

City of Apalachicola, Florida

Financial Statements

September 30, 2009

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Commission
City of Apalachicola, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Apalachicola, Florida as of and for the year ended September 30, 2009, 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 Apalachicola, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Apalachicola, Florida as of September 30, 2009, and the respective changes in financial position, and cash flows, where applicable, and the respective budgetary comparison for the general fund 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 a report dated June 21, 2010 on our consideration of the City of Apalachicola's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on 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.

Management's discussion and analysis on pages 3 through 7, is not a required part of the basic financial statements, but is 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 Apalachicola, Florida's basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and Chapter 10.550, *Rules of the Auditor General* of the State of Florida, and the combining nonmajor fund financial statements listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. 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.

Caru, Riggs & Ingram, L.L.C.

June 21, 2010

Management's Discussion and Analysis

Management's Discussion and Analysis

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

Financial Highlights

- Total assets of the City exceeded total liabilities by \$29,057,736 (net assets). Of this amount, \$792,758 is unrestricted net assets for governmental activities and \$205,615 is unrestricted net assets for business-type activities, \$2,759,129 is restricted net assets for business-type activities.
- Total net assets increased by \$1,647,058. Of this amount, an increase of \$1,994,278 is attributable to governmental activities and a decrease of \$347,220 is attributable to business-type activities.
- As of September 30, 2009, the general fund's unreserved fund balance was \$513,607 or 8% of total general fund expenditures.
- Governmental activities revenues decreased to \$5,193,991 or 29%, while governmental activities expenses decreased 36% to \$3,199,713. Business-type activities revenues decreased to \$2,195,324 or 10%, while business-type activities expenses increased 3% to \$2,542,544.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the financial statements*. The *government-wide financial statements* present an overall picture of the City's financial position and results of operations. The *fund financial statements* present financial information for the City's major funds. The *notes to financial statements* provide additional information concerning the City's finances that are not otherwise disclosed in the government-wide statements or fund financial statements.

Government-wide Financial Statements

The *government-wide financial statements* include the *statement of net assets* and *statement of activities*, providing both long-term and short-term information about the City's overall financial condition. The *Statement of Net Assets* present increases or decreases in net assets over time and serve as a useful indicator of the City's improving or declining financial position. Information on how the City's net assets changed during this reporting period is presented in the *statement of activities*.

Fund Financial Statements

The *fund financial statements* provide financial information for the City's major funds and more detailed information about the City's activities. Individual funds have been established by the City for the purpose of grouping related accounts to maintain control over resources that have been segregated for specific purposes or objectives to account for revenues that are restricted to certain uses, or to comply with legal requirements. The two major categories of funds found in the City's *fund financial statements* include: governmental funds and proprietary funds.

Notes to Basic Financial Statements

The *notes to basic financial statements* provide additional detail concerning the financial activities and financial balances of the City. Additional information is also included that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the City

Statement of Net Assets

The following schedule provides a summary of the assets, liabilities and net assets of the City at September 30, 2009 and 2008. The City is able to report positive balances in all three categories of total net assets.

September 30,	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,486,516	\$ 3,249,785	\$ 280,091	\$ 260,567	\$ 2,766,607	\$ 3,510,352
Noncurrent assets	15,858,931	13,776,702	21,719,107	22,315,864	37,578,038	36,092,566
Other assets	-	-	149,523	166,453	149,523	166,453
Total assets	18,345,447	17,026,487	22,148,721	22,742,884	40,494,168	39,769,371
Current liabilities	1,644,373	2,304,842	662,438	764,858	2,306,811	3,069,700
Noncurrent liabilities	107,039	121,888	9,022,582	9,167,105	9,129,621	9,288,993
Total liabilities	1,751,412	2,426,730	9,685,020	9,931,963	11,436,432	12,358,693
Net assets invested in capital assets, net of related debt	15,801,277	13,653,579	9,498,957	9,478,945	25,300,234	23,132,524
Net assets – restricted	-	-	2,759,129	3,116,095	2,759,129	3,116,095
Net assets – unrestricted	792,758	946,178	205,615	215,881	998,373	1,162,059
Total net assets	\$ 16,594,035	\$ 14,599,757	\$ 12,463,701	\$ 12,810,921	\$ 29,057,736	\$ 27,410,678

Statement of Activities

The following schedule provides a summary of the changes in net assets for the years ended September 30, 2009 and 2008.

Statement of Activities

Years Ended September 30,	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Program revenues						
Charges for services	\$ 49,981	\$ 49,810	\$ 1,810,178	\$ 2,283,304	\$ 1,860,159	\$ 2,333,114
Operating grants/contributions	694,482	2,656,007	-	-	694,482	2,656,007
Capital grants/contributions	2,283,330	2,544,922	289,970	-	2,573,300	2,544,922
General revenues						
Property taxes	1,202,542	1,257,280	-	-	1,202,542	1,257,280
Local option gas tax	55,991	60,867	-	-	55,991	60,867
Franchise and utility tax	357,977	341,369	-	-	357,977	341,369
Sales tax and other shared revenues	227,934	247,054	-	-	227,934	247,054
Investment earnings	56,174	87,418	90,176	146,010	146,350	233,428
Miscellaneous	270,580	126,569	-	-	270,580	126,569
Transfers	(5,000)	(20,000)	5,000	20,000	-	-
Total revenues	5,193,991	7,351,296	2,195,324	2,449,314	7,389,315	9,800,610
Expenses						
General government	1,332,392	3,426,961	-	-	1,332,392	3,426,961
Public safety	762,305	751,908	-	-	762,305	751,908
Transportation	657,060	689,153	-	-	657,060	689,153
Culture and recreation	447,956	146,595	-	-	447,956	146,595
Water	-	-	458,628	544,435	458,628	544,435
Sewer	-	-	1,500,538	1,420,503	1,500,538	1,420,503
Garbage	-	-	459,322	391,787	459,322	391,787
Mooring	-	-	124,056	100,645	124,056	100,645
Total expenses	3,199,713	5,014,617	2,542,544	2,457,370	5,742,257	7,471,987
Change in net assets	\$1,994,278	\$2,336,679	\$ (347,220)	\$ (8,056)	\$ 1,647,058	\$ 2,328,623

Financial Analysis of the City's Funds

Analysis of Government-wide Financial Statements

Approximately eighty-seven percent (87%) of the City's net assets reflects its investment in capital assets (e.g. land, buildings, improvements, infrastructure, vehicles and equipment) less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. \$2,759,129 of the City's net assets are subject to external restrictions on how they may be used. The balance of unrestricted net assets, \$998,373 may be used to meet the City's ongoing obligations to citizens and creditors.

Analysis of General Fund Budgetary Variations

For the year ended September 30, 2009, the general fund expenditures exceeded the budgeted amount by \$4,162,063. This variation is due in the most part to unanticipated revenues received that were spent during the year. The City received funding from grant awards for improvement projects during the 2008-2009 budget year. The original budget adopted for this year did not have these unanticipated activities projected, affecting both revenue and expense activity. Please see *Other Significant Matters* heading that follows for further grant award project details.

Capital Assets and Long-Term Debt Activity

Capital Assets Activity

As of September 30, 2009, the City's total investment in capital assets net of related debt for its governmental activities was \$15,801,277 and for its business-type activities was \$9,498,957 for a total investment of \$25,300,234. This investment in capital assets includes the cost of land, buildings, improvements, machinery and equipment, construction in progress, and infrastructure less accumulated depreciation and associated debt. Additional information on the City's capital assets can be found in the notes to the financial statements.

Long-Term Debt Activity

As of September 30, 2009, the City has a total long-term debt amount outstanding of \$10,369,225. Additional information on the City's long-term debt can be found in the notes to the financial statements.

Other Significant Matters

The City continues to feel the impact of the ad valorem tax cuts and with the ongoing construction industry slump, a virtual standstill has been experienced in building department revenues. However, the tourism industry in the City continued to flourish and the City's gross receipts in other taxes, licenses, and services remains fairly consistent compared to previous years. Lawsuits identified in previous years have now been settled and these obligations have been fulfilled.

Over a period of several years, the City of Apalachicola worked diligently toward the completion of two capital improvement projects to retrofit and upgrade the City's water and sewer systems. These projects were successfully completed with funding assistance from USDA Rural Development, State Revolving Loan Program and legislative appropriations. The City now continues to focus its efforts toward a major wastewater effluent reuse system, continuation of public waterfront access and open space property purchases, and recreational/cultural grant related projects.

In recent years, with funding assistance from the Florida Communities Trust, the City acquired

approximately 600 acres to be used as recreational areas in conjunction with the City's wastewater reuse project, and several parcels along the Apalachicola River and Bay systems for public access to our natural water resources. The reuse project continued during the 2008-2009 year with funding secured from the Florida Department of Environmental Protection SRF program. This reuse project will ultimately take the City's wastewater effluent from the current surface water discharge.

Work was completed during the 2008-2009 year on the renovation and reconstruction of several piers along the Apalachicola waterfront, including Lafayette Park, Battery Park, Riverfront Park and Gorrie Bridge Pier. Funding for these projects was supplied by the Federal Emergency Management Agency, Florida Recreational Development Assistance Program and Florida Fish and Wildlife Commission. The Florida Fish and Wildlife Commission also provided funding for the renovation of the City's recreational and commercial boat basins located at Scipio Creek and Battery Park.

Construction began during the 2008-2009 year on a stormwater retrofit project at Avenue G and Water Street, funded by Northwest Florida Water Management District, renovation and addition to the Historic Holy Family building funded by Florida Department of Elder Affairs and a new fire and police station funded by USDA Rural Development and Community Development Block Grant Program through the Florida Department of Community Affairs.

The Mayor, Commissioners, administration and staff of the City of Apalachicola are committed to continuing efforts toward the betterment of municipal services provided to the citizens of Apalachicola.

This report was prepared by City Administration. Questions concerning this report or requests for additional information should be addressed to Betty Webb, City Administrator, City of Apalachicola, 1 Avenue E, Apalachicola, Florida 32320.

City of Apalachicola, Florida
Statement of Net Assets
September 30, 2009

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,097,800	\$ 128,657	\$ 1,226,457
Investments	291,062	3,852	294,914
Receivables, net			
Accounts	139,274	135,426	274,700
Notes receivable	343,981	-	343,981
Prepaid expenses	30,930	12,156	43,086
Due from other governmental units	583,469	-	583,469
Restricted assets			
Cash and cash equivalents	-	289,388	289,388
Investments	-	2,573,685	2,573,685
Interest receivable	-	15,892	15,892
Capital assets			
Nondepreciable	10,255,394	1,642,899	11,898,293
Depreciable, net	5,603,537	17,197,243	22,800,780
Other assets			
Deposits	-	5,620	5,620
Loan costs	-	143,903	143,903
Total assets	18,345,447	22,148,721	40,494,168
Liabilities			
Accounts payable	662,589	88,815	751,404
Internal balances	(7,225)	7,225	-
Long-term liabilities			
Customer deposits	-	145,189	145,189
Due within one year			
Short term loans	852,654	-	852,654
Accrued interest payable	55,618	62,114	117,732
Notes payable	37,363	279,598	316,961
Bonds payable	-	68,000	68,000
Compensated absences	43,374	13,497	56,871
Due in more than one year			
Compensated absences	86,748	26,995	113,743
Notes payable	20,291	5,691,235	5,711,526
Bonds payable	-	3,302,352	3,302,352
Total liabilities	1,751,412	9,685,020	11,436,432
Net assets			
Invested in capital assets, net of related debt	15,801,277	9,498,957	25,300,234
Restricted			
Debt service	-	2,597,665	2,597,665
Renewal and replacement	-	161,464	161,464
Unrestricted	792,758	205,615	998,373
Total net assets	\$ 16,594,035	\$ 12,463,701	\$ 29,057,736

See accompanying notes

City of Apalachicola, Florida
Statement of Activities
Year Ended September 30, 2009

	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary Government							
Governmental activities							
General government	\$ 1,332,392	\$ 35,271	\$ 446,679	\$ 1,741,453	\$ 891,011	\$ -	\$ 891,011
Public safety	762,305	8,610	-	-	(753,695)	-	(753,695)
Transportation	657,060	-	-	-	(657,060)	-	(657,060)
Culture and recreation	447,956	6,100	247,803	541,877	347,824	-	347,824
Total governmental activities	3,199,713	49,981	694,482	2,283,330	(171,920)	-	(171,920)
Business-type activities							
Water, sewer, garbage and mooring	2,542,544	1,810,178	-	289,970	-	(442,396)	(442,396)
Total primary government	\$ 5,742,257	\$ 1,860,159	\$ 694,482	\$ 2,573,300	(171,920)	(442,396)	(614,316)
General revenues							
Taxes							
Property taxes					1,202,542	-	1,202,542
Local option taxes					55,991	-	55,991
Franchise and utility service tax					357,977	-	357,977
Sales tax and other shared revenues					227,934	-	227,934
Investment earnings					56,174	90,176	146,350
Miscellaneous					270,580	-	270,580
Transfers					(5,000)	5,000	-
Total general revenues					2,166,198	95,176	2,261,374
Change in net assets					1,994,278	(347,220)	1,647,058
Net assets - beginning of year					14,599,757	12,810,921	27,410,678
Net assets - end of year					\$ 16,594,035	\$ 12,463,701	\$ 29,057,736

See accompanying notes

City of Apalachicola, Florida
Balance Sheet
Governmental Funds
September 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 419,919	\$ 677,881	\$ 1,097,800
Investments	31,119	259,943	291,062
Due from other funds	7,225	40,800	48,025
Due from other governmental units	583,469	-	583,469
Accounts receivable, net	135,525	3,749	139,274
Prepaid expenses	30,930	-	30,930
Notes receivable	-	343,981	343,981
Total assets	\$ 1,208,187	\$ 1,326,354	2,534,541
Liabilities and fund equity			
Liabilities			
Accounts payable	\$ 653,780	\$ 8,809	662,589
Due to other funds	40,800	-	40,800
Deferred revenue	-	343,981	343,981
Total liabilities	694,580	352,790	1,047,370
Fund equity			
Fund balances			
Reserved	-	976,381	976,381
Unreserved	513,607	(2,817)	510,790
Total fund equity	513,607	973,564	1,487,171
Total liabilities and fund equity	\$ 1,208,187	\$ 1,326,354	
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.			15,858,931
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.			(1,040,430)
Accrued interest payable is not due in the current period and therefore, is not reported in the funds.			(55,618)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.			343,981
Net assets of governmental activities			\$ 16,594,035

See accompanying notes

City of Apalachicola, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 1,560,519	\$ 55,991	\$ 1,616,510
Licenses and permits	35,271	-	35,271
Intergovernmental	2,957,943	253,803	3,211,746
Fines and forfeitures	8,610	-	8,610
Investment earnings and other	288,466	92,374	380,840
Total revenues	4,850,809	402,168	5,252,977
Expenditures			
Current operating			
General government	1,136,189	-	1,136,189
Public safety	661,909	-	661,909
Transportation	616,397	-	616,397
Culture and recreation	41,625	304,433	346,058
Capital outlay	2,387,613	13,255	2,400,868
Debt service	1,382,990	-	1,382,990
Total expenditures	6,226,723	317,688	6,544,411
Excess (deficit) of revenues over (under) expenditures	(1,375,914)	84,480	(1,291,434)
Other financing sources (uses)			
Transfers in	160,811	39,000	199,811
Transfers out	(169,000)	(35,811)	(204,811)
Debt issuance	918,389	-	918,389
Total other financing sources (uses)	910,200	3,189	913,389
Net change in fund balances	(465,714)	87,669	(378,045)
Fund balances - beginning	979,321	885,895	1,865,216
Fund balances - ending	\$ 513,607	\$ 973,564	\$ 1,487,171

See accompanying notes

City of Apalachicola, Florida

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2009

Differences in amounts reported for governmental activities in the statement of activities	
Net change in fund balances - total governmental funds	\$ (378,045)
Capital outlay, reported as expenditures in governmental funds, are shown as capital assets in the statement of activities.	2,400,868
Depreciation expense on governmental capital assets is included in the governmental activities in the statement of activities.	(318,639)
Proceeds from debt is reported as revenue in the governmental funds but as an increase in long-term liabilities in the statement of net assets.	(918,389)
Repayment of long-term debt is reported as an expenditure in governmental funds but as a reduction of long-term liabilities in the statement of net assets.	1,301,022
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.	(38,553)
Expenditures for revolving loans issued and revenue for loan repayments are reported in the governmental funds, and recorded through notes receivable activity in the statement of net assets.	(53,986)
Change in net assets of governmental activities	\$ 1,994,278

See accompanying notes

City of Apalachicola, Florida
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended September 30, 2009

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 1,578,000	\$ 1,591,000	\$ 1,560,519	\$ (30,481)
Licenses and permits	47,500	37,000	35,271	(1,729)
Intergovernmental	217,750	217,600	2,957,943	2,740,343
Fines and forfeitures	6,000	8,500	8,610	110
Investment earnings and other	139,450	379,000	288,466	(90,534)
Total revenues	1,988,700	2,233,100	4,850,809	2,617,709
Expenditures				
Current operating				
General government	581,588	717,830	1,136,189	(418,359)
Public safety	614,540	652,440	661,909	(9,469)
Transportation	558,244	553,590	616,397	(62,807)
Culture and recreation	16,500	39,300	41,625	(2,325)
Capital outlay	23,000	19,000	2,387,613	(2,368,613)
Debt service	88,000	82,500	1,382,990	(1,300,490)
Total expenditures	1,881,872	2,064,660	6,226,723	(4,162,063)
Excess (deficit) of revenues over (under) expenditures	106,828	168,440	(1,375,914)	(1,544,354)
Other financing sources (uses)				
Transfers in	75,000	50,000	160,811	110,811
Transfers out	(46,800)	(39,000)	(169,000)	(130,000)
Debt issuance	-	-	918,389	918,389
Total other financing sources (uses)	28,200	11,000	910,200	899,200
Net change in fund balance	135,028	179,440	(465,714)	(645,154)
Fund balance - beginning	979,321	979,321	979,321	-
Fund balance - ending	\$ 1,114,349	\$ 1,158,761	\$ 513,607	\$ (645,154)

See accompanying notes

City of Apalachicola, Florida
Statement of Net Assets
Proprietary Fund
September 30, 2009

Business-type Activities

Assets

Current assets	
Cash and cash equivalents	\$ 128,657
Investments	3,852
Accounts receivable, net	135,426
Prepaid expenses	12,156
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Total current assets	280,091
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Noncurrent assets	
Restricted assets	
Cash and cash equivalents	
Revenue bonds	169,552
Customer deposits	119,836
Interest receivable	15,892
Investments	
State revolving loan escrow	2,573,685
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Total restricted assets	2,878,965
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Property, plant and equipment	
Property, plant and equipment	26,967,692
Accumulated depreciation	(8,127,550)
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Net property, plant and equipment	18,840,142
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Other assets	
Deposits	5,620
Loan costs	143,903
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Total other assets	149,523
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Total noncurrent assets	21,868,630
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Total assets	\$ 22,148,721
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(Continued)

City of Apalachicola, Florida
Statement of Net Assets (Continued)
Proprietary Fund
September 30, 2009

Business-type Activities

Liabilities

Current liabilities	
Accounts payable	\$ 88,815
Accrued interest	62,114
Due from other funds	7,225
Bonds payable - current	68,000
Notes payable - current	279,598
Compensated absences	13,497
<hr/>	
Total current liabilities	519,249
<hr/>	
Noncurrent liabilities	
Customer deposits	145,189
Bonds payable	3,302,352
Notes payable	5,691,235
Compensated absences	26,995
<hr/>	
Total noncurrent liabilities	9,165,771
<hr/>	
Total liabilities	9,685,020
<hr/>	
Net assets	
Invested in capital assets, net of related debt	9,498,957
Restricted	
Debt service	2,597,665
Renewal and replacement	161,464
Unrestricted	205,615
<hr/>	
Total net assets	\$ 12,463,701
<hr/>	

See accompanying notes

City of Apalachicola, Florida
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
Year Ended September 30, 2009

Business-type Activities	
Operating revenue	
Utility billings	\$ 1,661,827
Tap fees	22,848
Mooring fees	86,854
Rental income	38,649
Total operating revenue	
	1,810,178
Operating expenses	
Personal services	551,285
Garbage collection services	459,322
Supplies, gas and oil	190,940
Communications	8,768
Utilities	155,957
Repairs and maintenance	66,072
Insurance	114,001
Professional fees	26,633
Miscellaneous	14,283
Depreciation	620,776
Total operating expenses	
	2,208,037
Operating loss	
	(397,859)
Nonoperating revenues (expenses)	
Investment income	90,176
Interest expense/fees	(334,507)
Total nonoperating revenues (expenses)	
	(244,331)
Loss before contributions and transfers	
	(642,190)
Contributions and transfers	
Capital contributions - grants	289,970
Transfers out	(125,000)
Transfers in	130,000
Total contributions and transfers	
	294,970
Change in net assets	
	(347,220)
Net assets - beginning	
	12,810,921
Net assets - ending	
	\$ 12,463,701

See accompanying notes

City of Apalachicola, Florida
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2009

Business-type Activities	
Operating activities	
Receipts from customers	\$ 1,823,446
Payments to suppliers	(984,918)
Payments to employees	(542,830)
Net cash provided by operating activities	
295,698	
Noncapital financing activities	
Transfers in	130,000
Transfers out	(125,000)
Net cash provided by noncapital and related financing activities	
5,000	
Capital and related financing activities	
Capital contributions - grants	289,970
Acquisition of capital assets	(380,985)
Proceeds from notes payable	68,279
Repayment of revenue bonds and notes payable	(328,082)
Interest paid on long-term debt	(339,927)
Net cash used by capital and related financing activities	
(690,745)	
Investing activities	
Proceeds from sales and maturities of investments	374,592
Interest received	102,805
Net cash provided by investing activities	
477,397	
Increase (decrease) in cash and cash equivalents	
87,350	
Cash and cash equivalents - beginning	
330,695	
Cash and cash equivalents - ending	
\$ 418,045	
Classified as	
Current assets - cash and cash equivalents	\$ 128,657
Restricted assets - cash and cash equivalents	289,388
Cash and cash equivalents - ending	
\$ 418,045	

(Continued)

City of Apalachicola, Florida
Statement of Cash Flows
Proprietary Fund (Continued)
Year Ended September 30, 2009

Business-type Activities

**Reconciliation of operating loss to net
cash provided by operating activities**

Operating loss	\$	(397,859)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation		620,776
Amortization		16,930
(Increase) decrease in assets		
Accounts receivable, net		6,313
Prepaid expenses		31,258
Increase (decrease) in liabilities		
Bank overdraft		(31,577)
Accounts payable		34,447
Compensated absences		8,455
Customer deposits		6,955
<hr/>		
Net cash provided by operating activities	\$	295,698
<hr/>		

See accompanying notes

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 1 – REPORTING ENTITY

The City of Apalachicola, Florida (City) is located in northwest Florida along the Apalachicola Bay and River. The City operates under an elected Mayor-Commissioner and four-member Board of Commissioners (Board) and serves approximately 3,000 residents. The City provides a full range of municipal services, including fire and police protection, public works activities, parks and recreation, transportation and general administrative services. In addition, the City operates a water, sewer and garbage collection utility.

The financial reporting entity consists of the primary government, and its component units, for which the primary government is considered to be financially accountable. Also included are other entities whose exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Each potential component unit is individually evaluated using specific criteria outlined in Governmental Accounting Standards Board (GASB) Statement No. 14 to determine whether the entity is: (a) part of the primary government; (b) a component unit which should be included in the reporting entity (blended or discretely presented); (c) an organization which should be excluded from the reporting entity entirely.

The principle criteria for classifying a potential component unit include the legal separateness of the organization, the financial accountability of the primary government for the potential component unit resulting from either the primary government's ability to impose its will on the potential component unit, or the potential component unit's fiscal dependency on the primary government.

The City appoints the governing Board for the Apalachicola Housing Authority (Authority), which makes the Authority a related organization. However, the Authority is not considered a component unit since it is not financially accountable to or fiscally dependent on the Board.

The Apalachicola Community Redevelopment Agency is an advisory committee appointed by the Board and conducts no financial transactions and is not considered a component unit.

There are no entities for which there were positive responses to specific criteria used for establishing oversight responsibility that were excluded from the City's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies applicable to the City are described below.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally 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. Likewise, the primary government is reported separately from certain legally separate component units, if any, for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and, (b) 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 and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

- General fund - The general fund is the City's primary operating fund. It is used to account for all resources traditionally associated with governments except those required to be accounted for in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The majority of current operating expenditures of the City other than proprietary fund activities are financed through revenues received by the general fund.

The City reports the following major proprietary fund:

- Water and sewer fund - This fund is used to account for the operations of the City's water, sewer, and garbage system, and Scipio Creek and Battery Park docking facilities, which are financed in a manner similar to private business enterprises, where the costs, including depreciation, of providing services to the general public on a continuing basis are financed or recovered primarily through user charges.

Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the related cash flows.

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

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 principle ongoing operations. The principle operating revenues of the City's enterprise funds are charges to customers for water, sewer and garbage services and Scipio Creek and Battery Park docking facilities. Operating expenses of the enterprise fund include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For enterprise activities, the City applies all applicable GASB pronouncements. Additionally, the City applies pronouncements issued on or before November 30, 1989, by the Financial Accounting Standards Board (FASB) and its predecessor bodies, unless those pronouncements conflict with or contradict GASB pronouncements. Pursuant to GASB Statement No. 20, the City has elected not to apply all FASB statements and interpretations issued after November 30, 1989.

Budgets and Budgetary Accounting

General governmental revenue and expenditures accounted for in budgetary funds are controlled by a budgetary accounting system in accordance with various legal requirements which govern the City's operations. Budgets are monitored at varying levels of classification detail; however, expenditures cannot legally exceed total appropriations at the individual fund level. All budget changes that affect the total of a fund's budget must be approved by the City Commission.

The budgetary information presented for the general fund and the major special revenue funds is prepared on the modified accrual basis. Encumbrances are not recorded. Unexpended items at year-end must be reappropriated in the subsequent year.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For the purpose of the statement of cash flows the City considers bank deposits, nonnegotiable certificates of deposit and all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash and cash equivalents.

Receivables

Customer accounts receivable are recorded in the enterprise funds at their net realizable value, reduced by an allowance for uncollectible accounts. The allowance at September 30, 2009, was \$112,000. Unbilled amounts are not recorded. All receivables in the general fund are considered collectible; therefore, an allowance for doubtful accounts has not been recorded.

Due From (To) Other Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as “internal balances.”

Inventories

Inventory items of materials and supplies, which are not significant in amount, are considered expenditures when purchased.

Restricted Assets

Certain proceeds of the City’s revenue bonds (enterprise funds), as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants or other legal agreements. The revenue bond sinking funds are used to report resources set aside to pay debt service if the sources of the pledged revenues do not generate sufficient funds to satisfy the debt service requirements. The renewal and replacement funds are used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. The City typically uses restricted assets before using unrestricted assets, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition. Restricted cash is also used to report resources set aside to refund customer deposits.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, rights of way, stormwater system, sidewalks, and similar items) are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Property, plant and equipment with initial, individual costs that exceed \$750 and estimated useful lives of over one year are recorded as capital assets. Infrastructure, such as buildings, roads, bridges, and sidewalks are capitalized when their initial costs exceed \$25,000 and possess estimated useful lives of more than one year. Capital assets are recorded at historical cost or estimated historical cost if original cost is unknown. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

Depreciation is provided on the straight-line basis generally over the following estimated useful lives:

Buildings	30-50 years
Improvements other than buildings	10-50 years
Machinery and equipment	5-15 years
Infrastructure	30-50 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. For assets constructed with governmental fund resources, interest during construction is not capitalized.

Deferred Revenues

Deferred revenues reported in the government-wide financial statements represent unearned revenues. The deferred revenues are recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in governmental fund financial statements represent unearned revenues or revenues which are measurable but not available, and in accordance with the modified accrual basis of accounting, are reported as deferred revenues.

Compensated Absences

The City maintains a policy that permits employees to accumulate earned but unused vacation and sick pay benefits that will be paid to employees upon separation from City service if certain criteria are met. These benefits, plus their related tax and retirement costs are classified as compensated absences. Employees may be paid for unused vacation hours accrued up to a maximum amount. Payment of unused sick leave, upon termination, is also provided for up to varying amounts.

Both the current and long-term portion of compensated absences are accrued and reported in the government-wide financial statements. No expenditure is reported in the government fund level statements for these amounts until payment is made. Proprietary fund types accrue sick leave and vacation benefits in the period they are earned. Compensated absences liability is based on current rates of pay.

Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the Property Appraiser and Tax Collector. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. Florida Statutes permit municipalities to levy property taxes at a rate of up to 10 mills for general operations. The City's millage rate for the year ended September 30, 2009, was 5.96 mills.

The tax levy of the City is established by the City Commission prior to October 1 of each year.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes (Continued)

Property tax revenue is recognized when taxes are received by the City. Because delinquent taxes collected after September 30 are not material, delinquent taxes due are not accrued at year end.

All taxes become payable on November 1, of each year, or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. All taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. Taxes paid in March are without discount.

Property taxes are collected by the Franklin County Tax Collector. State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes and for enforcement of collection of real property taxes by the sale of interest-bearing tax certificates.

Reserves and Designations of Fund Equity

Reserves indicate that portion of fund balance or net assets that is not available for appropriation or which is legally segregated for a specific future use. The description of each reserve indicates the purpose for which each is intended. Designated portions of fund equity represent management's tentative future spending plans. Such designations should be clearly distinguished from reserves, since managerial plans are subject to change and may never be legally authorized or result in actual expenditures.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Use of Restricted Assets

It is generally the practice of the City to utilize restricted net assets before unrestricted net assets when possible.

Encumbrances

Encumbrances represent commitments in the form of purchase orders which are chargeable to an appropriation and for which a part of the appropriation is reserved. Encumbrances do not represent expenditures or liabilities. The City does not record encumbrances outstanding at year end.

Long-term Obligations

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

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Expenses

Payments made to vendors for services that will benefit future periods, such as insurance, are recorded as prepaid expenses in both the government-wide and fund financial statements.

Amortization

Loan finance costs are being amortized over the lives of the respective loans using the straight-line method.

Subsequent events

The City evaluates subsequent events through the date the financial statements are issued.

NOTE 3 – CASH AND INVESTMENTS

Deposits

All cash resources of the City are placed in banks that are qualified public depositories, as required by law (Florida Security for Public Deposits Act). Every qualified public depository is required by this law to deposit with the State Treasurer eligible collateral equal to, or in excess of, an amount to be determined by the State Treasurer. The State Treasurer is required by this law to ensure that the City's funds are entirely collateralized throughout the fiscal year.

In the event of a failure by a qualified public depository, losses, in excess of federal depository insurance and proceeds from the sale of the securities pledged by the defaulting depository, are assessed against the other qualified public depositories of the same type as the depository in default. When other qualified public depositories are assessed additional amounts, they are assessed on a pro-rata basis.

Investments

Florida Statutes, Section 218.415, authorizes the City to invest surplus funds in the following:

The Local Government Surplus Funds Trust Fund; negotiable direct obligations, the principle and interest of which are unconditionally guaranteed by the United States Government at the prevailing market price for such securities; interest-bearing time deposits or savings accounts in banks organized under the laws of Florida, in national banks organized under the laws of the United States and doing business and situated in Florida, in savings and loan associations which are under the State of Florida supervision, or in federal savings and loan associations located in Florida and organized under federal law and federal supervision, provided that any such deposits are secured by collateral as may be prescribed by law.

Credit Risks

The credit risk of certain investments, such as investment pools managed by other outside parties, cannot be categorized because the City's investments are not evidenced by specific, identifiable investment securities.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risks

At September 30, 2009, the City did not hold any investments that were considered to be an interest rate risk.

Custodial Risks

At September 30, 2009, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

At September 30, 2009, the City did not hold any investments that were considered to be a concentration of credit risk.

At September 30, 2009, the City's cash and investments consisted of the following:

	Credit Rating	Current	0-5 Years	5-10 Years	Total Carrying Amount
Cash including money market fund	(1)	\$ 1,981,920	\$ -	\$ -	\$ 1,981,920
U.S. Treasury notes	(2)	-	506,183	-	506,183
U.S. Government agencies	AAA	184,376	1,422,221	-	1,606,597
Local Government Surplus Trust Fund Pool	(1)	305,636	-	-	305,636
Total		\$ 2,471,932	\$ 1,928,404	\$ -	\$ 4,400,336

(1) These funds are not rated. Investments in these funds are restricted to cash, short-term obligations of the U.S. government and government backed securities.

(2) Ratings are not applicable to government issued securities and obligations.

Local Government Surplus Trust Fund Pool

The LGIP portion of the pool (\$291,538) is considered a SEC 2a7-like fund and the account balance is the fair value of the investment.

The Fund B portion (\$14,098) is accounted for as a fluctuating NAV pool.

Credit quality disclosure – LGIP is rated by Standard and Poors. The current rating is AAAm. Fund B is not rated by any nationally recognized statistical rating agency.

Interest rate risk – The weighted average days to maturity of the LGIP at September 30, 2009 was 33 days. The weighted average life of Fund B at September 30, 2009 was 6.69 years.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 4 – CAPITAL ASSETS

Changes in capital assets of the governmental activities funds are summarized as follows:

	September 30, 2008	Increases	Decreases	September 30, 2009
Capital assets, not being depreciated				
Land	\$ 8,396,661	\$ 1,642,749	\$ -	\$ 10,039,410
Construction in progress	406,357	166,654	(357,027)	215,984
Total capital assets not being depreciated	8,803,018	1,809,403	(357,027)	10,255,394
Capital assets being depreciated				
Buildings	1,709,253	-	-	1,709,253
Improvements other than buildings	1,462,980	877,875	-	2,340,855
Machinery and equipment	1,355,138	70,617	-	1,425,755
Infrastructure	2,552,610	-	-	2,552,610
Total capital assets being depreciated	7,079,981	948,492	-	8,028,473
Less accumulated depreciation				
Buildings	438,940	43,122	-	482,062
Improvements other than buildings	664,809	34,330	-	699,139
Machinery and equipment	959,290	164,857	-	1,124,147
Infrastructure	43,258	76,330	-	119,588
Total accumulated depreciation	2,106,297	318,639	-	2,424,936
Total depreciable assets, net of accumulated depreciation	4,973,684	629,853	-	5,603,537
Total governmental activities' capital assets, net of accumulated depreciation	\$ 13,776,702	\$ 2,439,256	\$ (357,027)	\$ 15,858,931

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Changes in capital assets of the business-type activities funds are summarized as follows:

	September 30, 2008	Increases	Decreases	September 30, 2009
Capital assets not being depreciated				
Land	\$ 363,057	\$ -	\$ -	\$ 363,057
Construction in progress	983,081	296,761	-	1,279,842
Total capital assets not being depreciated	1,346,138	296,761	-	1,642,899
Capital assets being depreciated				
Buildings and utility systems	25,240,570	84,223	-	25,324,793
Less accumulated depreciation				
Buildings and utility systems	(7,506,775)	(620,775)	-	(8,127,550)
Total depreciable assets, net of accumulated depreciation	17,733,795	(536,552)	-	17,197,243
Total business-type activities' capital assets, net of accumulated depreciation	\$ 19,079,933	\$ (239,791)	\$ -	\$ 18,840,142

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

Governmental activities	
General government	\$ 31,778
Public safety	97,335
Transportation	87,628
Culture and recreation	101,898
Total depreciation expense - governmental activities	\$ 318,639

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

Business-type activities	
Water	\$ 119,515
Sewer	492,544
Mooring/boat basins	8,716
Total depreciation expense - business-type activities	\$ 620,775

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 5 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

Long-term debt of the governmental activities of the City at September 30, 2009 is as follows:

	Original Issue	Balance September 30, 2008	Additions (Reductions)	Balance September 30, 2009	Due Within One Year
Installment purchase agreement for fire truck, payable in annual installments of \$13,984, including interest at 4.85%	\$ 108,770	\$ 13,337	\$ (13,337)	\$ -	\$ -
Installment purchase agreement for 7 computers payable in 36 monthly installments of \$273 at 10% interest, matured June 2009	8,744	2,352	(2,352)	-	-
Installment purchase agreement for 1 vehicle payable in 60 monthly installments of \$329 including 7.095% interest, maturing November 2013	16,602	-	14,226	14,226	3,042
Installment purchase agreement for 4 vehicles payable in 4 annual installments of \$32,875 Including 4.6% interest, matured November 2008	123,080	31,430	(31,430)	-	-
Installment purchase agreement for backhoe/loader payable in 5 annual installments at 5.75% maturing June 2010	71,000	29,143	(14,153)	14,990	14,990
Installment purchase agreement for one truck payable in monthly installments of \$456 including 4.817% interest, maturing January 2011	19,794	12,054	(5,001)	7,053	5,247
Installment purchase agreement for 2 trucks payable in monthly installments of \$1,234 including 4.828% interest, maturing March 2011	53,553	34,807	(13,422)	21,385	14,084
Total installment purchase obligations		123,123	(65,469)	57,654	37,363
Liability for compensated absences		117,690	12,432	130,122	43,374
Total governmental activities long-term obligations		\$ 240,813	\$ (53,037)	\$ 187,776	\$ 80,737

Notes to Basic Financial Statements

NOTE 5 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (CONTINUED)

Future debt service requirements for the City's installment purchase obligations of the governmental activities are summarized below:

Year Ending September 30,	Principal
2010	\$ 37,363
2011	12,372
2012	3,504
2013	3,761
2014	654
Total	\$ 57,654

The City has three lines of credit totaling \$1,215,434 as of September 30, 2009. Of this amount \$215,434 is secured by the City's certificates of deposit in the amount of \$303,556. The remaining balance is secured by Federal Emergency Management Agency and Florida Fish and Wildlife Conservation grant revenues. All agreements require that the entire outstanding amount plus interest of up to 6% be paid by during the 2010 fiscal year. During the year, line of credit proceeds totaled \$901,787 and repayments totaled \$1,218,951. The amount outstanding at September 30, 2009 was \$852,654.

The portion of compensated absences liability estimated to be paid during the next year (current portion) is \$43,374.

NOTE 6 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES

	Balance September 30, 2008	Additions	Deductions	Balance September 30, 2009	Due Within One Year
\$3,073,000 Water and Sewer Revenue Bonds – Series 2003. Due in annual installments of \$16,417 to \$592,000 with interest at 3%. Matures in 2043.	\$ 2,901,274	\$ -	\$ (46,000)	\$ 2,855,274	\$ 48,000
\$390,000 Water and Sewer Revenue Bonds – Series 1983, due in annual installments of \$2,000 to \$29,000 from September 1, 1987 to September 1, 2024, with interest at 5% (see (a) below)	271,448	-	(10,000)	261,448	11,000
\$361,630 Water and Sewer Revenue Bonds – Series 1986, due in annual installments of \$3,000 to \$21,630 from September 1, 1989 to September 1, 2026, with interest at 6% (see (b) below)	262,630	-	(9,000)	253,630	9,000

Notes to Basic Financial Statements

NOTE 6 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

	Balance September 30, 2008	Additions	Deductions	Balance September 30, 2009	Due Within One Year
Note payable to the State of Florida Revolving Loan Trust Fund for sewer system construction costs. Semiannual payments of \$225,898 including interest on the loan increments at 3.% to 4% (see note 12) maturing June 2026 – see (c), and (d) below	\$ 6,165,636	\$ -	\$ (258,969)	\$ 5,906,667	\$ 267,180
Installment purchase agreement for ditch witch payable in monthly installments of \$879 at 5.% interest, maturing August 2014	-	46,575	(685)	45,890	8,441
Installment purchase agreement for trucks payable in monthly installments of \$431 at 7% interest, maturing November 2013	-	21,704	(3,428)	18,276	3,977
Liability for compensated absences	32,037	8,455	-	40,492	13,497
Total business-type long-term obligations	\$ 9,633,025	\$ 76,734	\$ (328,082)	\$ 9,381,677	\$ 361,095

- (a) The series 1983 water and sewer revenue bonds are secured by a first lien on the gross revenues of the water and sewer system and a first lien on the City's public service taxes and guaranteed entitlement revenues. Annual principal and interest payments on the bonds are 11 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$380,078. Principal and interest paid for the current year and total pledged revenues were \$23,572 and \$222,231, respectively.
- (b) The series 1986 water and sewer revenue bonds are secured by a junior lien on the above-mentioned revenues. Annual principal and interest payments on the bonds are 11 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$410,036. Principal and interest paid for the current year and total pledged revenues were \$24,758 and \$222,231, respectively.
- (c) The series 2003 water and sewer revenue bonds were issued on parity with the 1983 and 1986 water and sewer revenue bonds. Annual principal and interest payments on the bonds are 63 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$4,705,298. Principal and interest paid for the current year and total pledged revenues were \$140,291 and \$222,231, respectively.
- (d) The FDEP has a lien on the funds and earnings in the Capital City Trust Company escrow account, which is the source of funds for repayment of the State of Florida Revolving Loan Trust Fund loan. In addition, there exists a supplemental pledge of net water and sewer system revenues which is subordinate to payment of the 1983 and 1986 water and sewer bonds. The FDEP loan is also subordinate to the Series 2003 water and sewer revenue bonds issued in connection with the 2002-2003 water system improvements. Annual principal and interest payments on the bonds are 18 percent of pledged revenues. The total

Notes to Basic Financial Statements

NOTE 6 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

principal and interest remaining to be paid on the bonds is \$7,680,745. Principal and interest paid for the current year and total pledged revenues were \$451,835 and \$2,573,685, respectively.

There are a number of limitations and restrictions contained in the bond indentures, including the establishment of specific debt service sinking fund and reserve accounts.

The sinking fund and reserve account balances relating to the Series 2003, 1983 and 1986 bond issues are \$8,088 and \$161,464 respectively, at September 30, 2009.

Annual Debt Maturities

Following is a summary of the remaining principal and interest maturities due on bonds and notes payable of the enterprise fund:

Year Ending September 30,	Series 1983 Revenue Bonds		Series 1986 Revenue Bonds	
	Principal	Interest	Principal	Interest
2010	\$ 11,000	\$ 13,072	\$ 9,000	\$ 15,218
2011	11,000	12,522	10,000	14,678
2012	12,000	11,972	10,000	14,078
2013	13,000	11,372	11,000	13,478
2014	14,000	10,722	12,000	12,818
2015-2019	86,000	42,110	69,000	52,690
2020-2024	114,448	16,860	90,000	29,590
2025-2026	-	-	42,630	3,856
Total	\$ 261,448	\$ 118,630	\$ 253,630	\$ 156,406

Year Ending September 30,	Series 2003 Revenue Bonds		State Revolving Loan	
	Principal	Interest	Principal	Interest
2010	\$ 48,000	\$ 92,796	\$ 267,180	\$ 184,617
2011	50,000	91,236	275,692	176,105
2012	52,000	89,611	284,475	167,321
2013	54,000	87,921	293,539	158,258
2014	56,000	86,166	302,891	148,906
2015-2019	306,000	402,459	1,665,502	593,480
2020-2024	362,000	349,256	1,948,267	310,714
2025-2029	425,000	286,498	869,121	34,677
2030-2034	504,000	212,366	-	-
2035-2039	592,000	124,974	-	-
2040-2042	406,274	26,741	-	-
Total	\$ 2,855,274	\$ 1,850,024	\$ 5,906,667	\$ 1,774,078

Notes to Basic Financial Statements

NOTE 6 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

Year Ending September 30,	Installment Purchase Ditch witch		Installment Purchase Trucks	
	Principal	Interest	Principal	Interest
2010	\$ 8,441	\$ 2,111	\$ 3,977	\$ 1,192
2011	8,875	1,677	4,268	900
2012	9,330	1,222	4,581	587
2013	9,810	742	4,917	252
2014	9,434	238	533	328
Total	\$ 45,890	\$ 5,990	\$ 18,276	\$ 3,259

NOTE 7 – NOTES RECEIVABLE

The following long-term notes receivable are recorded in the governmental funds and result from U.S. Department of Housing and Urban Development grants to the City, of which the proceeds were loaned to qualified applicants through a revolving loan program. Notes receivable balances consist of the following:

September 30	2009	2008
Second mortgage receivable – original loan of \$321,666; \$1,105 due monthly including 4% interest, the unpaid balance matures in November 2024.	\$ 143,395	\$ 151,822
Second mortgage receivable - original loan of \$50,000, due in monthly installments of \$532 including interest at 5%. Balance includes past due interest of \$8,500 and matures in May 2015.	31,648	36,850
Second mortgage receivable – original loan \$100,000, due in monthly payments of \$1,012 including interest at 4%. Balance includes past due interest of \$3,364 and matures in February 2018.	95,203	92,481
Second mortgage receivable – original loan of \$59,184; \$576 due monthly including 4% interest, the unpaid balance matures in February 2017.	44,445	49,464
Second mortgage receivable – original loan of \$30,673; \$306 due monthly including 4% interest. Balance includes past due interest of \$1,394 and matures in April 2019.	29,290	28,137
Second mortgage receivable – original loan of \$41,157; \$411 due monthly including 4% interest, the balance was paid in full during December 2008.	-	39,213
Total	\$ 343,981	\$ 397,967

Notes to Basic Financial Statements

NOTE 7 – NOTES RECEIVABLE (CONTINUED)

All note payments to be received by the City from the above loans are considered "program income" under the terms of the original grants to the City. The terms of these grants provide that all such program income received by the City is restricted for the purpose of making additional revolving loans to qualified applicants. In addition, since the receivables are measurable, but not available, the amounts uncollected are carried in deferred revenue.

NOTE 8 – EQUITY

Restricted Net Assets

The City's restricted investments in the water and sewer fund are being used to repay a loan obtained for the replacement of the City's sewer system (see note 6). No net assets are restricted by enabling legislation at September 30, 2009.

Reserved Fund Balances

Reservations of fund balances show amounts that are not appropriated for expenditures or are legally restricted for specific uses. The purpose for each is indicated as follows:

Funds	Purpose	Amount
Governmental funds		
Local option gas tax	Specific transportation expenditures	\$ 110,446
Library	Specific library expenditures	466,218
HUD revolving loans fund	Revolving loan program (note 7)	389,513
Raney house trust	Raney House building restoration and Preservation	10,204
<hr/>		
Total fund balances reserved		\$ 976,381
<hr/>		
Enterprise funds	Restricted for renewal and replacement	\$ 161,464
	Restricted for debt service	2,597,665
<hr/>		
Total net assets restricted		\$ 2,759,129

NOTE 9 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances	Due from other funds	Due to other funds
General fund	\$ 7,225	\$ -
Water and sewer fund	-	7,225
Total	\$ 7,225	\$ 7,225

Interfund loans were for operating advances.

Notes to Basic Financial Statements

NOTE 9 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

Transfers Out	Transfers In	Amount	Purpose
Water and sewer fund	General fund	\$ 125,000	Administrative services and cash advance
General fund	Water and sewer fund	130,000	Repayment of advance
General fund	Nonmajor governmental funds	39,000	Transfer of general revenues for library and recreation activities
Nonmajor governmental funds	General fund	35,811	Road maintenance expense reimbursement and salary reimbursement

NOTE 10 – INTEREST COSTS

The City follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use in business-type funds. During the year ended September 30, 2009, construction was complete on projects with outstanding debt and no interest was capitalized.

NOTE 11 – RETIREMENT BENEFITS

Plan Description

The City participates in the Florida State Retirement System (FRS) a cost-sharing, multiple employer defined benefit retirement plan administered by the State of Florida Department of Administration, Division of Retirement, to provide retirement and survivor benefits to participating public employees. Chapter 121, Florida Statutes, establishes the authority for participant eligibility, contribution requirements, vesting eligibility and benefit provisions. FRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by contacting the State of Florida Division of Retirement, 1317 Winewood Blvd., Bldg B, Tallahassee, Florida, 32399-1560.

The System provides vesting of benefits after six years of creditable service. Members are eligible for normal retirement after six years of service and attaining age 62, or 30 years of service regardless of age. Early retirement may be taken any time after completing six years of service; however, there is a 5% benefit reduction for each year prior to normal retirement.

FRS also provides death and disability benefits and cost-of-living adjustments. Generally, membership is compulsory for all full-time and part-time employees. Retirement coverage is employee noncontributory. The employer pays all contributions.

Funding Policy

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts provide that employees pay all contributions at rates determined each year by the legislature.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 11 – RETIREMENT BENEFITS (CONTINUED)

The rates as a percentage of gross earnings are as follows:

	October 1, 2008 Through June 30, 2009	July 1, 2009 Through September 30, 2009
Regular class	9.85%	9.85%
Special risk employee class	20.92%	20.92%
DROP plan participants	10.91%	10.91%

During the year ended September 30, 2009, total covered payroll for all participants was \$1,266,669. The City's contributions for the years ended September 30, 2009, 2008 and 2007 were \$153,738, \$139,367 and \$132,538, respectively which equaled the required contributions. For the year ended September 30, 2009, retirement contributions represented 12% of covered payroll.

NOTE 12 – COMMITMENTS, CONTINGENCIES AND RISK MANAGEMENT

Litigation

The City is defendant in various litigation which has been turned over to the City's insurance carrier for defense. Settlements, if any, are not anticipated to exceed the policy amounts of insurance carried by the City.

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors or omissions; injuries to employees and/or the public; or damage to property of others. The City purchases commercial insurance to cover its risk of losses. The City carries comprehensive coverage on certain vehicles and equipment, as long as deemed economically justifiable. The City also carries liability insurance on the aforementioned vehicles and equipment.

Environmental Matters

The City's wastewater treatment facility and operations are subject to federal and state environmental laws and regulations. Since December 1998, the City has been subject to the requirements of a consent order from the FDEP relating to the City's wastewater treatment facility. The consent order requires the City to undertake a number of measures with regard to improving and replacing the present methods of collecting, processing and discharging waste effluent. In July 1999, a permit was issued by FDEP allowing the City to operate the facility and to undertake construction activities in connection therewith. The permit replaced a temporary operating permit. During 2007, the City agreed to perform additional improvements estimated to cost a minimum of \$250,500 for permit violations that occurred from March 2004 to November 2006, in lieu of civil penalties. As of September 30, 2009, the agreed upon improvements for Avenue G are in process.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The City provides health insurance to its active and retired employees (the OPEB Plan). Pursuant to Section 112.0801, Florida Statutes, the City is required to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Currently, the City funds the OPEB Plan on a pay-as-you-go basis as a current operating expense, and reflects the expense in its financial statements in the fiscal year in which the payments are made. Pursuant to the provisions of GASB 43, *Financial Reporting for Postemployment Benefits Other Than Pensions*, and GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, governments who provide post employment benefits other than pensions will be required to begin showing all or a portion of the liabilities associated with their OPEB Plans in their financial statements and whether, and to what extent, progress is being made in funding those liabilities. The City intends to implement the requirements of GASB 45 and will obtain an actuarial valuation of the OPEB liability as of October 1, 2009.

NOTE 14 – BUDGETARY DATA

The City had actual expenditures in excess of budgeted amounts in the general fund for the year ended September 30, 2009. The primary cause of this excess was the receipt and expenditure of unanticipated revenues without a corresponding budget amendment.

Combining Financial Statements

City of Apalachicola, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2009

	Library	Local Option Gas Tax	Recreation	HUD Revolving Loans Fund	Raney House Trust	Total Nonmajor Governmental Funds
Assets						
Cash and cash equivalents	\$ 471,733	\$ -	\$ 477	\$ 205,671	\$ -	\$ 677,881
Investments	-	106,697	-	143,042	10,204	259,943
Due from other funds	-	-	-	40,800	-	40,800
Accounts receivable, net	-	3,749	-	-	-	3,749
Notes receivable	-	-	-	343,981	-	343,981
Total assets	\$ 471,733	\$ 110,446	\$ 477	\$ 733,494	\$ 10,204	\$ 1,326,354
Liabilities and fund equity						
Accounts payable	\$ 503	\$ -	\$ 8,306	\$ -	\$ -	\$ 8,809
Deferred revenue	-	-	-	343,981	-	343,981
Total liabilities	503	-	8,306	343,981	-	352,790
Fund equity						
Fund balances						
Reserved	466,218	110,446	-	389,513	10,204	976,381
Unreserved	5,012	-	(7,829)	-	-	(2,817)
Total fund equity	471,230	110,446	(7,829)	389,513	10,204	973,564
Total liabilities and fund equity	\$ 471,733	\$ 110,446	\$ 477	\$ 733,494	\$ 10,204	\$ 1,326,354

See independent auditor's report

City of Apalachicola, Florida
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2009

	Library	Local Option Gas Tax	Recreation	HUD Revolving Loans Fund	Raney House Trust	Total Nonmajor Governmental Funds
Revenues						
Taxes	\$ -	\$ 55,991	\$ -	\$ -	\$ -	\$ 55,991
Intergovernmental	-	-	253,803	-	-	253,803
Investment earnings and other	17,331	644	1,456	72,812	131	92,374
Total revenues	17,331	56,635	255,259	72,812	131	402,168
Expenditures						
Current operating						
Culture and recreation	15,729	-	283,174	-	5,530	304,433
Capital outlay	5,055	-	-	8,200	-	13,255
Total expenditures	20,784	-	283,174	8,200	5,530	317,688
Excess (deficit) of revenues over (under) expenditures	(3,453)	56,635	(27,915)	64,612	(5,399)	84,480
Other financing sources (uses)						
Transfers out	-	(28,461)	-	(7,350)	-	(35,811)
Transfers in	19,000	-	20,000	-	-	39,000
Total other financing sources (uses)	19,000	(28,461)	20,000	(7,350)	-	3,189
Net change in fund balances	15,547	28,174	(7,915)	57,262	(5,399)	87,669
Fund balances - beginning	455,683	82,272	86	332,251	15,603	885,895
Fund balances - ending	\$ 471,230	\$ 110,446	\$ (7,829)	\$ 389,513	\$ 10,204	\$ 973,564

See independent auditor's report

Compliance Section

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Honorable Mayor and
Members of the City Commission
City of Apalachicola, Florida

We have audited the financial statements of the City of Apalachicola, Florida, as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated June 21, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to each Major Federal Program and State Project and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated June 21, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General which govern the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

Section 10.554(1)(i)1., Rules of the Auditor General requires that we determine whether or not the corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial report to the extent considered necessary by the City, except as repeated under the heading financial statement findings on the Schedule of Findings and Questioned Costs.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include 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 Apalachicola, Florida complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The City of Apalachicola, Florida, was established by Chapter 37-18432, Laws of Florida. There were no component units of the City.

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

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Apalachicola, Florida for the fiscal year ended September 30, 2009, 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, 2009. In connection with our audit, we determined that these two reports were in agreement.

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

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the City of Apalachicola, Florida's management, the City Commission, certain regulatory agencies, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

June 21, 2010

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

Honorable Mayor and
Members of the City Commission
City of Apalachicola, Florida

We have audited the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Apalachicola, Florida (the City) as of and for the year ended September 30, 2009, which collectively comprise the City of Apalachicola, Florida's basic financial statements and have issued our report thereon dated June 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City'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 of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described below, that we consider to be material weaknesses.

A deficiency in internal control 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 and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

We have identified the following significant deficiencies in internal control which are also considered to be material weaknesses.

We consider findings 09-1 through 09-5 listed on the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

The City of Apalachicola, Florida's responses to the findings identified in our audit are included in the accompanying Management's Response Letter. We did not audit the City of Apalachicola, Florida's responses and, accordingly, we express no opinion on them.

Compliance and Other Matters

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

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

Carr, Riggs & Ingram, L.L.C.

June 21, 2010

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

Honorable Mayor and
Members of the City Commission
City of Apalachicola, Florida

Compliance

We have audited the compliance of the City of Apalachicola, 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 Florida Department of Financial Services' State Projects Compliance Supplement that are applicable to each of its major federal programs and state projects for the year ended September 30, 2009. The City of Apalachicola, Florida's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state projects is the responsibility of the City of Apalachicola, Florida's management. Our responsibility is to express an opinion on the City of Apalachicola, Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, State of Florida Rules of the Auditor General. Those standards, OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the City of Apalachicola, 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 the City of Apalachicola, Florida's compliance with those requirements.

In our opinion, the City of Apalachicola, 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, 2009.

Internal Control Over Compliance

The management of the City of Apalachicola, Florida is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City of Apalachicola, 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 the City of Apalachicola, Florida's internal control over compliance.

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in 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 the Mayor, City Commission, management, and appropriate federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

June 21, 2010

City of Apalachicola, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance
Year Ended September 30, 2009

Federal/State Agency Pass through entity State Project	CFDA/ CSFA No.	Contract/Grant No.	Expenditures
Federal Awards			
U.S. Department of Education			
Passed through the Florida Department of Education			
Twenty-First Century Community Learning Centers	84.287	19A-2440A-OPCC1	\$ 241,647
Total U.S. Department of Education			241,647
U.S. Department of Homeland Security			
Passed through the Florida Department of Community Affairs			
Public Assistance Grants			
Raney House	97.036	07-HM-5@-02-29-02-025	16,392
Battery Park and Veteran's Park	97.036	037-01625-00	345,590
Total U.S. Department of Homeland Security			361,982
Total expenditures of federal awards			\$ 603,629
State Financial Assistance			
Florida Executive Office of the Governor			
Visit Florida Grant	31.006	n/a	\$ 5,000
Total Florida Executive Office of the Governor			5,000
Florida Department of Environmental Protection			
Florida Recreation Development Assistance Program	37.017	F7048	269,282
Statewide Surface Water Restoration and Wastewater Projects			
AWT Improvements	37.039	LP6810	282,326
Clean Water State Revolving Loan Fund	37.039	SG427120	17,085
Total Florida Department of Environmental Protection			568,693
Florida Department of Community Affairs			
Passed through the Florida Communities Trust			
Area of Critical State Concern - Land Acquisition Grant	52.002	09-CT-D1-08-F8-J1-078	1,642,749
Passed through the Northwest Florida Water Management District			
Florida Forever Grant	52.002	08-059	98,704
Total Florida Department of Community Affairs			1,741,453
Fish and Wildlife Conservation Commission			
Florida Boating Improvement Program			
Veteran's Park	77.006	05116	124,492
Battery Park	77.006	06083	66,210
Total Fish and Wildlife Conservation Commission			190,702
Total state financial assistance			\$ 2,505,848

City of Apalachicola, Florida
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2009

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued Unqualified
 Internal control over financial reporting
 Material weakness(es) identified? X yes no
 Significant deficiency(ies) identified not
 considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards and State Financial Assistance

Internal control over major programs
 Material weakness(es) identified? yes X no
 Significant deficiency(ies) identified not
 considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance
 for major programs Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with Circular A-133, Section .510(a) or
 Chapter 10.557, Rules of the Auditor General State of Florida yes X no

Identification of major programs:

<u>CFDA/CSFA Number</u>	<u>Name of Federal Award/State Financial Assistance Project</u>
52.002	Florida Communities Trust Area of Critical State Concern - Land Acquisition Grant
84.287	Twenty-First Century Community Learning Centers
97.036	U.S. Department of Homeland Security Public Assistance Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low risk auditee for federal awards testing? X yes no

(Continued)

City of Apalachicola, Florida
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

09-01 Need to comply with Budgetary Requirements (prior year 08-01)
Expenditures should not exceed budgeted amounts.

09-02 Segregation of Duties (prior year 08-02)
This condition is the result of limited accounting staff. Due to the lack of segregation of duties and limited internal controls the finance director currently has the ability to issue and approve cash disbursements; reconcile the cash accounts; input, edit, approve accounting journal entries; and prepare the financial information.

09-03 Cash Needs to be Managed to Eliminate Negative Bank Balances (prior year 08-03)
As of September 30, 2009, two of the City's bank accounts were overdrawn by a total of \$2,819.

09-04 Significant Adjustments to the Financial Records (prior year 08-04)
Adjustments were needed in order for the financial statements to conform with U.S. generally accepted accounting principles.

09-05 Inadequate Design of Internal Control Over Preparation of Financial Statements (prior year 08-05)
Inadequate design of internal control over the preparation of the financial statements being audited gives rise to a significant deficiency in internal control.

SECTION III - FINDINGS AND QUESTIONED COSTS - FEDERAL AWARD PROGRAMS

There were no findings.

SECTION IV - FINDINGS AND QUESTIONED COSTS - STATE FINANCIAL ASSISTANCE PROJECTS

There were no findings.

SECTION V - OTHER ISSUES

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to major federal programs or state financial assistance projects.

No Corrective Action Plan is required because there were no findings required to be reported under Florida Single Audit Act.

CITY OF APALACHICOLA

ADMINISTRATIVE AND COMMUNITY DEVELOPMENT OFFICE

1 Avenue E * Apalachicola, Florida 32320 * 850-653-9319 * Fax 850-653-1529

www.cityofapalachicola.com

April 21, 2010

State of Florida Office
of the Auditor General
P.O. Box 1735
Tallahassee, FL 32302-1735

The City of Apalachicola is in receipt of the findings identified in the annual financial statements for the fiscal year ended September 30, 2009 submitted by Carr, Riggs and Ingram, LLC. On behalf of the City, the following responses have been developed and are hereby submitted:

MANAGEMENT LETTER

Status of Prior Year Audit Recommendations

09-01 Budgetary Requirements (prior year 08-01)

The City will review the budget and amend as needed during the year in accordance with the City's current policy.

09-02 Separation of Duties (prior year 08-02)

As stated in the prior audit reports, this issue results from the limited number of employees in the City Office. The duties of City office personnel are continually being reviewed by City Administration in an effort to provide internal control and in an effort to work toward a more effective and efficient overall operational structure.

09-03 Cash Needs to be Managed to Eliminate Negative Bank Balances (prior year 08-03)

The City has recently raised utility fees to defray the increased costs of City administration. In addition, no new grant projects will be started until sufficient cash flows are available to fund the project and subsequent maintenance costs.

09-04 Need for Significant Adjustments to the Financial Records (prior year 08-04)

We realize that ideally our internal control system should be designed in a manner that ensures the accuracy of the financial statements and that the Auditors should not have to recommend journal entries to see that they conform to U.S. generally accepted accounting principles. We expect that in the future our internal control procedures will ensure our financial statements conform to U.S. generally accepted accounting principles.

Auditor General – Page 2
April 21, 2010

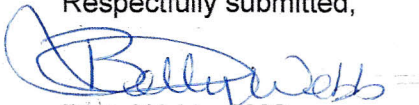
REPORT ON COMPLIANCE

09-05 Inadequate Design of Internal Controls over Financial Statements (prior year 08-05)

Our Auditors assist us with the preparation of our financial statements. We don't feel that in the near future the benefits derived from investing in the resources necessary for us to prepare our own financial statements would outweigh the cost of those resources.

Please contact the City at 850/653-9319 if further information is required.

Respectfully submitted,

A handwritten signature in blue ink that reads "Betty Webb". The signature is stylized and written in a cursive-like font.

Betty Webb, CMC
City Administrator