

City of Apalachicola, Florida

Financial Statements

September 30, 2010

City of Apalachicola, Florida  
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September 30, 2010

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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, 2010, 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, 2010, 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 30, 2011 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 13 and the Schedule of Funding Progress for the Retiree's Health Insurance Other Post Employment Benefits Plan and Schedule of Employer Contributions for the Retiree's Health Insurance Other Post Employment Benefits Plan on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational,

economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Apalachicola, Florida's financial statements as a whole. The accompanying schedules of expenditures of federal awards and state financial assistance and findings and questioned costs are presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and by Chapter 10.550, *Rules of the Auditor General*, and are not a required part of the basic financial statements. The combining 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. The schedule of expenditures of federal awards and state financial assistance and combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

Certified Public Accountants  
June 30, 2011

## 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 \$31,852,593 (net assets). Of this amount, \$1,323,583 is unrestricted net assets for governmental activities and \$153,766 is unrestricted net assets for business-type activities, \$50,000 is restricted net assets for governmental activities, \$2,382,329 is restricted net assets for business-type activities.
- Total net assets increased by \$2,794,857. Of this amount, an increase of \$519,035 is attributable to governmental activities and an increase of \$2,275,822 is attributable to business-type activities.
- As of September 30, 2010, the general fund's unreserved fund balance was \$377,944 or 10% of total general fund expenditures.
- Governmental activities revenues decreased to \$3,773,043 or 27%, while governmental activities expenses increased 2% to \$3,254,008. Business-type activities revenues increased to \$4,724,504 or 115%, while business-type activities expenses decreased 4% to \$2,448,682.

### 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, 2010 and 2009. The City is able to report positive balances in all three categories of total net assets.

	Governmental		Business-type		Total	
	Activities		Activities			
<i>September 30,</i>	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 2,351,688	\$ 2,486,516	\$ 1,177,370	\$ 280,091	\$ 3,529,058	\$ 2,766,607
Noncurrent assets	16,266,278	15,858,931	23,731,874	21,719,107	39,998,152	37,578,038
Other assets	-	-	132,593	149,523	132,593	149,523
<b>Total assets</b>	<b>18,617,966</b>	<b>18,345,447</b>	<b>25,041,837</b>	<b>22,148,721</b>	<b>43,659,803</b>	<b>40,494,168</b>
Current liabilities	868,276	1,644,373	1,624,989	664,438	2,493,265	2,308,811
Noncurrent liabilities	636,620	107,039	8,677,325	9,020,582	9,313,945	9,127,621
<b>Total liabilities</b>	<b>1,504,896</b>	<b>1,751,412</b>	<b>10,302,314</b>	<b>9,685,020</b>	<b>11,807,210</b>	<b>11,436,432</b>
Net assets invested in capital assets, net of related debt	15,739,487	15,801,277	12,203,428	9,498,957	27,942,915	25,300,234
Net assets – restricted	50,000	-	2,382,329	2,759,129	2,432,329	2,759,129
Net assets – unrestricted	1,323,583	792,758	153,766	205,615	1,477,349	998,373
<b>Total net assets</b>	<b>\$ 17,113,070</b>	<b>\$ 16,594,035</b>	<b>\$ 14,739,523</b>	<b>\$ 12,463,701</b>	<b>\$ 31,852,593</b>	<b>\$ 29,057,736</b>

## Statement of Activities

The following schedule provides a summary of the changes in net assets for the years ended September 30, 2010 and 2009.

### Statements of Activities

Years Ended September 30,	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Program revenues</b>						
Charges for services	\$ 199,746	\$ 49,981	\$ 1,775,347	\$ 1,810,178	\$ 1,975,093	\$ 1,860,159
Operating						
grants/contributions	927,821	694,482	-	-	927,821	694,482
Capital						
grants/contributions	382,458	2,283,330	2,970,256	289,970	3,352,714	2,573,300
<b>General revenues</b>						
Property taxes	1,237,579	1,202,542	-	-	1,237,579	1,202,542
Local option gas tax	60,276	55,991	-	-	60,276	55,991
Franchise and utility tax	171,649	357,977	-	-	171,649	357,977
Local business tax	12,821	-	-	-	12,821	-
Sales tax and other						
shared revenues	225,244	227,934	-	-	225,244	227,934
Investment earnings	87,074	56,174	78,901	90,176	165,975	146,350
Miscellaneous	368,375	270,580	-	-	368,375	270,580
Transfers	100,000	(5,000)	(100,000)	5,000	-	-
<b>Total revenues</b>	<b>3,773,043</b>	<b>5,193,991</b>	<b>4,724,504</b>	<b>2,195,324</b>	<b>8,497,547</b>	<b>7,389,315</b>
<b>Expenses</b>						
General government	1,156,339	1,332,392	-	-	1,156,339	1,332,392
Public safety	722,165	762,305	-	-	722,165	762,305
Transportation	701,807	657,060	-	-	701,807	657,060
Economic environment	61,000	-	-	-	61,000	-
Culture and recreation	612,697	447,956	-	-	612,697	447,956
Water	-	-	448,622	458,628	448,622	458,628
Sewer	-	-	1,536,313	1,500,538	1,536,313	1,500,538
Garbage	-	-	379,281	459,322	379,281	459,322
Mooring	-	-	84,466	124,056	84,466	124,056
<b>Total expenses</b>	<b>3,254,008</b>	<b>3,199,713</b>	<b>2,448,682</b>	<b>2,542,544</b>	<b>5,702,690</b>	<b>5,742,257</b>
<b>Change in net assets</b>	<b>\$ 519,035</b>	<b>\$ 1,994,278</b>	<b>\$ 2,275,822</b>	<b>\$ (347,220)</b>	<b>\$ 2,794,857</b>	<b>\$ 1,647,058</b>

## **Financial Analysis of the City's Funds**

### **Analysis of Government-wide Financial Statements**

Approximately eighty-eight percent (88%) 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. \$2,432,329 of the City's net assets are subject to external restrictions on how they may be used. The balance of unrestricted net assets, \$1,477,349 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, 2010, the general fund expenditures exceeded the budgeted amount by \$1,805,008. 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 2009-2010 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, 2010, the City's total investment in capital assets net of related debt for its governmental activities was \$15,739,487 and for its business-type activities was \$12,203,428 for a total investment of \$27,942,915. 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, 2010, the City has a total long-term debt amount outstanding of \$9,848,512. 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.

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 which was completed in the prior year. 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 2009-2010 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 2009-2010 year on a stormwater retrofit project at Avenue G and Water Street, funded by Northwest Florida Water Management District.

Construction began or continued during the 2009-2010 year on a 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, 2010

**Primary Government**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,084,767	\$ 143,792	\$ 1,228,559
Investments	260,358	3,874	264,232
Receivables, net			
Accounts	201,539	130,310	331,849
Notes receivable	391,422	-	391,422
Prepaid expenses	38,148	6,000	44,148
Due from other governmental units	375,454	893,394	1,268,848
Restricted assets			
Cash and cash equivalents	-	329,585	329,585
Investments	-	2,193,092	2,193,092
Interest receivable	-	12,204	12,204
Capital assets			
Nondepreciable	10,538,064	4,606,291	15,144,355
Depreciable, net	5,728,214	16,590,702	22,318,916
Other assets			
Deposits	-	5,620	5,620
Loan costs	-	126,973	126,973
<b>Total assets</b>	<b>18,617,966</b>	<b>25,041,837</b>	<b>43,659,803</b>
<b>Liabilities</b>			
Bank overdraft	121,408	-	121,408
Accounts payable	422,247	1,038,007	1,460,254
Internal balances	1,900	(1,900)	-
Deposits held	4,250	-	4,250
Deferred revenue	32,400	-	32,400
Long-term liabilities			
Customer deposits	-	152,552	152,552
Due within one year			
Short-term loans	215,434	-	215,434
Accrued interest payable	-	62,120	62,120
Notes payable	22,372	288,864	311,236
Bonds payable	-	71,000	71,000
Compensated absences	48,265	14,346	62,611
Due in more than one year			
Compensated absences	96,530	28,693	125,223
Other postemployment benefits	35,671	14,931	50,602
Notes payable	504,419	5,402,349	5,906,768
Bonds payable	-	3,231,352	3,231,352
<b>Total liabilities</b>	<b>1,504,896</b>	<b>10,302,314</b>	<b>11,807,210</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	15,739,487	12,203,428	27,942,915
Restricted			
Debt service	-	2,205,720	2,205,720
Renewal and replacement	-	176,609	176,609
Other purposes	50,000	-	50,000
Unrestricted	1,323,583	153,766	1,477,349
<b>Total net assets</b>	<b>\$ 17,113,070</b>	<b>\$ 14,739,523</b>	<b>\$ 31,852,593</b>

See accompanying notes

City of Apalachicola, Florida  
Statement of Activities  
Year Ended September 30, 2010

	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
<b>Functions/Programs</b>							
<b>Primary Government</b>							
Governmental activities							
General government	\$ 1,156,339	\$ 196,684	\$ 251,971	\$ 286,773	\$ (420,911)	\$ -	\$ (420,911)
Public safety	722,165	3,024	2,000	95,685	(621,456)	-	(621,456)
Transportation	701,807	-	-	-	(701,807)	-	(701,807)
Economic environment	61,000	-	-	-	(61,000)	-	(61,000)
Culture and recreation	612,697	38	673,850	-	61,191	-	61,191
<b>Total governmental activities</b>	<b>3,254,008</b>	<b>199,746</b>	<b>927,821</b>	<b>382,458</b>	<b>(1,743,983)</b>	<b>-</b>	<b>(1,743,983)</b>
Business-type activities							
Water, sewer, garbage and mooring	2,448,682	1,775,347	-	2,970,256	-	2,296,921	2,296,921
<b>Total primary government</b>	<b>\$ 5,702,690</b>	<b>\$ 1,975,093</b>	<b>\$ 927,821</b>	<b>\$ 3,352,714</b>	<b>(1,743,983)</b>	<b>2,296,921</b>	<b>552,938</b>
General revenues							
Taxes							
Property taxes					1,237,579	-	1,237,579
Local option taxes					60,276	-	60,276
Franchise and utility service tax					171,649	-	171,649
Local business tax					12,821	-	12,821
Sales tax and other shared revenues					225,244	-	225,244
Investment earnings					87,074	78,901	165,975
Miscellaneous					368,375	-	368,375
Transfers					100,000	(100,000)	-
<b>Total general revenues</b>					<b>2,263,018</b>	<b>(21,099)</b>	<b>2,241,919</b>
<b>Change in net assets</b>					<b>519,035</b>	<b>2,275,822</b>	<b>2,794,857</b>
<b>Net assets - beginning of year</b>					<b>16,594,035</b>	<b>12,463,701</b>	<b>29,057,736</b>
<b>Net assets - end of year</b>					<b>\$ 17,113,070</b>	<b>\$ 14,739,523</b>	<b>\$ 31,852,593</b>

See accompanying notes

City of Apalachicola, Florida  
Balance Sheet  
Governmental Funds  
September 30, 2010

	General Fund	Recreation Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 408,519	\$ 41,476	\$ 634,772	\$ 1,084,767
Investments	-	-	260,358	260,358
Due from other funds	-	1,150	7,790	8,940
Due from other governmental units	322,141	53,313	-	375,454
Accounts receivable, net	196,616	-	4,923	201,539
Prepays	38,148	-	-	38,148
Notes receivable	-	-	391,422	391,422
<b>Total assets</b>	<b>\$ 965,424</b>	<b>\$ 95,939</b>	<b>\$ 1,299,265</b>	<b>2,360,628</b>
<b>Liabilities and fund equity</b>				
Liabilities				
Bank overdraft	\$ 118,663	\$ 2,745	\$ -	121,408
Accounts payable	407,977	14,270	-	422,247
Due to other funds	10,840	-	-	10,840
Deposits held	-	4,250	-	4,250
Deferred revenue	-	32,400	391,422	423,822
<b>Total liabilities</b>	<b>537,480</b>	<b>53,665</b>	<b>391,422</b>	<b>982,567</b>
Fund equity				
Fund balances				
Reserved	50,000	-	906,188	956,188
Unreserved	377,944	42,274	1,655	421,873
<b>Total fund equity</b>	<b>427,944</b>	<b>42,274</b>	<b>907,843</b>	<b>1,378,061</b>
<b>Total liabilities and fund equity</b>	<b>\$ 965,424</b>	<b>\$ 95,939</b>	<b>\$ 1,299,265</b>	
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.				16,266,278
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.				(922,691)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.				391,422
<b>Net assets of governmental activities</b>				<b>\$ 17,113,070</b>

City of Apalachicola, Florida  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2010

	General Fund	Recreation Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 1,417,600	\$ -	\$ 60,275	\$ 1,477,875
Licenses and permits	201,134	-	-	201,134
Intergovernmental	1,132,197	434,969	-	1,567,166
Fines and forfeitures	3,024	-	-	3,024
Investment earnings and other	281,191	28,068	41,079	350,338
<b>Total revenues</b>	<b>3,035,146</b>	<b>463,037</b>	<b>101,354</b>	<b>3,599,537</b>
<b>Expenditures</b>				
Current operating				
General government	1,129,963	-	-	1,129,963
Public safety	612,455	-	-	612,455
Transportation	596,770	-	-	596,770
Economic environment	-	-	61,000	61,000
Culture and recreation	24,622	412,487	28,452	465,561
Capital outlay	675,196	30,447	12,639	718,282
Debt service	731,116	-	-	731,116
<b>Total expenditures</b>	<b>3,770,122</b>	<b>442,934</b>	<b>102,091</b>	<b>4,315,147</b>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<b>(734,976)</b>	<b>20,103</b>	<b>(737)</b>	<b>(715,610)</b>
<b>Other financing sources (uses)</b>				
Transfers in	192,613	30,000	19,522	242,135
Transfers out	(49,800)	-	(92,335)	(142,135)
Debt issuance	506,500	-	-	506,500
<b>Total other financing sources (uses)</b>	<b>649,313</b>	<b>30,000</b>	<b>(72,813)</b>	<b>606,500</b>
<b>Net change in fund balances</b>	<b>(85,663)</b>	<b>50,103</b>	<b>(73,550)</b>	<b>(109,110)</b>
<b>Fund balances - beginning</b>	<b>513,607</b>	<b>(7,829)</b>	<b>981,393</b>	<b>1,487,171</b>
<b>Fund balances - ending</b>	<b>\$ 427,944</b>	<b>\$ 42,274</b>	<b>\$ 907,843</b>	<b>\$ 1,378,061</b>

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, 2010

Differences in amounts reported for governmental activities in the statement of activities	
Net change in fund balances - total governmental funds	\$ (109,110)
Capital outlay, reported as expenditures in governmental funds, are shown as capital assets in the statement of activities.	718,282
Depreciation expense on governmental capital assets is included in the governmental activities in the statement of activities.	(337,000)
The net effect of miscellaneous noncash transactions involving capital assets (i.e. sales, trade-ins, adjustments, and donations) is to increase net assets.	26,065
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.	(506,500)
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.	674,583
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 (i.e. compensated absences, accrued interest, and other postemployment benefits).	5,274
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.	47,441
Change in net assets of governmental activities	\$ 519,035

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,481,601	\$ 1,481,601	\$ 1,417,600	\$ (64,001)
Licenses and permits	171,000	171,000	201,134	30,134
Intergovernmental	242,750	242,750	1,132,197	889,447
Fines and forfeitures	6,000	6,000	3,024	(2,976)
Investment earnings and other	96,794	96,794	281,191	184,397
<b>Total revenues</b>	<b>1,998,145</b>	<b>1,998,145</b>	<b>3,035,146</b>	<b>1,037,001</b>
<b>Expenditures</b>				
Current operating				
General government	674,504	674,504	1,129,963	(455,459)
Public safety	594,500	594,500	612,455	(17,955)
Transportation	537,110	537,110	596,770	(59,660)
Culture and recreation	20,000	20,000	24,622	(4,622)
Capital outlay	30,000	30,000	675,196	(645,196)
Debt service	109,000	109,000	731,116	(622,116)
<b>Total expenditures</b>	<b>1,965,114</b>	<b>1,965,114</b>	<b>3,770,122</b>	<b>(1,805,008)</b>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<b>33,031</b>	<b>33,031</b>	<b>(734,976)</b>	<b>(768,007)</b>
<b>Other financing sources (uses)</b>				
Transfers in	100,000	100,000	192,613	92,613
Transfers out	(49,800)	(49,800)	(49,800)	-
Debt issuance	-	-	506,500	506,500
<b>Total other financing sources (uses)</b>	<b>50,200</b>	<b>50,200</b>	<b>649,313</b>	<b>599,113</b>
<b>Net change in fund balance</b>	<b>83,231</b>	<b>83,231</b>	<b>(85,663)</b>	<b>(168,894)</b>
<b>Fund balance - beginning</b>	<b>513,607</b>	<b>513,607</b>	<b>513,607</b>	<b>-</b>
<b>Fund balance - ending</b>	<b>\$ 596,838</b>	<b>\$ 596,838</b>	<b>\$ 427,944</b>	<b>\$ (168,894)</b>

See accompanying notes

City of Apalachicola, Florida  
Statement of Net Assets  
Proprietary Fund  
September 30, 2010

**Business-type Activities**

**Assets**

Current assets	
Cash and cash equivalents	\$ 143,792
Investments	3,874
Accounts receivable, net	130,310
Due from other funds	1,900
Prepaid expenses	6,000
Due from other governmental units	893,394
Total current assets	1,179,270
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	
Revenue bonds	177,033
Customer deposits	152,552
Interest receivable	12,204
Investments	
State revolving loan escrow	2,193,092
Total restricted assets	2,534,881
Property, plant and equipment	
Property, plant and equipment	29,950,220
Accumulated depreciation	(8,753,227)
Net property, plant and equipment	21,196,993
Other assets	
Deposits	5,620
Loan costs	126,973
Total other assets	132,593
Total noncurrent assets	23,864,467
Total assets	\$ 25,043,737

(Continued)

City of Apalachicola, Florida  
Statement of Net Assets (Continued)  
Proprietary Fund  
September 30, 2010

**Business-type Activities**

**Liabilities**

Current liabilities	
Accounts payable	\$ 1,038,007
Accrued interest	62,120
Bonds payable - current	71,000
Notes payable - current	288,864
Compensated absences	14,346
<hr/>	
Total current liabilities	1,474,337
<hr/>	
Noncurrent liabilities	
Customer deposits	152,552
Bonds payable	3,231,352
Notes payable	5,402,349
Other postemployment benefits	14,931
Compensated absences	28,693
<hr/>	
Total noncurrent liabilities	8,829,877
<hr/>	
Total liabilities	10,304,214
<hr/>	
<b>Net assets</b>	
Invested in capital assets, net of related debt	12,203,428
Restricted	
Debt service	2,205,720
Renewal and replacement	176,609
Unrestricted	153,766
<hr/>	
Total net assets	\$ 14,739,523

See accompanying notes

City of Apalachicola, Florida  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund  
Year Ended September 30, 2010

	<b>Business-type Activities</b>
	<b>Water and Sewer Fund</b>
<b>Operating revenue</b>	
Utility billings	\$ 1,660,999
Tap fees	22,340
Mooring fees	71,878
Rental income	20,130
<b>Total operating revenue</b>	
	1,775,347
<b>Operating expenses</b>	
Personal services	522,131
Garbage collection services	379,281
Supplies, gas and oil	218,085
Communications	8,375
Utilities	164,989
Repairs and maintenance	81,830
Insurance	68,546
Professional fees	24,415
Miscellaneous	31,339
Depreciation	625,677
<b>Total operating expenses</b>	
	2,124,668
<b>Operating loss</b>	
	(349,321)
<b>Nonoperating revenues (expenses)</b>	
Investment income	78,901
Interest expense/fees	(324,014)
<b>Total nonoperating revenues (expenses)</b>	
	(245,113)
<b>Loss before contributions and transfers</b>	
	(594,434)
<b>Contributions and transfers</b>	
Capital contributions - grants	2,970,256
Transfers out	(100,000)
<b>Total contributions and transfers</b>	
	2,870,256
<b>Change in net assets</b>	
	2,275,822
<b>Net assets - beginning</b>	
	12,463,701
<b>Net assets - ending</b>	
	\$ 14,739,523

See accompanying notes

City of Apalachicola, Florida  
Statement of Cash Flows  
Proprietary Fund  
Year Ended September 30, 2010

<b>Business-type Activities</b>	
<b>Operating activities</b>	
Receipts from customers	\$ 894,432
Payments to suppliers	(4,582)
Payments to employees	(504,653)
Net cash provided by operating activities	
385,197	
<b>Noncapital financing activities</b>	
Decrease in due to other funds	(7,225)
Increase in due from other funds	(1,900)
Transfers out	(100,000)
Net cash used by noncapital financing activities	
(109,125)	
<b>Capital and related financing activities</b>	
Capital contributions - grants	2,970,256
Acquisition of capital assets	(2,982,528)
Repayment of revenue bonds and notes payable	(347,620)
Interest paid on long-term debt	(324,008)
Net cash used by capital and related financing activities	
(683,900)	
<b>Investing activities</b>	
Proceeds from sales and maturities of investments	380,571
Interest received	82,589
Net cash provided by investing activities	
463,160	
<b>Increase in cash and cash equivalents</b>	
55,332	
<b>Cash and cash equivalents - beginning</b>	
418,045	
<b>Cash and cash equivalents - ending</b>	
\$ 473,377	
Classified as	
Current assets - cash and cash equivalents	\$ 143,792
Restricted assets - cash and cash equivalents	329,585
<b>Cash and cash equivalents - ending</b>	
\$ 473,377	

(Continued)

City of Apalachicola, Florida  
Statement of Cash Flows  
Proprietary Fund (Continued)  
Year Ended September 30, 2010

**Business-type Activities**

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

Operating loss	\$	(349,321)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation		625,677
Amortization		16,930
(Increase) decrease in assets		
Accounts receivable, net		5,116
Prepaid expenses		6,156
Due from other governmental units		(893,394)
Increase (decrease) in liabilities		
Accounts payable		949,192
Compensated absences		2,547
Customer deposits		7,363
Other postemployment benefits		14,931
<hr/>		
Net cash provided by operating activities	\$	385,197

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.
- Recreation fund - The special revenue fund accounts for the activity associated with a 21<sup>st</sup> Century Grant administered by the City and other recreational activities

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.

**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 for the enterprise funds at September 30, 2010, was \$92,000. 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.

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, 2010, was 5.96 mills.

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

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.

***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.

***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.

City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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.

***Interest Rate Risks***

At September 30, 2010, the City did not hold any investments that were considered to be an interest rate risk.

City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 3 – CASH AND INVESTMENTS (CONTINUED)**

***Custodial Risks***

At September 30, 2010, the City did not hold any deposits or investments that were considered to be a custodial risk.

***Concentration of Credit Risk***

At September 30, 2010, the City did not hold any investments that were considered to be a concentration of credit risk.

At September 30, 2010, the City's cash and investments consisted of the following:

	Credit Rating	Current	1-5 Years	Total Carrying Amount
Cash including money market fund	(1)	\$ 1,881,071	\$ -	\$ 1,881,071
U.S. Treasury notes	(2)	151,886	415,138	567,024
U.S. Government agencies	AAA	202,740	1,112,605	1,315,345
Local Government Surplus Trust Fund Pool	(1)	264,232	-	264,232
Total		\$ 2,499,929	\$ 1,527,743	\$ 4,027,672

(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 Florida PRIME portion of the pool (\$253,326) is considered a SEC 2a7-like fund and the account balance is the fair value of the investment.

The Fund B portion (\$10,906) is accounted for as a fluctuating NAV pool.

Credit quality disclosure – Florida PRIME is rated by Standard and Poor's. 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 Florida PRIME at September 30, 2010 was 52 days. The weighted average life of Fund B at September 30, 2010 was 7.49 years. However because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the weighted average life.

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, 2009	Increases	Decreases	September 30, 2010
<b>Capital assets, not being depreciated</b>				
Land	\$ 10,039,410	\$ -	\$ -	\$ 10,039,410
Construction in progress	215,984	430,624	(147,954)	498,654
<b>Total capital assets not being depreciated</b>	<b>10,255,394</b>	<b>430,624</b>	<b>(147,954)</b>	<b>10,538,064</b>
<b>Capital assets being depreciated</b>				
Buildings	1,709,253	-	-	1,709,253
Improvements other than buildings	2,340,855	10,868	-	2,351,723
Machinery and equipment	1,425,755	143,656.00	-	1,569,411
Infrastructure	2,552,610	307,153	-	2,859,763
<b>Total capital assets being depreciated</b>	<b>8,028,473</b>	<b>461,677</b>	<b>-</b>	<b>8,490,150</b>
<b>Less accumulated depreciation</b>				
Buildings	482,062	43,008	-	525,070
Improvements other than buildings	699,139	78,919	-	778,058
Machinery and equipment	1,124,147	136,823	-	1,260,970
Infrastructure	119,588	78,250	-	197,838
<b>Total accumulated depreciation</b>	<b>2,424,936</b>	<b>337,000</b>	<b>-</b>	<b>2,761,936</b>
<b>Total depreciable assets, net of accumulated depreciation</b>	<b>5,603,537</b>	<b>124,677</b>	<b>-</b>	<b>5,728,214</b>
<b>Total governmental activities' capital assets, net of accumulated depreciation</b>	<b>\$ 15,858,931</b>	<b>\$ 555,301</b>	<b>\$ (147,954)</b>	<b>\$ 16,266,278</b>

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, 2009	Increases	Decreases	September 30, 2010
<b>Capital assets not being depreciated</b>				
Land	\$ 363,057	\$ -	\$ -	\$ 363,057
Construction in progress	1,279,842	2,963,392	-	4,243,234
<b>Total capital assets not being depreciated</b>	<b>1,642,899</b>	<b>2,963,392</b>	<b>-</b>	<b>4,606,291</b>
<b>Capital assets being depreciated</b>				
Buildings and utility systems	25,324,793	19,136	-	25,343,929
<b>Less accumulated depreciation</b>				
Buildings and utility systems	(8,127,550)	(625,677)	-	(8,753,227)
<b>Total depreciable assets, net of accumulated depreciation</b>	<b>17,197,243</b>	<b>(606,541)</b>	<b>-</b>	<b>16,590,702</b>
<b>Total business-type activities' capital assets, net of accumulated depreciation</b>	<b>\$ 18,840,142</b>	<b>\$ 2,356,851</b>	<b>\$ -</b>	<b>\$ 21,196,993</b>

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

<b>Governmental activities</b>	
General government	\$ 34,780
Public safety	65,667
Transportation	90,210
Culture and recreation	146,343
<b>Total depreciation expense - governmental activities</b>	<b>\$ 337,000</b>
<b>Business-type activities</b>	
Water	\$ 121,063
Sewer	495,897
Mooring/boat basins	8,717
<b>Total depreciation expense - business-type activities</b>	<b>\$ 625,677</b>

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, 2010 is as follows:

	Original Issue	Balance September 30, 2009	Additions (Reductions)	Balance September 30, 2010	Due Within One Year
Installment purchase agreement for 1 vehicle payable in 60 monthly installments of \$329 including 7.095% interest, maturing November 2013	\$ 16,602	\$ 14,226	\$ (3,042)	\$ 11,184	\$ 3,265
Installment purchase agreement for backhoe/loader payable in 5 annual installments at 5.75% matured June 2010	71,000	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	7,053	(5,247)	1,806	1,806
Installment purchase agreement for 2 trucks payable in monthly installments of \$1,234 including 4.828% interest, maturing March 2011	53,553	21,385	(14,084)	7,301	7,301
\$506,500 Capital Improvement Revenue Bonds - Series 2010. Due in annual installments of \$25,480 to \$30,260 with interest at 4%. Matures in September 2039 (see (a) below)	506,500	-	506,500	506,500	10,000
Liability for compensated absences		130,122	14,673	144,795	48,265
Liability for other postemployment benefit liability		-	35,671	35,671	-
<b>Total governmental activities long-term obligations</b>		<b>\$ 187,776</b>	<b>\$ 519,481</b>	<b>\$ 707,257</b>	<b>\$ 70,637</b>

Notes to Basic Financial Statements

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

(a) The series 2010 general fund capital improvement revenue bonds are secured by alcoholic beverage income, fines and forfeiture income, and MSBU funds. Annual principal and interest payments on the bonds are 32 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$863,280. Principal and interest paid for the current year and total pledged revenues were \$11,656 and \$36,928, respectively.

There are 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 for the Series 2010 bond issues are \$341 and \$0 respectively, at September 30, 2010.

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

Year Ending September 30,	Principal
2011	\$ 22,373
2012	13,504
2013	13,761
2014	11,653
2015	11,000
2016 - 2020	64,000
2021 - 2025	77,000
2026 - 2030	93,000
2030 - 2035	115,000
2036 - 2039	105,500
Total	\$ 526,791

The City has two lines of credit totaling \$310,434 as of September 30, 2010. Of this amount \$215,434 is secured by the City's certificates of deposit in the amount of \$311,236. All agreements require that the entire outstanding amount plus interest of up to 5% be paid by during the 2011 fiscal year. During the year, line of credit proceeds totaled \$0 and repayments totaled \$637,220. The amount outstanding at September 30, 2010 was \$215,434.

The portion of compensated absences liability estimated to be paid during the next year (current portion) is \$48,265.

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

	Balance		Balance		Due
	September 30, 2009	Additions	Deductions	September 30, 2010	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	\$ 2,855,274	\$ -	\$ (48,000)	\$ 2,807,274	\$ 50,000

City of Apalachicola, Florida  
Notes to Basic Financial Statements

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

	Balance September 30, 2009		Additions	Deductions	Balance September 30, 2010		Due Within One Year
\$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)	\$	261,448	\$ -	\$ (11,000)	\$	250,448	\$ 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)		253,630	-	(9,000)		244,630	10,000
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		5,906,667	-	(267,180)		5,639,487	275,692
Installment purchase agreement for ditch witch payable in monthly installments of \$879 at 5.% interest, maturing August 2014		45,890	-	(8,440)		37,450	8,878
Installment purchase agreement for trucks payable in monthly installments of \$431 at 7% interest, maturing November 2013		18,276	-	(4,000)		14,276	4,294
Liability for compensated absences		40,492	2,547	-		43,039	14,346
Liability for other post employment benefits		-	14,931	-		14,931	14,346
<b>Total business-type long-term obligations</b>	<b>\$</b>	<b>9,381,677</b>	<b>\$ 17,478</b>	<b>\$ (347,620)</b>	<b>\$</b>	<b>9,051,535</b>	<b>\$ 374,210</b>

- (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 1 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$356,006. Principal and interest paid for the current year and total pledged revenues were \$24,072 and \$1,859,812, 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 1 percent of

Notes to Basic Financial Statements

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

pledged revenues. The total principal and interest remaining to be paid on the bonds is \$385,818. Principal and interest paid for the current year and total pledged revenues were \$24,218 and \$1,859,812, 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 8 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$4,657,298. Principal and interest paid for the current year and total pledged revenues were \$140,796 and \$1,859,812, 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 21 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$7,396,715. Principal and interest paid for the current year and total pledged revenues were \$451,797 and \$2,193,092, 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 \$424 and \$176,609 respectively, at September 30, 2010.

***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
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	15,000	10,022	12,000	12,098
2016-2020	92,000	37,760	73,000	48,550
2021-2025	93,448	11,188	95,000	24,190
2026	-	-	21,630	1,298
<b>Total</b>	<b>\$ 250,448</b>	<b>\$ 105,558</b>	<b>\$ 244,630</b>	<b>\$ 141,188</b>

Notes to Basic Financial Statements

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

Year Ending September 30,	Series 2003 Revenue Bonds		State Revolving Loan	
	Principal	Interest	Principal	Interest
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	57,000	84,346	312,541	139,256
2015-2019	316,000	392,514	1,718,564	540,417
2020-2024	374,000	337,491	2,010,339	248,643
20254-2029	441,000	272,686	441,446	10,496
2030-2034	520,000	195,986	-	-
2035-2039	612,000	105,734	-	-
2040-2042	275,274	13,537	-	-
<b>Total</b>	<b>\$ 2,807,274</b>	<b>\$ 1,757,228</b>	<b>\$ 5,639,487</b>	<b>\$ 1,589,402</b>

Year Ending September 30,	Installment Purchase Ditch witch		Installment Purchase Trucks	
	Principal	Interest	Principal	Interest
2011	\$ 8,875	\$ 1,677	\$ 4,268	\$ 900
2012	9,330	1,222	4,581	587
2013	9,810	742	4,917	252
2014	9,435	238	510	328
<b>Total</b>	<b>\$ 37,450</b>	<b>\$ 3,879</b>	<b>\$ 14,276</b>	<b>\$ 2,067</b>

**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	2010	2009
Second mortgage receivable – original loan of \$321,666; \$1,105 due monthly including 4% interest, the unpaid balance matures in January 2024.	\$ 134,792	\$ 143,395

Notes to Basic Financial Statements

**NOTE 7 – NOTES RECEIVABLE (CONTINUED)**

September 30	2010	2009
Second mortgage receivable - original loan of \$50,000, due in monthly installments of \$532 including interest at 5%. Balance includes past due interest of \$6,280 and matures in June 2015.	\$ 27,265	\$ 31,648
Second mortgage receivable – original loan \$100,000, due in monthly payments of \$1,012 including interest at 4%. Balance includes past due interest of \$7,243 and matures in July 2020.	99,082	95,203
Second mortgage receivable – original loan of \$59,184; \$576 due monthly including 4% interest, the unpaid balance matures in March 2017.	39,794	44,445
Second mortgage receivable – original loan of \$30,673; \$306 due monthly including 4% interest. Balance includes past due interest of \$2,593 and matures in October 2020.	30,489	29,290
Second mortgage receivable – original loan of 60,000; \$607 due monthly including 4% interest, the unpaid balance matures in October 2011.	60,000	-
<b>Total</b>	<b>\$ 391,422</b>	<b>\$ 343,981</b>

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, 2010.

***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:

Notes to Basic Financial Statements

**NOTE 8 – EQUITY (CONTINUED)**

Funds	Purpose	Amount
Governmental funds		
General fund	Specific capital expenditures	\$ 50,000
Local option gas tax	Specific transportation expenditures	120,942
Library	Specific library expenditures	461,233
HUD revolving loans fund	Revolving loan program (note 7)	315,284
Raney house trust	Raney House building restoration and preservation	8,729
<hr/>		
Total fund balances reserved		\$ 956,188
<hr/>		
Enterprise funds	Restricted for renewal and replacement	\$ 176,609
	Restricted for debt service	2,205,720
<hr/>		
Total net assets restricted		\$ 2,382,329

**NOTE 9 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund balances	Due from other funds	Due to other funds
General fund	\$ -	\$ 1,900
Water and sewer fund	1,900	-
General fund	-	1,150
Recreation fund	1,150	-
General fund	-	7,790
Nonmajor governmental funds	7,790	-
<b>Total</b>	<b>\$ 10,840</b>	<b>\$ 10,840</b>

Interfund loans were for operations.

Transfers Out	Transfers In	Amount	Purpose
Water and sewer fund	General fund	\$ 100,000	Administrative services and cash advance
General fund	Nonmajor governmental funds	19,800	Transfer of general revenues for library activities
General fund	Recreation fund	30,000	Transfer of general revenues for recreation activities
Nonmajor governmental funds	General fund	92,335	Road maintenance expense reimbursement and salary reimbursement

Notes to Basic Financial Statements

**NOTE 10 – 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. City's payroll for employees covered by the system for the years ended September 30, 2010, 2009 and 2008 was \$1,396,265, \$1,266,669, and \$1,075,188, respectively.

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.

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

	<b>October 1, 2009 Through June 30, 2010</b>	<b>July 1, 2010 Through September 30, 2010</b>
Regular class	9.85%	10.77%
Senior management	13.12%	14.57%
Special risk employee class	20.92%	23.25%
DROP plan participants	10.91%	12.25%

The City's contributions for the years ended September 30, 2010, 2009 and 2008 were \$174,706, \$153,738 and \$139,367, respectively which equaled the required contributions. For the year ended September 30, 2010, retirement contributions represented 12.5% of covered payroll.

Notes to Basic Financial Statements

**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB)**

Effective for the year ended September 30, 2010, the City has implemented Governmental Accounting Standards Board Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions for retiree health insurance. The requirements of this Statement are being implemented prospectively, with the actuarially accrued liability for benefits of \$587,709 at transition, amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of implementation.

Plan Description

The City has established the Retiree’s Health Insurance Other Post Employment Benefits Plan, a single employer plan. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the City and eligible dependents, may continue to participate in the group insurance plan. Retirees and their eligible dependents shall be offered the same health and hospitalization insurance coverage as is offered to active employees at a premium cost of no more than the premium cost applicable to active employees. The City subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The City currently has 36 total active and retired employees eligible to receive these benefits. No stand alone report is issued for the plan.

Eligibility

A participant is eligible to receive benefits from the plan upon retirement under the Florida Retirement System plan provisions. To be eligible for retiree benefits, the participant must be covered under the medical plan as an active participant immediately prior to retirement. Participants not eligible for retirement at the time of their termination are not eligible for immediate or future benefits from the plan.

Funding Policy

Although the contribution requirement is established by Statute, the contribution amount required by plan members and the government are established and may be amended by the City of Port St. Joe’s Council Members. Currently, members receiving benefits pay the full cost (total premium) for medical coverage.

The monthly contribution rates effective for eligible City plan members during the year are shown below:

<b>Coverage</b>	<b>Annual Cost</b>
Retiree	\$ 447
Retiree with upgrade	602
Retiree & Family	794
Retiree and Family with upgrade	862

The City has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. Rather, the funding is based on a pay-as-you-go basis. During the fiscal year, the City provided contributions of \$0 toward the annual

Notes to Basic Financial Statements

**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

Annual OPEB Cost and Net OPEB Obligation

The following table shows the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation:

Description	
Normal cost (service cost for one year)	\$ 23,980
Amortization of unfunded actuarial accrued liability	26,622
Annual required contribution	50,602
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	50,602
Contribution toward the OPEB cost	-
Increase in net OPEB obligation	50,602
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	\$ 50,602

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2010 was as follows:

Year ending September 30,	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2008	N/A	N/A	N/A
2009	N/A	N/A	N/A
2010	\$ 50,602	0%	\$ 50,602

Funding Status and Funding Progress

The funding status and funding progress information can be found in the schedule of funding progress which is presented as required supplementary information immediately following the notes. This schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Actuarial Methods and Assumptions

The City prepared a valuation using the alternative method for the fiscal year ended September 30, 2010. Valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, in effect at the valuation date and include the type of benefits provided at the time of each

Notes to Basic Financial Statements

**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially determined accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The initial OPEB valuation method used for the City was the entry age normal actuarial cost method. This method is used to estimate the actuarial liabilities and costs. This method was selected because it produced the best estimate of the OPEB liability and annual cost for the City employees. The actuarial assumptions include a 4% discount rate. The actuarial assumptions also include an annual healthcare cost trend rate. For the City, this rate begins with an initial rate for 2009-10 fiscal year of 5%. It increases over the years reaching a future year's rate of 6.5%. The assumed retirement age used is 62, and the average salary increase estimate used is 2%. The unfunded actuarial accrued liability is being amortized with a level dollar method. The remaining open amortization period at September 30, 2010 is 29 years.

**NOTE 12 – COMMITMENTS, CONTINGENCIES AND RISK MANAGEMENT**

***Litigation***

The City is a 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, 2010, the agreed upon improvements for Avenue G has been completed.

**NOTE 13 – BUDGETARY DATA**

The City had actual expenditures in excess of budgeted amounts in the general fund for the year ended September 30, 2010. The primary cause of this excess was the receipt and expenditure of unanticipated revenues without a corresponding budget amendment.

City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 14 – OTHER DISCLOSURES**

Budget amounts are adopted only for the operating fund and not for special revenue funds. Since no budget is adopted, a budget to actual comparison has not been prepared for the major special revenue fund.

## Required Supplementary Information

**Schedule of Funding Progress for the Retiree's Health Insurance Other Post Employment Benefits Plan:**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
October 1, 2007	N/A	N/A	N/A	N/A	N/A	N/A
October 1, 2008	N/A	N/A	N/A	N/A	N/A	N/A
October 1, 2009	\$ 0	\$ 587,709	\$ 587,709	0.0%	\$ 918,900	63.96%

**Schedule of Employer Contributions for the Retiree's Health Insurance Other Post Employment Benefits Plan:**

Fiscal Year Ended September 30,	Actual Contribution	Annual Required Contribution	Percentage Contributed
2008	N/A	N/A	N/A
2009	N/A	N/A	N/A
2010	\$ 0	\$ 50,602	0%

## Combining Financial Statements

City of Apalachicola, Florida  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2010

	Library	Local Option Gas Tax	HUD Revolving Loans Fund	Raney House Trust	Total Nonmajor Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 462,888	\$ -	\$ 171,884	\$ -	\$ 634,772
Investments	-	116,019	135,610	8,729	260,358
Due from other funds	-	-	7,790	-	7,790
Accounts receivable, net	-	4,923	-	-	4,923
Notes receivable	-	-	391,422	-	391,422
<b>Total assets</b>	<b>\$ 462,888</b>	<b>\$ 120,942</b>	<b>\$ 706,706</b>	<b>\$ 8,729</b>	<b>\$ 1,299,265</b>
<b>Liabilities and fund equity</b>					
Deferred revenue	\$ -	\$ -	\$ 391,422	\$ -	\$ 391,422
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>391,422</b>	<b>-</b>	<b>391,422</b>
<b>Fund equity</b>					
Fund balances					
Reserved	461,233	120,942	315,284	8,729	906,188
Unreserved	1,655	-	-	-	1,655
<b>Total fund equity</b>	<b>462,888</b>	<b>120,942</b>	<b>315,284</b>	<b>8,729</b>	<b>907,843</b>
<b>Total liabilities and fund equity</b>	<b>\$ 462,888</b>	<b>\$ 120,942</b>	<b>\$ 706,706</b>	<b>\$ 8,729</b>	<b>\$ 1,299,265</b>

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, 2010

	Library	Local Option Gas Tax	HUD Revolving Loans Fund	Raney House Trust	Total Nonmajor Governmental Funds
<b>Revenues</b>					
Taxes	\$ -	\$ 60,275	\$ -	\$ -	\$ 60,275
Investment earnings and other	13,227	269	27,571	12	41,079
<b>Total revenues</b>	<b>13,227</b>	<b>60,544</b>	<b>27,571</b>	<b>12</b>	<b>101,354</b>
<b>Expenditures</b>					
Current operating					
Economic environment	-	-	61,000	-	61,000
Culture and recreation	28,452	-	-	-	28,452
Capital outlay	12,639	-	-	-	12,639
<b>Total expenditures</b>	<b>41,091</b>	<b>-</b>	<b>61,000</b>	<b>-</b>	<b>102,091</b>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<b>(27,864)</b>	<b>60,544</b>	<b>(33,429)</b>	<b>12</b>	<b>(737)</b>
<b>Other financing sources (uses)</b>					
Transfers out	-	(50,048)	(40,800)	(1,487)	(92,335)
Transfers in	19,522	-	-	-	19,522
<b>Total other financing sources (uses)</b>	<b>19,522</b>	<b>(50,048)</b>	<b>(40,800)</b>	<b>(1,487)</b>	<b>(72,813)</b>
<b>Net change in fund balances</b>	<b>(8,342)</b>	<b>10,496</b>	<b>(74,229)</b>	<b>(1,475)</b>	<b>(73,550)</b>
<b>Fund balances - beginning</b>	<b>471,230</b>	<b>110,446</b>	<b>389,513</b>	<b>10,204</b>	<b>981,393</b>
<b>Fund balances - ending</b>	<b>\$ 462,888</b>	<b>\$ 120,942</b>	<b>\$ 315,284</b>	<b>\$ 8,729</b>	<b>\$ 907,843</b>

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, 2010, and have issued our report thereon dated June 30, 2011.

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; 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 30, 2011, 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 governs 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:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not 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 occurred, or are likely to have occurred, 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) deficiencies in internal control 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 this 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 government 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, 2010, filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2010. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(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 City'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 30, 2011

## **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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2011. 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below we identified certain deficiencies in internal control over financial reporting 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 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 consider findings 10-02, 10-04, and 10-05 listed on the accompanying schedule of findings and questioned costs to be material weaknesses in internal control over financial reporting.

A *significant deficiency* is a deficiency, or a 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. We consider findings 10-01 and 10-03 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 schedule of findings and questioned costs. 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 30, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT TO EACH MAJOR PROGRAM 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 City of Apalachicola, Florida's compliance 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* could have a direct and material effect on each of the City's major federal programs and state financial assistance projects for the year ended September 30, 2010. 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 programs 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 program 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 compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended September 30, 2010.

## Internal Control Over Compliance

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 program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, 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 deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program or a state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

*Carri Riggs & Ingram, L.L.C.*

June 30, 2011

City of Apalachicola, Florida  
 Schedule of Expenditures of Federal Awards  
 and State Financial Assistance  
 Year Ended September 30, 2010

Federal/State Agency Pass through entity State Project	CFDA/ CSFA No.	Contract/Grant No.	Expenditures
<b>Federal Awards</b>			
<b>U.S. Department of Agriculture</b>			
Community Facilities Loans and Grants	10.766	FL-00-09	\$ 57,119
Total U.S. Department of Agriculture			57,119
<b>U.S. Department of Housing and Urban Planning</b>			
Passed through the Florida Department of Community Affairs			
Community Development Block Grants	14.228	07DB-3K-02-29-02-NE3	245,000
Total U.S. Department of Housing and Urban Planning			245,000
<b>U.S. Department of Environmental Protection</b>			
Passed through the Florida Department of Environmental Protection			
ARRA - Capitalization Grants for			
Clean Water State Revolving Funds	66.458	95423009-0	2,642,494
Total U.S. Department of Environmental Protection			2,642,494
<b>U.S. Department of Education</b>			
Passed through the Florida Department of Education			
Twenty-First Century Community Learning Centers	84.287	19A-2440A-OPCC1	390,679
Twenty-First Century Community Learning Centers	84.287	19A-2441A-1PCC1	44,290
Total U.S. Department of Education			434,969
<b>U.S. Department of Health and Human Services</b>			
Nutrition Services Incentive Program	93.053	BU011-22	238,881
Total U.S. Department of Health and Human Services			238,881
Total expenditures of federal awards			\$ 3,618,463
<b>State Financial Assistance</b>			
<b>Florida Department of Environmental Protection</b>			
Water management districts - land acquisition	37.022	08-059	\$ 159,199
Statewide Surface Water Restoration and Wastewater Projects			
AWT Improvements	37.039	LP6810	47,909
Clean Water State Revolving Loan Fund	37.039	SG427120	273,388
Total Florida Department of Environmental Protection			480,496
<b>Florida Department of Elder Affairs</b>			
Senior Center - Fixed Capital Outlay - Holy Family	65.013	n/a	125,000
Total Florida Department of Elder Affairs			125,000
<b>Fish and Wildlife Conservation Commission</b>			
Florida Boating Improvement Program - Scipio Creek	77.006	n/a	6,465
Total Fish and Wildlife Conservation Commission			6,465
Total state financial assistance			\$ 611,961

City of Apalachicola, Florida  
 Schedule of Findings and Questioned Costs  
 Year Ended September 30, 2010

**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?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Federal Awards and State Financial Assistance

Internal control over major programs	
Material weakness(es) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> 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	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Identification of major programs:

<u>CFDA/CSFA Number</u>	<u>Name of Federal Award/State Financial Assistance Project</u>
66.458	Capitalization Grants for Clean Water State Revolving Fund
37.039	Statewide Surface Water Restoration and Wastewater Projects

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low risk auditee for federal awards testing?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

(Continued)

**SECTION II - FINANCIAL STATEMENT FINDINGS**

10-01 Need to comply with Budgetary Requirements (prior year 09-01)

Expenditures should not exceed budgeted amounts.

Management's response -

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

10-02 Segregation of Duties (prior year 09-02)

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.

Management's response -

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.

10-03 Cash Needs to be Managed to Eliminate Negative Bank Balances (prior year 09-03)

As of September 30, 2010, two of the City's bank accounts were overdrawn by a total of \$121,408.

Management's response -

The City is currently reviewing its cash management policies and the programs being administered by the City to determine where changes can be made to improve cash flows throughout the year.

10-04 Significant Adjustments to the Financial Records (prior year 09-04)

Adjustments were needed in order for the financial statements to conform with U.S. generally accepted accounting principles.

Management's response -

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.

10-05 Inadequate Design of Internal Control Over Preparation of Financial Statements (prior year 09-05)

Inadequate design of internal control over the preparation of the financial statements being audited gives rise to a material weakness in internal control.

Management's response -

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.

**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 the Florida Single Audit Act.