

# **City of Mexico Beach, Florida**

**Annual Financial Statements  
September 30, 2016**

**Vance CPA LLC**  
**Certified Public Accountants**  
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**CITY OF MEXICO BEACH, FLORIDA**  
**SEPTEMBER 30, 2016**

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## **INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and Members  
of the City Council  
City of Mexico Beach, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mexico Beach, Florida, (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary

comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of net pension liability and the schedule of pension contributions 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 statement, 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.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The comparative schedules as 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 accompanying schedule of expenditures of state financial assistance, as required by Chapter 10.550 Rule of the Auditor General of the State of Florida, and the comparative schedules are presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

*Vance CPA LLC*

**Vance CPA LLC**  
June 27, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

Management's discussion and analysis provides an easily readable analysis of the City'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 \$19,107,841 (net position). Of this amount, \$4,571,875 is unrestricted net position for governmental activities and \$1,100,241 is unrestricted net position for business-type activities, \$1,645,861 is restricted net position for governmental activities and \$3,471,634 is restricted net position for business-type activities.
- Total net position increased by \$2,384,620. Of this amount, \$2,335,240 is attributable to governmental activities and \$49,380 is attributable to business-type activities.
- As of September 30, 2016, the general fund's unassigned fund balance was \$1,726,366 or 40% of total general fund expenditures.
- Governmental activities revenues increased to \$4,526,522 or 63%, while governmental activities expenditures increased to \$4,341,202. Business-type activities revenues decreased to \$3,045,797 or 2%, while business-type activities expenditures increased 25% to \$2,841,322.

### 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 basic 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 basic financial statements* provide additional information concerning the City's finances that are not otherwise disclosed in the government-wide or fund financial statements.

### Government-wide Financial Statements

The *government-wide financial statements* include the *statement of net position* and *statement of activities*. These statements are designed to provide readers with a broad overview of the City's financial position, in a manner similar to that of private-sector companies. Emphasis is placed on the net position of governmental activities and business-type activities, as well as the change in net position. Governmental activities are primarily supported by taxes, utility taxes and franchise fees, and state shared revenues, while business-type activities are supported by charges to the users of those particular activities, such as water, sewer, and sanitation charges.

The *statement of net position* presents information on all assets and liabilities of the City, with the difference between the two reported as *net position*. Assets, liabilities and net position are reported separately for governmental activities and business-type activities. Increases or decreases in net position over time may serve as a useful indicator of the City's improving or declining financial position.

The *statement of activities* presents information on all revenues and expenditures of the City and the change in net position for the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in the statement of activities for some items that will only result in cash flows in future fiscal periods (e.g., uncollected fees and earned, but unused vacation/sick leave).

Expenditures are reported by major function, along with program revenues relating to those functions, providing the net cost of all functions provided by the City. In order to better understand the City's operations, governmental activities expenditures include among others, general government services, public safety, highways and streets, physical environment, human services and parks and recreation. Business-type activities expenses, which are financed by user fees and charges, include water and sewer, and sanitation services.

### **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over the resources that have been segregated for specific activities or objectives. Individual funds have been established by the City 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.

*Fund financial statements* provide financial information for the City's major funds and more detailed information about the City's activities. Governmental fund financial statements provide information on the *current* assets and liabilities of the funds, changes in *current* financial resources (revenues and expenditures), and *current* available resources. The proprietary funds financial statements provide information on all assets and liabilities of the funds, changes in the economic resources (revenues and expenses), and total economic resources.

*Fund financial statements* for all governmental funds include a *balance sheet* and a *statement of revenues, expenditures, and changes in fund balances*. The City's general fund includes a *statement of revenues, expenditures, and changes in fund balances-budget and actual*. For the proprietary funds, a *statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows* are presented.

The *government-wide financial statements* and the *fund financial statements* provide different presentations of the City's financial position. Categorized by governmental activities and business-type activities, the government-wide financial statements provide an overall picture of the City's financial standing. These statements, which are comparable to private-sector companies, provide a good understanding of the City's overall financial health and present the means used to pay for various activities, or functions provided by the City. All assets of the City, including buildings, land, and infrastructure are reported in the *statement of net position*, as well as all liabilities, including outstanding principal on bonds, capital leases, and future employee benefits obligated but not yet paid by the City. The *statement of activities* includes depreciation on all long lived assets of the City, but all transactions between different functions of the City have been eliminated to avoid "doubling up" the revenues and expenditures.

The *fund financial statements* provide a presentation of the City's major funds, along with a column for all non-major funds. In the case of governmental activities, outlays for long lived assets are reported as expenditures and long-term liabilities, such as revenue bonds, are not included in the fund financial statements. To facilitate a comparison between the *fund financial statements* and the *government-wide financial statements*, reconciliation is provided.

The *notes to basic financial statements* provide additional detail concerning the financial activities and financial balances of the City. Additional information about the accounting policies of the City, investments of the City, and long-term debt are just a few of the items included in the notes to basic financial statements.

### Financial Analysis of the City

The following schedule provides a summary of the assets, liabilities and net position of the City at September 30, 2016 and 2015. The City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its governmental and business-type activities.

September 30,	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current/other assets	\$ 5,311,685	\$ 5,148,066	\$ 2,843,002	\$ 3,027,179	\$ 8,154,687	\$ 8,175,245
Capital assets	<u>6,927,656</u>	<u>4,773,189</u>	<u>12,492,397</u>	<u>12,851,722</u>	<u>19,420,053</u>	<u>17,624,911</u>
Total assets	<u>12,239,341</u>	<u>9,921,255</u>	<u>15,335,399</u>	<u>15,878,901</u>	<u>27,574,740</u>	<u>25,800,156</u>
Deferred Outflows	<u>671,751</u>	<u>245,903</u>	<u>246,793</u>	<u>49,225</u>	<u>918,544</u>	<u>295,128</u>
Current liabilities	61,732	153,196	109,939	625,389	171,671	778,585
Noncurrent liabilities	<u>1,710,312</u>	<u>1,208,045</u>	<u>6,698,133</u>	<u>6,577,019</u>	<u>8,408,445</u>	<u>7,785,064</u>
Total liabilities	<u>1,772,044</u>	<u>1,361,241</u>	<u>6,808,072</u>	<u>7,202,408</u>	<u>8,580,116</u>	<u>8,563,649</u>
Deferred Inflows	<u>778,359</u>	<u>780,468</u>	<u>26,968</u>	<u>27,946</u>	<u>805,327</u>	<u>808,414</u>
Net investment in capital assets	6,647,057	4,417,457	6,243,048	5,963,241	12,890,105	10,380,698
Net Position - restricted	241,998	256,525	1,403,863	1,309,589	1,645,861	1,566,114
Net Position - Unrestricted	<u>3,471,634</u>	<u>3,351,467</u>	<u>1,100,241</u>	<u>1,424,942</u>	<u>4,571,875</u>	<u>4,776,409</u>
Total net position	<u>\$ 10,360,689</u>	<u>\$ 8,025,449</u>	<u>\$ 8,747,152</u>	<u>\$ 8,697,772</u>	<u>\$19,107,841</u>	<u>\$16,723,221</u>

Investment in capital assets (e.g., land, buildings, and equipment), net of any related outstanding debt used to acquire those assets, represents the City's largest portion of net position (67%). These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. It should be noted, that although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The *restricted net position*, representing 9% of the City's net position, are subject to external restrictions, and thus are limited as to how they may be used. The remaining balance of *unrestricted net position* \$4,571,875 may be used to help meet the government's ongoing obligations to citizens

and creditors. The following schedule provides a summary of the changes in net position for the years ended September 30, 2016 and 2015.

<b>Changes in Net Position</b>						
<b>Year Ended September 30,</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Program Revenues -						
Charges for services	\$ 153,913	\$ 182,192	\$ 3,048,668	\$ 2,987,674	\$ 3,202,581	\$ 3,169,866
Operating grants/ contributions	355,603	316,551	—	—	355,603	316,551
Capital grants/ contributions	1,757,782	—	—	—	1,757,782	—
General Revenues -						
Taxes	1,666,629	1,655,688	—	—	1,666,629	1,655,688
Utility taxes/franchise fees	440,239	484,003	—	—	440,239	484,003
Occupational and other taxes	61,615	65,431	—	—	61,615	65,431
Interest	4,493	4,633	—	—	4,493	4,633
Other	61,071	64,205	—	—	61,071	64,205
<b>Total revenues</b>	<b><u>4,501,345</u></b>	<b><u>2,772,703</u></b>	<b><u>3,048,668</u></b>	<b><u>2,987,674</u></b>	<b><u>7,550,013</u></b>	<b><u>5,760,377</u></b>
Expenses						
General government	435,224	538,947	—	—	435,224	538,947
Public safety	856,807	702,062	—	—	856,807	702,062
Highways and streets	287,742	333,166	—	—	287,742	333,166
Economic environment	40,300	126,481	—	—	40,300	126,481
Human services	130,472	126,481	—	—	130,472	126,481
Parks and recreation	249,404	185,292	—	—	249,404	185,292
Physical environment	166,156	209,868	—	—	166,156	209,868
Interest on long-term debt	—	37,102	—	—	—	37,102
Water	—	—	1,170,476	901,376	1,170,476	901,376
Sewer	—	—	1,096,523	1,076,081	1,096,523	1,076,081
Sanitation	—	—	732,289	540,593	732,289	540,593
<b>Total expenditures</b>	<b><u>2,166,105</u></b>	<b><u>2,132,918</u></b>	<b><u>2,999,288</u></b>	<b><u>2,518,050</u></b>	<b><u>5,165,393</u></b>	<b><u>4,650,968</u></b>
<b>Change in net position</b>	<b><u>\$ 2,335,240</u></b>	<b><u>\$ 639,785</u></b>	<b><u>\$ 49,380</u></b>	<b><u>\$ 469,624</u></b>	<b><u>\$ 2,384,620</u></b>	<b><u>\$ 1,109,409</u></b>

Governmental activities revenues exceeded expenses by \$2,335,240 while business-type activities revenues exceeded expenses by \$49,380. Total revenues increased \$1,789,636 from the previous year. Total expenses increased \$514,425 from the previous year.

48% of the revenues for governmental activities were generated by taxes, while most of the governmental resources were expended for general government (20%), public safety (40%), physical environment (8%), and highways and streets (13%).

100% of the revenues for the business-type activities were generated from charges for services while water costs made up the majority (39%) of total business-type expenses.

## Financial Analysis of the City's Funds

### Governmental Funds

#### General Fund

The main operating fund of the City is the general fund. As of September 30, 2016, total assets were \$5,311,685 and total liabilities were \$61,732. At the end of fiscal year 2015, unassigned fund balance of the general fund was \$1,726,366.

The general fund budget was amended during the year to reflect increases in expected revenues and the corresponding expected increases in expenditures resulting from changes in capital outlay expenditure expectations.

#### Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in greater detail. All proprietary funds are reported as major funds.

Unrestricted net position of proprietary funds at the end of the year are presented below:

<u>Fund</u>	<u>Unrestricted</u>	
	<u>Net Position</u>	
<u>September 30.</u>	<u>2016</u>	<u>2015</u>
Water	\$ 352,689	\$ 645,623
Sewer	669,070	634,502
Sanitation	78,482	144,817
<b>Total</b>	<b><u>\$1,100,241</u></b>	<b><u>\$ 1,424,942</u></b>

The *water fund* is used to account for the operations and maintenance of the City's water system.

The *sewer fund* is used to account for the operations and maintenance of the City's sewer system.

The *sanitation fund* is used to account for the operations and maintenance of the City's sanitation system.

#### Capital Assets Activity

The following schedule provides a summary of the City's capital assets activity. The City's total investment in capital assets for both its governmental and business-type activities as of September 30, 2016, was \$19,420,053 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

**Capital Assets (net of depreciation)**

<u>Year Ended September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 237,111	\$ 237,111	\$ 288,191	\$ 288,191	\$ 525,302	\$ 525,302
Construction in progress	2,251,539	427,336	5,193,454	—	7,444,993	427,336
Buildings	775,274	617,660	—	—	775,274	617,660
Improvements	3,301,293	2,934,273	6,673,644	12,193,609	9,974,937	15,127,882
Machinery & equipment	<u>362,439</u>	<u>556,809</u>	<u>282,922</u>	<u>315,735</u>	<u>645,361</u>	<u>872,544</u>
Total	<u>\$ 6,927,656</u>	<u>\$ 4,773,189</u>	<u>\$ 12,438,211</u>	<u>\$ 12,797,535</u>	<u>\$ 19,365,867</u>	<u>\$ 17,570,724</u>

Additional information on the City's capital assets can be found in note 6 of the notes to the basic financial statements.

**Debt Management**

At September 30, 2016 the City had total bond debt outstanding of \$5,581,021. This debt represents bonds secured solely by specified revenue sources (i.e., revenue and capital improvement bonds).

**Outstanding Bond Debt**

<u>Year Ended September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Bonds	<u>\$ 280,599</u>	<u>\$ 355,732</u>	<u>\$ 5,300,422</u>	<u>\$ 5,743,453</u>	<u>\$ 5,581,021</u>	<u>\$ 6,099,185</u>

The Florida Constitution and the City of Mexico Beach set no legal debt limits for revenue and capital improvement bonds. More detailed information about the City's liabilities is presented in notes 7 and 8 of the notes to basic financial statements.

**Other financial Information**

"The economic recession with the national economy and tourism had affected the City's tourism industry previously but the City seems to have recovered. The City has begun construction of a New City Hall and has made significant investments in infrastructure and equipment. The City plans to continue to stay ahead of the curve providing further investments into infrastructure and equipment and has developed a strategic plan to drive this replacement process.

**Request for Information**

This report was prepared by the City's finance department. Questions concerning this report or requests for additional information should be addressed to City of Mexico Beach, P.O. Box 13425, Mexico Beach, Florida 32410, attention: Adrian Welle.

## **BASIC FINANCIAL STATEMENTS**

CITY OF MEXICO BEACH, FLORIDA  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2016

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u>	<u>Business-type</u>	
	<u>Activities</u>	<u>Activities</u>	
<b>ASSETS</b>			
Current assets,			
Cash and cash equivalents	\$ 3,337,016	\$ 1,196,337	\$ 4,533,353
Accounts receivable, net	6,739	242,802	249,541
Due from other governmental units	1,561,163	—	1,561,163
Fuel inventory	6,809	—	6,809
Prepaid expense	157,960	—	157,960
Total Current Assets (unrestricted)	<u>5,069,687</u>	<u>1,439,139</u>	<u>6,508,826</u>
Restricted assets			
Cash and cash equivalents	241,998	1,403,863	1,645,861
Total Current Assets (restricted)	<u>241,998</u>	<u>1,403,863</u>	<u>1,645,861</u>
Total Current Assets	<u>5,311,685</u>	<u>2,843,002</u>	<u>8,154,687</u>
Noncurrent assets			
Capacity rights	—	54,187	54,187
Capital assets			
Nondepreciable	2,488,650	288,191	2,776,841
Depreciable, net	4,439,006	12,150,019	16,589,025
Total Noncurrent Assets	<u>6,927,656</u>	<u>12,492,397</u>	<u>19,420,053</u>
Total Assets	<u>12,239,341</u>	<u>15,335,399</u>	<u>27,574,740</u>
<b>DEFERRED OUTLOWS</b>			
Employee Pension Contributions	671,751	246,793	918,544
Total Deferred outflows	<u>671,751</u>	<u>246,793</u>	<u>918,544</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	42,934	85,316	128,250
Payroll liabilities	18,798	12,349	31,147
Accrued interest	—	12,274	12,274
Total Current Liabilities	<u>61,732</u>	<u>109,939</u>	<u>171,671</u>
Noncurrent liabilities			
Due within one year			
Accrued compensated absences	9,917	9,504	19,421
Notes payable after one year	—	146,397	146,397
Bonds payable after one year	61,730	380,279	442,009
Due in more than one year			
Accrued compensated absences	34,655	28,511	63,166
Notes payable after one year	—	802,529	802,529
Bonds payable after one year	218,869	4,920,144	5,139,013
Pension Liability	1,385,141	410,769	1,795,910
Total Noncurrent Liabilities	<u>1,710,312</u>	<u>6,698,133</u>	<u>8,408,445</u>
Total Liabilities	<u>1,772,044</u>	<u>6,808,072</u>	<u>8,580,116</u>
<b>DEFERRED INFLOWS</b>			
Insurance proceeds	640,862	—	640,862
Pension earnings	137,497	26,968	164,465
Total Deferred Inflows	<u>778,359</u>	<u>26,968</u>	<u>805,327</u>
<b>NET POSITION</b>			
Net investment in capital assets	6,647,057	6,243,048	12,890,105
Restricted for:			
Bond retirement	—	339,988	339,988
Law enforcement	1,054	—	1,054
Construction	102,650	—	102,650
Impact fees	138,294	1,063,875	1,202,169
Unrestricted	3,471,634	1,100,241	4,571,875
<b>Total Net position</b>	<u>\$10,360,689</u>	<u>\$ 8,747,152</u>	<u>\$19,107,841</u>

See accompanying notes to the basic financial statements

**CITY OF MEXICO BEACH, FLORIDA  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2016**

		<b>Net (Expense) Revenue and Changes in Net Position</b>					
		<b>Program Revenues</b>			<b>Primary Government</b>		
<b>Functions/Programs</b>	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b>Primary government</b>							
Governmental activities							
General government	\$ 435,224	\$ 106,009	\$ 355,603	\$ —	\$ 26,388	\$ —	\$ 26,388
Public safety	856,807	—	—	—	(856,807)	—	(856,807)
Highways and streets	287,742	12,904	—	463,090	188,252	—	188,252
Economic environment	40,300	—	—	—	(40,300)	—	(40,300)
Human services	130,472	—	—	—	(130,472)	—	(130,472)
Parks and recreation	249,404	35,000	—	1,294,692	1,080,288	—	1,080,288
Physical environment	166,156	—	—	—	(166,156)	—	(166,156)
<b>Total governmental activities</b>	<b><u>2,166,105</u></b>	<b><u>153,913</u></b>	<b><u>355,603</u></b>	<b><u>1,757,782</u></b>	<b><u>101,193</u></b>	<b><u>—</u></b>	<b><u>101,193</u></b>
<b>Business-Type Activities</b>							
Water	1,170,476	1,074,781	—	—	—	(95,695)	(95,695)
Sewer	1,096,523	1,311,468	—	—	—	214,945	214,945
Sanitation	732,289	662,419	—	—	—	(69,870)	(69,870)
<b>Total business-type activities</b>	<b><u>2,999,288</u></b>	<b><u>3,048,668</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>49,380</u></b>	<b><u>49,380</u></b>
<b>Total Primary Government</b>	<b><u>\$ 5,165,393</u></b>	<b><u>\$3,202,581</u></b>	<b><u>\$ 355,603</u></b>	<b><u>\$ 1,757,782</u></b>	<b><u>101,193</u></b>	<b><u>49,380</u></b>	<b><u>150,573</u></b>
<b>General Revenues:</b>							
Taxes:							
Ad valorem					1,666,629	—	1,666,629
Utility					147,851	—	147,851
Local option gas tax					56,433	—	56,433
Occupational and other taxes					5,182	—	5,182
Franchise fees					162,771	—	162,771
Sales tax and other shared revenues					129,617	—	129,617
Miscellaneous					61,071	—	61,071
Interest earnings					4,493	—	4,493
Total General Revenues					<u>2,234,047</u>	<u>—</u>	<u>2,234,047</u>
Changes in Net Position					2,335,240	49,380	2,384,620
Net Position – Beginning of Year					<u>8,025,449</u>	<u>8,697,772</u>	<u>16,723,221</u>
<b>Net Position – End of Year</b>					<b><u>\$10,360,689</u></b>	<b><u>\$ 8,747,152</u></b>	<b><u>\$ 19,107,841</u></b>

See accompanying notes to the basic financial statements

CITY OF MEXICO BEACH, FLORIDA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
YEAR ENDED SEPTEMBER 30, 2016

	<u>General Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 3,337,016
Accounts receivable, net	6,739
Fuel inventory	6,809
Due from other governments	1,561,163
Prepaid expenses	157,960
Cash and cash equivalents - restricted	241,998
<b>Total Assets</b>	<b><u>5,311,685</u></b>
<b>Liabilities, Deferred Inflows and Fund Balance</b>	
<b>Liabilities</b>	
Accounts payable	42,934
Accrued expenses	18,798
<b>Total Liabilities</b>	<b><u>61,732</u></b>
<b>Deferred Inflows</b>	
Deferred inflows – insurance proceeds	640,862
<b>Deferred Inflows</b>	<b><u>640,862</u></b>
<b>Fund balance</b>	
Nonspendable	
Inventory	6,809
Restricted for:	
Impact fees	138,294
Construction	102,650
Law enforcement	1,054
Committed for:	
Boat ramp maintenance	39,011
Public works	599,775
Canal maintenance	812,346
Assigned for:	
Canal maintenance	150,000
Paving and maintenance	1,032,786
Unassigned	1,726,366
<b>Total Fund Balance</b>	<b><u>4,609,091</u></b>

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 6,927,656

Pension liabilities are not due and payable in the current period and therefore, are not reported as liabilities in government funds, nor are related deferred outflows and inflows. (850,887)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (325,171)

**Net Position of Governmental Activities** **\$10,360,689**

See accompanying notes to the basic financial statements

**CITY OF MEXICO BEACH, FLORIDA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2016**

	<b>General Fund</b>
<b>Revenues</b>	
Taxes	\$ 1,876,095
Franchise fees	162,771
Licenses and permits	66,564
Intergovernmental	2,221,262
Fines and forfeitures	10,445
Charges for services	87,196
Rental income	49,227
Miscellaneous revenues	<u>52,962</u>
<b>Total revenues</b>	<b><u>4,526,522</u></b>
<b>Expenditures</b>	
Current operating	
General government	401,851
Public safety	776,366
Highways and streets	258,237
Economic environment	40,300
Physical environment	171,740
Human services	130,472
Parks and recreation	142,333
Capital outlay	2,332,732
Debt service	<u>87,171</u>
<b>Total expenditures</b>	<b><u>4,341,202</u></b>
Net change in fund balance	185,320
<b>Fund balance – beginning</b>	<u>4,423,771</u>
<b>Fund balance - ending</b>	<b><u>\$ 4,609,091</u></b>

See accompanying notes to the basic financial statements

**CITY OF MEXICO BEACH, 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, 2016**

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

Net change in fund balances – total governmental funds.	\$ 185,320
Governmental funds report capital outlays as expenditures. However in the statement of activities the costs of these assets are allocated over their estimated useful lives and reported as depreciation. This is the amount by which depreciation is exceeded by capital outlays in the current period.	2,154,467
Some expenses reported in the statement of activities do not require the current financial resources and, therefore, are not reported as expenditures in governmental funds.	(1,515)
Pension contributions are reported as expenditures in the funds while pension expense is reported in the government-wide statements.	(78,165)
The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also governmental funds report the effect of the issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>75,133</u>
<b>Change in net position of governmental activities</b>	<b><u>\$ 2,335,240</u></b>

See accompanying notes to the basic financial statements

**CITY OF MEXICO BEACH, FLORIDA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCES – BUDGET AND ACTUAL – GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2016**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>Revenues:</b>				
Taxes	\$ 1,904,651	\$ 1,904,651	\$ 1,876,095	\$ (28,566)
Franchise fees	165,037	165,037	162,771	(2,266)
License and permits	24,500	124,500	66,564	(57,936)
Intergovernmental	136,866	5,070,603	2,221,262	(2,849,341)
Fines and forfeitures	2,000	2,000	10,445	8,445
Charges for services	74,000	74,000	87,196	13,196
Rental Income	27,000	27,000	49,227	22,227
Miscellaneous revenues	<u>77,825</u>	<u>91,268</u>	<u>52,962</u>	<u>(38,306)</u>
<b>Total revenues</b>	<u>2,411,879</u>	<u>7,459,059</u>	<u>4,526,522</u>	<u>(2,932,537)</u>
<b>Expenditures:</b>				
Current				
General government	375,335	401,084	401,851	(767)
Public safety	810,175	810,985	776,366	34,619
Highways and streets	303,229	362,451	258,237	104,214
Economic environment	—	600,000	40,300	559,700
Physical environment	236,067	236,067	171,740	64,327
Human services	121,243	121,243	130,472	(9,229)
Culture and recreation	151,655	151,654	142,333	9,321
Capital outlay	752,933	6,112,731	2,332,732	3,779,999
Debt service	<u>118,575</u>	<u>118,575</u>	<u>87,171</u>	<u>31,404</u>
<b>Total expenditures</b>	<u>2,869,212</u>	<u>8,914,790</u>	<u>4,341,202</u>	<u>4,573,588</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(457,333)	(1,455,731)	185,320	1,641,051
<b>Other financing sources (uses)</b>				
Transfers in	—	—	—	—
Transfers out	(268,000)	(268,000)	—	268,000
Installment loan proceeds	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total other financing Sources (uses)</b>	<u>(268,000)</u>	<u>(268,000)</u>	<u>—</u>	<u>268,000</u>
<b>Net change in fund balance</b>	(725,333)	(1,723,731)	185,320	1,909,051
<b>Fund balance - beginning</b>	<u>4,423,771</u>	<u>4,423,771</u>	<u>4,423,771</u>	<u>—</u>
<b>Fund balance - ending</b>	<u><b>\$ 3,698,438</b></u>	<u><b>\$ 2,700,040</b></u>	<u><b>\$ 4,609,091</b></u>	<u><b>\$ 1,909,051</b></u>

See accompanying notes to the basic financial statements

CITY OF MEXICO BEACH, FLORIDA  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2016

<b>Business-type Activities/Enterprise Funds</b>				
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 419,786	\$ 640,158	\$ 136,393	\$ 1,196,337
Accounts receivable (net)	74,816	110,177	57,809	242,802
Due from other funds	—	—	—	—
Due from other governments	—	—	—	—
Total current assets	<u>494,602</u>	<u>750,335</u>	<u>194,202</u>	<u>1,439,139</u>
Restricted assets - cash				
Bond and interest sinking	82,294	257,694	—	339,988
Impact fees	<u>174,627</u>	<u>889,248</u>	<u>—</u>	<u>1,063,875</u>
Total restricted assets - cash	<u>256,921</u>	<u>1,146,942</u>	<u>—</u>	<u>1,403,863</u>
Noncurrent assets				
Capacity rights	—	54,187	—	54,187
Land	17,765	270,426	—	288,191
Property, plant, and equipment	11,333,642	6,954,246	410,714	18,698,602
Less accumulated depreciation	<u>(3,108,476)</u>	<u>(3,200,606)</u>	<u>(239,501)</u>	<u>(6,548,583)</u>
Total noncurrent assets	<u>8,242,931</u>	<u>4,078,253</u>	<u>171,213</u>	<u>12,492,397</u>
Total assets	<u>\$ 8,994,454</u>	<u>\$ 5,975,530</u>	<u>\$ 365,415</u>	<u>\$ 15,335,399</u>
<b>Deferred Outflows</b>				
Employee pension contributions	<u>72,432</u>	<u>94,521</u>	<u>79,840</u>	<u>246,793</u>
Total Deferred Inflows	<u><u>72,432</u></u>	<u><u>94,521</u></u>	<u><u>79,840</u></u>	<u><u>246,793</u></u>

See accompanying notes to the basic financial statements

CITY OF MEXICO BEACH, FLORIDA  
STATEMENT OF NET POSITION (CONTINUED)  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2016

<b>Business-type Activities/Enterprise Funds</b>				
	<b>Water</b>	<b>Sewer</b>	<b>Sanitation</b>	<b>Total</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 64,710	\$ 774	\$ 19,832	\$ 85,316
Accrued compensated absences	4,033	3,360	4,956	12,349
Accrued expenses	2,616	2,385	4,503	9,504
Due to other funds	—	—	—	—
Notes payable, current portion	146,397	—	—	146,397
Bonds payable, current portion	173,653	206,626	—	380,279
<b>Total current liabilities</b>	<u>391,409</u>	<u>213,145</u>	<u>29,291</u>	<u>633,845</u>
Current liabilities payable from restricted assets				
Accrued interest	6,166	6,108	—	12,274
<b>Total current liabilities payable from restricted assets</b>	<u>6,166</u>	<u>6,108</u>	<u>—</u>	<u>12,274</u>
<b>Noncurrent liabilities</b>				
Accrued compensated absences	7,846	7,155	13,510	28,511
Notes payable – due after one year	802,529	—	—	802,529
Bond payable – due after one year	2,563,288	2,356,856	—	4,920,144
Net pension liability	120,962	147,930	141,877	410,769
<b>Total noncurrent liabilities</b>	<u>3,494,625</u>	<u>2,511,941</u>	<u>155,387</u>	<u>6,161,953</u>
<b>Total Liabilities</b>	<u>3,892,200</u>	<u>2,731,194</u>	<u>184,678</u>	<u>6,808,072</u>
<b>Deferred Inflows</b>				
Deferred inflows – utility prepayments	8,012	8,074	10,882	26,968
<b>Total Deferred Inflows</b>	<u>8,012</u>	<u>8,074</u>	<u>10,882</u>	<u>26,968</u>
<b>Net Position</b>				
Net investment in capital assets	4,557,064	1,514,771	171,213	6,243,048
Restricted for				
Bond retirement	82,294	257,694	—	339,988
Impact fees	174,627	889,248	—	1,063,875
Unrestricted	352,689	669,070	78,482	1,100,241
<b>Total Net Position</b>	<u>\$ 5,166,674</u>	<u>\$ 3,330,783</u>	<u>\$ 249,695</u>	<u>\$ 8,747,152</u>

See accompanying notes to the basic financial statements

**CITY OF MEXICO BEACH, FLORIDA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2016**

	<b>Business-type Activities/Enterprise Funds</b>			
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
<b>Operating revenues</b>				
Charges for services	\$ 1,024,320	\$ 1,234,471	\$ 659,892	\$ 2,918,683
New installations	10,920	12,495	—	23,415
Reconnections	9,175	8,205	—	17,380
Impact fees	22,050	54,186	—	76,236
Other utility income	7,556	—	2,527	10,083
Total operating revenue	<u>1,074,021</u>	<u>1,309,357</u>	<u>662,419</u>	<u>3,045,797</u>
<b>Operating expenses</b>				
Personnel services	255,655	322,655	447,859	1,026,169
Professional services	11,170	11,170	7,149	29,489
Utilities	4,601	47,819	104,601	157,021
Insurance	30,770	18,260	8,935	57,965
Repairs and maintenance	34,863	41,045	17,069	92,977
Operating supplies	344,554	61,932	44,842	451,328
Communication services	9,595	675	1,127	11,397
Public utility services	211,117	312,845	—	523,962
Tipping fees	—	—	68,502	68,502
Transportation	—	259	—	259
Rentals	1,402	1,201	—	2,603
Miscellaneous	11,828	6,327	13,952	32,107
Depreciation	<u>169,995</u>	<u>199,295</u>	<u>18,253</u>	<u>387,543</u>
Total operating expenses	<u>1,085,550</u>	<u>1,023,483</u>	<u>732,289</u>	<u>2,841,322</u>
Operating income	<u>(11,529)</u>	<u>285,874</u>	<u>(69,870)</u>	<u>204,475</u>
<b>Nonoperating revenues (expenses)</b>				
Interest income	760	2,111	—	2,871
Interest expense	<u>(84,926)</u>	<u>(73,040)</u>	<u>—</u>	<u>(157,966)</u>
Total non operating revenues (expenses)	<u>(84,166)</u>	<u>(70,929)</u>	<u>—</u>	<u>(155,095)</u>
Change in net position	(95,695)	214,945	(69,870)	49,380
<b>Net position - beginning</b>	<u>5,262,369</u>	<u>3,115,838</u>	<u>319,565</u>	<u>8,697,772</u>
<b>Net position - ending</b>	<u><b>\$ 5,166,674</b></u>	<u><b>\$ 3,330,783</b></u>	<u><b>\$ 249,695</b></u>	<u><b>\$ 8,747,152</b></u>

See accompanying notes to the basic financial statements

CITY OF MEXICO BEACH, FLORIDA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2016

<u>Business-type Activities/Enterprise Funds</u>				
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
<b>Operating Activities</b>				
Receipts from customers and users	\$ 1,089,651	\$ 1,296,542	\$ 648,271	\$ 3,034,464
Payments to suppliers and others	(458,083)	(830,999)	(394,799)	(1,683,881)
Payments for personnel services	(252,669)	(319,197)	(447,859)	(1,019,725)
Net cash provided by operating activities	<u>378,899</u>	<u>146,346</u>	<u>(194,387)</u>	<u>330,858</u>
<b>Capital and Related Financing Activities</b>				
Capital contributions – grants	—	—	—	—
Proceeds from debt	—	—	—	—
Principal paid on bonds	(202,904)	(240,126)	—	(443,030)
Principal paid on notes and leases	(141,915)	—	—	(141,915)
Interest paid on bonds, notes and leases	(90,489)	(74,220)	—	(164,709)
Purchase of capital assets	—	(13,500)	(14,718)	(28,218)
Net cash used in capital and related financing activities	<u>(435,308)</u>	<u>(327,846)</u>	<u>(14,718)</u>	<u>(777,872)</u>
<b>Investing Activities</b>				
Proceeds sale fixed assets	—	—	—	—
Interest received	760	2,111	—	2,871
Net cash provided by investing activities	<u>760</u>	<u>2,111</u>	<u>—</u>	<u>2,871</u>
<b>Net change in cash and cash equivalents</b>	<u>(55,649)</u>	<u>(179,389)</u>	<u>(209,105)</u>	<u>(444,143)</u>
<b>Cash and cash equivalents - beginning</b>	<u>732,356</u>	<u>1,966,489</u>	<u>345,498</u>	<u>3,044,343</u>
<b>Cash and cash equivalents ending</b>	<u>\$ 676,707</u>	<u>\$ 1,787,100</u>	<u>\$ 136,393</u>	<u>\$ 2,600,200</u>

(continued)

See accompanying notes to the basic financial statements

CITY OF MEXICO BEACH, FLORIDA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS (continued)  
YEAR ENDED SEPTEMBER 30, 2016

	<u>Business-type Activities/Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating Income	\$ (11,529)	\$ 285,874	\$ (69,870)	\$ 204,475
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	169,995	199,295	18,253	387,543
(Increase) decrease in assets				
Accounts receivable, net	15,630	(12,815)	(14,148)	(11,333)
Due from other funds	193,681	3,864	736	198,281
Due from other governments	70,830	—	—	70,830
Deferred outflows	(57,815)	(79,605)	(60,140)	(197,560)
(Increase) decrease in liabilities				
Accounts payable	40,524	(108,557)	8,616	(59,417)
Accrued expenses	2,210	1,700	2,992	6,902
Due to other funds	(116,344)	(241,727)	(159,673)	(517,744)
Deferred inflows	(286)	(394)	(298)	(978)
Accrued compensated absences	3,290	4,100	7,667	15,057
Net pension	68,713	94,611	71,478	234,802
Total adjustments	390,428	(139,528)	(124,517)	126,383
<b>Net cash provided by operating activities</b>	<u>\$ 378,899</u>	<u>\$ 146,346</u>	<u>\$ (194,387)</u>	<u>\$ 330,858</u>

See accompanying notes to the basic financial statements

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Mexico Beach (The City) have been prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the standard-setting body that establishes governmental accounting and financial reporting principles.

This summary of the City's significant accounting policies is presented to assist the reader in interpreting the financial statements and other information in this report. These policies are essential and should be read in conjunction with the accompanying financial statements.

**Reporting Entity**

The City is located in eastern Bay County in northwest Florida along the Gulf of Mexico. The City operates under an elected Mayor-Council and a four-member City Council, and serves approximately 1,500 residents by providing human services, community enrichment and development, law enforcement and fire safety, and general administrative services. In addition, the City operates water, sewer and sanitation utilities.

This report includes financial statements of the funds of the City. The reporting entity for the City consists of the primary government, organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. A legally separate tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; and, (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities are, in substance, part of the government's operations and are reported with similar funds of the primary government (see note below for description). Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The City has one component unit as defined by GASB Statement 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34* or in publications cited in the State of Florida, Office of the Auditor General Rules, Rule 10.553. A nonprofit corporation formed by the City's volunteer fire department is considered a component unit of the City. However, its operations and assets are not material to the City's financial statements. Accordingly, the volunteer fire department's operations and financial position are not included in the City's financial statements.

There were 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. The City did not participate in any joint ventures during the year.

The City has issued certain revenue bonds for the purpose of financing of healthcare facilities owned by nonprofit organizations as discussed in note 10. The City is not liable for the repayment of such debt and accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position 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 is 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 funds and enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

- The water fund is used to account for the revenues and costs of collection, treatment and distribution of water services.
- The sewer fund is used to account for the revenues and costs of providing wastewater and sanitary sewer services.
- The sanitation fund is used to account for the revenues and costs of providing sanitation services.

**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 is 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 sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences 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 principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for utility services. Operating expenses of the enterprise fund include the cost 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.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Budgets and Budgetary Accounting**

Annual budgets are legally adopted for all governmental funds and all proprietary funds. Budgets are prepared and adopted on a basis of accounting consistent with U.S. generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

Florida Statutes provide that it is unlawful to make expenditures that exceed the total amount budgeted for each fund. Chapter 166 Florida Statutes governs the manner in which the budget may be legally amended once it has been approved. Therefore, the fund level is the legal level of control for budget considerations according to Florida Statutes.

The City budgets expenditures at the department level. Only the City Council can approve budget amendments that change the total approved budget appropriation of an individual department. Department managers can transfer appropriations within the departmental budget, but cannot change the total appropriation of an individual department without the approval of the City Council.

If during the fiscal year, additional revenue becomes available for appropriations in excess of those estimated in the budget, the Council by resolution may make supplemental appropriations for the year up to the amount of such excess. During the current fiscal year, various supplemental appropriations were approved by the Council in accordance with Florida Statutes.

Budgetary data presented in the accompanying basic financial statements in the final budgeted amounts column represents the final budgetary data. In this column the effects of budget amendments have been applied to original budgetary data.

***Encumbrances***

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is used in the governmental funds. However, all encumbrances lapse at year end and, accordingly, a reserve for encumbrances is not reported in the accompanying basic financial statements.

Encumbrances are reestablished at the beginning of the fiscal year if funds are appropriated in the annual budget. Encumbrances do not constitute expenditures or liabilities.

***Cash and Temporary Cash Investment***

The City considers certificates of deposit and highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Accounts Receivable***

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The City estimates there are no uncollectible accounts. Therefore, the City is of the opinion an allowance for doubtful accounts are not necessary. Unbilled amounts are not 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 in the governmental funds and the proprietary funds. Inventory in the governmental funds consists of fuel held for use by all departments and funds. Inventory is valued at the lower of cost using the first-in, first-out (FIFO) method or market.

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, right of ways, storm water system, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Property, plant and equipment with initial individual costs that exceed \$750 and estimated useful lives in excess of one year are recorded as capital assets. Infrastructure such as roads, bridges and sidewalks are capitalized when their initial costs exceed \$25,000 and possess estimated useful lives in excess of one year. Capital assets are recorded at historical cost whether purchases or constructed or estimated cost if historical cost is unknown. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend its useful life are not capitalized.

Depreciation is recorded on the straight-line basis over the estimated useful lives of assets generally as follows:

Buildings	20-50 Years
Improvements other than buildings	20-50 Years
Equipment	3-15 Years
Infrastructure	10-50 Years

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

***Unamortized Discounts***

Bond discounts associated with the issuance of proprietary fund bonds are amortized over the life of the bonds using the straight-line method for financial reporting, unamortized bond discounts are netted against the applicable long-term debt.

***Accrued Compensated Absences***

All full-time employees earn two weeks vacation per year (which cannot be taken until 6 months of probationary service are completed), 14 days after 5 years, 18 days after 11 years, and 20 days after 15 years. Annual leave may be accumulated at a maximum of 25 days per calendar year. Employees who have completed their probationary period are eligible for payment of accumulated annual leave not to exceed a maximum of 25 days upon their separation from the City. Employees with one year of service may request payment of their hourly rate times a maximum of 50 percent of the employee's annually accrued vacation time up to sixty hours per year.

Six hours of sick leave is earned for each month of employment and is cumulative. Sick leave cannot be used until the probationary status is completed and regular status is attained. Sick leave is only eligible for permanent employees. Employees who have worked for the City more than ten years are eligible for payment of unused sick leave and shall be compensated at the employee's current regular hourly rate of pay for one-fifth (1/5) of all unused sick leave credits accrued. Employees with less than ten years of service shall not be compensated upon termination.

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. This is accounted for pursuant to GASB Statement 16, *Accounting for Compensated Absences*.

***Property Taxes***

Property taxes consist of ad valorem taxes on real and personal property within the City. Property values are determined by the Bay County Property Appraiser. 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, 2016, was 4.927 mills. The tax levy of the City is established by the City Council prior to October 1 of each year.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Property tax revenue is recognized when taxes are received by the City. Because any delinquent taxes collected after September 30 would not be material, delinquent taxes due are not accrued at year end. The City's tax calendar is as follows:

Lien date:	January 1
Levy date:	Not later than October 1
Delinquent date:	April 1 of year following assessment
Discount periods:	November through February (up to 4%)
Collection dates:	November 1 through March 31

Property taxes are collected by the Bay 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.

***Deferred Inflows***

Deferred inflows reported in the government-wide, and proprietary funds financial statements represent unearned revenues. The deferred inflows will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred inflows 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.

***Deferred Outflows***

Deferred outflows of resources represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense or expenditure) until then. The deferred outflows of resources reported in the City's Statement of Net Position represent pension related balances for changes in actuarial assumptions, the net difference between projected and actual earnings on Health Insurance Subsidy differences between the City's contributions and proportionate share of contributions, and the City's contributions subsequent to the measurement date, relating to the Florida Retirement System Pension Plan and the Retiree Health Insurance Subsidy Program. These amounts will be recognized as increases in pension expense in future years.

***Fund Balance***

The City has implemented GASB Statement 54 employing the following terminology and classifications for fund balance.

**Nonspendable Fund Balance** – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**Restricted Fund Balance** – includes amounts that have constraints placed on the use of the resources that are either (a) externally imposed by creditors, grantors, contributors or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Committed Fund Balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the City Council, the City’s highest level of decision-making authority. Commitments may only be modified or removed by formal resolution of the City Council.

Assigned Fund Balance – includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. These are resources that have been set aside for a specific purpose by an authorized government body or official.

Unassigned Fund Balance – is represented by the residual classification of the General Fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund.

***Restricted Assets***

Certain assets of the various funds are required by resolutions and ordinances to be set aside and used for specific purposes; thus, they are not available to be used for general operations. When both restricted and unrestricted resources are available for use it is the government’s policy to use externally restricted resources first, then unrestricted resources, committed, assigned, and unassigned – in order as needed.

**Net Position**

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was implemented in the current year. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and this standard renames the components of net position which were previously considered net assets.

Net position is classified in three categories. The general meaning of each is as follows:

- a. Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that do not meet the definition of restricted or net investment in capital assets.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In the fund financial statements, governmental funds report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

***Use of Estimates***

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

***Subsequent events***

The City evaluated subsequent events through June 27, 2017, the date which the financial statements were available to be issued. The City did not have any subsequent events requiring disclosure or recording in these financial statements.

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position:

The governmental funds balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position of governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, “capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.” The details of this difference are as follows:

Cost of capital assets	\$9,502,204
Less: accumulated depreciation	<u>(2,574,548)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position of governmental activities</i>	<u>\$6,927,656</u>

Another element of that reconciliation states, “long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.” The details of this difference are as follows:

Bonds payable	\$ 280,599
Compensated absences	<u>44,572</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position of governmental activities</i>	<u>\$ 325,171</u>

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

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

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of these assets are allocated over their estimated useful lives and reported as depreciation.” The details of this difference are as follows:

Capital outlay	\$ 2,332,720
Depreciation expense	<u>(178,253)</u>
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	<u>\$ 2,154,467</u>

Another element of that reconciliation states, “some expenses reported in the statement of activities do not require the use of current financial resource and, therefore, are not reported as expenditures in governmental funds.” The details of these differences are as follows:

Compensated absences	<u>\$ (1,515)</u>
Net adjustment to decrease <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	<u>\$ (1,515)</u>

Another element of that reconciliation states, “the issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)**

The details of these differences are as follows:

Principal repayments	
Bonds	\$ 75,133
Net adjustment to decrease <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	<u>\$ 75,133</u>

**NOTE 3 – CASH AND INVESTMENTS**

The City's cash and cash equivalents include cash on hand, demand deposits, and highly liquid debt instruments with original maturities of three months or less.

***Investment Policies***

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

- The local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in Section 163.01
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02.
- Direct obligations of the U.S. Treasury.

Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss.80a-1 et. seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

The City had no investments at September 30, 2016

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - CASH AND INVESTMENTS (continued)**

***Interest Rate Risk***

At September 30, 2016, the City did not hold any deposits or investments other than those disclosed below that were considered to be an interest rate risk.

***Credit Risk***

At September 30, 2016, the City did not hold any deposits or investments other than those disclosed below that were considered to be a credit risk.

***Custodial Risk***

At September 30, 2016, the City did not hold any deposits or investments that were considered to be a custodial risk.

***Concentration of Credit Risk***

As September 30, 2016, the City did not hold any investments that were considered to be a concentration of credit risk.

**NOTE 4- ACCOUNTS RECEIVABLE, NET**

At September 30, 2016, accounts receivable in the governmental funds are summarized as follows:

Total accounts receivable	\$	6,739
<u>Less: allowance for doubtful accounts</u>		<u>—</u>
<u>Net accounts receivable</u>	<u>\$</u>	<u>6,739</u>

At September 30, 2016, accounts receivable in the proprietary funds are summarized as follows:

Accounts receivable	\$	242,802
<u>Less: allowance for doubtful accounts</u>		<u>—</u>
<u>Net accounts receivable</u>	<u>\$</u>	<u>242,802</u>

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6- CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2016, was as follows:

	<u>September 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2016</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 237,111	\$ —	\$ —	\$ 237,111
Construction in progress	427,336	1,824,203	—	2,251,539
Total capital assets, not being depreciated	<u>664,447</u>	<u>1,824,203</u>	<u>—</u>	<u>2,488,650</u>
Capital assets being depreciated:				
Buildings	810,600	179,670	—	990,270
Improvements	3,627,161	461,310	—	4,088,471
Machinery and equipment	2,067,276	—	(132,463)	1,934,813
Total capital assets being depreciated	<u>6,505,037</u>	<u>640,980</u>	<u>(132,463)</u>	<u>7,013,554</u>
Less accumulated depreciation for:				
Buildings	(192,940)	(22,056)	—	(214,996)
Improvements	(692,888)	(94,290)	—	(787,178)
Machinery and equipment	(1,510,467)	(61,907)	—	(1,572,374)
Total accumulated depreciation	<u>(2,396,295)</u>	<u>(178,253)</u>	<u>—</u>	<u>(2,574,548)</u>
Capital assets, being depreciated (net of accumulated depreciation)	<u>4,108,742</u>	<u>462,727</u>	<u>(132,463)</u>	<u>4,439,006</u>
<b>Total Governmental activities, capital assets, (net of accumulated depreciation)</b>	<b><u>\$ 4,773,189</u></b>	<b><u>\$ 2,286,930</u></b>	<b><u>\$ (132,463)</u></b>	<b><u>\$ 6,927,656</u></b>
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 288,191	\$ —	\$ —	\$ 288,191
Construction in progress	5,193,454	—	—	5,193,454
Total capital assets, not being depreciated	<u>5,481,645</u>	<u>—</u>	<u>—</u>	<u>5,481,645</u>
Capital assets being depreciated:				
Buildings	10,606	—	—	10,606
Improvements	12,555,253	13,500	—	12,568,753
Machinery and equipment	911,071	14,718	—	925,789
Total capital assets being depreciated	<u>13,476,930</u>	<u>28,218</u>	<u>—</u>	<u>13,505,148</u>
Less accumulated depreciation				
Buildings	(10,606)	—	—	(10,606)
Improvements	(5,555,098)	(340,011)	—	(5,895,109)
Machinery and equipment	(595,335)	(47,532)	—	(642,867)
Total accumulated depreciation	<u>(6,161,039)</u>	<u>(387,543)</u>	<u>—</u>	<u>(6,548,582)</u>
Total capital assets being depreciated, net	<u>7,315,891</u>	<u>(359,325)</u>	<u>—</u>	<u>6,956,566</u>
<b>Total business-type activities', capital assets, (net of accumulated depreciation)</b>	<b><u>\$ 12,797,536</u></b>	<b><u>\$ (359,325)</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 12,438,211</u></b>

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - CAPITAL ASSETS (continued)**

	<u>September 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2016</u>
	<u>Sanitation Fund</u>	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Land	\$ —	\$ 270,426	\$ 17,765	\$ 288,191
Construction in progress	—	—	5,193,454	5,193,454
Buildings	—	—	10,606	10,606
Improvements	—	6,887,774	5,680,979	12,568,753
Machinery and equipment	410,714	66,472	448,603	925,789
<b>Total</b>	<u>410,714</u>	<u>7,224,672</u>	<u>11,351,407</u>	<u>18,986,793</u>
Less accumulated depreciation				
Buildings	—	—	(10,606)	(10,606)
Improvements	—	(3,166,761)	(2,728,348)	(5,895,109)
Machinery and equipment	(239,500)	(33,844)	(369,523)	(642,867)
<b>Total accumulated depreciation</b>	<u>(239,500)</u>	<u>(3,200,605)</u>	<u>(3,108,477)</u>	<u>(6,548,582)</u>
<b>Total business-type activities', capital assets, (net of accumulated depreciation)</b>	<u>\$ 171,214</u>	<u>\$ 4,024,067</u>	<u>\$ 8,242,930</u>	<u>\$ 12,438,211</u>

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

General government	\$ 6,236
Public safety	30,474
Highways and streets	23,497
Physical environment	18,975
Parks and recreation	99,071
<b>Total depreciation expense-governmental activities</b>	<u><b>\$ 178,253</b></u>

Depreciation expense was charged to business-type activities functions/programs of the primary government as follows:

Water	\$ 169,995
Sewer	199,295
Sanitation	18,253
<b>Total depreciation expense-business-type activities</b>	<u><b>\$ 387,543</b></u>

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7- LONG - TERM DEBT – GOVERNMENTAL ACTIVITIES**

Long-term obligations and debt at September 30, 2016, are as follows:

	Balance September 30, 2015	Additions	Deductions	Balance September 30, 2016	Due Within One Year
<b>Bonds Payable</b>					
2009 Utility Systems Refunding Bonds, to refund note payable to City of Gulf Breeze, Florida Capital funding loan program. Payable in quarterly payments including interest at 4.48% and maturing in April 2021. (See (B) in note 8).	266,753	—	(57,860)	208,893	46,256
2009 Capital improvement Bonds, to refund note payable to City of Gulf Breeze, Florida Capital funding loan program. Payable in quarterly payments including interest at 4.48% and maturing in April 2021. (See (C) in note 8).	88,979	—	(17,273)	71,706	15,474
<b>Total bonds payable</b>	<b>355,732</b>	<b>—</b>	<b>(75,133)</b>	<b>280,599</b>	<b>61,730</b>
Liability for compensated absences	43,057	1,515	—	44,572	9,917
<b>Total governmental activities</b>					
<b>Long-term obligations</b>	<b>\$ 398,789</b>	<b>\$ 1,515</b>	<b>\$ (75,133)</b>	<b>\$ 325,171</b>	<b>\$ 71,647</b>

Debt service requirements to maturity for the governmental funds at September 30, 2016 are as follows:

Year Ending September 30,	Governmental Funds		
	Principal	Interest	Total
2017	\$ 61,730	\$ 12,257	\$ 73,987
2018	64,535	9,466	74,001
2019	67,467	6,548	74,015
2020	70,532	3,497	74,029
2021	16,335	561	16,896
<b>Total</b>	<b>\$ 280,599</b>	<b>\$ 32,329</b>	<b>\$ 312,928</b>

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8- LONG - TERM DEBT – BUSINESS-TYPE ACTIVITIES**

	Original Issue	Balance September 30, 2015	Additions	Reduction	Balance September 30, 2016	Due Within One Year
2013 USDA Bonds See (D) below.	\$ 2,153,000	\$ 2,124,000	\$ —	\$ (31,440)	\$ 2,092,560	\$ 32,000
2009 Utility System Refunding Bonds. See (B) below.	2,490,000	1,303,312	—	(282,494)	1,020,818	225,841
2009 Capital Improvement Bonds. See (C) below.	830,001	434,541	—	(84,335)	350,206	75,548
4.875% Sewer System Junior Lien Revenue Bonds, Series 2000, to improve sewer system. See (A) below.	2,303,100	1,881,600	—	(44,762)	1,836,838	46,890
<b>Total bonds payable business-type activities</b>		<b>\$ 5,743,453</b>	<b>\$ —</b>	<b>\$ (443,031)</b>	<b>\$ 5,300,422</b>	<b>\$ 380,279</b>

A synopsis of long-term debt covenants for the water and sewer bonds follows:

- A. Water and Sewer Revenue Bonds, Series 2000 - The bonds are secured by a junior and subordinate pledge of gross revenues of the system. The bonds are due in annual installments each through September 1, 2039; interest at 4.875% per annum is payable annually on September 1.
- B. 2009 Utility Refunding Bond, Series 2009 - These bonds were issued to refund the Series 1979, 1980, 1982, and 1995 bonds and the note payable to City of Gulf Breeze, Florida. The bonds mature annually through April 1, 2021. Interest at 4.48% per annum is payable each July 1. The bonds are secured by pledged revenue consisting of net revenue of the water and sewer system, such amounts of non-advalorem revenues as shall be budgeted and appropriated for the payment of the 2009 Utility Note, and any proceeds from the 2009 Utility Note held in any of the funds and accounts created.
- C. 2009 Capital Improvements Bond, Series 2009 - These bonds were issued to refund the Series 1979, 1980, 1982, and 1995 bonds and the note payable to City of Gulf Breeze, Florida. The bonds mature annually through April 1, 2021. Interest at 4.48% per annum is payable each July 1. The bonds are secured by pledged revenue consisting of such amounts of non-advalorem revenues as shall be budgeted and appropriated for the payment of the 2009 Capital Improvements Bond, and any proceeds from the 2009 Capital Improvements Bond held in any of the funds and accounts created.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8- LONG - TERM DEBT – BUSINESS-TYPE ACTIVITIES**

D. 2013 USDA Bond, Series 2013 - These bonds were issued to construct a (water) (waste) system. The bonds mature annually through September 1, 2052. Interest at 2.75% per annum is payable each September 1. The bonds are secured by pledged revenue consisting of net revenue of the water and sewer system.

There are a number of limitations and restrictions contained in the various bond indentures, including the establishment of specified debt service sinking and reserve accounts. The City is in compliance with all significant limitations and restrictions.

Debt service requirements to maturity on revenue and capital improvement bonds payable at September 30, 2016.

<b>Year Ending September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 380,279	\$ 199,759	\$ 580,038
2018	397,200	182,978	580,178
2019	414,850	165,443	580,293
2020	433,262	147,119	580,381
2021	173,265	131,058	304,323
2022-2026	522,240	593,514	1,115,754
2027-2031	641,274	480,291	1,121,565
2032-2036	788,540	339,980	1,128,520
2037-2041	645,952	176,751	822,703
2042-2046	374,000	101,784	475,784
2047-2051	438,000	48,247	486,247
2052	91,560	2,456	94,016
<b>Total</b>	<b><u>\$ 5,300,422</u></b>	<b><u>\$ 2,569,380</u></b>	<b><u>\$ 7,869,802</u></b>

**Notes Payable**

	<b>Balance September 30, 2015</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance September 30, 2016</b>	<b>Due Within One Year</b>
Florida Department of Environmental Protection state revolving fund loan. Repayable over 20 years upon completion of water system improvements. See (A) below.	\$ 1,090,841	\$ —	\$ (141,915)	\$ 948,926	\$ 146,398
<b>Total notes payable</b>					
<b>Enterprise -</b>	<b><u>\$ 1,090,841</u></b>	<b><u>\$ —</u></b>	<b><u>\$ (141,915)</u></b>	<b><u>\$ 948,926</u></b>	<b><u>\$ 146,398</u></b>

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8- LONG - TERM DEBT – BUSINESS-TYPE ACTIVITIES**

A synopsis of significant enterprise fund notes payable follows:

- A. The note payable to the State Revolving Fund was made to the City for the purpose of financing the cost of replacing public water system lines. The loan is repayable over 20 years in semiannual installments each January 15 and July 15 of \$87,214 including interest at 3.08%. The loan is secured by pledged revenues of water charges by the utility fund.

Business-type debt service requirements to maturity on notes payable at September 30, 2016 are as follows:

<b>Year Ending September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 146,397	\$ 28,032	\$ 174,429
2018	150,928	23,501	174,429
2019	155,600	18,829	174,429
2020	160,416	14,013	174,429
2021	165,381	9,048	174,429
2022	170,204	3,929	174,133
<b>Total</b>	<b>\$ 948,926</b>	<b>\$ 97,352</b>	<b>\$ 1,046,278</b>

**Compensated absences**

	<b>Balance September 30, 2015</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance September 30, 2016</b>	<b>Due Within One Year</b>
Liability for compensated absences	\$ 17,939	\$ 20,076	\$ —	\$ 38,015	\$ 9,504

**NOTE 9 – FUND EQUITY**

***Net Asset Restrictions***

The government-wide statement of net position for governmental activities reports \$241,998 of restricted net position, all of which is restricted by enabling legislation. Business-type activities reports \$1,403,863 of restricted net position, of which, \$1,063,875 is restricted by enabling legislation.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 – FUND EQUITY (continued)**

***Restricted Fund Equity***

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

<b>Funds</b>	<b>Purpose</b>	<b>Amount</b>
General fund	Impact fees	\$ 138,294
General fund	Law enforcement	1,054
General fund	Construction	102,650
Water fund	Debt service	82,294
Water fund	Impact fees	174,627
Sewer fund	Debt service	257,694
Sewer fund	Impact fees	889,248
<u>Total restricted fund equity</u>		<u>\$ 1,645,861</u>

**NOTE 10- COMMITMENTS AND CONTINGENCIES**

***Litigation***

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

***Contingent Liability***

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

***Conduit Debt Obligations***

The City is authorized by the provisions of Chapter 159, Part II, Florida Statutes to make and execute financing agreements which provide assistance to qualified nonprofit corporations to finance and refinance healthcare facilities and other projects described in Section 159.27, Florida Statutes. In December 1997, the City sponsored a \$150,000,000 local government floating rate bond issue from which the proceeds were used to make variable rate loans to those entities described above. Any loans issued for financing these projects are secured by a pledge of the revenue derived from the projects and security interests in such projects.

The bonds are secured by the property finances and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11- PENSION PLAN**

**A. Florida Retirement System**

*Plan Description* – The County contributes to the Florida Retirement System (the FRS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Florida, Department of Administration, Division of Retirement. The FRS provides retirement, disability or death benefits to retirees or their designated beneficiaries along with an annual cost-of-living adjustment. Employees are classified in either the regular service class or the senior management service class. Currently, the active participants for Port St. Joe, Florida are 173 out of total of 512,909 active FRS participants.

The Florida Legislature created the Florida Retirement Investment Plan (the “investment Plan”), a defined contribution plan qualified under Section 401 (a) of the Internal Revenue Code. The Investment Plan is administered by the Department of Management Services and is an alternative available to members of the Florida Retirement System in lieu of participation in the defined benefit retirement plan (“the Pension Plan”). If the Investment Plan is elected, active membership in the Pension Plan is terminated. Eligible members of the Investment Plan are vested at one year of service and receive a contribution in an investment product with a third party administrator selected by the State Board of Administration.

Chapter 121, *Florida Statutes*, establishes the authority for benefit provisions and contribution requirements. Changes to the law can only occur through an act of the Florida Legislature. There are uniform contribution rates as discussed on the following page that cover both the defined benefit and defined contribution plans. Information for the required employer contributions made to the Investment Plan were unavailable from FRS.

*Additional Financial and Actuarial Information* – Additional audited financial information supporting the Schedules of Employer Allocations and the Schedule of Pension Amounts by Employer is located in the Florida Comprehensive Annual Financial Report (CAFR) and in the Florida Retirement System Pension Plan, and Other State-Administered Systems CAFR.

See <http://www.myfloridacfo.com/Division/AA/Reports/default.htm> for an available copy of the Florida CAFR online.

The FRS CAFR and actuarial valuation reports as of July 1, 2016 are available online at [http://ww.dms.myflorida.com/workforce\\_operations/retirement/publications/annual\\_reports](http://ww.dms.myflorida.com/workforce_operations/retirement/publications/annual_reports).

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11- PENSION PLAN (continued)**

Reports may also be obtained by contacting the Division of Retirement at:

Department of Management Services  
Division of Retirement  
Bureau of Research and Member Communications  
P O Box 9000  
Tallahassee, Florida 32315-900  
850-488-4706 or toll free at 877-377-1737

*Funding Policy* – Prior to July 1, 2011, the FRS was employee noncontributory. Beginning July 1, 2011, employees who are not participating in the Deferred Retirement Option Plan (DROP) are required to contribute 3% of their salary to the FRS. The County is required to contribute at an actuarially-determined rate.

The FRS relies upon contributions from employees and employers, along with investment income, to meet the funding requirements of an actuarially determined accrued liability. As of July 1, 2016, the date of the latest valuation, the FRS funded ratio was 86.50% on the valuation funding basis and 89.70% on a Market Value of Assets basis.

The County also participates in the Retiree Health Insurance Subsidy (HIS) Program, a cost sharing, multiple-employer defined benefit pension plan established under Section 112.363, *Florida Statutes*. The benefit is a monthly cash payment to assist retirees of state-administered retirement systems in paying their health insurance costs.

In addition to the above benefits, the FRS administers a Deferred Retirement Option Program (“DROP”). This program allows eligible employees to defer receipt of monthly retirement benefit payments while continuing employment with a Florida Retirement System employer for a period not to exceed 60 months after electing to participate. DROP benefits are held in the FRS Trust Fund and accrue interest.

The HIS Program is funded by required contributions from FRS participating employers as set by the State Legislature. Employer contributions are a percentage of gross compensation for all active FRS employees and are reported by employers with monthly payroll reports and included with the amount submitted for retirement contributions. For the fiscal year ended September 30, 2016, the contribution rate was 1.66% of payroll pursuant to Section 112.363, *Florida Statutes*.

The contributions required for the years ended September 30, 2016, 2015, and 2014 were \$172,086, \$169,027 and \$138,668, respectively, which is equal to 100% of the required contribution for each year.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11- PENSION PLAN (continued)**

***Contributions***

The contribution requirements of plan members and the City are established and may be amended by the Florida Legislature. Employees are required to contribute 3% of their salary to FRS. The City's contribution rates as of September 30, 2016 were as follows:

	FRS	HIS
Regular Class	7.52%	1.66%
Special Risk Class	22.57%	1.66%
Senior Management Service Class	21.77%	1.66%
Elected Officials	42.47%	1.66%
DROP	12.99%	1.66%

*Net Pension Liability* – At September 30, 2016, the City reported for its share of the FRS and HIS plans the amount for the net pension liability as shown below:

	<u>FRS</u>	<u>HIS</u>	<u>Total</u>
June 30, 2016	\$1,269,994	\$ 525,915	\$1,795,909
June 30, 2015	\$ 612,261	\$ 442,717	\$1,054,978

The net pension liability for each plan was determined by the plans' actuary and reported in the plans' valuations dated July 1, 2016 and July 1, 2015 for the net pension liability as of June 30, 2016 and 2015, respectively.

At September 30, 2016, the City reported for its proportionate share of the employer portion for the FRS and HIS net pension liability the percentages below:

	<u>FRS</u>	<u>HIS</u>
June 30, 2016	0.005029665%	0.004512518%
June 30, 2015	0.004740202%	0.004341030%
Increase in Share for 2016	0.000289463%	0.000171487%

The City's proportionate share of the net pension liability was based on the City's 2015-2016 fiscal year contributions relative to the 2014-2015 fiscal year contributions of all participating members of FRS.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11- PENSION PLAN (continued)**

***Actuarial Assumptions***

The total pension liability for each of the defined benefit plans, measured as of June 30, 2016, was determined by an actuarial valuation dated July 1, 2016, using the individual entry age normal actuarial cost method and the following significant actuarial assumptions:

	FRS	HIS
Inflation	2.60%	2.60%
Salary increases	3.25%	3.25%
Investment rate of return	7.60%	N/A
Discount rate	7.60%	2.85%

Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB.

For both plans, the actuarial assumptions used in the valuation dated July 1, 2016 were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The following changes in key actuarial assumptions occurred in 2016:

FRS: The long-term expected rate of return was decreased from 7.65% to 7.6%, and the active member mortality assumption was updated.

HIS: The municipal rate used to determine total pension liability was decreased from 3.8% to 2.85%.

The long-term expected investment rate of return was not based on historical returns, but instead was based on a forward-looking capital market economic model. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. For the FRS Pension Plan, the table below summarizes the target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class.

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>
Cash	1.00%	3.0%	3.0%
Fixed Income	18.00%	4.7%	4.6%
Global Equity	53.00%	8.1%	6.8%
Real Estate (Property)	10.00%	6.4%	5.8%
Private Equity	6.00%	11.5%	7.8%
Strategic Investments	12.00%	6.1%	5.6%
Total	<u>100.00%</u>		

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11- PENSION PLAN (continued)**

***Discount Rate***

The discount rate used to measure the total pension liability for the FRS Pension Plan was 7.6%. FRS fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Because the HIS Program is essentially funded on a pay-as-you-go basis, a municipal bond rate of 2.85% was used to determine the total pension liability for the program. The Bond Buyer General Obligation Bond 20-Bond Municipal Bond Index was used as the applicable municipal bond index.

*Sensitivity Analysis* – the tables below represent the sensitivity of the net pension liability to changes in the discount rate for Port St. Joe, Florida. The sensitivity analysis shows the impact to the collective net pension liability of the participating employers if the discount rate shows as 1.00% higher or 1.00% lower than the current discounted rate at June 30, 2016.

FRS Net Pension Liability		
1% Decrease	Current Discount Rate	1% Increase
6.60%	7.60%	8.60%
\$2,338,146	\$ 1,269,994	\$ 380,900

HIS Net Pension Liability		
1% Decrease	Current Discount Rate	1% Increase
1.85%	2.85%	3.85%
\$ 603,344	\$ 525,915	\$ 461,653

*Pension Expense and Deferred Outflows (Inflows) of Resources* – In accordance with GASB 68, paragraph 71, changes in the net pension liability are recognized as pension expense in the current measurement period with the following exceptions shown below. For each of the following, a portion is recognized in pension expense in the current measurement period, and the balance is amortized as deferred outflows or inflows of resources using rational method over a time period, as defined below:

- Differences between expected and actual experience with regard to economic and demographic factors which are amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan, both active and inactive.
- Changes of Assumptions or other inputs which are amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan, both active and inactive.
- Differences between expected and actual earnings on pension plan investments are amortized over five years.

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11- PENSION PLAN (continued)**

For the fiscal year ended September 30, 2016, the County recognized pension expense of \$193,647 for the FRS plan. In addition the County reported deferred outflows of resources and deferred inflows of resources relate to pensions from the following sources:

<b>Description</b>	<b>Deferred Outflows of Resources for the FRS Plan</b>	<b>Deferred Inflows of Resources for the FRS Plan</b>
Differences between expected and actual experience	\$ 97,241	\$ (11,825)
Change of assumptions	76,831	—
Net difference between projected and actual earnings on FRS Plan investments	584,244	(255,966)
Changes in proportion and differences between City FRS Plan contributions and proportionate share of contributions	110,720	(5,244)
City FRS Plan contributions subsequent to the measurement date	<u>36,183</u>	<u>—</u>
Total	<u>\$ 905,219</u>	<u>\$ (273,035)</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

<b>Reporting Period Ending June 30</b>	<b>FRS Expense</b>
2017	\$ 67,567
2018	67,567
2019	195,551
2020	133,833
2021	19,685
Thereafter	6,321

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11- PENSION PLAN (continued)**

For the fiscal year ended September 30, 2016, the City recognized pension expense of \$43,697 for the HIS plan. In addition the City reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources for the HIS Plan</u>	<u>Deferred Inflows of Resources for the HIS Plan</u>
Differences between expected and actual experience	\$ —	\$ (1,198)
Change of assumptions	82,529	—
Net difference between projected and actual earnings on HIS Plan investments	266	—
Changes in proportion and differences between City HIS Plan contributions and proportionate share of contributions	33,861	—
City HIS Plan contributions subsequent to the measurement date	<u>6,434</u>	<u>—</u>
Total	<u>\$ 123,090</u>	<u>\$ (1,198)</u>

Other amounts reported by the County as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

<u>Reporting Period Ending June 30</u>	<u>FRS Expense</u>
2017	\$ 14,611
2018	14,611
2019	14,561
2020	14,536
2021	12,576
Thereafter	10,702

**CITY OF MEXICO BEACH, FLORIDA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 12- OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

The City provides health insurance to its active and retired employees (the OPEB Plan). Pursuant to Section 112.0801, Florida Statutes, the City is required to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Currently, the City funds the OPEB Plan on a pay-as-you-go basis as a current operating expense, and reflects the expense in its financial statements in the fiscal year in which the payments are made. Pursuant to the provisions of GASB 43, *Financial Reporting for Employers for Postemployment Benefits Other Than Pensions*, governments who provide postemployment benefits other than pensions are required to show all or a portion of the liabilities associated with their OPEB Plans in their financial statements and whether, and to what extent, progress is being made in funding those liabilities. The City has no related expense or liability at September 30, 2016.

**NOTE 13- RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Insurance against losses are provided for the following types of risk:

- Workers' compensation and employer's liability
- General and automobile liability
- Real and personal property damage
- Public officials' liability
- Accidental death and dismemberment

The City's coverage of workers' compensation is under a retrospectively rated policy. Premiums are accrued based on the ultimate cost to-date of the City's experience for this type of risk.

**NOTE 14- INTERLOCAL AGREEMENT**

The City entered into a wastewater treatment contract with Bay County in May 1997, whereby Bay County will exclusively reserve for the City 323,000 gallons per day of allocated wastewater treatment capacity of the Military Point Advanced Wastewater Treatment Facility. The City has agreed to pay for such capacity and treatment services for wastewater collected from City customers.

The City has entered into a memorandum of agreement with the Mexico Beach Community Development Council, Inc. (the Council) for the maintenance of the City's municipal canal and beaches. The agreements which are renewable annually provide for the Council to pay the City \$18,000 and \$15,000 annually respectively, for canal and beach maintenance. Additionally, the City has entered into an agreement with the Council for the maintenance and operation of the City's public television station granted by franchise agreement, at no cost to the Council.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF MEXICO BEACH, FLORIDA  
 PROPORTIONATE SHARE OF NET PENSION LIABILITY  
 Last Ten Years\*  
 SEPTEMBER 30, 2016**

	<u>2016</u>	<u>2015</u>
Mexico Beach's proportion of the net pension liability	0.007112489%	0.00816%
Mexico Beach's proportionate share of the net pension liability	\$ 1,795,909	\$ 1,054,978
Mexico Beach's covered-employee payroll	\$ 1,427,727	\$ 1,194,506
Mexico Beach's proportionate share of the net pension liability as a percentage of its covered-employee payroll	125.79%	88.32%
Plan fiduciary net position as a percentage of the total pension liability	84.94%	92.00%

\* The amounts presented for each fiscal year were determined as of 6/30 except for the covered payroll determined as of 9/30. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

**CITY OF MEXICO BEACH, FLORIDA**  
**SCHEDULE OF CONTRIBUTIONS**  
**Last Ten Fiscal Years\***  
**SEPTEMBER 30, 2016**

	2016	2015
Contractually required contribution	\$ 188,403	\$ 169,027
Contributions in relation to the contractually required contribution	188,403	(169,027)
Contribution deficiency (excess)	\$ —	\$ —
 Mexico Beach's covered-employee payroll	 \$ 1,427,727	 \$ 1,194,506
 Contribution as a percentage of covered-employee payroll	 13.20%	 14.15%

\* The amounts presented for each fiscal year were determined as of 6/30 except for the covered payroll determined as of 9/30. The schedule is intended to show information for 10 years. Additional years will be displayed as the information becomes available.

**SUPPLEMENTARY INFORMATION**

**CITY OF MEXICO BEACH, FLORIDA  
COMPARATIVE SCHEDULE OF NET POSITION  
WATER FUND – PROPRIETARY FUND  
YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 419,786	\$ 497,850
Accounts receivable, net	74,816	90,446
Due from other funds	—	193,681
Due from other governments	—	70,830
Total Current Assets	<u>494,602</u>	<u>852,807</u>
Restricted assets - cash		
Bond and interest sinking	82,294	82,094
Impact fees	174,627	152,412
Total restricted assets - cash	<u>256,921</u>	<u>234,506</u>
Noncurrent assets		
Capacity rights	—	—
Land	17,765	17,765
Property, plant, and equipment	11,333,642	11,333,642
Less accumulated depreciation	<u>(3,108,476)</u>	<u>(2,938,481)</u>
Total non-current Assets	<u>8,242,931</u>	<u>8,412,926</u>
Total Assets	<u>8,994,454</u>	<u>9,500,239</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Employee Pension Contributions	<u>72,432</u>	<u>14,617</u>
Total deferred outflows	<u>72,432</u>	<u>14,617</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	64,710	24,186
Accrued expenses	4,033	2,920
Accrued compensated absences	2,616	1,519
Due to other funds	—	116,344
Notes payable, current portion	146,397	146,137
Bonds payable, current portion	<u>173,653</u>	<u>123,132</u>
Total current liabilities	<u>391,409</u>	<u>414,238</u>
Current liabilities payable from restricted assets		
Accrued interest	<u>6,166</u>	<u>11,729</u>
Total current liabilities payable from restricted assets	<u>6,166</u>	<u>11,729</u>
Non-current Liabilities		
Accrued compensated absences	7,846	4,556
Notes payable – due after one year	802,529	944,704
Bonds payable, due after one year	2,563,288	2,816,713
Net pension liability	<u>120,962</u>	<u>52,249</u>
Total non-current liabilities	<u>3,494,625</u>	<u>3,818,222</u>
Total Liabilities	<u>3,892,200</u>	<u>4,244,189</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension earnings	<u>8,012</u>	<u>8,298</u>
Total Deferred Inflows	<u>8,012</u>	<u>8,298</u>
<b>NET POSITION</b>		
Net investment in capital assets	4,557,064	4,382,240
Restricted for:		
Bond retirement	82,294	82,094
Impact fees	174,627	152,412
Unrestricted	<u>352,689</u>	<u>645,623</u>
<b>Total Net Position</b>	<b><u>\$ 5,166,674</u></b>	<b><u>\$ 5,262,369</u></b>

**CITY OF MEXICO BEACH, FLORIDA  
COMPARATIVE SCHEDULE OF NET POSITION  
SEWER FUND – PROPRIETARY FUND  
YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 640,158	\$ 891,406
Accounts receivable, net	110,177	97,362
Due from other funds	—	3,864
Total current assets	<u>750,335</u>	<u>992,632</u>
Restricted assets - cash		
Bond and interest sinking	257,694	240,900
Impact fees	889,248	834,183
Total restricted assets - cash	<u>1,146,942</u>	<u>1,075,083</u>
Noncurrent assets		
Capacity rights	54,187	54,187
Land	270,426	270,426
Property, plant, and equipment	6,954,246	6,940,746
Less accumulated depreciation	<u>(3,200,606)</u>	<u>(3,001,311)</u>
Total non-current Assets	<u>4,078,253</u>	<u>4,264,048</u>
Total Assets	<u>5,975,530</u>	<u>6,331,763</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Employee Pension Contributions	<u>94,521</u>	<u>14,916</u>
Total deferred outflows	<u>94,521</u>	<u>14,916</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	774	109,331
Accrued expenses	3,360	3,027
Accrued compensated absences	2,385	1,018
Due to other funds	—	241,727
Bonds payable, current portion	<u>206,626</u>	<u>177,419</u>
Total current liabilities	<u>213,145</u>	<u>532,522</u>
Current liabilities payable from restricted assets		
Accrued interest	<u>6,108</u>	<u>7,288</u>
Total current liabilities payable from restricted assets	<u>6,108</u>	<u>7,288</u>
Non-current Liabilities		
Accrued compensated absences	7,155	3,055
Bonds payable, due after one year	2,356,856	2,626,189
Net pension liability	<u>147,930</u>	<u>53,319</u>
Total non-current liabilities	<u>2,511,941</u>	<u>2,682,563</u>
Total Liabilities	<u>2,731,194</u>	<u>3,222,373</u>
<b>DEFERRED INFLOWS</b>		
Deferred utility income	<u>8,074</u>	<u>8,468</u>
Total Deferred Inflows	<u>8,074</u>	<u>8,468</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,514,771	1,406,253
Restricted for:		
Bond retirement	257,694	240,900
Impact fees	889,248	834,183
Unrestricted	<u>669,070</u>	<u>634,502</u>
<b>Total Net Position</b>	<b><u>\$ 3,330,783</u></b>	<b><u>\$ 3,115,838</u></b>

**CITY OF MEXICO BEACH, FLORIDA  
COMPARATIVE SCHEDULE OF NET POSITON –  
SANITATION FUND – PROPRIETARY FUND  
YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 136,393	\$ 345,498
Accounts receivable, net	57,809	43,661
Due from other funds	—	736
Total current assets	<u>194,202</u>	<u>389,895</u>
Noncurrent assets		
Property, plant, and equipment	410,714	395,996
Less accumulated depreciation	<u>(239,501)</u>	<u>(221,248)</u>
Total non-current Assets	<u>171,213</u>	<u>174,748</u>
Total assets	<u>365,415</u>	<u>564,643</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Employee Pension Contributions	<u>79,840</u>	<u>19,692</u>
Total deferred outflows	<u>79,840</u>	<u>19,692</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	19,832	11,216
Accrued expenses	4,956	4,519
Accrued compensated absences	4,503	1,948
Due to other funds	—	159,673
Total current liabilities	<u>29,291</u>	<u>177,356</u>
Non-current Liabilities		
Accrued compensated absences	13,510	5,843
Net pension liability	<u>141,877</u>	<u>70,391</u>
Total non-current liabilities	<u>155,387</u>	<u>76,234</u>
Total Liabilities	<u>184,678</u>	<u>253,590</u>
<b>DEFERRED INFLOWS</b>		
Deferred utility income	<u>10,882</u>	<u>11,180</u>
Total Deferred Inflows	<u>10,882</u>	<u>11,180</u>
<b>NET POSITION</b>		
Net investment in capital assets	171,213	174,748
Unrestricted	<u>78,482</u>	<u>144,817</u>
<b>Total Net Position</b>	<b><u>\$ 249,695</u></b>	<b><u>\$ 319,565</u></b>

**CITY OF MEXICO BEACH, FLORIDA  
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION – WATER FUND – PROPRIETARY FUND  
YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 1,024,320	\$ 1,031,192
New installations	10,920	16,830
Reconnections	9,175	9,675
Impact fees	22,050	34,300
Other utility income	7,556	10,357
Total operating revenues	<u>1,074,021</u>	<u>1,102,354</u>
<b>OPERATING EXPENSES</b>		
Personnel services	255,655	183,372
Professional services	11,170	13,276
Utilities	4,601	14,186
Insurance	30,770	28,359
Repairs and maintenance	34,863	33,858
Operating supplies	344,554	80,631
Communication services	9,595	11,049
Public utility services	211,117	234,062
Transportation	—	—
Tipping fees	—	—
Rentals	1,402	960
Miscellaneous	11,828	10,821
Depreciation and amortization	169,995	170,276
Total operating expenses	<u>1,085,550</u>	<u>780,886</u>
Operating income	<u>(11,529)</u>	<u>321,468</u>
<b>NONOPERATING REVENUES (expenses)</b>		
Interest income	760	915
Interest expense	(84,926)	(120,490)
Grant revenue	—	—
Total nonoperating revenues (expenses)	<u>(84,166)</u>	<u>(119,575)</u>
Change in net position	(95,695)	201,893
<b>Net position - beginning</b>	<u>5,262,369</u>	<u>5,103,440</u>
<b>Net position - ending</b>	<u><b>\$ 5,166,674</b></u>	<u><b>\$ 5,262,369</b></u>

**CITY OF MEXICO BEACH, FLORIDA  
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION – SEWER FUND – PROPRIETARY FUND  
YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 1,234,471	\$ 1,218,003
New installations	12,495	24,339
Impact fees	8,205	86,205
Other utility income	<u>54,186</u>	<u>15,501</u>
Total operating revenues	<u>1,309,357</u>	<u>1,344,048</u>
<b>OPERATING EXPENSES</b>		
Personnel services	322,655	143,957
Professional services	11,170	13,276
Utilities	47,819	30,550
Insurance	18,260	18,260
Repairs and maintenance	41,045	47,091
Operating supplies	61,932	54,877
Communication services	675	766
Public utility services	312,845	442,944
Transportation	—	—
Tipping fees	259	—
Rentals	1,201	960
Miscellaneous	6,327	5,647
Depreciation and amortization	<u>199,295</u>	<u>197,018</u>
Total operating expenses	<u>1,023,483</u>	<u>955,538</u>
Operating income	<u>285,874</u>	<u>388,510</u>
<b>NONOPERATING REVENUES (expenses)</b>		
Interest income	2,111	1,942
Interest expense	<u>(73,040)</u>	<u>(120,543)</u>
Total nonoperating revenues (expenses)	<u>(70,929)</u>	<u>(118,601)</u>
Change in net position	214,945	269,909
<b>Net position - beginning</b>	<u>3,115,838</u>	<u>2,889,772</u>
<b>Net position - ending</b>	<u><b>\$ 3,330,783</b></u>	<u><b>\$ 3,115,838</b></u>

**CITY OF MEXICO BEACH, FLORIDA  
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION – SANITATION FUND – PROPRIETARY FUND  
YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 659,892	\$ 443,809
Other utility income	<u>2,527</u>	<u>94,217</u>
Total operating revenues	<u>662,419</u>	<u>538,026</u>
<b>OPERATING EXPENSES</b>		
Personnel services	447,859	311,951
Professional services	7,149	8,359
Utilities	104,601	24,359
Insurance	8,935	9,035
Repairs and maintenance	17,069	16,117
Operating supplies	44,842	47,557
Communication services	1,127	1,608
Tipping fees	68,502	96,626
Rentals	—	—
Miscellaneous	13,952	5,137
Depreciation	<u>18,253</u>	<u>19,844</u>
Total operating expenses	<u>732,289</u>	<u>540,593</u>
Operating income	<u>(69,870)</u>	<u>(2,567)</u>
<b>NONOPERATING REVENUES (expenses)</b>		
Interest income	<u>—</u>	<u>389</u>
Total nonoperating revenues (expenses)	<u>—</u>	<u>389</u>
Change in net position	(69,870)	(2,178)
<b>Net position - beginning</b>	<u>319,565</u>	<u>379,625</u>
<b>Net position - ending</b>	<u><b>\$ 249,695</b></u>	<u><b>\$ 319,565</b></u>

**CITY OF MEXICO BEACH, FLORIDA  
COMPARATIVE SCHEDULE OF CASH FLOWS  
WATER FUND – PROPRIETARY FUND**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Receipts from customer and users	\$ 1,089,651	\$ 1,066,264
Payments to suppliers and others	(458,083)	(399,237)
Payments for personnel services	<u>(252,669)</u>	<u>(185,011)</u>
Net cash provided by operating activities	<u>378,899</u>	<u>482,016</u>
<b>Capital and related financing activities</b>		
Principal paid on bonds	(202,904)	(138,342)
Principal paid on notes and leases	(141,915)	(137,643)
Interest paid on notes and leases	(90,489)	(128,235)
Purchase of capital assets	<u>—</u>	<u>(4,800)</u>
Net cash used in capital and related financing activities	<u>(435,308)</u>	<u>(409,020)</u>
<b>Investing activities</b>		
Interest received	<u>760</u>	<u>915</u>
Net cash provided by investing activities	<u>760</u>	<u>915</u>
<b>Net change in cash and cash equivalents</b>	(55,649)	73,911
<b>Cash and cash equivalents, beginning</b>	<u>732,356</u>	<u>658,445</u>
<b>Cash and cash equivalents, ending</b>	<u><b>\$ 676,707</b></u>	<u><b>\$ 732,356</b></u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	<u>(11,529)</u>	<u>321,468</u>
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation	169,995	170,276
(Increase) decrease in assets		
Accounts receivable, net	15,630	(3,090)
Due from other funds	193,681	(13,455)
Due from governmental funds	70,830	—
Deferred outflows	(57,815)	—
(Increase) decrease in liabilities		
Accounts payable	40,524	3,560
Accrued expenses	2,210	2,040
Due to other funds	(116,344)	45,284
Deferred inflows	(286)	(45,706)
Accrued compensated absences	3,290	1,639
Net Pension	<u>68,713</u>	<u>—</u>
Total adjustments	<u>390,428</u>	<u>160,548</u>
<b>Net cash provided by operating activities</b>	<u><b>\$ 378,899</b></u>	<u><b>\$ 482,016</b></u>

**CITY OF MEXICO BEACH, FLORIDA  
COMPARATIVE SCHEDULE OF CASH FLOWS  
SEWER FUND – PROPRIETARY FUND  
YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Receipts from customer and users	\$ 1,296,542	\$ 1,536,580
Payments to suppliers and others	(830,999)	(694,280)
Payments for personnel services	<u>(319,197)</u>	<u>(144,146)</u>
Net cash provided by operating activities	<u>146,346</u>	<u>698,154</u>
<b>Capital and related financing activities</b>		
Principal paid on bonds	(240,126)	(204,081)
Interest paid on bonds, notes, and leases	(74,220)	(123,218)
Purchase of capital assets	<u>(13,500)</u>	<u>(57,220)</u>
Net cash used in capital and related financing activities	<u>(327,846)</u>	<u>(384,519)</u>
<b>Investing activities</b>		
Interest received	<u>2,111</u>	<u>1,942</u>
Net cash provided by investing activities	<u>2,111</u>	<u>1,942</u>
<b>Net change in cash and cash equivalents</b>	(179,389)	315,577
<b>Cash and cash equivalents, beginning</b>	<u>1,966,489</u>	<u>1,650,912</u>
<b>Cash and cash equivalents, ending</b>	<u><b>\$ 1,787,100</b></u>	<u><b>\$ 1,966,489</b></u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	<u>285,874</u>	<u>388,510</u>
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation	199,295	197,018
(Increase) decrease in assets		
Accounts receivable, net	(12,815)	(2,192)
Due from other funds	3,864	(1,192)
Deferred outflows	(79,605)	—
(Increase) decrease in liabilities		
Accounts payable	(108,557)	74,171
Accrued expenses	1,700	2,610
Due to other funds	(241,727)	41,611
Deferred inflows	(394)	(2,571)
Accrued compensated absences	4,100	73
Net Pension	<u>94,611</u>	<u>—</u>
Total adjustments	<u>(139,528)</u>	<u>309,644</u>
<b>Net cash provided by operating activities</b>	<u><b>\$ 146,346</b></u>	<u><b>\$ 698,154</b></u>

**CITY OF MEXICO BEACH, FLORIDA  
COMPARATIVE SCHEDULE OF CASH FLOWS  
SANITATION FUND – PROPRIETARY FUND  
YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Receipts from customer and users	\$ 648,271	\$ 484,094
Payments to suppliers and others	(394,799)	(72,810)
Payments for personnel services	<u>(447,859)</u>	<u>(311,878)</u>
Net cash provided by operating activities	<u>(194,387)</u>	<u>99,406</u>
<b>Capital and related financing activities</b>		
Purchase of capital assets	<u>(14,718)</u>	<u>—</u>
Net cash used in capital and related financing activities	<u>(14,718)</u>	<u>—</u>
<b>Investing activities</b>		
Interest received	<u>—</u>	<u>389</u>
Net cash provided by investing activities	<u>—</u>	<u>389</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(209,105)	99,795
<b>Cash and cash equivalents, beginning</b>	<u>345,498</u>	<u>245,703</u>
<b>Cash and cash equivalents, ending</b>	<u><b>\$ 136,393</b></u>	<u><b>\$ 345,498</b></u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	<u>(69,870)</u>	<u>(2,567)</u>
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation	18,253	19,844
(Increase) decrease in assets		
Accounts receivable, net	(14,148)	(231)
Due from other funds	736	—
Deferred outflows	(60,140)	—
(Increase) decrease in liabilities		
Accounts payable, net	8,616	1,662
Accrued expenses	2,992	3,448
Due to other funds	(159,673)	78,166
Deferred inflows	(298)	(989)
Accrued compensated absences	7,667	41
Net Pension	<u>71,478</u>	<u>—</u>
Total adjustments	<u>(124,517)</u>	<u>101,973</u>
Net cash provided by operating activities	<u><b>\$ (194,387)</b></u>	<u><b>\$ 99,406</b></u>

## **COMPLIANCE SECTION**

# Vance CPA LLC

***Certified Public Accountant***

219-B Avenue E • Apalachicola, FL 32320  
Phone (888)531-6408 Fax (866)-406-7422

## **INDEPENDENT AUDITOR'S REPORT ON INVESTMENT COMPLIANCE**

Honorable Mayor and Members of the  
Of the City Commission  
City of Mexico Beach, Florida

We have examined the City of Mexico Beach, Florida's compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2016. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.

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

*Vance CPA LLC*

**Vance CPA LLC**  
June 27, 2017

# Vance CPA LLC

***Certified Public Accountant***

219-B Avenue E • Apalachicola, FL 32320  
Phone (888)531-6408 Fax (866)-406-7422

## **INDEPENDENT AUDITOR'S MANAGEMENT LETTER**

Honorable Mayor and Members of the  
Of the City Commission  
City of Mexico Beach, Florida

We have audited the financial statements of the City of Mexico, Florida as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated June 27, 2017.

### **Auditor's Responsibility**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General.

### **Other Reports and Schedule**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance; Schedule of Findings and Responses; and Independent Auditor's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated June 30, 2016, should be considered in conjunction with this management letter.

### **Prior Audit Findings:**

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. Findings 14-001 and 14-002 were prior year findings which were resolved.

### **Official Title and Legal Authority**

Section 10.554(1)(i)4., 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 statement. This information is disclosed in the notes to the financial statements.

**Financial Condition**

Section 10.554(1)(i)5.a., and 10.556(7), Rules of the Auditor General, requires that we report the results of our determination as to whether or not the City of Mexico Beach, Florida has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the City of Mexico Beach, Florida was not in a state of financial emergency, as it did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of Mexico Beach's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

**Annual Financial Report**

Section 10.554(1)(i)5.b., and 10.556(7), Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the City of Mexico Beach, Florida for the fiscal year ended September 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

**Other Matters**

Section 10.554(1)(i)2., 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)3., Rules of the Auditor General, requires that we address noncompliance with 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

**Purpose of this Letter**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the City Council, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

*Vance CPA LLC*

**Vance CPA LLC**  
June 27, 2017

# Vance CPA LLC

***Certified Public Accountant***

219-B Avenue E • Apalachicola, FL 32320  
Phone (888)531-6408 Fax (866)-406-7422

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

Honorable Mayor and Members  
of the City Council  
City of Mexico Beach, Florida

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Mexico Beach, Florida, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Mexico Beach, Florida's basic financial statements, and have issued our report thereon dated June 27, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Mexico Beach, Florida's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Mexico Beach, Florida's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Mexico Beach, Florida's internal control.

*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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Mexico Beach, Florida's financial statements are free from 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vance CPA LLC*

**Vance CPA LLC**  
June 27, 2017

# Vance CPA, LLC

*Certified Public Accountant*

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## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS FOR EACH STATE PROJECT, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, REQUIRED BY THE UNIFORM GUIDANCE AND CHAPTER 10.550 RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

Honorable Mayor and Members  
of the City Council  
City of Mexico Beach, Florida

### **Report on Compliance for Each State Program**

We have audited Mexico Beach, Florida's (the City) compliance with the types of compliance requirements described in the Florida Department of Financial Services *State Projects Compliance Supplement* that could have a direct and material effect on each of the City's state projects for the year ended September 30, 2016. The City's state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulation, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's state programs based on our audit of the types of compliance requirements referred to above. 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 and contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550 Rules of the Auditor General. Those standards, 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 state project occurred. An audit includes examining, on a test basis, evidence about the City'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 on compliance for each state project. However, our audit does not provide a legal determination of Mexico Beach, Florida's compliance.

### **Opinion on Each State Project**

In our opinion, Mexico Beach, Florida complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its state projects for the year ended September 30, 2016.

### **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintain effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each state project and to test and report on internal control over compliance in accordance Chapter 10.550, *Rules of the Auditor General*, 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'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 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 state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify all deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.550, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of State Financial Assistance Required by the Uniform Guidance and Chapter 10.550, Rules of the Auditor General**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mexico Beach, Florida, as of and for the year ended September 30, 2016, and the notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 27, 2017, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of State Financial Assistance is presented for the purposes of additional analysis as required by Chapter 10.550, *Rules of the Auditor General*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 Schedule of Expenditures of State Financial Assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Vance CPA LLC*

**Vance CPA LLC**  
June 27, 2017

**MEXICO BEACH, FLORIDA  
 SCHEDULE OF EXPENDITURES  
 STATE FINANCIAL ASSISTANCE  
 YEAR ENDED SEPTEMBER 30, 2016**

<b>State Financial Assistance Projects</b>	<b>CSFA #</b>	<b>Contract/Grant Number</b>	<b>Expenditures</b>
<b>Florida Fish &amp; Wildlife Conservation Commission</b>			
Florida Boating Improvement Grant	77.006	FWC-15081	1,070,018
Artificial Reefs Grants Program	77.007	SAJ-1988-60104	<u>208,171</u>
Total Florida Fish & Wildlife Conservation Commission			<u>1,278,189</u>
<b>Florida Department of Environmental Protection</b>			
Florida Recreation Development Assistance Program			
Under the Palms Part	37.017	A-6108	50,000
Mexico Beach Park	37.017	LP40010	4,800
Statewide Surface Water Restoration and and Waste Water Protection	37.039	14-076	<u>430,622</u>
Total Florida Department of Environmental Protection			<u>485,422</u>
Total State of Florida Financial Assistance			<u>1,763,611</u>

**MEXICO BEACH, FLORIDA  
NOTES TO SCHEDULE OF EXPENDITURES  
STATE FINANCIAL ASSISTANCE  
YEAR ENDED SEPTEMBER 30, 2016**

**Note 1 – General**

The accompanying Schedule of Expenditures of State Financial Assistance (the Schedule) presents the activity of all state financial assistance programs of Mexico Beach, Florida (the City). The City reporting entity is defined in Note 1 to the City's basic financial statements for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Chapter 10.550, Rules of the Auditor General. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows for the county.

**Note 2 – Basis of Accounting**

The accompanying Schedule is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements for the year ended September 30, 2016.

**MEXICO BEACH, FLORIDA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2016**

**Section 1 – Summary of Auditor’s Results**

Financial Statements

Type of auditor’s report issued	Unmodified	
Internal control over financial reporting		
Material weakness(es) identified?	___yes	<u>X</u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	___yes	<u>X</u> none reported
Noncompliance material to financial statements noted:	___yes	<u>X</u> no

Federal Awards and State Financial Assistance

Internal control over major programs material weakness(es) identified?	___yes	<u>X</u> no
Significant deficiency (ies) identified not considered to be material weaknesses?	___yes	<u>X</u> none Reported
Type of auditor’s report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a) or Rules of the Auditor General?	___yes	<u>X</u> no

Identification of major federal awards/state financial assistance projects:

<u>CFDA/CSFA Number</u>	<u>Name of Federal Award or State Financial Assistance Project</u>
77.006	Florida Boating Improvement Grant
37.039	Statewide Surface Water Restoration & Waste Water Protection

(continued)

**MEXICO BEACH, FLORIDA  
SCHEDULE OF FINDINGS AND RESPONSES (continued)  
YEAR ENDED SEPTEMBER 30, 2016**

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

\$300,000 State

Auditee qualified as low-risk auditee?

    yes        X  none

**Section II – Financial Statement Findings**

See Summary Schedule of Current Year Findings

**Section III – Findings and Questioned Costs – Major Federal Award Programs**

No findings or questioned costs in the current year.

**Section IV – Findings and Questioned Costs – Major State Financial Assistance Projects**

No findings or questioned costs in the current year.

**Section V – Other Issues**

No Corrective Action Plan is required because there were no findings required to be reported under 2 CFR 200.516(a) or the Florida single Audit Act.

**MEXICO BEACH, FLORIDA  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
SEPTEMBER 30, 2016**

No prior year audit findings.