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter. Items under Chapter 10.554 (1) (h) 1-4, Rules of the Auditor General, are addressed in the separately issued management letters of the Board of County Commissioners, Sheriff, Clerk, Tax Collector, Property Appraiser and Supervisor of Elections. For the County as a whole, items under the Rules of the Auditor General Chapter 10.554 (1) (h) 6 are addressed as follows:

As required by the Rules of the Auditor General (Section 10.554 (1) (h) 6. a.), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that Santa Rosa County, Florida has not met any of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554 (1) (h) 6. b.), we determined that the financial information for Santa Rosa County, Florida included in the financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with Santa Rosa County, Florida's audited basic financial statements.

As required by the Rules of the Auditor General (Section 10.554 (1) (h) 6. c.), the scope of our audit included the use of financial condition assessment procedures pursuant to Rule 10.556 (7), to aid in the detection of deteriorating financial conditions.

This management letter is intended solely for the information and use of the Board, management and appropriate governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

O'Sullivan Creel, LLP

January 27, 2006

Annual Audit Report
County-Wide
Santa Rosa County, Florida
MANAGEMENT'S RESPONSE TO MANAGEMENT LETTER
September 30, 2005

There were no comments which require management's written response.