

CITY OF CARRABELLE, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

**CITY OF CARRABELLE, FLORIDA
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INDEPENDENT AUDITORS' REPORT

To the Honorable City Council,
City of Carrabelle, Florida:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Carrabelle, Florida, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Carrabelle, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Carrabelle, Florida, as of September 30, 2007 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 September 3, 2008 on our consideration of the City of Carrabelle, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 - 9 and 33 - 35 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Carrabelle, Florida's basic financial statements. The accompanying schedule of expenditures of Federal Awards and State Financial Assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550 Rules of the State of Florida Office of the Auditor General and is not a required part of the basic financial statements of City of Carrabelle, Florida. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

James Moore & Co., P.L.

Tallahassee, Florida
September 3, 2008

Management's Discussion and Analysis

As management of the City of Carrabelle, Florida, we offer readers of the City of Carrabelle, Florida's financial statements this narrative overview and analysis of the financial activities of the City of Carrabelle, Florida for the fiscal year ended September 30, 2007.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Carrabelle, Florida's basic financial statements. The City of Carrabelle, Florida's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Carrabelle, Florida's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Carrabelle, Florida's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Carrabelle, Florida is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Carrabelle, Florida that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Carrabelle, Florida include general government, public safety, transportation, culture and recreation and physical environment. The business-type activities of the City of Carrabelle, Florida include a water and sewer operation and port and airport authority operation.

The government-wide financial statements can be found on pages 10 - 11 of this report.

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

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

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

The City of Carrabelle, Florida maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund which is considered to be a major fund.

The basic governmental fund financial statements can be found on pages 12 -14 of this report.

Proprietary funds. The City of Carrabelle, Florida maintains proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Carrabelle, Florida uses enterprise funds to account for its water and sewer operation and its port and airport operation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operation, and the port and airport authority operation, which are considered to be major funds.

The basic proprietary fund financial statements can be found on pages 15 - 18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 - 31 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Carrabelle, Florida's budgetary information. Required supplementary information can be found on pages 32 - 35 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Carrabelle, Florida, assets exceeded liabilities by \$26,657,985 at the close of the most recent fiscal year.

The largest portion of the City of Carrabelle, Florida's net assets (63 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Carrabelle, Florida uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Carrabelle, Florida'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.

An additional portion of the City of Carrabelle, Florida's net assets (26 percent) represents resources that are subject to external restrictions on how they may be used: The remaining balance of *unrestricted net assets* \$2,935,346 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Carrabelle, Florida is able to report positive balances in all three categories of net assets for the government as a whole, as well as for its separate governmental and business-type activities.

City of Carrabelle, Florida's Net Assets

	2007		
	Governmental activities	Business- type activities	Total
Current and other assets	\$ 2,840,065	\$ 9,919,030	\$ 12,759,095
Capital assets	1,756,340	42,710,571	44,466,911
Total assets	4,596,405	52,629,601	57,226,006
Long-term liabilities outstanding	40,635	27,632,830	27,673,465
Other liabilities	232,491	2,662,065	2,894,556
Total liabilities	273,126	30,294,895	30,568,021
Net assets:			
Invested in capital assets, net of related debt	1,715,705	15,105,328	16,821,033
Restricted	716,110	6,185,496	6,901,606
Unrestricted	1,891,464	1,043,882	2,935,346
Total net assets	\$ 4,323,279	\$ 22,334,706	\$ 26,657,985

	2006		
	Governmental activities	Business Type Activities	Total
Current and other assets	\$ 2,648,084	\$ 11,009,100	\$ 13,657,184
Capital assets	636,388	37,211,487	37,847,875
Total assets	3,284,472	48,220,587	51,505,059
Long-term liabilities outstanding	88,927	25,410,138	25,499,065
Other liabilities	134,336	3,075,855	3,210,191
Total liabilities	223,263	28,485,993	28,709,256
Net assets:			
Invested in capital assets, net of related debt	636,388	11,770,419	12,406,807
Restricted	800,178	5,965,662	6,765,840
Unrestricted	1,624,643	1,998,513	3,623,156
Total net assets	\$ 3,061,209	\$ 19,734,594	\$ 22,795,803

City of Carrabelle, Florida's Changes in Net Assets

	2007		
	Governmental activities	Business- type activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 51,210	\$ 918,626	\$ 969,836
Operating grants and contributions	424,225	-	424,225
Capital grants and contributions	213,928	2,519,329	2,733,257
General revenues:			
Property taxes	1,418,677	-	1,418,677
Intergovernmental and other	658,316	473,392	1,131,708
Total revenues	<u>2,766,356</u>	<u>3,911,347</u>	<u>6,677,703</u>
Expenses:			
General government	602,931	-	602,931
Public safety	530,978	-	530,978
Transportation	219,358	-	219,358
Culture and recreation	54,351	-	54,351
Water and sewer	-	1,386,444	1,386,444
Airport	-	21,459	21,459
Total expenses	<u>1,407,618</u>	<u>1,407,903</u>	<u>2,815,521</u>
Transfers	(96,668)	96,668	-
Increase in net assets	1,262,070	2,600,112	3,862,182
Nets assets, beginning of year	<u>3,061,209</u>	<u>19,734,594</u>	<u>22,795,803</u>
Net assets, end of year	<u>\$ 4,323,279</u>	<u>\$ 22,334,706</u>	<u>\$ 26,657,985</u>

City of Carrabelle, Florida's Changes in Net Assets (Continued)

	2006		
	Governmental activities	Business- type activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 72,510	\$ 762,968	\$ 835,478
Operating grants and contributions	16,656	-	16,656
Capital grants and contributions	-	1,509,720	1,509,720
General revenues:			
Property taxes	927,098	-	927,098
Intergovernmental and other	510,517	405,209	915,726
Total revenues	<u>1,526,781</u>	<u>2,677,897</u>	<u>4,204,678</u>
Expenses:			
General government	628,553	-	628,553
Public safety	323,567	-	323,567
Transportation	165,013	-	165,013
Culture and recreation	59,943	-	59,943
Physical environment	1,250	-	1,250
Water and sewer	-	1,134,724	1,134,724
Airport	-	89,456	89,456
Interest on long-term debt	3,610	-	3,610
Total expenses	<u>1,181,936</u>	<u>1,224,180</u>	<u>2,406,116</u>
Transfers	-	-	-
Increase in net assets	344,845	1,453,717	1,798,562
Nets assets, beginning of year	<u>2,716,364</u>	<u>18,280,877</u>	<u>20,997,241</u>
Net assets, end of year	<u>\$ 3,061,209</u>	<u>\$ 19,734,594</u>	<u>\$ 22,795,803</u>

Governmental activities. Governmental activities increased the City of Carrabelle, Florida's net assets by \$1,262,070, thereby accounting for 33 percent of the total growth in the net assets of the City of Carrabelle, Florida. The key elements of this increase were:

- Due to increase in property taxes
- Increased grant funding

Business-type activities. Business-type activities increased the City of Carrabelle, Florida's net assets by \$2,600,112, accounting for 67 percent of the total growth in the government's net assets. The key elements in this increase were:

- Grants from state revolving funds

Financial Analysis of the Government's Funds

As noted earlier, the City of Carrabelle, Florida uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Carrabelle, Florida's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Carrabelle, Florida's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Carrabelle, Florida's governmental funds reported combined ending fund balances of \$2,607,574, an increase of \$93,826 in comparison with the prior year. Approximately 73% of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance *is reserved* to indicate that it is not available for new spending because it has already been committed to generate income to pay for a variety of other restricted purposes.

The general fund is the chief operating fund of the City of Carrabelle, Florida. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,186,695 while total fund balance reached \$2,199,878. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 110 percent of total general fund expenditures.

The fund balance of the City of Carrabelle, Florida's general fund increased by \$365,099 during the current fiscal year. The key factor in this increase was:

- Increase in property taxes

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

Unrestricted net assets of the Water and Sewer fund and the Port and Airport Fund at the end of the year amounted to \$1,019,790, and \$24,092, respectively. The total growth in net assets for the funds was \$2,600,112. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Carrabelle, Florida's business-type activities.

General Fund Budgetary Highlights

- Building of hexaport

Capital Asset and Debt Administration

Capital assets. The City of Carrabelle, Florida's investment in capital assets for its governmental and business type activities as of September 30, 2007, amounts to \$44,466,911 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and system, improvements, machinery and equipment, park facilities and roads.

Major capital asset events during the current fiscal year included the following:

- Sewer system and water tower

Additional information on the City of Carrabelle, Florida's capital assets can be found in Note III. C. on pages 26 - 27 of this report.

Long-term debt. At the end of the current fiscal year, the City of Carrabelle, Florida had approximately \$27,600,000 million in capital improvement debt outstanding. The City of Carrabelle, Florida's bonded debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Economic Factors and Next Year's Budgets and Rates

- Purchase of water and sewer district
- Hexaport construction

Requests for Information

This financial report is designed to provide a general overview of the City of Carrabelle, Florida's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Ms. Courtney Dempsey, City Clerk, Post Office Box 569, Carrabelle, Florida 32322.

CITY OF CARRABELLE, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 459,126	\$ 1,057,858	\$ 1,516,984
Certificates of deposit	259,818	2,646,131	2,905,949
Investments	1,030	-	1,030
Receivables, net	489,163	751,472	1,240,635
Internal balances	914,818	(914,818)	-
Restricted assets:			
Cash and cash equivalents	43,171	443,318	486,489
Certificate of deposit	672,939	1,540,995	2,213,934
Investments	-	4,373,960	4,373,960
Capital assets not being depreciated:			
Land	40,421	2,897,859	2,938,280
Construction in process	1,063,304	33,226,773	34,290,077
Capital assets, net	652,615	6,585,939	7,238,554
Other assets	-	20,114	20,114
Total assets	<u>4,596,405</u>	<u>52,629,601</u>	<u>57,226,006</u>
LIABILITIES			
Account payable and accrued expenses	198,845	1,034,426	1,233,271
Deferred revenue	33,646	-	33,646
Unearned revenue	-	1,540,995	1,540,995
Liabilities payable from restricted assets	-	86,644	86,644
Noncurrent liabilities			
Due within one year	40,635	46,587	87,222
Due in more than one year	-	27,586,243	27,586,243
Total liabilities	<u>273,126</u>	<u>30,294,895</u>	<u>30,568,021</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,715,705	15,105,328	16,821,033
Restricted for:			
Local option gas tax	13,183	-	13,183
Downtown revitalization	702,927	-	702,927
Debt service	-	6,185,496	6,185,496
Unrestricted	1,891,464	1,043,882	2,935,346
Total net assets	<u>\$ 4,323,279</u>	<u>\$ 22,334,706</u>	<u>\$ 26,657,985</u>

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

CITY OF CARRABELLE, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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	\$ 602,931	\$ 17,814	\$ -	\$ 87,005	\$ (498,112)	\$ -	\$ (498,112)
Public safety	530,978	27,196	-	-	(503,782)	-	(503,782)
Transportation	219,358	6,200	-	-	(213,158)	-	(213,158)
Culture and recreation	54,351	-	-	126,923	72,572	-	72,572
Physical environment	-	-	424,225	-	424,225	-	424,225
Total governmental activities	<u>1,407,618</u>	<u>51,210</u>	<u>424,225</u>	<u>213,928</u>	<u>(718,255)</u>	<u>-</u>	<u>(718,255)</u>
Business-type activities:							
Water and sewer	1,386,444	911,304	-	1,981,380	-	1,506,240	1,506,240
Port and airport	21,459	7,322	-	537,949	-	523,812	523,812
Total business-type activities	<u>1,407,903</u>	<u>918,626</u>	<u>-</u>	<u>2,519,329</u>	<u>-</u>	<u>2,030,052</u>	<u>2,030,052</u>
Total government	<u>\$ 2,815,521</u>	<u>\$ 969,836</u>	<u>\$ 424,225</u>	<u>\$ 2,733,257</u>	<u>(718,255)</u>	<u>2,030,052</u>	<u>1,311,797</u>
General revenues:							
Property taxes					1,418,677	-	1,418,677
Intergovernmental revenue					242,784	-	242,784
Rent and other					244,431	-	244,431
Unrestricted investment earnings					171,101	473,392	644,493
Transfers					(96,668)	96,668	-
Total general revenues and transfers					<u>1,980,325</u>	<u>570,060</u>	<u>2,550,385</u>
Change in net assets					1,262,070	2,600,112	3,862,182
Net assets, beginning of year					3,061,209	19,734,594	22,795,803
Net assets, end of year					<u>\$ 4,323,279</u>	<u>\$ 22,334,706</u>	<u>\$ 26,657,985</u>

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

**CITY OF CARRABELLE, FLORIDA
BALANCE SHEET
GOVERNMENT FUNDS
SEPTEMBER 30, 2007**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 447,035	\$ 12,091	\$ -	\$ 459,126
Certificate of deposit	259,818	-	-	259,818
Investments	1,030	-	-	1,030
Receivables	402,158	87,005	-	489,163
Due from other funds	1,601,529	4,633	288,789	1,894,951
Restricted assets:				
Cash and cash equivalents	13,183	-	29,988	43,171
Certificate of deposit	-	-	672,939	672,939
Total Assets	<u>2,724,753</u>	<u>103,729</u>	<u>991,716</u>	<u>3,820,198</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued expenses	186,345	12,500	-	198,845
Deferred revenue	33,646	-	-	33,646
Due to other funds	304,884	662,619	12,630	980,133
Total liabilities	<u>524,875</u>	<u>675,119</u>	<u>12,630</u>	<u>1,212,624</u>
Fund Balances:				
Reserved for:				
Local option gas tax	13,183	-	-	13,183
Downtown revitalization	-	-	702,927	702,927
Unreserved				
Designated	30,200	-	276,159	306,359
Undesignated	2,156,495	(571,390)	-	1,585,105
Total fund balances	<u>2,199,878</u>	<u>(571,390)</u>	<u>979,086</u>	<u>2,607,574</u>
Total Liabilities and Fund Balances	<u>\$ 2,724,753</u>	<u>\$ 103,729</u>	<u>\$ 991,716</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,756,340
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(40,635)
Net assets of governmental activities	<u>\$ 4,323,279</u>

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

CITY OF CARRABELLE, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes, licences and permits	\$ 1,293,407	\$ -	\$ 180,330	\$ 1,473,737
Intergovernmental	794,362	88,376	-	882,738
Charges for services	19,078	-	-	19,078
Other	368,012	562	29,395	397,969
Total revenues	<u>2,474,859</u>	<u>88,938</u>	<u>209,725</u>	<u>2,773,522</u>
Expenditures				
General government	466,139	578,452	-	1,044,591
Public safety	456,618	-	-	456,618
Transportation	403,146	-	-	403,146
Culture and recreation	612,826	-	-	612,826
Physical environment	-	-	-	-
Debt service				
Principal	65,847	-	-	65,847
Total expenditures	<u>2,004,576</u>	<u>578,452</u>	<u>-</u>	<u>2,583,028</u>
Excess (deficiency) of revenues over expenditures	<u>470,283</u>	<u>(489,514)</u>	<u>209,725</u>	<u>190,494</u>
Other financing sources (uses)				
Transfers out	(105,184)	(96,668)	-	(201,852)
Transfers in	-	-	105,184	105,184
Total other financing sources (uses)	<u>(105,184)</u>	<u>(96,668)</u>	<u>105,184</u>	<u>(96,668)</u>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	<u>365,099</u>	<u>(586,182)</u>	<u>314,909</u>	<u>93,826</u>
Fund balances, beginning of year	1,834,779	14,792	664,177	2,513,748
Fund balances (deficiency), end of year	<u>\$ 2,199,878</u>	<u>\$ (571,390)</u>	<u>\$ 979,086</u>	<u>\$ 2,607,574</u>

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

**CITY OF CARRABELLE, 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, 2007**

Amounts reported for governmental activities in the statement of activities (page 11)
are different because:

Net change in fund balances-total governmental funds (page 13)	\$	93,826
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 and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		1,119,952
The issuance of long-term debt (e.g. bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transactions, however, has any effect on net assets.		62,144
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(13,852)
Change in net assets of governmental activities (page 11)	<u>\$</u>	<u>1,262,070</u>

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

CITY OF CARRABELLE, FLORIDA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
SEPTEMBER 30, 2007

	Business Type Activities - Enterprise Funds		
	Water and Sewer	Port and Airport	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,143,991	\$ -	\$ 1,143,991
Certificates of deposit	2,646,131	-	2,646,131
Receivables, net	479,684	271,788	751,472
Due from other funds	271,788	28,725	300,513
Total current assets	4,541,594	300,513	4,842,107
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	357,185	-	357,185
Certificate of deposit	1,540,995	-	1,540,995
Investments	4,373,960	-	4,373,960
Capital assets, net of accumulated depreciation	38,751,118	3,959,453	42,710,571
Other assets	20,114	-	20,114
Total noncurrent assets	45,043,372	3,959,453	49,002,825
Total assets	\$ 49,584,966	\$ 4,259,966	\$ 53,844,932

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

CITY OF CARRABELLE, FLORIDA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
SEPTEMBER 30, 2007
(Continued)

	Business Type Activities - Enterprise Funds		
	Water and Sewer	Port and Airport	Total
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	\$ 1,000,780	\$ -	\$ 1,000,780
Compensated absences	27,587	-	27,587
Due to other funds	938,910	276,421	1,215,331
Payable from restricted assets:			
Bond payable, current portion	19,000	-	19,000
Utility deposits	83,625	-	83,625
Accrued bond interest	3,019	-	3,019
Unearned revenue	1,574,641	-	1,574,641
Total current liabilities	3,647,562	276,421	3,923,983
Noncurrent liabilities:			
Notes payable, long-term portion	26,545,443	-	26,545,443
Bond payable, long-term portion	1,040,800	-	1,040,800
Total noncurrent liabilities	27,586,243	-	27,586,243
NET ASSETS			
Invested in capital assets, net of related debt	11,145,875	3,959,453	15,105,328
Restricted for debt service	6,185,496	-	6,185,496
Unrestricted	1,019,790	24,092	1,043,882
Total net assets	\$ 18,351,161	\$ 3,983,545	\$ 22,334,706

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

CITY OF CARRABELLE, FLORIDA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Business Type Activities - Enterprise Funds</u>		
	<u>Water and Sewer</u>	<u>Port and Airport</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 911,304	\$ 7,322	\$ 918,626
Operating expenses:			
Salaries	333,743	-	333,743
Employee benefits	68,750	-	68,750
Auto and truck	-	-	-
Depreciation	213,715	12,849	226,564
Professional fees	139,448	-	139,448
Repairs	201,516	-	201,516
Utilities	90,428	2,247	92,675
Supplies	104,477	12	104,489
Insurance	172,395	6,340	178,735
Miscellaneous	26,911	11	26,922
Total operating expenses	1,351,383	21,459	1,372,842
Operating loss	<u>(440,079)</u>	<u>(14,137)</u>	<u>(454,216)</u>
Nonoperating revenue (expenses):			
Investment earnings	471,357	2,035	473,392
Interest expense	(35,061)	-	(35,061)
Transfers in (out)	1,322	95,346	96,668
Total nonoperating revenues (expenses)	437,618	97,381	534,999
Income(loss) before capital contributions	<u>(2,461)</u>	<u>83,244</u>	<u>80,783</u>
Capital contributions	1,981,380	537,949	2,519,329
Change in net assets	<u>1,978,919</u>	<u>621,193</u>	<u>2,600,112</u>
Total net assets, beginning of year	16,372,242	3,362,352	19,734,594
Total net assets, end of year	<u>\$ 18,351,161</u>	<u>\$ 3,983,545</u>	<u>\$ 22,334,706</u>

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

CITY OF CARRABELLE, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
Increase (Decrease) in Cash and Cash Equivalents

	Business Type Activities - Enterprise Funds		
	Water and Sewer	Port and Airport Authority	Total
Cash flows from operating activities			
Cash receipts from customers and others	\$ 332,090	\$ (214,812)	\$ 117,278
Cash payments to suppliers	(423,198)	141,549	(281,649)
Cash payments to employees	(333,743)	-	(333,743)
Net cash used in operating activities	<u>(424,851)</u>	<u>(73,263)</u>	<u>(498,114)</u>
Cash flows from noncapital financing activities			
Transfer from other funds	<u>1,322</u>	<u>95,346</u>	<u>96,668</u>
Cash flows from capital and related financing activities			
Proceeds from capital contributions	1,981,380	537,949	2,519,329
Purchases of fixed assets	(5,322,302)	(562,067)	(5,884,369)
Interest payments on long-term debt	(35,061)	-	(35,061)
Proceeds from long-term debt	2,183,175	-	2,183,175
Payments on long-term debt	(19,000)	-	(19,000)
Net cash used in capital and related financing activities	<u>(1,211,808)</u>	<u>(24,118)</u>	<u>(1,235,926)</u>
Cash flows from investing activities			
Interest and other nonoperating revenues	471,357	2,035	473,392
Sale of certificates of deposit	997,427	-	997,427
Purchases of investments	(812,869)	-	(812,869)
Net cash provided by investing activities	<u>655,915</u>	<u>2,035</u>	<u>657,950</u>
Net decrease in cash and cash equivalents	<u>(979,422)</u>	<u>-</u>	<u>(979,422)</u>
Cash and cash equivalents, beginning of year	2,480,598	-	2,480,598
Cash and cash equivalents, end of year	<u>\$ 1,501,176</u>	<u>\$ -</u>	<u>\$ 1,501,176</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	\$ (440,079)	\$ (14,137)	\$ (454,216)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	213,715	12,849	226,564
(Increase)decrease in accounts receivable	(351,582)	(222,134)	(573,716)
Decrease in accounts payable and accrued expenses	(197,387)	(4,166)	(201,553)
Increase in utility deposits	5,001	-	5,001
Increase in due to other funds	578,114	154,325	732,439
Increase in due from other funds	(232,633)	-	(232,633)
Total adjustments	<u>15,228</u>	<u>(59,126)</u>	<u>(43,898)</u>
Net cash used in operating activities	<u>\$ (424,851)</u>	<u>\$ (73,263)</u>	<u>\$ (498,114)</u>

Supplemental schedule of non-cash capital and related financing activities:

At September 30, 2007, the City had outstanding accounts payable of \$1,034,457 for sewer construction in process.

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

CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

I. Summary of Significant Accounting Policies

A. Reporting entity

City of Carrabelle, Florida (government) is a municipal corporation formed under Florida Laws 1965, c. 65-1349, 1, and is governed by an elected mayor and a four member council. As required by accounting principles generally accepted in the United States of America, these financial statements present only the City, since there are no component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the government's operations and so data from these units are combined with data of the primary government.

The City's Community Redevelopment Agency ("Agency") serves all the citizens of the City and is governed by the same Board as the City of Carrabelle, Florida. The agency was established to prevent the development or spread of slums and blight, reduce and prevent crime, and for the provision of affordable housing. The Agency is reported as an other governmental fund.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

I. Summary of Significant Accounting Policies (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

The *capital project fund* is used to report major capital acquisition and construction separately from their ongoing activities.

The government reports the following major proprietary funds:

The *water and sewer fund* accounts for the activities of the government's water distribution and sewer collection operations.

The *port and airport fund* accounts for the activities of the government's port and airport operations.

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

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

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

CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

I. Summary of Significant Accounting Policies (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation
(Continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise funds are charges to customers for sales and services. The Government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise 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 nonoperating revenues and expenses.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

State statutes authorize the City to invest in direct obligations of the U.S. Treasury, Local Government Surplus Funds Trust Funds, SEC registered money market funds with the highest credit quality rating and savings and CD accounts in state-certified public depositories.

Investments for the City are reported as fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

I. Summary of Significant Accounting Policies (Continued)

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. For financial reporting purposes, capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. For financial reporting purposes infrastructure assets are defined by the government as assets with an initial, individual cost of more than \$5,000 acquired after September 30, 2003 and an estimated useful life in excess of two years. For inventory purposes, capital assets are assets with individual cost of \$1,000 or more. 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	39
Utility system	5 – 50
Vehicles	5
Office equipment	5 – 10

5. Compensated Absences

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

CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

I. Summary of Significant Accounting Policies (Continued)

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

6. Long-term Obligations

In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

7. Fund Equity

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

8. Property Taxes

Property taxes are billed and collected for the City by the County Tax Collector according to Florida Statute under the following calendar:

Lien Date:	January 1
Levy Date:	October 1
Due Date:	November 1
Delinquency Date:	April 1, of the following year

9. Use of Estimates

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

CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of the \$40,635 difference are as follows:

Compensated absences	\$ 40,635
Net adjustments to reduce <i>fund balance-total governmental funds</i> to arrive at <i>nets assets-governmental activities</i>	\$ 40,635

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “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 and reported as depreciation expense.” The details of this \$1,119,952 difference are as follows:

Capital outlay	\$ 1,208,240
Depreciation expense	(88,288)
Net adjustment to increase <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ 1,119,952

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.” The detail of this difference is as follows:

Principal repayments:	
Payment on capital equipment financing	\$ 62,144
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ 62,144

CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

II. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The detail of this difference is as follows:

Compensated absences	\$ <u>(13,852)</u>
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III. Detailed Notes on All Funds

A. Deposits and Investments

Deposits. At year end, the carrying amount of the City’s deposits was \$7,124,386 and the bank balance was \$7,217,065. Of the bank balance, \$7,217,065 was covered by Federal depository insurance or by collateral held by the City’s custodial bank which is pledged to a state trust fund that provides security for amounts held in excess of FDIC coverage in accordance with the Florida Security for Deposits Act Chapter 280, Florida Statutes.

The Florida Security for Public Deposits Act established guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral.

Investments. At September 30, 2007, the City had the following investments:

	<u>Fair Value</u>
United States Government Fixed Income Securities	\$ 4,373,960
Florida State Board of Administration, Local Government Surplus Trust Funds Investment Pool	<u>1,030</u>
	<u>\$ 4,374,990</u>

Investments with the Florida State Board of Administration Local Government Surplus Trust Funds Investment Pool is structured as a “2a-7 like” fund, which is carried at amortized cost. A 2a-7 like pool is not registered with the SEC as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940, which comprises the rules governing money market funds.

In accordance with the investment policies, the City manages its exposure to interest rate risk by limiting maturity of its investments.

CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

III. Detailed Notes on All Funds (Continued)

B. Receivables

Receivables as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	General	Port and Airport	Water and Sewer	Total
Accounts	\$ -	\$ -	\$ 110,555	\$ 110,555
Intergovernmental	489,163	271,788	418,460	1,179,411
Gross receivables	489,163	271,788	529,015	1,289,966
Less: allowance for uncollectibles	-	-	49,331	49,331
Net total receivables	<u>\$ 489,163</u>	<u>\$ 271,788</u>	<u>\$ 479,684</u>	<u>\$ 1,240,635</u>

C. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 40,421	\$ -	\$ -	\$ 40,421
Construction in progress	52,829	1,010,475	-	1,063,304
Total capital assets, not being depreciated	<u>93,250</u>	<u>1,010,475</u>	<u>-</u>	<u>1,103,725</u>
Capital assets, being depreciated:				
Buildings and improvements	35,115	-	-	35,115
Equipment, furniture, fixtures and vehicles	989,715	85,801	-	1,075,516
Infrastructure	-	111,964	-	111,964
Total capital assets, being depreciated	<u>1,024,830</u>	<u>197,765</u>	<u>-</u>	<u>1,222,595</u>
Less accumulated depreciation for:				
Buildings and improvements	(29,624)	(1,063)	-	(30,687)
Equipment, furniture, fixtures and vehicles	(452,068)	(87,225)	-	(539,293)
Infrastructure	-	-	-	-
Total accumulated depreciation	<u>(481,692)</u>	<u>(88,288)</u>	<u>-</u>	<u>(569,980)</u>
Governmental activities capital assets, net	<u>\$ 636,388</u>	<u>\$ 1,119,952</u>	<u>\$ -</u>	<u>\$ 1,756,340</u>

CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

III. Detailed Notes on All Funds (Continued)

C. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 2,787,239	\$ 110,620	\$ -	\$ 2,897,859
Construction in process	28,499,975	4,726,798	-	33,226,773
Total capital assets, not being depreciated	31,287,214	4,837,418	-	36,124,632
Capital assets, being depreciated				
Equipment, buildings, utility systems and improvements	7,177,290	888,230	-	8,065,520
Less accumulated depreciation	(1,253,017)	(226,564)	-	(1,479,581)
Total capital assets, being depreciated	5,924,273	661,666	-	6,585,939
Business-type activities capital assets, net	\$ 37,211,487	\$ 5,499,084	\$ -	\$ 42,710,571

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Transportation	\$ 13,764
Public Safety	70,657
Culture and Recreation	3,867
Total	\$ 88,288
Business-type activities:	
Water and sewer	\$ 213,715
Port and airport authority	12,849
Total	\$ 226,564

D. Long-term Debt

Business-type Activities

Notes payable

Note payable to government agency, semiannual payments of \$187,233 beginning October 2008, plus interest at 2.04%; collateralized by water and sewer revenues	\$ 26,545,443
Less: Current portion	-
Notes payable, less current portion	\$ 26,545,443

CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

III. Detailed Notes on All Funds (Continued)

D. Long-term Debt (Continued)

Maturities of notes payable are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ -	\$ 151,620
2009	711,391	259,561
2010	718,371	252,581
2011	725,419	245,533
2012	732,537	238,416
2013 – 2017	3,771,913	1,082,848
2018 – 2022	3,960,619	894,142
2023 – 2027	4,158,766	695,995
2028 – 2032	3,467,731	503,221
2033 – 2037	3,410,905	339,095
2038 – 2042	3,581,550	168,450
2043 – 2044	1,306,241	17,701
Total	<u>\$ 26,545,443</u>	<u>\$ 4,849,163</u>

Revenue bonds

The government issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Amounts outstanding at the end of the current fiscal year related to these issues in prior years totaled \$1,059,800.

Water revenue bonds outstanding at September 30, 2007 are as follows:

\$1,163,800 water revenue bonds payable in annual installments ranging from \$16,000 to \$54,800 through September 2039, plus interest at 3.25%, collateralized by water revenues	<u>\$ 1,059,800</u>
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CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

III. Detailed Notes on All Funds (Continued)

D. Long-term Debt (Continued)

Revenue bonds (Continued)

Annual debt service requirements to maturity are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 19,000	\$ 34,444
2009	20,000	33,826
2010	21,000	33,176
2011	21,000	32,494
2012	22,000	31,811
2013 – 2017	121,000	147,876
2018 – 2022	141,000	126,947
2023 – 2027	166,000	102,506
2028 – 2032	195,000	73,711
2033 – 2037	229,000	39,846
2038 – 2039	104,800	5,187
	<u>\$ 1,059,800</u>	<u>\$ 661,824</u>

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental activities:					
Notes payable	\$ 62,144	\$ –	\$ 62,144	\$ –	\$ –
Compensated absences	26,743	26,743	12,851	40,635	40,635
Governmental activity long-term liabilities	<u>\$ 88,887</u>	<u>\$ 26,743</u>	<u>\$ 74,995</u>	<u>\$ 40,635</u>	<u>\$ 40,635</u>
Business-type activities:					
Revenue bonds	\$ 1,078,800	\$ –	\$ 19,000	\$ 1,059,800	\$ 19,000
Notes payable	24,362,268	2,183,175	–	26,545,443	–
Compensated absences	20,686	20,686	13,785	27,587	27,587
Business-type activity long-term liabilities	<u>\$ 25,461,754</u>	<u>\$ 2,203,861</u>	<u>\$ 32,785</u>	<u>\$ 27,632,830</u>	<u>\$ 46,587</u>

CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

III. Detailed Notes on All Funds (Continued)

E. Interfund Receivables, Payables and Transfers

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 662,619
Port and Airport Fund	General Fund	16,095
General Fund	Water and Sewer Fund	938,910
Special Revenue Fund	General Fund	288,789
Capital Projects Fund	Port and Airport Fund	4,633
Port and Airport Fund	Special Revenue Fund	12,630
Water and Sewer Fund	Port and Airport Fund	271,788
		<u>\$ 2,195,464</u>

F. Unrestricted, Designated Net Assets

Cemetery Reserve	<u>\$ 30,200</u>
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IV. Other Information

A. Contingent Liabilities

Grant Programs—Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the Federal and State governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects amounts, if any, to be immaterial

B. Pension Plan

Statewide Local Government Retirement System (SLGRS)

Plan Description: The City of Carrabelle, Florida contributes to the State of Florida Retirement System, a cost sharing multiple employer public employee retirement system administered by the State of Florida. The Florida Retirement System provides retirement and disability benefits. The Division of Retirement issues a publicly available financial report that includes the pension benefit obligation, the net assets and unfunded pension benefit obligation. That report may be obtained by writing to the Division of Retirement, 2639-C North Monroe Street, Tallahassee, Florida 32399-1560 or calling (850) 488-5706.

Funding Policy: The City of Carrabelle, Florida is required to contribute 9.857% for regular annual covered employee's salary. The contribution requirements of City of Carrabelle, Florida may be changed by the Florida Retirement System. The City of Carrabelle, Florida's contributions to the Florida Retirement System for the years ended September 30, 2007, 2006, and 2005, were \$91,453, \$68,152, and \$49,096, respectively.

CITY OF CARRABELLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

IV. Other Information (Continued)

C. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

D. Construction Commitment

The City is in the process of constructing a new sewer system and other capital improvements. The total estimated costs of the sewer system and capital improvements is \$50,000,000. As of September 30, 2007, approximately \$34,300,000 has been spent on the sewer system and other capital improvements.

E. New Accounting Pronouncements

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the City's fiscal year beginning October 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of OPEB expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. For the City, this could result in increased expenses and related liability. The City is currently evaluating the effect that Statement No. 45 will have on its financial statements.

F. Subsequent Event

The City purchased certain assets and has assumed all liabilities of another Water and Sewer District. This transaction occurred in 2008 and will be reported in the September 30, 2008 financial statements.

CITY OF CARRABELLE, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2007

CITY OF CARRABELLE, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Original</u>	<u>Final</u>	<u>General Fund</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues				
Taxes, licences and permits	\$ 1,459,402	\$ 1,647,243	\$ 1,293,407	\$ (353,836)
Intergovernmental	224,393	245,103	794,362	549,259
Charges for services	29,210	35,964	19,078	(16,886)
Other	47,767	228,520	368,012	139,492
Total revenues	<u>1,760,772</u>	<u>2,156,830</u>	<u>2,474,859</u>	<u>318,029</u>
Expenditures				
General government	511,132	612,433	466,139	146,294
Public safety	609,109	479,941	456,618	23,323
Transportation	248,818	209,692	403,146	(193,454)
Culture and recreation	10,500	6,062	612,826	(606,764)
Physical environment	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	10,000	65,847	65,847	-
Total expenditures	<u>1,389,559</u>	<u>1,373,975</u>	<u>2,004,576</u>	<u>(630,601)</u>
Excess of revenues over expenditures	<u>371,213</u>	<u>782,855</u>	<u>470,283</u>	<u>(312,572)</u>
Other financing sources (uses)				
Transfers out	(105,184)	-	(105,184)	(105,184)
Proceeds from loan	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources (uses)	<u>(105,184)</u>	<u>-</u>	<u>(105,184)</u>	<u>(105,184)</u>
Excess of revenues over expenditures and other financing sources (uses)	<u>266,029</u>	<u>782,855</u>	<u>365,099</u>	<u>(417,756)</u>
Fund balances, beginning of year	1,814,236	1,814,236	1,834,779	20,543
Fund balances, end of year	<u>\$ 2,080,265</u>	<u>\$ 2,597,091</u>	<u>\$ 2,199,878</u>	<u>\$ (397,213)</u>

The accompanying notes to statement of revenues,
expenditures and changes in fund balances is an integral part of this statement.

CITY OF CARRABELLE, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Original</u>	<u>Final</u>	<u>Capital Projects Fund</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues				
Taxes, licences and permits	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	88,376	88,376
Charges for services	-	-	-	-
Other	-	-	562	562
Total revenues	<u>-</u>	<u>-</u>	<u>88,938</u>	<u>88,938</u>
Expenditures				
General government	300,000	300,000	578,452	(278,452)
Public safety	-	-	-	-
Transportation	-	-	-	-
Culture and recreation	-	-	-	-
Physical environment	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>300,000</u>	<u>300,000</u>	<u>578,452</u>	<u>(278,452)</u>
Deficiency of revenues over expenditures	<u>(300,000)</u>	<u>(300,000)</u>	<u>(489,514)</u>	<u>(189,514)</u>
Other financing sources (uses)				
Transfers out	-	-	(96,668)	(96,668)
Proceeds from loan	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(96,668)</u>	<u>(96,668)</u>
Deficiency of revenues over expenditures and other financing sources (uses)	<u>(300,000)</u>	<u>(300,000)</u>	<u>(586,182)</u>	<u>(286,182)</u>
Fund balances, beginning of year	-	-	14,792	14,792
Fund balances (deficiency), end of year	<u>\$ (300,000)</u>	<u>\$ (300,000)</u>	<u>\$ (571,390)</u>	<u>\$ (271,390)</u>

The accompanying notes to statement of revenues,
expenditures and changes in fund balances is an integral part of this statement.

**CITY OF CARRABELLE, FLORIDA
 NOTES TO STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

A. Budgetary Information:

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general fund. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to October 1, the City Council prepares a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of a resolution.
4. Revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund. The legal level of budgetary control is the fund level.
6. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following fund:

Fund	Appropriations	Expenditures	Over Expenditure
General Fund	\$ 1,373,975	\$ 1,695,508	\$ 321,533
Capital Projects Fund	\$ 300,000	\$ 578,452	\$ 278,452
Water and Sewer Fund	\$ 1,334,197	\$ 1,351,383	\$ 17,186

CITY OF CARRABELLE, FLORIDA

ADDITIONAL INFORMATION

SEPTEMBER 30, 2007

CITY OF CARRABELLE, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Federal Grantor / Pass Through Grantor / State Grantor Program Title	Federal CFDA Number	State CSFA Number	Contract Number	Expenditures	Loans Outstanding At 9/30/07
FEDERAL AWARDS					
United States Department of Agriculture, Rural Utility Service					
Water and Waste Disposal Systems for Rural Communities	10.760	-	-	-	\$ 1,059,800
United States Department of Environmental Protection Agency					
Passed through Florida Department of Environmental Protection Capitalization Grants for Clean Water State Revolving Funds	66.458	-	CS12054910P	2,183,176	26,545,444
Capitalization Grants for Clean Water State Revolving Funds	66.458	-	SG54912	1,500,557	-
				<u>3,683,733</u>	<u>26,545,444</u>
United States Department of Housing and Urban Development					
Economic Development Initiative – Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	-	B-05-SP-FL-0759	123,232	-
Passed through Florida Department of Community Affairs					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	-	07DB-3R-02-29-02-E-16	87,005	-
				<u>3,893,970</u>	<u>27,605,244</u>
Total Federal Awards					

CITY OF CARRABELLE, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(CONTINUED)

Federal Grantor / Pass Through Grantor / State Grantor Program Title	Federal CFDA Number	State CSFA Number	Contract Number	Expenditures	Loans Outstanding At 9/30/07
STATE FINANCIAL ASSISTANCE					
State of Florida Department of Environmental Protection					
Florida Recreation Development Assistance Program	37.017	F6095	\$ 150,000	\$ —	—
Florida Recreation Development Assistance Program	37.017	F6096	150,000	—	—
			<u>300,000</u>	<u>—</u>	<u>—</u>
Statewide Surface Water Restoration and Wastewater Projects	—	37.039	LP6012	100,000	—
Statewide Surface Water Restoration and Wastewater Projects	—	37.039	LP0505	152,185	—
			<u>252,185</u>	<u>—</u>	<u>—</u>
State of Florida Department of State Acquisition, Restoration of Historic Properties					
State of Florida Department of Transportation	—	45.032	SC712	126,923	—
Aviation Development Grants					
Total State Financial Assistance	—	55.004	—	537,949	—
				<u>1,217,057</u>	<u>—</u>
TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE				<u>\$ 5,111,027</u>	<u>\$ 27,605,244</u>

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes the Federal and State award activity of the City of Carrabelle, Florida and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations* and Chapter 10.650, Rules of the State of Florida Office of the Auditor General. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**CITY OF CARRABELLE, FLORIDA
OFFICIALS
SEPTEMBER 30, 2007**

CITY COUNCIL

Wilburn Messer, Mayor
Franklin Mathes
James Brown
Richard Sands
Ray Tyre

CITY ADMINISTRATOR

John McInnis

CITY CLERK

Courtney Dempsey

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

To the Honorable City Council,
City of Carrabelle, Florida:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate fund information of City of Carrabelle, Florida as of and for the year ended September 30, 2007, which collectively comprise City of Carrabelle, Florida's basic financial statements and have issued our report thereon dated September 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Carrabelle, Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Carrabelle, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency 07-01 as described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described in 07-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Carrabelle, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 07-02.

We also noted certain matters that we reported to management of City of Carrabelle, Florida, in a separate "Management Letter Required by Chapter 10.550, Rules of the State of Florida, Office of the Auditor General" dated September 3, 2008.

This report is intended solely for the information and use of the City of Carrabelle, Florida's management, the City Council, State awarding agencies, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

James Moore & Co., P.L.C.

Tallahassee, Florida
September 3, 2008

JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND CHAPTER 10.550, RULES OF THE STATE OF FLORIDA OFFICE OF
THE AUDITOR GENERAL**

To the Honorable City Council,
City of Carrabelle, Florida

Compliance

We have audited the compliance of City of Carrabelle, Florida with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*, and the requirements described in the State of Florida Department of Financial Services Compliance Supplement, that are applicable to each of its major Federal programs and State projects for the year ended September 30, 2007. The City of Carrabelle, Florida's major Federal programs and State projects are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs and State projects is the responsibility of City of Carrabelle, Florida's management. Our responsibility is to express an opinion on City of Carrabelle, Florida's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the State of Florida Office of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.550, Rules of the State of Florida Office of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program or State project occurred. An audit includes examining, on a test basis, evidence about City of Carrabelle, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Carrabelle, Florida's compliance with those requirements

In our opinion, City of Carrabelle, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs and State projects for the year ended September 30, 2007.

Internal Control Over Compliance

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

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

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

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

This report is intended solely for the information and use of City of Carrabelle, Florida's management, the City Council, State awarding agencies, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

James Moore & Co., P.L.C.

Tallahassee, Florida
September 3, 2008

**CITY OF CARRABELLE, FLORIDA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
 FEDERAL PROGRAMS AND STATE FINANCIAL ASSISTANCE
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

I. Summary of Auditors' Results:

Financial Statements

A. Type of audit report issued on the financial statements: Unqualified.

Internal control over financial reporting:

Material weakness(es) identified? yes no
 Significant deficiencies identified that are not considered to be material weaknesses? yes none reported
 Noncompliance material to financial statements noted? yes no

Federal Awards and State Financial Assistance

Internal control over major Federal programs:

Material weakness(es) identified? yes no
 Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Types of auditor's report issued on compliance for major Federal programs: Unqualified

Any audit findings that are required to be reported in accordance with section 510(a) of OMB Circular A-133: yes no

B. Identification of major programs:

Federal Program	Federal CFDA Number
Capitalization Grants for Clean Water State Revolving Funds	66.458
Dollar threshold used to distinguish between type A and type B program:	\$300,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

CITY OF CARRABELLE, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL AWARD PROGRAMS
SEPTEMBER 30, 2007
(Continued)

I. Summary of Auditors' Results: (Continued)

B. Identification of major programs: (Continued)

<u>State Program</u>	<u>State CSFA Number</u>
Aviation Development Grants	55.004
Florida Recreation Development Assistance Program	37.017
Dollar threshold used to distinguish between type A and type B program:	\$365,117

II. Findings relating to the general purpose financial statements which are required to be reported in accordance with *Government Auditing Standards*:

Finding 07-01: Prepare Financial Statements in Accordance with GAAP

The internal control structure of the City of Carrabelle, Florida has focused primarily on the objective of effectiveness and efficiency of operations (i.e., performance and mission goals and safeguarding of resources). However, the system of internal control over the objectives of reliability of financial reporting contains certain deficiencies. A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare the financial statements in accordance with generally accepted accounting principles. For the year ended September 30, 2007, there was no one on staff with sufficient knowledge to prepare GAAP-based financial statements. As a result, certain adjustments were required to be made to the accounting records subsequent to the start of the audit process. Material adjustments included adjusting certain accrued expenses, note payables, prepaid expenses, fixed assets, accounts receivables, accounts payable, cash, accumulated depreciation, revenues, expenses and due to/from accounts at year-end. In addition, adjustments were made including the recording of certain prior year audit adjustments. Since these adjustments resulted in a material misstatement of the financial statements, this deficiency is deemed to be a material weakness.

Finding 07-02: Compliance

The City has made untimely monthly required principal fund deposits for the Water Revenue Bond issue series 1999. Article V Section 4.05 (C) of the bond document requires that on or before the 25th of each month a transfer should be made from the revenue fund to the reserve account in an amount equal to 1/12th of all principal coming due and payable on the bonds during the current bond year. Upon default in the performance of any bond covenant, the Holder, at its option, may declare the entire principal outstanding and accrued interest immediately due and payable. We recommend that the City begin making the monthly deposits by the 25th of each month to build the reserve to its required balance.

CITY OF CARRABELLE, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL AWARD PROGRAMS
SEPTEMBER 30, 2007
(Continued)

III. Findings and Questioned Costs – Related to Federal Awards:

None.

IV. Findings and Questioned Costs – Related to State Projects:

None.

**CITY OF CARRABELLE, FLORIDA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Major Federal Programs

No prior year audit findings.

Major State Projects

No prior year audit findings.

**INDEPENDENT AUDITORS' MANAGEMENT LETTER REQUIRED BY CHAPTER
10.550, RULES OF THE STATE OF FLORIDA OFFICE OF THE AUDITOR GENERAL**

To the Honorable City Council,
City of Carrabelle, Florida:

We have audited the financial statements of the City of Carrabelle, Florida, as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated September 3, 2008.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Each Major State Project and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports, which are dated September 3, 2008, should be considered in conjunction with this management letter.

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

The Rules of the Auditor General (Section 10.554(1)(i)1.) require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. Not all of the recommendations made in the preceding annual financial audit report have been corrected and have been reported in this document.

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

The Rules of the Auditor General (Section 10.554(1)(i)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. Our audit disclosed the following matters required to be disclosed by the Rules of the Auditor General (Section 10.554(1)(i)3.):

Budgetary Controls

Florida Statutes, Section 166.241(3) provides that the budget must regulate expenditures of the municipality, and it is unlawful for any officer of municipal government to expend or contract for expenditures in any fiscal year except in pursuant of budgeted expenditures. The City adopts its budget for the various funds on the modified accrual basis of accounting. Based upon that budget approach, the City's expenditures exceeded appropriations in the following fund:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Over Expenditure</u>
General Fund	\$ 1,373,975	\$ 2,004,576	\$ 630,601
Capital Project Fund	\$ 300,000	\$ 578,452	\$ 278,452
Water and Sewer Fund	\$ 1,334,197	\$ 1,351,383	\$ 17,186

Budgetary Controls—General

Florida Statutes, Section 166.241(3), states that the amount available from taxation and other sources, including amount carried over from prior years, must equal the total appropriations for expenditures and reserves. The City did, in fact, include carry forward amounts in its adopted budget. However, after year end, when final fund equities were determined, the City did not amend the budget to include the appropriate amounts. Failure to consider accurate beginning fund equities in the budget diminishes the City's ability to determine appropriate increases/decreases in revenues and/or expenditures that may be needed for the fiscal year for which the budget is adopted. We recommend the City implement a policy whereby final fund equities are included in the budget as soon as determined.

General Fixed Assets

As noted in the prior year, the City of Carrabelle, Florida had not taken a complete physical inventory of property and equipment. This physical inventory serves to account for the physical existence of assets and allows for updating of fixed assets records. The City also did not include an ID number for each item. We recommend each property and equipment item be tagged with an ID number and the ID number be included on the physical inventory list. The inventory should be compared to the City's property records and differences should be communicated to the City Council for proper disposition. After the property records are updated and reconciled, a report should be made annually to the City Council noting any discrepancies between physical inventory and the detailed property records.

Accounting Manual

As noted in the prior year, the City does not have an accounting procedures manual. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions that management performs. It will take some time and effort for management to complete this manual; however, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

Check Signing

We noted from observation that some checks were signed and no backup documentation was provided to the check signer. We recommend all checks only be signed after supporting documentation has been properly reviewed.

Disaster Recovery Plan

As noted in the prior year, the City does not have current well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing facilities. We suggest that management develop a disaster recovery plan that includes, but is not limited to the following matters.

- Location of, and access to, offsite storage.
- A listing of all data files that would have to be obtained from the offsite storage location.
- Identification of a backup location (name and telephone number) where similar or compatible equipment is available for emergency processing. (Management should make arrangements for such back up with another company, a computer vendor, or a service center. The agreement should be in writing).
- Responsibilities of various personnel in an emergency.
- Critical application priority and reporting requirements during the emergency period.

Invoices

From work performed, we noted there was no set policy for filing paid invoices and other documentation. We recommend that all invoices be filed in a manner where they can be easily retrieved.

Check Payment

From work performed, we noted two invoices were paid twice. We recommend that any payments be made from invoices and not statements.

The Rules of the Auditor General (Section 10.554(1)(i)5.) require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs and are not clearly in consequential: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit did not disclose any of the above matters required to be disclosed by Rules of Auditor General (Section 10.554(1)(i)5.).

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

As required by the Rules of the Auditor General (Section 10.554(1)(i)7.a.), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the City of Carrabelle, Florida did not meet 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)(i)7.b.), we determined that the annual financial report for the City of Carrabelle, Florida for the fiscal year ended September 30, 2006, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2006.

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

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

James Moore & Co., P.L.

Tallahassee, Florida
September 3, 2008