

City of Mexico Beach, Florida

Annual Financial Statements

September 30, 2005

City of Mexico Beach, Florida  
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September 30, 2005

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mexico Beach, Florida (the City), as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. Those financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2006, 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Florida Institute of  
Certified Public Accountants

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Management's discussion and analysis on pages 3 through 8, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Panama City, Florida  
June 30, 2006

## Management's Discussion and Analysis

## Management's Discussion and Analysis

Management's discussion and analysis provide 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 \$6,304,996 (net assets). Of this amount, \$178,767 is unrestricted net assets for Governmental Activities and \$134,070 is unrestricted net assets for Business-type Activities, \$174,241 is restricted net assets for Governmental activities and \$956,631 is restricted net assets for Business-type Activities.
- Total net assets increased by \$68,165. Of this amount, \$91,771 is attributable to Governmental Activities and a decrease of \$23,606 is attributable to Business-type Activities.
- As of September 30, 2005, the general fund's unreserved fund balance was \$412,530 or 16% of total general fund expenditures.
- Governmental Activities revenues increased to \$2,433,850 or 40%, while Governmental Activities expenditures decreased 4% to \$2,342,079. Business-type Activities revenues increased to \$2,337,451 or 15%, while Business-type Activities expenditures increased 16% to \$2,361,057.

### 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 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 assets* 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 assets of governmental activities and business-type activities, as well as the change in net assets. Governmental activities are primarily supported by gross receipts 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 assets* presents information on all assets and liabilities of the City, with the difference between the two reported as *net assets*. Assets, liabilities and net assets are reported separately for governmental activities and business-type activities. Increases or decreases in net assets 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 assets for the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and 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, and culture 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 resources that have been segregated for specific purposes 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 assets*, a *statement of revenues, expenses, and changes in fund net assets*, 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 assets*, 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*, a 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 practices 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 assets of the City at September 30, 2005. The City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its governmental and business-type activities.

#### City of Mexico Beach, Florida Net Assets

	Governmental Activities	Business- type Activities	Total
Current and other assets	\$ 605,188	\$ 2,450,038	\$ 3,055,226
Capital assets	2,973,381	11,064,896	14,038,277
<b>Total assets</b>	<b>3,578,569</b>	<b>13,514,934</b>	<b>17,093,503</b>
Current liabilities (payable from current assets)	349,499	789,060	1,138,559
Current liabilities (payable from restricted assets)	-	29,038	29,038
Non current liabilities	1,218,544	8,402,366	9,620,910
<b>Total liabilities</b>	<b>1,568,043</b>	<b>9,220,464</b>	<b>10,788,507</b>
Net assets invested in capital assets, net of related debt	1,657,518	2,403,769	4,061,287
Net assets-restricted	174,241	956,631	1,130,872
Net assets-unrestricted	178,767	934,070	1,112,837
<b>Total net assets</b>	<b>\$ 2,010,526</b>	<b>\$ 4,294,470</b>	<b>\$ 6,304,996</b>

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 assets (64%). 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 assets*, representing 18% of the City's net assets, are subject to external restrictions, and thus are limited as to how they may be used. The remaining balance of *unrestricted net assets* (\$1,112,837) may be used to help meet the government's ongoing obligations to citizens and creditors.

Governmental activities noncurrent liabilities increased due to two new bank notes (\$170,889) reduced by principal reductions (\$7,817) of long-term obligations.

The following schedule provides a summary of the changes in net assets for the year ended September 30, 2005.

**City of Mexico Beach, Florida  
Changes in Net Assets**

	Governmental Activities	Business- type Activities	Total
<b>Program revenues:</b>			
Charges for services	\$ 759,324	\$ 2,314,331	\$ 3,073,655
Operating grants/contributions	82,429	-	82,429
Capital grants/contributions	284,889	-	284,889
<b>General revenues:</b>			
Ad valorem	890,521	-	890,521
Utility taxes/franchise fees	375,630	-	375,630
Interest	10,918	23,120	34,038
Other	30,139	-	30,139
<b>Total revenues</b>	<b>2,433,850</b>	<b>2,337,451</b>	<b>4,771,301</b>
<b>Expenses:</b>			
General government	800,720	-	800,720
Public safety	557,641	-	557,641
Highways and streets	152,674	-	152,674
Maintenance	133,726	-	133,726
Parks and recreation	212,143	-	212,143
Physical environment	447,839	-	447,839
Interest on long-term debt	37,336	-	37,336
Water	-	924,087	924,087
Sewer	-	1,018,096	1,018,096
Sanitation	-	418,874	418,874
<b>Total expenses</b>	<b>2,342,079</b>	<b>2,361,057</b>	<b>4,703,136</b>
<b>Increase (decrease) in net assets</b>	<b>\$ 91,771</b>	<b>\$ (23,606)</b>	<b>\$ 68,165</b>

Governmental activities revenues exceeded expenses by \$91,771, while business-type activities expenses exceeded revenues by \$23,606. Total revenues increased \$1,004,498 from the previous year. Total expenses increased \$1,089,420 from the previous year.

52% of the revenues for governmental activities were generated by taxes, while most of the governmental resources were expended for general government (34%), public safety (24%), and physical environment (19%).

Charges for services provide 99% of the revenues for business-type activities.

## 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, 2005, total assets were \$575,415 and total liabilities were \$162,885. At the end of fiscal year 2005, unreserved fund balance of the general fund was \$412,530.

General fund's budget was amended during the year to reflect increases in revenue and the corresponding increases in expenditures which resulted from the increase in available funds.

#### Other Governmental Funds

The special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City uses a special revenue fund to account for the activities of the City's road paving.

Because it is not possible to anticipate the activity in the special revenue funds, it is the City's policy not to prepare budgetary information for these funds.

### 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 assets of proprietary funds at the end of the year are presented below:

	<b>Unrestricted Net Assets</b>
Fund	
Water	\$ 681,178
Sewer	128,763
Sanitation	124,129
<b>Total</b>	<b>\$ 934,070</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 City's *Sanitation Fund* accounts 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, 2005, was \$14,038,277 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

**Capital Assets  
(net of depreciation)**

*September 30, 2005*

	Governmental Activities	Business-type Activities	Total
Land	\$ 150,000	\$ 288,191	\$ 438,191
Buildings	441,515	-	441,515
Improvements	1,430,697	10,629,651	12,060,348
Machinery and equipment	951,169	147,054	1,098,223
<b>Total</b>	<b>\$ 2,973,381</b>	<b>\$ 11,064,896</b>	<b>\$ 14,038,277</b>

Additional information on the City's capital assets can be found in Note 6 – Capital Assets, of the notes to the basic financial statements.

**Debt Management**

At the end of the current fiscal year, the City had total bond debt outstanding of \$3,636,103. This debt amount represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

**Outstanding Bond Debt**

*September 30, 2005*

	Water Fund	Sewer Fund	Total
Revenue bonds	\$ 1,426,503	\$ 2,209,600	\$ 3,636,103

The business-type activities bonds maintain an "AAA" rating from Standard & Poor's, and an "AAA" rating from Fitch.

The Florida Constitution and the City of Mexico Beach set no legal debt limits for revenue bonds. More detailed information about the City's liabilities is presented in Notes 8 and 9 of the notes to the basic financial statements.

**Other Financial Information**

The City's economy remained strong during the current fiscal year. Despite national security and travel worries, and rising gas prices, tourism continued to be strong. The City's gross receipts tax collections typically fluctuate with the tourism industry.

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: Henry Flack.

## Basic Financial Statements

City of Mexico Beach, Florida  
Statement of Net Assets  
September 30, 2005

Primary Government			
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 308,437	\$ 332,966	\$ 641,403
Accounts receivable (net)	19,465	187,914	207,379
Due from other funds	50,033	264,928	314,961
Due from other governmental units	52,910	-	52,910
Prepaid expenses	102	-	102
Total current assets (unrestricted)	430,947	785,808	1,216,755
Restricted assets			
Cash and cash equivalents	174,241	1,481,843	1,656,084
Total current assets (restricted)	174,241	1,481,843	1,656,084
Noncurrent assets			
Unamortized loan costs	-	128,201	128,201
Capacity rights	-	54,186	54,186
Capital assets (net of accumulated depreciation)	2,973,381	11,064,896	14,038,277
Total noncurrent assets	2,973,381	11,247,283	14,220,664
Total assets	3,578,569	13,514,934	17,093,503
<b>Liabilities</b>			
Current liabilities			
Accounts payable	178,552	226,856	405,408
Payroll liabilities	7,336	4,292	11,628
Due to other funds	15,810	299,151	314,961
Bonds payable	-	60,500	60,500
Capital leases payable	3,237	-	3,237
Notes payable	144,564	198,261	342,825
Total current liabilities (payable from current assets)	349,499	789,060	1,138,559
Current liabilities (payable from restricted assets)			
Accrued interest	-	29,038	29,038
Total current liabilities (payable from restricted assets)	-	29,038	29,038
Noncurrent liabilities			
Accrued compensated absences	50,482	-	50,482
Notes payable	1,165,147	5,021,286	6,186,433
Capital leases payable	2,915	-	2,915
Revenue bonds payable	-	3,381,080	3,381,080
Total noncurrent liabilities	1,218,544	8,402,366	9,620,910
Total liabilities	1,568,043	9,220,464	10,788,507
<b>Net assets</b>			
Invested in capital assets (net of related debt)	1,657,518	2,403,769	4,061,287
Restricted for:			
Bond retirement	-	236,528	236,528
Building permit fees	131,600	-	131,600
Impact fees	42,641	720,103	762,744
Unrestricted	178,767	934,070	1,112,837
Total net assets	\$ 2,010,526	\$ 4,294,470	\$ 6,304,996

See accompanying notes

City of Mexico Beach, Florida  
Statement of Activities  
Year Ended September 30, 2005

Net (Expenses) Revenues and Changes in Net Assets

	Program Revenues				Primary Government			Total
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities		
<b>Functions / Programs</b>								
<b>Primary Government</b>								
Governmental activities	\$ 800,720	\$ 750,297	\$ 45,881	\$ 9,072	\$ 4,530	\$ -	\$ 4,530	\$ (363,919)
General government	557,641	522	15,000	178,200	(363,919)	-	-	(140,921)
Public safety	152,674	8,505	3,248	-	(140,921)	-	-	(133,726)
Highways and streets	133,726	-	-	-	(133,726)	-	-	(114,526)
Human services	212,143	-	-	97,617	(114,526)	-	-	(429,539)
Parks and recreation	447,839	-	18,300	-	(429,539)	-	-	(37,336)
Physical environment	37,336	-	-	-	(37,336)	-	-	
Interest on long-term debt								
<b>Total governmental activities</b>	<b>2,342,079</b>	<b>759,324</b>	<b>82,429</b>	<b>284,889</b>	<b>(1,215,437)</b>	<b>-</b>	<b>(1,215,437)</b>	
Business-type activities								
Water	924,087	1,000,317	-	-	-	76,230	76,230	(121,737)
Sewer	1,018,096	896,359	-	-	-	(121,737)	(121,737)	(1,219)
Sanitation	418,874	417,655	-	-	-	(1,219)	(1,219)	
<b>Total business-type activities</b>	<b>2,361,057</b>	<b>2,314,331</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(46,726)</b>	<b>(46,726)</b>	
<b>Total primary government</b>	<b>\$ 4,703,136</b>	<b>\$ 3,073,655</b>	<b>\$ 82,429</b>	<b>\$ 284,889</b>	<b>(1,215,437)</b>	<b>(46,726)</b>	<b>(1,262,163)</b>	
<b>General revenues</b>								
Taxes								
Ad valorem					890,521	-	890,521	
Utility					97,042	-	97,042	
Franchise fees					114,393	-	114,393	
Local option gas tax					77,297	-	77,297	
1/2 cent sales tax					86,898	-	86,898	
Miscellaneous					10,486	-	10,486	
Sale of surplus property					576	-	576	
Insurance proceeds					19,077	-	19,077	
Interest earnings					10,918	23,120	34,038	
<b>Total general revenues and interest</b>					<b>1,307,208</b>	<b>23,120</b>	<b>1,330,328</b>	
<b>Change in net assets</b>					<b>91,771</b>	<b>(23,606)</b>	<b>68,165</b>	
<b>Net assets - beginning</b>					<b>1,918,755</b>	<b>4,318,076</b>	<b>6,236,831</b>	
<b>Net assets - ending</b>					<b>\$ 2,010,526</b>	<b>\$ 4,294,470</b>	<b>\$ 6,304,996</b>	

City of Mexico Beach, Florida  
Balance Sheet  
Governmental Funds  
September 30, 2005

	General	Other Governmental Funds	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 298,963	\$ 9,474	\$ 308,437
Accounts receivable (net)	19,465	-	19,465
Due from other governments	39,688	13,222	52,910
Due from other funds	42,956	7,077	50,033
Prepaid expenses	102	-	102
Cash and cash equivalents - restricted	174,241	-	174,241
<b>Total assets</b>	<b>\$ 575,415</b>	<b>\$ 29,773</b>	<b>\$ 605,188</b>
<b>Liabilities and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 140,328	\$ 38,224	\$ 178,552
Accrued expenses	6,747	589	7,336
Due to other funds	15,810	-	15,810
<b>Total liabilities</b>	<b>162,885</b>	<b>38,813</b>	<b>201,698</b>
<b>Fund balances</b>			
Unreserved	412,530	(9,040)	403,490
<b>Total liabilities and fund balances</b>	<b>\$ 575,415</b>	<b>\$ 29,773</b>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			2,973,381
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			(1,366,345)
<b>Net assets of governmental activities</b>			<b>\$ 2,010,526</b>



City of Mexico Beach, Florida  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2005

	General	Other Governmental Funds	Total
<b>Revenues</b>			
Taxes	\$ 957,010	\$ 222,243	\$ 1,179,253
Licenses and permits	669,895	-	669,895
Intergovernmental	378,918	3,024	381,942
Fines and forfeitures	18,692	-	18,692
Charges for services	24,406	-	24,406
Miscellaneous revenues	159,412	250	159,662
<b>Total revenues</b>	<b>2,208,333</b>	<b>225,517</b>	<b>2,433,850</b>
<b>Expenditures</b>			
Current operating			
General government	750,324	-	750,324
Public safety	500,834	-	500,834
Highways and streets	-	145,373	145,373
Physical environment	323,164	-	323,164
Human services	133,726	-	133,726
Parks and recreation	187,611	-	187,611
Capital outlay	551,758	106,175	657,933
Debt service	139,205	-	139,205
<b>Total expenditures</b>	<b>2,586,622</b>	<b>251,548</b>	<b>2,838,170</b>
Excess(Deficit) of revenues over (under) expenditures	(378,289)	(26,031)	(404,320)
<b>Other financing sources</b>			
Installment loan proceeds	141,994	28,895	170,889
<b>Total other financing sources</b>	<b>141,994</b>	<b>-</b>	<b>170,889</b>
Excess(Deficit) of revenues and other financing sources over (under) expenditures	(236,295)	2,864	(233,431)
<b>Fund balances - beginning</b>	<b>648,825</b>	<b>(11,904)</b>	<b>636,921</b>
<b>Fund balances - ending</b>	<b>\$ 412,530</b>	<b>\$ (9,040)</b>	<b>\$ 403,490</b>

See accompanying notes

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, 2005

Amounts reported for governmental activities in the statement of activities (page 10) are different because:

Net change in fund balances - total governmental funds	\$ (233,431)
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 expense. This is the amount by which capital outlays exceeded depreciation in the current period.	404,840
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(10,618)
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 assets. 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.	(69,020)
Change in net assets of governmental activities	\$ 91,771

City of Mexico Beach, Florida  
Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual  
General Fund  
Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,083,586	\$ 1,174,229	\$ 957,010	\$ (217,219)
Licenses and permits	761,000	672,230	669,895	(2,335)
Intergovernmental	223,600	381,944	378,918	(3,026)
Fines and forfeitures	6,500	15,077	18,692	3,615
Charges for services	25,961	25,961	24,406	(1,555)
Miscellaneous revenues	178,200	179,195	159,412	(19,783)
<b>Total revenues</b>	<b>2,278,847</b>	<b>2,448,636</b>	<b>2,208,333</b>	<b>(240,303)</b>
<b>Expenditures</b>				
Current				
General government	747,114	718,558	750,324	(31,766)
Public safety	604,822	517,928	500,834	17,094
Physical environment	280,465	331,470	323,164	8,306
Human services	171,756	135,375	133,726	1,649
Culture and recreation	157,202	198,141	187,611	10,530
Capital outlay	371,500	849,736	551,758	297,978
Debt service	75,957	153,803	139,205	14,598
<b>Total expenditures</b>	<b>2,408,816</b>	<b>2,905,011</b>	<b>2,586,622</b>	<b>318,389</b>
Excess(Deficit) of revenues over (under) expenditures	(129,969)	(456,375)	(378,289)	78,086
<b>Other financing sources</b>				
Installment loan proceeds	146,000	770,500	141,994	(628,506)
<b>Total other financing sources</b>	<b>146,000</b>	<b>770,500</b>	<b>141,994</b>	<b>(628,506)</b>
<b>Net change in fund balance</b>	<b>16,031</b>	<b>314,125</b>	<b>(236,295)</b>	<b>(550,420)</b>
<b>Fund balances - beginning</b>	<b>648,825</b>	<b>648,825</b>	<b>648,825</b>	<b>-</b>
<b>Fund balances - ending</b>	<b>\$ 664,856</b>	<b>\$ 962,950</b>	<b>\$ 412,530</b>	<b>\$ (550,420)</b>

See accompanying notes

City of Mexico Beach, Florida  
Statement of Net Assets  
Proprietary Funds  
September 30, 2005

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 197,001	\$ 35,981	\$ 99,984	\$ 332,966
Accounts receivable, net	79,621	70,952	37,341	187,914
Due from other funds	259,012	5,916	-	264,928
<b>Total current assets</b>	<b>535,634</b>	<b>112,849</b>	<b>137,325</b>	<b>785,808</b>
<b>Restricted assets - cash</b>				
Bond and interest sinking	157,119	108,447	-	265,566
Impact fees	464,392	255,711	-	720,103
Renewal, replacement, and reserve	216,076	232,823	47,275	496,174
<b>Total restricted assets - cash</b>	<b>837,587</b>	<b>596,981</b>	<b>47,275</b>	<b>1,481,843</b>
<b>Noncurrent assets</b>				
Unamortized loan costs	19,268	108,933	-	128,201
Capacity rights	-	54,186	-	54,186
Property, plant and equipment	6,267,472	7,140,157	406,209	13,813,838
Less accumulated depreciation	(1,400,839)	(985,362)	(362,741)	(2,748,942)
<b>Total noncurrent assets</b>	<b>4,885,901</b>	<b>6,317,914</b>	<b>43,468</b>	<b>11,247,283</b>
<b>Total assets</b>	<b>6,259,122</b>	<b>7,027,744</b>	<b>228,068</b>	<b>13,514,934</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	69,541	112,617	44,698	226,856
Accrued expenses	1,683	232	2,377	4,292
Due to other funds	18,576	267,179	13,396	299,151
Notes payable, current portion	134,626	63,635	-	198,261
Revenue bonds payable, current portion	34,000	26,500	-	60,500
<b>Total current liabilities</b>	<b>258,426</b>	<b>470,163</b>	<b>60,471</b>	<b>789,060</b>
<b>Current liabilities payable from restricted assets</b>				
Accrued interest	20,126	8,912	-	29,038
<b>Total current liabilities payable from restricted assets</b>	<b>20,126</b>	<b>8,912</b>	<b>-</b>	<b>29,038</b>
<b>Noncurrent liabilities</b>				
Notes payable - due after one year	2,850,076	2,171,210	-	5,021,286
Bonds payable - due after one year	1,197,980	2,183,100	-	3,381,080
<b>Total noncurrent liabilities</b>	<b>4,048,056</b>	<b>4,354,310</b>	<b>-</b>	<b>8,402,366</b>
<b>Total liabilities</b>	<b>4,326,608</b>	<b>4,833,385</b>	<b>60,471</b>	<b>9,220,464</b>
<b>Net assets</b>				
Invested in capital assets (net of related debt)	649,951	1,710,350	43,468	2,403,769
Restricted for:				
Bond retirement	136,993	99,535	-	236,528
Impact fees	464,392	255,711	-	720,103
Unrestricted	681,178	128,763	124,129	934,070
<b>Total net assets</b>	<b>\$ 1,932,514</b>	<b>\$ 2,194,359</b>	<b>\$ 167,597</b>	<b>\$ 4,294,470</b>

See accompanying notes

City of Mexico Beach, Florida  
Statement of Revenues, Expenses, and Changes in Net Assets  
Proprietary Funds  
Year Ended September 30, 2005

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
<b>Operating revenues</b>				
Charges for services	\$ 796,850	\$ 676,698	\$ 387,512	\$ 1,861,060
New installations	162,207	-	-	162,207
Reconnections	12,465	-	-	12,465
Impact fees	2,866	219,661	-	222,527
Other utility income	25,929	-	30,143	56,072
<b>Total operating revenues</b>	<b>1,000,317</b>	<b>896,359</b>	<b>417,655</b>	<b>2,314,331</b>
<b>Operating expenses</b>				
Personal services	292,162	89,738	221,454	603,354
Professional services	49,895	31,841	23,380	105,116
Office supplies	785	362	78	1,225
Utilities	15,575	15,320	230	31,125
Contractual services	-	-	12,110	12,110
Insurance	14,887	15,792	6,199	36,878
Repairs and maintenance	41,626	49,485	14,817	105,928
Fuel and lubricants	-	-	-	-
Operating supplies	34,636	51,094	34,445	120,175
Communication services	3,634	1,297	1,190	6,121
Public utility services	120,582	327,469	-	448,051
Tipping fees	-	-	63,734	63,734
Transportation	78	-	-	78
Loan servicing costs	-	27,423	-	27,423
Rentals	3,303	-	17,940	21,243
Printing and binding	1,654	1,089	1,134	3,877
Miscellaneous	5,924	7,884	862	14,670
Amortization	967	7,016	-	7,983
Depreciation	174,581	213,305	18,352	406,238
Bad debts	7,508	5,257	2,794	15,559
<b>Total operating expenses</b>	<b>767,797</b>	<b>844,372</b>	<b>418,719</b>	<b>2,030,888</b>
<b>Operating income (loss)</b>	<b>232,520</b>	<b>51,987</b>	<b>(1,064)</b>	<b>283,443</b>
<b>Nonoperating revenues (expenses)</b>				
Interest income	12,398	10,022	700	23,120
Interest expense	(156,290)	(173,724)	(155)	(330,169)
<b>Total nonoperating revenues (expenses)</b>	<b>(143,892)</b>	<b>(163,702)</b>	<b>545</b>	<b>(307,049)</b>
<b>Net income (loss)</b>	<b>88,628</b>	<b>(111,715)</b>	<b>(519)</b>	<b>(23,606)</b>
<b>Net assets - beginning</b>	<b>1,843,886</b>	<b>2,306,074</b>	<b>168,116</b>	<b>4,318,076</b>
<b>Net assets - ending</b>	<b>\$ 1,932,514</b>	<b>\$ 2,194,359</b>	<b>\$ 167,597</b>	<b>\$ 4,294,470</b>

See accompanying notes

City of Mexico Beach, Florida  
Statement of Cash Flows  
Proprietary Funds  
Year Ended September 30, 2005

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
<b>Operating activities</b>				
Receipts from customers and users	\$ 915,882	\$ 890,905	\$ 413,185	\$ 2,219,972
Payments to suppliers	(295,194)	(442,817)	(154,333)	(892,344)
Payments for personal services	(292,162)	(89,738)	(221,454)	(603,354)
<b>Net cash provided by operating activities</b>	<b>328,526</b>	<b>358,350</b>	<b>37,398</b>	<b>724,274</b>
<b>Capital and related financing activities</b>				
Principal paid on revenue bonds	(25,287)	(25,000)	-	(50,287)
Principal paid on notes and leases	(134,131)	(58,956)	(7,640)	(200,727)
Interest paid on bonds, notes and leases	(156,290)	(173,724)	(155)	(330,169)
Purchase of capital assets	(4,506)	(22,285)	(7,372)	(34,163)
<b>Net cash (used in) capital and related financing activities</b>	<b>(320,214)</b>	<b>(279,965)</b>	<b>(15,167)</b>	<b>(615,346)</b>
<b>Investing activities</b>				
Interest received	12,398	10,022	700	23,120
<b>Net cash provided by investing activities</b>	<b>12,398</b>	<b>10,022</b>	<b>700</b>	<b>23,120</b>
<b>Net increase in cash and cash equivalents</b>	<b>20,710</b>	<b>88,407</b>	<b>22,931</b>	<b>132,048</b>
<b>Cash and cash equivalents, beginning</b>	<b>1,013,878</b>	<b>544,555</b>	<b>124,328</b>	<b>1,682,761</b>
<b>Cash and cash equivalents, ending</b>	<b>\$ 1,034,588</b>	<b>\$ 632,962</b>	<b>\$ 147,259</b>	<b>\$ 1,814,809</b>
<b>Classified as cash</b>				
Current assets - cash and cash equivalents	\$ 197,001	\$ 35,981	\$ 99,984	\$ 332,966
Restricted assets - cash and cash equivalents	837,587	596,981	47,275	1,481,843
	<b>\$ 1,034,588</b>	<b>\$ 632,962</b>	<b>\$ 147,259</b>	<b>\$ 1,814,809</b>
<b>Reconciliation of net operating income (loss) to net cash provided by operating activities</b>				
Net operating income (loss)	\$ 232,520	\$ 51,987	\$ (1,064)	\$ 283,443
Adjustments to reconcile operating income to net cash provided by operating activities:				
Amortization	967	7,016	-	7,983
Depreciation	174,581	213,305	18,352	406,238
(Increase) decrease in assets:				
Accounts receivable	(13,548)	(9,058)	(4,470)	(27,076)
Due from other funds	(70,887)	3,604	-	(67,283)
Increase (decrease) in liabilities:				
Accounts payable	3,792	20,242	20,308	44,342
Accrued expenses	1,123	210	2,115	3,448
Due to other funds	(22)	71,044	2,157	73,179
<b>Total adjustments</b>	<b>96,006</b>	<b>306,363</b>	<b>38,462</b>	<b>440,831</b>
<b>Net cash provided by operating activities</b>	<b>\$ 328,526</b>	<b>\$ 358,350</b>	<b>\$ 37,398</b>	<b>\$ 724,274</b>

See accompanying notes

Notes to Basic Financial Statements

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

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. For the reporting year ended September 30, 2005, the City has implanted GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis-for-State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*. Significant City accounting policies are described below.

***Reporting Entity***

The City of Mexico Beach, Florida (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, and law enforcement and fire safety, and general administrative services. In addition, the City operates a water, sewer and sanitation utility.

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

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

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 form 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.

Notes to Basic Financial Statements

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Government-wide and Fund Financial Statements***

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

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

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

The City reports the following major governmental fund:

- General Fund - The general fund is the City's primary operating fund. It accounts for all resources traditionally associated with governments except those required to be accounted for in another fund. 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 accounts for costs for collection, treatment and distribution of water services.
- The Sewer Fund accounts for the costs to provide wastewater and sanitary sewer services.
- The Sanitation Fund accounts for the costs to provide 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 are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.



Notes to Basic Financial Statements

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

***Enterprise Activities***

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

***Budgets and Budgetary Accounting***

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 129, 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 Statute.

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.

Notes to Basic Financial Statements

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 Investments***

The City considers cash and all investments with an original maturity of three months or less from the date of acquisition to be cash equivalents, unrestricted and restricted.

***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 material uncollectible accounts. Therefore, the City is of the opinion an allowance for doubtful accounts is 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. Inventory in the proprietary funds consists of utility supplies held for consumption or capital improvements and are valued at the lower of cost market using the first-in, first-out (FIFO) method.

***Prepaid Expenses***

General fund expenditures for insurance and similar services extended over more than one accounting year are accounted for as expenditures in the year paid.

Notes to Basic Financial Statements

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Amortization and Deferred Charges***

Deferred charges consist of bond issue costs and are being amortized over the lives of the respective bond issues using the straight-line method.

***Reserves and Designations of Fund Equity***

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

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, infrastructure, water and sewer distribution systems and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Property, plant, and equipment with initial individual costs that exceed \$750 and estimated useful lives of over one year are recorded as capital assets. Roads, bridges, and sidewalks are capitalized when their initial costs exceed \$25,000 and possess estimated useful lives of more than one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective October 1, 2003. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is not required by the City.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

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

***Long-term Obligations***

In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issue costs, are deferred and amortized over the life of the bonds.

Notes to Basic Financial Statements

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

***Unamortized Bond Costs***

Bond issuance costs and legal fees associated with the issuance of Proprietary Fund revenue bonds are amortized over the life of the bonds using the straight-line method.

***Unamortized Bond Discounts***

Bond discounts associated with the issuance of Proprietary Fund revenue 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.

***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 can not 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.

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 No. 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, 2005, was 4.50% mills. The tax levy of the City is established by the City Council prior to October 1 of each year.

Notes to Basic 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 Revenues***

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

***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 restricted resources first, then unrestricted resources as they are needed.

***Estimates***

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

***New Accounting Standards***

Effective October 1, 2003, the City adopted the provisions of Government Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement 37, *Basic Financial Statements - and Management's Discussion and Analysis -for State and Local Governments, Omnibus*; and GASB Statement 38, *Certain Financial Statements Note Disclosures*. The effect of adopting GASB 34 and 37 is primarily a change in the presentation of the financial statements. The

Notes to Basic Financial Statements

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

adoption of GASB Statement 38, modifies, rescinds and establishes certain financial statement disclosure requirements.

**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 assets:

The governmental funds balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this \$2,973,381 difference are as follows:

Cost of capital assets	\$	3,981,009
Less: accumulated depreciation		(1,007,628)
<hr/>		
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$	2,973,381

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 \$1,366,345 difference are as follows:

Notes and revenue bonds payable	\$	1,309,711
Capital leases		6,152
Compensated absences		50,482
<hr/>		
Net adjustment to reduce <i>fund balance - total governmental fund</i> to arrive at <i>net assets - governmental activities</i>	\$	1,366,345

Explanation of certain differences between the governmental funds statement 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 a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense." The details of this \$404,840 difference are as follows:

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

Capital outlay	\$	657,936
Depreciation expense		(253,096)
<hr/>		
Net adjustment to increase <i>net change in fund balance - total governmental funds</i> to arrive at <i>changes in net assets - governmental activities</i>	\$	404,840

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 this \$(10,618) difference are as follows:

Compensated absences	\$	(10,618)
<hr/>		
Net adjustment to decrease <i>net change in fund balance - total governmental funds</i> to arrive at <i>changes in net assets - governmental activities</i>	\$	(10,618)

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 assets. 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." The details of this \$(69,020) difference are as follows:

Debt issued or incurred		
Notes issued	\$	(170,889)
Principal repayments		
Capital leases		3,027
Notes payable		98,842
<hr/>		
Net adjustment to decrease <i>net change in fund balance - total governmental funds</i> to arrive at <i>changes in net assets - governmental activities</i>	\$	( 69,020)

**NOTE 3 – CASH AND INVESTMENTS**

All City depositories are banks or savings institutions designed by the State Treasurer as qualified public depositories. Chapter 280, Florida Statutes "Florida Security for Public Deposits Act" provides procedures for public depositories to insure monies in banks and savings and loans are collateralized with the Treasurer as an agent for public entities.

Florida statutes authorize the City to invest in certificates of deposit, repurchase agreements and the State Treasurer's Investment Pool. In addition, the statutes allow the City to invest in

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

bonds, notes or other obligations of the United States Government, certain bonds of any state or local government unit, and bonds issued by certain government agencies.

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

For the purposes of the statement of cash flows, the City considers, cash and cash equivalents to include cash and investments with an original maturity of three months or less.

**NOTE 4 – ACCOUNTS RECEIVABLE**

At September 30, 2005, accounts receivable in the governmental funds are summarized as follows:

Total accounts receivable (franchise fee and utility tax)	\$	19,465
Less: allowance for doubtful accounts		-
<u>Net accounts receivable</u>	<u>\$</u>	<u>19,465</u>

At September 30, 2005, accounts receivable in the proprietary funds are summarized as follows:

Total accounts receivable (water, sanitation and sewer)	\$	187,914
Less: allowance for doubtful accounts		-
<u>Net accounts receivable</u>	<u>\$</u>	<u>187,914</u>

**NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of September 30, 2005 is as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 42,956	\$ 15,810
Special revenue fund	7,077	-
Water fund	259,012	18,576
Sewer fund	5,916	267,179
Sanitation fund	-	13,396
<u>Total</u>	<u>\$ 314,961</u>	<u>\$ 314,961</u>



City of Mexico Beach, Florida

Notes to Basic Financial Statements

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2005 was as follows:

	September 30, 2004	Increases	Decreases	September 30, 2005
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 150,000	\$ -	\$ -	150,000
Total capital assets, not being depreciated	150,000	-	-	150,000
Capital assets, being depreciated				
Buildings	472,633	-	-	472,633
Improvements	1,395,200	194,561	-	1,589,761
Machinery and equipment	1,305,243	463,373	-	1,768,616
Total capital assets, being depreciated	3,173,076	657,934	-	3,831,010
Less accumulated depreciation				
Buildings	(21,095)	(10,023)	-	(31,118)
Improvements	(55,534)	(103,530)	-	(159,064)
Machinery and equipment	(677,906)	(139,541)	-	(817,447)
Total accumulated depreciation	(754,535)	(253,094)	-	(1,007,629)
Total capital assets, being depreciated, net	2,418,541	404,840	-	2,823,381
Total governmental activities' capital assets, net	\$ 2,568,541	\$ 404,840	\$ -	\$ 2,973,381

City of Mexico Beach, Florida

Notes to Basic Financial Statements

**NOTE 6 – CAPITAL ASSETS (CONTINUED)**

	September 30, 2004	Increases	Decreases	September 30, 2005
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 288,191	\$ -	\$ -	\$ 288,191
<b>Total capital assets, not being depreciated</b>	<b>288,191</b>	<b>-</b>	<b>-</b>	<b>288,191</b>
Capital assets, being depreciated				
Buildings	10,606	-	-	10,606
Improvements	12,750,223	26,791	-	12,777,014
Machinery and equipment	730,655	7,372	-	738,027
<b>Total capital assets, being depreciated</b>	<b>13,491,484</b>	<b>34,163</b>	<b>-</b>	<b>13,525,647</b>
Less accumulated depreciation				
Buildings	(9,871)	(735)	-	(10,606)
Improvements	(1,794,742)	(352,621)	-	(2,147,363)
Machinery and equipment	(538,091)	(52,882)	-	(590,973)
<b>Total accumulated depreciation</b>	<b>(2,342,704)</b>	<b>(406,238)</b>	<b>-</b>	<b>(2,748,942)</b>
<b>Total capital assets, being depreciated, net</b>	<b>11,148,780</b>	<b>(372,075)</b>	<b>-</b>	<b>10,776,705</b>
<b>Total business-type activities' capital assets, net</b>	<b>\$ 11,436,971</b>	<b>\$ (372,075)</b>	<b>\$ -</b>	<b>\$ 11,064,896</b>
	<b>Sanitation Fund</b>	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Total</b>
Land	\$ -	\$ 270,426	\$ 17,765	\$ 288,191
Buildings	-	-	10,606	10,606
Improvements	-	6,812,883	5,964,131	12,777,014
Machinery and equipment	406,209	56,848	274,970	738,027
<b>Total</b>	<b>406,209</b>	<b>7,140,157</b>	<b>6,267,472</b>	<b>13,813,838</b>

City of Mexico Beach, Florida

Notes to Basic Financial Statements

**NOTE 6 – CAPITAL ASSETS (CONTINUED)**

	Sanitation Fund	Sewer Fund	Water Fund	Total
Less: accumulated depreciation				
Buildings	\$ -	\$ -	\$ (10,606)	\$ (10,606)
Improvements	-	(974,383)	(1,172,980)	(2,147,363)
Machinery and equipment	(362,741)	(10,979)	(217,253)	(590,973)
Total accumulated depreciation	(362,741)	(985,362)	(1,400,839)	(2,748,942)
Total business-type activities' capital assets, net	\$ 43,468	\$ 6,154,795	\$ 4,866,633	\$ 11,064,896

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

General government	\$ 39,781
Public safety	56,807
Highways and streets	7,301
Physical environment	124,675
Parks and recreation	24,532
Total depreciation expense - governmental activities	\$ 253,096

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

Sanitation	\$ 18,352
Sewer	213,305
Water	174,581
Total depreciation expense - business-type activities	\$ 406,238

**NOTE 7 – CAPITAL LEASES**

The City has entered into lease agreements to finance equipment. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the inception date. The cost of assets acquired through capital leases are as follows:

City of Mexico Beach, Florida

Notes to Basic Financial Statements

**NOTE 7 – CAPITAL LEASES (CONTINUED)**

	<b>General Fund</b>
Equipment	\$ 12,058
Less accumulated depreciation	(5,350)
<b>Net</b>	<b>\$ 6,708</b>

The capital leases expire at various dates through 2008. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2005 were as follows:

<b>Year Ending September 30,</b>	<b>General Fund</b>
2006	\$ 3,655
2007	1,965
2008	1,220
Total minimum lease payments	6,840
Less amount representing interest	(688)
<b>Present value of minimum lease payments</b>	<b>\$ 6,152</b>

**NOTE 8 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES**

	<b>Balance October 1, 2004</b>	<b>Increase</b>	<b>(Reductions)</b>	<b>Balance September 30, 2005</b>
Note payable to City of Gulf Breeze, Florida Capital funding loan program (See Note 10 (A)).	\$ 794,636	\$ -	\$ (16,926)	\$ 777,710
Capital lease obligation for purchase of backhoe, monthly payments of \$820, including 6.25% interest.	4,839	-	(4,839)	-
Note payable for purchase of (5) vehicles, payable in quarterly installments of \$8,829, including 6.36% interest.	-	99,251	(7,817)	91,434
Lease obligation for purchase of copier, monthly payments of \$136, including 11% interest.	4,978	-	(1,135)	3,843

City of Mexico Beach, Florida

Notes to Basic Financial Statements

**NOTE 8 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (CONTINUED)**

	Balance October 1, 2004	Increase	(Reductions)	Balance September 30, 2005
Note payable for the purchase of a dredge, payable in quarterly installments of \$14,077, including 4.17% interest.	\$ 340,325	\$ -	\$ (42,781)	\$ 297,544
Note payable for the purchase of (2) tractors and (1) vehicle, payable in quarterly installments of \$5,880, including 4.17% interest.	-	71,638	-	71,638
Note payable for the purchase of (4) automobiles, payable in quarterly installments of \$5,445, including 4.61% interest.	67,276	-	(20,022)	47,254
Note payable for the purchase of a beach rake, payable in monthly payments of \$1,002, including 4.54% interest.	30,587	-	(6,456)	24,131
Lease obligations for purchase of copier, monthly payments of \$169, including 4.1% interest.	4,202	-	(1,893)	2,309
Liability for compensated absences	39,864	10,618	-	50,482
<b>Total governmental activities long-term obligations</b>	<b>\$ 1,286,707</b>	<b>\$ 181,507</b>	<b>\$ (101,869)</b>	<b>\$ 1,366,345</b>

Debt service requirements to maturity for the governmental funds at September 30, 2005 are as follows:

Year Ending September 30,	Principal	Interest	Total
2006	\$ 147,801	\$ 28,558	\$ 176,359
2007	151,799	25,353	177,152
2008	132,166	22,130	154,296
2009	82,627	19,392	102,019
2010	76,615	16,778	93,393
2011-2015	196,611	59,342	255,953
2016-2020	186,486	42,259	228,745
2021-2025	341,758	6,511	348,269
Compensated absences	50,482	-	50,482
	<b>\$ 1,366,345</b>	<b>\$ 220,323</b>	<b>\$ 1,586,668</b>

Notes to Basic Financial Statements

**NOTE 9 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES**

Bonds Payable	Original Issue	Balance October 1, 2004	Increase	(Reductions)	Balance September 30, 2005
5% to 10.5% Water System Revenue Bonds, Series 1979, 1980 and 1984, used to construct and improve existing water system.	\$ 773,200	\$ 510,380	\$ -	\$ (19,000)	\$ 491,380 ✓
4.5% Water system Junior Lien Revenue Bonds, Series 1995, used to improve water system.	829,600	753,600	-	(13,000)	740,600 ✓
4.875% Sewer System Junior Lien Revenue Bonds, Series 2000, used to improve sewer system.	2,303,100	2,234,600	-	(25,000)	2,209,600 ✓
<b>Total bonds payable – enterprise funds</b>		<b>\$ 3,498,580</b>	<b>\$ -</b>	<b>\$ (57,000)</b>	<b>\$ 3,441,580</b>

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

(a) Water and Sewer System Revenue Bonds, Series 1979, 1980, and 1984 - \$491,380 balance. These bonds were issued to construct and improve the City's wastewater treatment facility. The bonds are secured and payable solely by a pledge of the net revenues of the system. The bonds mature annually through September 1, 2024. Interest at 5% and 10.5% per annum is payable each September 1. A sinking fund is required to be maintained to accumulate amounts sufficient to pay principal and interest coming due. In addition, monthly transfers of \$450 to a reserve account are required until a balance of \$54,000 is attained.

(a) Water and Sewer Revenue Bonds, Series 1995 - \$740,600 balance. These bonds were issued to construct improvements to the water system. The bonds are secured by a pledge of the net revenues of the water system junior and subordinate to the lien thereon of the prior obligations. Interest at 4.5% per annum is payable each September 1. A sinking fund is required to be maintained to accumulate amounts sufficient to pay principal and interest coming due. In addition, monthly transfers to a reserve account are required.

(b) Water and Sewer Revenue Bonds, Series 2000 - \$2,209,600 balance. The bonds are secured by a junior and subordinate pledge of gross revenues of the system. The bonds are due in annual installments each September 1 through September 1, 2039; interest at 4.875% per annum is payable annually on September 1.

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.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

**NOTE 9 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)**

Restricted cash account balances relating to the bond issues at September 30, 2005, are as follows:

	Series 1979, 1980, and 1984	Series 1995	Series 2000	Total
Sinking fund – principal and interest, including reserves:				
Required	\$ 58,345	\$ 50,635	\$ 105,898	\$ 214,878
Actual	79,152	77,967	108,447	265,566
Excess	\$ 20,807	\$ 27,332	\$ 2,549	\$ 50,688

Debt service requirements to maturity on revenue bonds payable at September 30, 2005 are as follows:

Year Ending September 30,	Principal	Interest	Total
2006	\$ 60,500	\$ 168,120	\$ 228,620
2007	63,500	150,910	214,410 ✓
2008	66,000	162,155	228,155
2009	71,000	158,800	229,800
2010	72,000	155,190	227,190
2011-2015	424,000	717,749	1,141,749
2016-2020	515,000	596,959	1,111,959
2021-2025	461,380	640,740	1,102,120
2026-2030	537,000	354,505	891,505
2031-2035	667,600	219,490	887,090
2036-2040	503,600	66,500	570,100
	\$ 3,441,580	\$ 3,391,118	\$ 6,832,698

**Notes Payable**

	Balance October 1, 2004	Increase	(Reductions)	Balance September 30, 2005
Sewer Fund – Note payable to City of Gulf Breeze, Florida. Principal and interest payable in monthly installments with final balloon payment in May 2021. (See (A) below)	\$ 2,215,333	\$ 31,936	\$ (78,604)	\$ 2,168,665 ✓

City of Mexico Beach, Florida

Notes to Basic Financial Statements

**NOTE 9 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)**

	Balance October 1, 2004	Increase	(Reductions)	Balance September 30, 2005
Water Fund – Note payable to City of Gulf Breeze, Florida. Principal and interest payable in monthly installments with final balloon payment in May 2021. (See (A) below)	\$ 678,190	\$ -	\$ (14,287)	\$ 663,903
Note payable for purpose of financing Gulf Breeze loan costs with variable interest at 2.3%. Principal and interest payable monthly.	39,933	-	(2,412)	37,521
Florida Department of Environmental Protection state revolving fund loan. Repayable over 20 years upon completion of water system improvements. (See (B) below)	2,396,418	-	(101,394)	2,295,024 ✓
Note payable in monthly installments of \$1,106, including interest of 4.61%, secured by garbage truck.	7,640	-	(7,640)	-
Note payable in monthly installments of \$397, including interest at 4.61%, secured by equipment.	20,089	-	(4,317)	15,772
Note payable in quarterly installments of \$1,485, including interest at 4.61%, secured by vehicles.	18,348	-	(5,461)	12,887
Note payable in quarterly installments of \$2,970, including interest at 4.61%, secured by vehicles.	36,696	-	(10,921)	25,775
<b>Total notes payable – enterprise funds</b>	<b>\$ 5,412,647</b>	<b>\$ 31,936</b>	<b>\$ (225,036)</b>	<b>\$ 5,219,547</b>



City of Mexico Beach, Florida

Notes to Basic Financial Statements

**NOTE 9 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)**

A synopsis of significant enterprise fund notes payable follows:

- (A) The note payable to the City of Gulf Breeze, Florida was incurred in 1995 in the principal amount of \$4,190,000 under the Gulf Breeze, Florida Capital Funding Loan Program, Series 1955A. The loan provides for varying interest and is payable in monthly installments of principal and interest with a final balloon payment of \$1,483,135 at maturity in May 2021. The note is secured by a pledge of the net revenues of the water and sewer system. The note payable is repayable from the following funds:

General fund	\$ 777,710
Sewer fund	2,168,665
Water fund	663,903
	\$ 3,610,278

The loan proceeds were used by the City for the purchase of real property and dredging of a canal.

- (B) The \$2,295,024 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. Total borrowings available to the City under this loan are \$2,934,087, which included a loan service fee of \$54,831 and \$55,480 in capitalized interest. The loan is repayable over 20 years in semiannual installments each January 15 and July 15 of \$98,796, including interest at 3.08%. The loan is secured by pledged revenues of water charges by the utility fund.

Debt service requirements to maturity on notes payable at September 30, 2005 are as follows:

Year Ending September 30,	Principal	Interest	Total
2006	\$ 198,262	\$ 125,909	\$ 324,171
2007	206,107	120,577	326,684
2008	200,832	115,146	315,978
2009	201,898	109,924	311,822
2010	207,840	104,657	312,497
2011-2015	1,176,185	418,610	1,594,795
2016-2020	1,446,125	283,798	1,729,923
2021-2025	1,582,298	64,673	1,646,971
	\$ 5,219,547	\$ 1,343,294	\$ 6,562,841

Notes to Basic Financial Statements

**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.

The City is plaintiff in an action where the City contends that an invalid and defective petition was filed by a group of citizens ordering a financial audit to be performed by the Office of the Auditor General of the State of Florida. As a result, the City contends it not be required to pay the amount of approximately \$80,000 billed to the City for the cost of the audit. Legal counsel believes an out of court settlement of this matter is likely.

***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 immaterial.

***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 are 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 financed 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.

**NOTE 11 – FLORIDA MUNICIPAL PENSION TRUST FUND (FMPTF)**

All full-time employees of the City with at least six months experience are eligible to participate in the City of Mexico Beach Pension Plan (the Plan). The plan is a defined contribution plan administered by Core Plan Connect. The City's obligation under the Plan is limited to its match, currently 4.5%, of participating employee compensation. Employees may elect to contribute and defer up to 25% of a covered individual's gross wages. Vesting of City contributions occurs over a five-year period. Total contribution expense for the City during the fiscal year was \$15,930, which is 3.8% of covered payroll. Employee contributions were \$28,033, which is 6.8% of

Notes to Basic Financial Statements

**NOTE 11 – FLORIDA MUNICIPAL PENSION TRUST FUND (FMPTF) (CONTINUED)**

covered payroll. The City's covered payroll for the fiscal year was \$414,205 and total payroll for all employees was \$1,048,950.

**NOTE 12 – DEFICIT BALANCE IN NET ASSETS**

The special revenue fund had an unrestricted deficit balance in fund equity of \$9,040 at September 30, 2005. This was a reduction of \$2,864 in the deficit balance from the prior year.

**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; injuries to employees and/or the public; or damage to property of others; and natural disasters for which the City carries commercial insurance. Insurance against losses is 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 for 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 AGREEMENTS**

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.

Notes to Basic Financial Statements

**NOTE 15 – GRANTS**

The City participates in several state and federal grant programs. These programs are subject to program compliance audits by grantors or their representatives. The audits of these programs for, or including, the year ended September 30, 2005, have not yet been accepted/approved by the grantors. Accordingly, the final determination of the City's compliance with applicable grant requirements will be established at a future date. The amount, if any, of expenditures which may be disallowed by granting agencies cannot be determined, although the City expects such amounts, if any, to be immaterial.

**NOTE 16 – FUND EQUITY**

***Reserved 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	\$ 42,641
Water fund	Debt service	136,993
Water fund	Impact fees	464,392
Sewer fund	Debt service	99,535
Sewer fund	Impact fees	255,711
<b>Total reserved fund equity</b>		<b>\$ 999,272</b>

**NOTE 17 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS**

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective October 1, 2003. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is not required by the City.

**NOTE 18 – PRIVATE DONATIONS**

The City received a donation of \$40,000 from a private corporation for improvements to the boat trailer parking lot in January 2005. The company previously gave \$60,000 in fiscal year 2003-2004.

## Compliance Section

CARR, RIGGS & INGRAM, LLC

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## INDEPENDENT AUDITORS' MANAGEMENT LETTER

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

We have audited the financial statements of the City of Mexico Beach, Florida (the City) as of and for the fiscal year ended September 30, 2005, and have issued our report thereon dated June 30, 2006.

We have also issued our independent auditors' report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards* dated June 30, 2006. Disclosures in this report, if any, should be considered in conjunction with this management letter.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the state of Florida and require that certain items be addressed in this letter.

The *Rules of the Auditor General* [Section 10.554(1)(h)1.] require that we comment as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial audit report have been satisfactorily addressed by the City, except as noted under the heading "Prior Year Recommendations."

The *Rules of the Auditor General* [Section 10.554(1)(h)2.], require that we determine whether the City complied with Section 218.415, Florida Statutes, regarding investment of public funds. Our audit disclosed no matters requiring comment as outlined in Section 218.415, Florida Statutes.

The *Rules of the Auditor General* [Section 10.554(1)(h)5.] also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed. The City was established in 1967, under a Charter in accordance with the Laws of Florida 67-1717.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)6.(a)], the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the City is not in a state of financial emergency as a

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consequence of the conditions described by Section 218.503(1), Florida Statutes.

As required by the *Rules of the Auditor General* [Section 10.554(l)(h)6.(b)], we determined that the annual financial report for the City for the fiscal year ended September 30, 2005, was filed with the Department of Banking and Finance pursuant to Section 218.32(1)(a), Florida Statutes, and is in agreement with the annual financial audit report for the fiscal year ended September 30, 2005.

As required by the *Rules of the Auditor General* [Section 10.554(1Xh)6.(c)], we applied financial condition assessment procedures in detecting deteriorating financial conditions, pursuant to Section 218.39(5), Florida Statutes. No deteriorating financial conditions were noted.

The *Rules of the Auditor General* [Sections 10.554(l)(h)3. and 4.(a), (b), and (c)] require disclosure in the management letter of the following matters if not already addressed in the auditors' report on compliance and internal control: recommendations to improve financial management, accounting procedures, and internal controls; violations of laws, rules, regulations and contractual provisions which may or may not materially affect the financial statements; illegal or improper expenditures that may or may not materially affect the financial statements; improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); failures to properly record financial transactions; and other inaccuracies, shortages, and defalcations and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit report disclosed the following matters required to be disclosed:

### **Current Year Recommendations**

#### 05-01 Timely Filing of Payroll Tax Returns

Payroll tax returns during the year were filed incorrectly and not timely filed, which resulted in significant penalties and interest. We recommend that the City file correctly and in a timely manner all required forms and tax returns.

#### 05-02 Record Storage and Retrieval

During our audit we noticed that accounting records could not be located when needed. The causes of the problem were numerous:

- Lack of clearly specified system for filing records
- Failure of those who removed records from the files to indicate who took the record
- Failure to return the record to the files or misfiling it when it was returned
- Lack of specific policies for removing prior year records from the files to a designated storage space

The result was that employees spent nonproductive time searching for needed documents. This condition could also present problems when we or government agencies need documents in support of tax returns and other reports subject to audit. We recommend that the following steps be taken:

- Decide on a systematic manner of filing documents, e.g., prenumbered sales invoices and receiving reports filed consecutively by number, vendor bills filed alphabetically by vendor name, journal entries filed by month, etc.

- Describe the system in the accounting manual or post a description on the filing cabinets so employees will know how to find and refile documents.
- Institute use of sign-out cards to be filled out when a document is removed from a file, showing who took the record. The card should be placed in the file in place of the removed document.
- Establish a policy specifying which records should be retained permanently, which records should be kept only for a given period before being destroyed, and how long the period of time should be for the various documents' termination.
- Decide on when unneeded records should be removed to other storage areas to create room for needed records. For example, some companies keep the current and prior year records in the accounting department or in storage rooms on the premises and store older records in off-premises warehouses, or some files may be stored on microfiche.
- Assign personnel the responsibility of periodically cleaning out the files in accordance with the established policy.

#### 05-03 Timely Depositing of Funds

Deposits for collections are not being made daily and intact. Such procedure is a vital part of a good internal control system. In specific, it was noted that a payment from Harold Bazzell in March 2005 was not deposited until February 2006. We recommend that such procedures be implemented immediately.

#### 05-04 Timely Requesting of Funds

Request for contract revenue from the State Lighting contract for 2005 was not requested until it was brought to the attention of the City Clerk during the audit in March 2006. Funds were subsequently received. Grant funding is required to be requested on a timely basis. We recommend that procedures are implemented to ensure that all funds will be requested on time.

#### 05-05 Personnel Files Should be Maintained for Each Employee

While conducting our audit, we noted that many personnel files contain data that is either old or incomplete. Maintaining current personnel files is an important internal control. Complete and current personnel files should be established and maintained for each employee. Files should include the following information:

- Employment history, including hire date
- Address of next of kin and emergency contact notification information
- Authorized salary data and withholding/adjustment authorization
- Employment contracts
- Authorized and current payroll deductions
- Current federal and state withholding tax forms
- Vacation data



- Sick leave data
- Reference checks and responses
- Management authorization of all personnel changes

#### 05-06 Software

During the previous year and in the current year, the City continues to encounter extensive problems with the accounting software program it uses. It appears there are inherent limitations in the software that results in certain postings and transactions to be improperly recorded in the general ledger.

We recommend the City pursue options for new accounting software packages and implement a change as soon as practicable. We would be pleased to provide the City with a number of contact individuals at local City Halls in the area to view these software applications.

#### 05-07 Accounts Payable

The detailed listing of year end accounts payable maintained by the City was incorrect. It appears some accounts payable on the listing were actually prior year expenses, and therefore recorded twice and other expenses listed on the City's detailed listing were never recorded in the general ledger as an account payable.

We recommend the City Clerk review the detailed listing of accounts payable each month and compare the total payables amount to the general ledger.

#### 05-08 Need to Improve Capital Assets Records

There continues to be deficiencies in the City's maintenance of its property records for land owned by the City. The City does not have a detailed and complete listing of land owned or the carrying values of the land.

We recommend the City obtain a detailed listing of all property owned, compare the listing with the individual property records the City currently has, and reconcile the differences in order to ensure the carrying amounts of all land owned by the City is correctly reported in the financial statements.

#### 05-09 Internal Control

Separation of certain accounting and administrative duties among employees, which is recommended as an effective internal control procedure, was inadequate at the City.

- The City Clerk processes all transactions for the general fund, including receipting the funds, posting the receipts to the general ledger, preparing the bank reconciliation and preparing the financial statements.
- Even though another individual is responsible for some limited functions of the payroll process, the City Clerk still reviews the payroll postings, distributes the payroll checks, prepares the bank reconciliation and payroll reports and posts the transactions to the general ledger.

The City should separate duties so that no one individual has control over all phases of a transaction. There are inherent limitations off any internal control structure. Mistakes and irregularities may occur in any event with or without an adequate internal control structure.

Furthermore, adequate segregation of duties can be circumvented by collusion among persons. Nevertheless, internal control is strengthened when incompatible duties are separated and review procedures are established and adhered to.

#### 05-10 Deficit Fund Balance

The sewer fund continues to report a deficit in operations. The deficit amounts were \$111,715 at September 30, 2005 and \$193,924 at prior year end, and \$365,095 in fiscal year 2003.

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

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

Panama City, Florida  
June 30, 2006

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**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, Members of the  
City Council and City Manager  
City of Mexico Beach, Florida

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Mexico Beach, Florida (the City) as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted is described as follows:

Need for Segregation of Duties

Separation of certain accounting and administrative duties among employees, which is recommended as an effective internal control procedure, was not considered feasible by the City because of its size and limited number of employees. The City recognizes that the cost of its internal control structure should not exceed the benefits expected to be derived. The City also recognizes the inherent limitations of an internal control structure. Mistakes and irregularities may occur in any event with or without an adequate internal control structure. Furthermore, adequate segregation of duties can be circumvented by collusion among persons. Nevertheless, internal control is strengthened when incompatible duties are separated and review procedures are established.

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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition as described above to be a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated June 30, 2006.

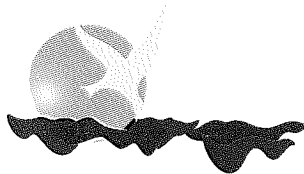
#### Compliance and Other Matters

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

This report is intended solely for the information and use of the City Council, management, and specific legislative or regulatory bodies, and is not intended to be and should not be used by anyone other than these specified parties.

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

Panama City, Florida  
June 30, 2006



## CITY OF MEXICO BEACH

P.O. BOX 13425 • MEXICO BEACH, FLORIDA 32410

Phone: 850-648-5700 Fax: 850-648-8768

July 13, 2006

Carr, Riggs & Ingram, LLC  
P.O. Box 149  
Panama City, FL 32405

RE: Fiscal Year 2005 Audit

### Status of Prior Year Recommendations

1. **Software** – *During the year, the City encountered extensive problems with the accounting software program it uses. It appears there are inherent limitations in the software that results in certain postings and transactions to be improperly recorded in the general ledger.*

The City has recognized the problem and limitations of its present software program and will actively seek replacement software. The City is researching various software programs to correct this issue and anticipates purchasing new software in Fiscal Year 2007.

2. **Need to File Liens Timely**  
*The City failed to monitor collections for special road assessments and timely filing of liens on delinquent accounts.*

The City attorney currently files all liens for the City and monitors all progress for same.

3. **Accounts Payable**  
*The detailed listing of year end accounts payable maintained by the City was incorrect.*

The City will ensure that all transactions posted to the Accounts Payable subsidiary ledger are posted accurately in the future.

## **Current Year Recommendations**

### **1. Timely Filing of Payroll Taxes**

The City is currently filing all payroll taxes within the IRS mandated timeframe.

### **2. Records Retention**

The City will maintain all public records in accordance with the State of Florida records retention guidelines and laws.

### **3. Timely Deposits of Funds**

The City will create centralized cash receipts, ensuring that all deposits are recorded and deposited within 24 hours of receipt.

### **4. Timely Request of Funds and/or Reimbursements**

The City will record all accounts receivable in the general ledger and review all balances on a monthly basis, ensuring that any outstanding or unpaid funds are collected in a timely fashion.

### **5. Employee Files**

The City Clerk will review all files for any deficiencies and make any necessary corrections. Employee files will be held in a separate file, in appropriate personnel jackets with accurate recording of personnel changes.

### **6. Software**

The City has recognized the problem and limitations of its present software program and will actively seek replacement software. The City is researching various software programs to correct this issue and anticipates purchasing new software in Fiscal Year 2007.

### **7. Accounts Payable**

The City will ensure that all transactions posted to the Accounts Payable subsidiary ledger are posted accurately in the future.

**8. Internal Control**

The City has reviewed internal control issues and duty responsibilities. The City will update internal control policies, ensuring that they are designed and implemented to be adequate and functional. Due to the size of City staff some duties may overlap, but controls will be placed to ensure a system is developed to improve internal control issues.

**9. Deficit Fund Balance**

The City is aware of the deficit balance in the Sewer fund and is conducting a in-house rate study to determine a rate structure sufficient to offset any future deficits in the Enterprise Funds.

**10. Capital Assets Records**

The City will ensure that all capital purchases are recorded correctly on the general ledger in correlation with the City's Fixed Assets listing.

If additional information is required, please do not hesitate to contact me.

Sincerely,



William A. Cathey, Mayor

/dm