

City of Mexico Beach, Florida

Annual Financial Statements

September 30, 2006

City of Mexico Beach, Florida
Table of Contents
September 30, 2006

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	14
Statement of Net Assets – Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds	17
Notes to Basic Financial Statements	18

City of Mexico Beach, Florida
Table of Contents
September 30, 2006

Supplementary Information

Comparative Schedule of Net Assets – Water	39
Comparative Schedule of Net Assets – Sewer	40
Comparative Schedule of Net Assets – Sanitation	41
Comparative Schedule of Revenues, Expenses, and Changes in Net Assets – Water	42
Comparative Schedule of Revenues, Expenses, and Changes in Net Assets – Sewer	43
Comparative Schedule of Revenues, Expenses, and Changes in Net Assets – Sanitation	44
Comparative Schedule of Cash Flows – Water	45
Comparative Schedule of Cash Flows – Sewer	46
Comparative Schedule of Cash Flows – Sanitation	47

Compliance Section

Independent Auditors' Management Letter	48
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	52
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	54
Schedule of Expenditures of Federal Awards	56
Schedule of Findings and Questioned Costs	57
Management's Response	58

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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, 2006, 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, 2006, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in 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 February 23, 2007, 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.

American Institute of
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Alabama Society of
Certified Public Accountants

Florida Institute of
Certified Public Accountants

Georgia Society of
Certified Public Accountants

Mississippi Society 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The comparative schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The comparative schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Panama City, Florida
February 23, 2007

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 \$6,504,122 (net assets). Of this amount, \$436,763 is unrestricted net assets for governmental activities and \$677,985 is unrestricted net assets for business-type activities, \$147,746 is restricted net assets for governmental activities and \$1,205,731 is restricted net assets for business-type activities.
- Total net assets increased by \$199,126. Of this amount, \$165,194 is attributable to governmental activities and \$33,932 is attributable to business-type activities.
- As of September 30, 2006, the general fund's unreserved fund balance was \$610,709 or 21% of total general fund expenditures.
- Governmental activities revenues increased to \$2,990,140 or 23%, while governmental activities expenditures increased 21% to \$2,824,946. Business-type activities revenues increased to \$2,445,840 or 5%, while business-type activities expenditures increased 2% to \$2,411,908.

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, 2006. 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	\$ 716,387	\$ 2,042,189	\$ 2,758,576
Capital assets	2,849,574	10,846,159	13,695,733
Total assets	3,565,961	12,888,348	16,454,309
Current liabilities (payable from current assets)	277,040	375,881	652,921
Current liabilities (payable from restricted assets)	-	29,038	29,038
Non current liabilities	1,113,201	8,155,027	9,268,228
Total liabilities	1,390,241	8,559,946	9,950,187
Net assets invested in capital assets, net of related debt	1,591,211	2,444,686	4,035,897
Net assets-restricted	147,746	1,205,731	1,353,477
Net assets-unrestricted	436,763	677,985	1,114,748
Total net assets	\$ 2,175,720	\$ 4,328,402	\$ 6,504,122

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 (62%). 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 21% 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* (\$1,114,748) may be used to help meet the government's ongoing obligations to citizens and creditors.

Governmental activities' noncurrent liabilities increased due to a new bank note (\$99,756) reduced by principal reductions (\$157,256) of long-term obligations.

The following schedule provides a summary of the changes in net assets for the year ended September 30, 2006.

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

	Governmental Activities	Business- type Activities	Total
Program revenues:			
Charges for services	\$ 397,054	\$ 2,418,031	\$ 2,815,085
Operating grants/contributions	821,428	-	821,428
Capital grants/contributions	47,038	-	47,038
General revenues:			
Ad valorem	1,243,705	-	1,243,705
Utility taxes/franchise fees	385,837	-	385,837
Interest	15,620	29,138	44,758
Other	79,458	(1,329)	78,129
Total revenues	2,990,140	2,445,840	5,435,980
Expenses:			
General government	613,932	-	613,932
Public safety	665,345	-	665,345
Highways and streets	228,785	-	228,785
Maintenance	152,347	-	152,347
Parks and recreation	706,969	-	706,969
Physical environment	422,065	-	422,065
Interest on long-term debt	35,503	-	35,503
Water	-	982,223	982,223
Sewer	-	1,009,994	1,009,994
Sanitation	-	419,691	419,691
Total expenses	2,824,946	2,411,908	5,236,854
Increase (decrease) in net assets	\$ 165,194	\$ 33,932	\$ 199,126

Governmental activities revenues exceeded expenses by \$165,194, while business-type activities revenues exceeded expenses by \$33,932. Total revenues increased \$664,679 from the previous year. Total expenses increased \$533,718 from the previous year.

54% of the revenues for governmental activities were generated by taxes, while most of the governmental resources were expended for general government (22%), public safety (24%), parks and recreation (25%), and physical environment (15%).

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, 2006, total assets were \$723,626 and total liabilities were \$112,917. At the end of fiscal year 2006, unreserved fund balance of the general fund was \$610,709.

The general fund budget was amended during the year to reflect decreases in revenue and the corresponding decreases in expenditures which resulted from the decrease in available 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:

	Unrestricted Net Assets
Fund	
Water	\$ 570,114
Sewer	34,459
Sanitation	73,412
<hr/>	
Total	\$ 677,985

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, 2006, was \$13,695,733 (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, 2006

	Governmental Activities	Business-type Activities	Total
Land	\$ 150,000	\$ 288,191	\$ 438,191
Buildings	432,074	-	432,074
Improvements	1,381,636	10,355,439	11,737,075
Machinery and equipment	885,864	202,529	1,088,393
Total	\$ 2,849,574	\$ 10,846,159	\$ 13,695,733

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

Debt Management

At the end of the current fiscal year, the City had total bond debt outstanding of \$3,380,080. This debt amount represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Outstanding Bond Debt

September 30, 2006

	Water Fund	Sewer Fund	Total
Revenue bonds	\$ 1,196,980	\$ 2,183,100	\$ 3,380,080

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: Debbie McLeod.

Basic Financial Statements

City of Mexico Beach, Florida
Statement of Net Assets
September 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 391,066	\$ 171,349	\$ 562,415
Accounts receivable (net)	27,837	205,762	233,599
Due from other funds	121,330	(121,330)	-
Due from other governmental units	19,586	39	19,625
Prepaid expenses	-	11,465	11,465
Fuel inventory	8,821	-	8,821
Total current assets (unrestricted)	568,640	267,285	835,925
Restricted assets			
Cash and cash equivalents	147,747	1,600,500	1,748,247
Total current assets (restricted)	147,747	1,600,500	1,748,247
Total current assets	716,387	1,867,785	2,584,172
Noncurrent assets			
Unamortized loan costs	-	120,217	120,217
Capacity rights	-	54,187	54,187
Capital assets (net of accumulated depreciation)	2,849,574	10,846,159	13,695,733
Total noncurrent assets	2,849,574	11,020,563	13,870,137
Total assets	3,565,961	12,888,348	16,454,309
Liabilities			
Current liabilities			
Accounts payable	53,150	92,913	146,063
Payroll liabilities	10,171	12,181	22,352
Deferred revenue	42,357	-	42,357
Accrued interest	-	29,038	29,038
Bonds payable	-	64,500	64,500
Capital leases payable	2,579	-	2,579
Notes payable	168,783	206,287	375,070
Total current liabilities	277,040	404,919	681,959
Noncurrent liabilities			
Accrued compensated absences	26,200	24,341	50,541
Notes payable	1,087,001	4,815,106	5,902,107
Revenue bonds payable	-	3,315,580	3,315,580
Total noncurrent liabilities	1,113,201	8,155,027	9,268,228
Total liabilities	1,390,241	8,559,946	9,950,187
Net assets			
Invested in capital assets (net of related debt)	1,591,211	2,444,686	4,035,897
Restricted for:			
Bond retirement	-	207,128	207,128
Impact fees	147,746	998,603	1,146,349
Unrestricted	436,763	677,985	1,114,748
Total net assets	\$ 2,175,720	\$ 4,328,402	\$ 6,504,122

See accompanying notes

City of Mexico Beach, Florida
Statement of Activities
Year Ended September 30, 2006

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	
Functions / Programs							
Primary Government							
Governmental activities							
General government	\$ 613,932	\$ 387,492	\$ 806,428	\$ 7,038	\$ 587,026	\$ -	\$ 587,026
Public safety	665,345	426	15,000	-	(649,919)	-	(649,919)
Highways and streets	228,785	9,136	-	-	(219,649)	-	(219,649)
Human services	152,347	-	-	-	(152,347)	-	(152,347)
Parks and recreation	706,969	-	-	40,000	(666,969)	-	(666,969)
Physical environment	422,065	-	-	-	(422,065)	-	(422,065)
Interest on long-term debt	35,503	-	-	-	(35,503)	-	(35,503)
Total governmental activities	2,824,946	397,054	821,428	47,038	(1,559,426)	-	(1,559,426)
Business-type activities							
Water	982,223	1,050,865	-	-	-	68,642	68,642
Sewer	1,009,994	933,611	-	-	-	(76,383)	(76,383)
Sanitation	419,691	433,555	-	-	-	13,864	13,864
Total business-type activities	2,411,908	2,418,031	-	-	-	6,123	6,123
Total primary government	\$ 5,236,854	\$ 2,815,085	\$ 821,428	\$ 47,038	(1,559,426)	6,123	(1,553,303)

General revenues

Taxes							
Ad valorem					1,243,705	-	1,243,705
Utility					98,142	-	98,142
Franchise fees					145,706	-	145,706
Local option gas tax					52,945	-	52,945
1/2 cent sales tax					89,044	-	89,044
Miscellaneous					75,879	-	75,879
Sale of surplus property					2,250	-	2,250
Interest earnings					15,620	29,138	44,758
Transfers					1,329	(1,329)	-
Total general revenues and interest					1,724,620	27,809	1,752,429
Change in net assets					165,194	33,932	199,126
Net assets - beginning					2,010,526	4,294,470	6,304,996
Net assets - ending					\$ 2,175,720	\$ 4,328,402	\$ 6,504,122

See accompanying notes

City of Mexico Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2006

	General
Assets	
Cash and cash equivalents	\$ 391,066
Accounts receivable (net)	27,837
Due from other governments	19,586
Due from other funds	128,569
Fuel inventory	8,821
Cash and cash equivalents - restricted	147,747
Total assets	\$ 723,626
Liabilities and fund balance	
Liabilities	
Accounts payable	\$ 53,150
Accrued expenses	10,171
Due to other funds	7,239
Deferred revenue	42,357
Total liabilities	112,917
Fund balance	
Unreserved	610,709
 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.	2,849,574
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(1,284,563)
Net assets of governmental activities	\$ 2,175,720

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended September 30, 2006

	General
<hr/>	
Revenues	
Taxes	\$ 1,540,498
Licenses and permits	317,085
Intergovernmental	942,971
Fines and forfeitures	9,877
Charges for services	24,313
Miscellaneous revenues	154,067
<hr/>	
Total revenues	2,988,811
<hr/>	
Expenditures	
Current operating	
General government	590,293
Public safety	556,652
Highways and streets	211,622
Physical environment	301,127
Human services	152,347
Parks and recreation	694,961
Capital outlay	182,915
Debt service	192,760
<hr/>	
Total expenditures	2,882,677
<hr/>	
Excess (Deficit) of revenues over (under) expenditures	106,134
<hr/>	
Other financing sources	
Transfer from sewer	1,329
Installment loan proceeds	99,756
<hr/>	
Total other financing sources	101,085
<hr/>	
Excess (Deficit) of revenues and other financing sources over (under) expenditures	207,219
<hr/>	
Fund balance - beginning	403,490
<hr/>	
Fund balance - ending	\$ 610,709
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See accompanying notes

City of Mexico Beach, Florida
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balance of Governmental
 Funds to the Statement of Activities
 Year Ended September 30, 2006

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

Net change in fund balance - total governmental funds	\$	207,219
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.		(123,806)
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.		24,281
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.		57,500
<hr/>		
Change in net assets of governmental activities	\$	165,194
<hr/>		

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,567,122	\$ 1,553,042	\$ 1,540,498	\$ (12,544)
Licenses and permits	699,500	212,650	317,085	104,435
Intergovernmental	2,029,100	952,257	942,971	(9,286)
Fines and forfeitures	18,000	9,000	9,877	877
Charges for services	26,005	28,727	24,313	(4,414)
Miscellaneous revenues	155,000	506,254	154,067	(352,187)
Total revenues	4,494,727	3,261,930	2,988,811	(273,119)
Expenditures				
Current				
General government	652,822	654,785	590,293	64,492
Public safety	654,659	649,531	556,652	92,879
Highways and streets	172,760	200,274	211,622	(11,348)
Physical environment	176,526	340,117	301,127	38,990
Human services	180,367	187,044	152,347	34,697
Culture and recreation	132,435	206,808	694,961	(488,153)
Capital outlay	2,007,700	795,371	182,915	612,456
Debt service	45,000	233,000	192,760	40,240
Total expenditures	4,022,269	3,266,930	2,882,677	384,253
Excess (Deficit) of revenues over (under) expenditures	472,458	(5,000)	106,134	111,134
Other financing sources				
Transfers	-	(110,000)	1,329	111,329
Installment loan proceeds	-	115,000	99,756	(15,244)
Total other financing sources	-	5,000	101,085	96,085
Net change in fund balance	472,458	-	207,219	207,219
Fund balance - beginning	403,490	403,490	403,490	-
Fund balance - ending	\$ 875,948	\$ 403,490	\$ 610,709	\$ 207,219

See accompanying notes

City of Mexico Beach, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2006

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 98,509	\$ 22,354	\$ 50,486	\$ 171,349
Accounts receivable (net)	87,105	77,140	41,517	205,762
Due from other funds	283,591	5,916	-	289,507
Due from other governments	39	-	-	39
Prepaid insurance	7,517	3,948	-	11,465
Total current assets	476,761	109,358	92,003	678,122
Restricted assets - cash				
Bond and interest sinking	113,492	122,674	-	236,166
Impact fees	578,035	420,568	-	998,603
Renewal, replacement, and reserve	114,549	230,656	20,526	365,731
Total restricted assets - cash	806,076	773,898	20,526	1,600,500
Noncurrent assets				
Unamortized loan costs	18,300	101,917	-	120,217
Capacity rights	-	54,187	-	54,187
Property, plant, and equipment	6,368,419	7,144,328	503,797	14,016,544
Less accumulated depreciation	(1,575,105)	(1,198,506)	(396,774)	(3,170,385)
Total noncurrent assets	4,811,614	6,101,926	107,023	11,020,563
Total assets	6,094,451	6,985,182	219,552	13,299,185
Liabilities				
Current liabilities				
Accounts payable	6,448	63,438	23,027	92,913
Accrued expenses	9,850	230	2,101	12,181
Due to other funds	10,794	393,868	6,175	410,837
Notes payable, current portion	136,720	69,567	-	206,287
Revenue bonds payable, current portion	37,000	27,500	-	64,500
Total current liabilities	200,812	554,603	31,303	786,718
Current liabilities payable from restricted assets				
Accrued interest	20,126	8,912	-	29,038
Total current liabilities payable from restricted assets	20,126	8,912	-	29,038
Noncurrent liabilities				
Accrued compensated absences	12,404	4,123	7,814	24,341
Notes payable - due after one year	2,715,768	2,099,338	-	4,815,106
Bonds payable - due after one year	1,159,980	2,155,600	-	3,315,580
Total noncurrent liabilities	3,888,152	4,259,061	7,814	8,155,027
Total liabilities	4,109,090	4,822,576	39,117	8,970,783
Net assets				
Invested in capital assets (net of related debt)	743,846	1,593,817	107,023	2,444,686
Restricted for:				
Bond retirement	93,366	113,762	-	207,128
Impact fees	578,035	420,568	-	998,603
Unrestricted	570,114	34,459	73,412	677,985
Total net assets	\$ 1,985,361	\$ 2,162,606	\$ 180,435	\$ 4,328,402

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2006

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating revenues				
Charges for services	\$ 828,964	\$ 693,130	\$ 407,521	\$ 1,929,615
New installations	165,039	-	-	165,039
Reconnections	12,038	-	-	12,038
Impact fees	-	240,481	-	240,481
Other utility income	44,824	-	26,034	70,858
Total operating revenues	1,050,865	933,611	433,555	2,418,031
Operating expenses				
Personal services	356,266	81,782	252,042	690,090
Professional services	24,275	16,281	8,025	48,581
Office supplies	1,178	-	-	1,178
Utilities	66,257	16,944	197	83,398
Insurance	16,800	21,452	8,613	46,865
Repairs and maintenance	28,078	43,115	11,671	82,864
Operating supplies	26,135	44,694	22,975	93,804
Communication services	4,139	1,344	1,351	6,834
Public utility services	89,024	337,036	-	426,060
Tipping fees	-	-	68,197	68,197
Transportation	309	309	234	852
Loan servicing costs	-	26,773	-	26,773
Rentals	1,015	-	8,128	9,143
Printing and binding	1,699	549	95	2,343
Miscellaneous	16,748	7,629	1,216	25,593
Amortization	967	7,016	-	7,983
Depreciation	174,266	213,144	34,033	421,443
Bad debts	5,750	4,258	2,858	12,866
Total operating expenses	812,906	822,326	419,635	2,054,867
Operating income	237,959	111,285	13,920	363,164
Nonoperating revenues (expenses)				
Interest income	14,204	14,630	304	29,138
Interest expense	(169,316)	(187,668)	(57)	(357,041)
Transfers in	-	30,000	-	30,000
Transfers out	(30,000)	-	(1,329)	(31,329)
Total nonoperating revenues (expenses)	(185,112)	(143,038)	(1,082)	(329,232)
Net income (loss)	52,847	(31,753)	12,838	33,932
Net assets - beginning	1,932,514	2,194,359	167,597	4,294,470
Net assets - ending	\$ 1,985,361	\$ 2,162,606	\$ 180,435	\$ 4,328,402

See accompanying notes

City of Mexico Beach, Florida
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2006

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating activities				
Receipts from customers and users	\$ 1,018,763	\$ 927,423	\$ 429,379	\$ 2,375,565
Payments to suppliers and others	(339,228)	(442,703)	(154,914)	(936,845)
Payments for personal services	(356,266)	(81,782)	(252,042)	(690,090)
Net cash provided by operating activities	323,269	402,938	22,423	748,630
Noncapital financing activities				
Transfers in	-	30,000	-	30,000
Transfers out	(30,000)	-	(1,329)	(31,329)
Net cash provided by (used in) noncapital financing activities	(30,000)	30,000	(1,329)	(1,329)
Capital and related financing activities				
Principal paid on revenue bonds	(35,000)	(26,500)	-	(61,500)
Principal paid on notes and leases	(132,214)	(65,940)	-	(198,154)
Interest paid on bonds, notes and leases	(169,316)	(187,668)	(57)	(357,041)
Purchase of capital assets	(100,946)	(4,170)	(97,588)	(202,704)
Net cash (used in) capital and related financing activities	(437,476)	(284,278)	(97,645)	(819,399)
Investing activities				
Interest received	14,204	14,630	304	29,138
Net cash provided by investing activities	14,204	14,630	304	29,138
Net increase (decrease) in cash and cash equivalents	(130,003)	163,290	(76,247)	(42,960)
Cash and cash equivalents, beginning	1,034,588	632,962	147,259	1,814,809
Cash and cash equivalents, ending	\$ 904,585	\$ 796,252	\$ 71,012	\$ 1,771,849
Classified as cash				
Current assets - cash and cash equivalents	\$ 98,509	\$ 22,354	\$ 50,486	\$ 171,349
Restricted assets - cash and cash equivalents	806,076	773,898	20,526	1,600,500
	\$ 904,585	\$ 796,252	\$ 71,012	\$ 1,771,849
Reconciliation of net operating income to net cash provided by operating activities				
Net operating income	\$ 237,959	\$ 111,285	\$ 13,920	\$ 363,164
Adjustments to reconcile net operating income to net cash provided by operating activities				
Amortization	967	7,016	-	7,983
Depreciation	174,266	213,144	34,033	421,443
(Increase) decrease in assets				
Accounts receivable	(7,484)	(6,188)	(4,176)	(17,848)
Due from other funds	(24,579)	-	-	(24,579)
Due from other governments	(39)	-	-	(39)
Prepaid assets	(7,518)	(3,948)	13,968	2,502
Increase (decrease) in liabilities				
Accounts payable	(63,092)	(49,179)	(35,639)	(147,910)
Accrued expenses	8,167	(4)	(276)	7,887
Compensated absences	12,404	4,123	7,814	24,341
Due to other funds	(7,782)	126,689	(7,221)	111,686
Total adjustments	85,310	291,653	8,503	385,466
Net cash provided by operating activities	\$ 323,269	\$ 402,938	\$ 22,423	\$ 748,630

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, 2006, 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 from the City's financial statements. The City did not participate in any joint ventures during the year.

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

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, 2006, was 4.35% 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.

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

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this \$2,849,574 difference are as follows:

Cost of capital assets	\$	4,163,924
Less: accumulated depreciation		(1,314,350)
<hr/>		
Net adjustment to increase <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>	\$	2,849,574

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 \$1,284,563 difference are as follows:

Notes and revenue bonds payable	\$	1,255,784
Capital leases		2,579
Compensated absences		26,200
<hr/>		
Net adjustment to reduce <i>fund balance - total governmental fund to arrive at net assets - governmental activities</i>	\$	1,284,563

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, balance includes a reconciliation between *net changes in fund balance - 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 \$(123,806) difference are as follows:

Capital outlay	\$	182,915
Depreciation expense		(306,721)
<hr/>		
Net adjustment to increase <i>net change in fund balance - total governmental funds to arrive at changes in net assets - governmental activities</i>	\$	(123,806)

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 \$24,281 difference are as follows:

Compensated absences	\$	24,281
<hr/>		
Net adjustment to decrease <i>net change in fund balance - total governmental funds to arrive at changes in net assets - governmental activities</i>	\$	24,281

Notes to Basic Financial Statements

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

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 \$57,500 difference are as follows:

Debt issued or incurred		
Notes issued	\$	(99,756)
Principal repayments		
Capital leases		3,573
Notes payable		153,683
<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>	\$	57,500
<hr/>		

NOTE 3 – CASH AND INVESTMENTS

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

Investment Policies

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

The Local Government Surplus Funds Trust Fund (State Board of Administration) or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in s. 163.01.

Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

Interest – bearing time deposits or savings accounts in state-certified qualified public depositories as defined in s. 280.02.

Direct obligations of the United States Treasury.

Federal agencies and instrumentalities.

Notes to Basic Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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

There were no investments at September 30, 2006.

Interest Rate Risks

At September 30, 2006, the City did not hold any investments that were considered to be an interest rate risk.

Credit Risks

At September 30, 2006, the City did not hold any investments that were considered to be a credit risk.

Custodial Risks

At September 30, 2006, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

As September 30, 2006, the City did not hold any investments that were considered to be a concentration of credit risk.

NOTE 4 – ACCOUNTS RECEIVABLE

At September 30, 2006, accounts receivable in the governmental funds are summarized as follows:

Total accounts receivable (franchise fee and utility tax)	\$	27,837
Less: allowance for doubtful accounts		-
Net accounts receivable	\$	27,837

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 4 – ACCOUNTS RECEIVABLE (CONTINUED)

At September 30, 2006, accounts receivable in the proprietary funds are summarized as follows:

Total accounts receivable (water, sanitation and sewer)	\$	205,762
Less: allowance for doubtful accounts		-
Net accounts receivable	\$	205,762

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of September 30, 2006 is as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 128,569	\$ 7,239
Water fund	283,591	10,794
Sewer fund	5,916	393,868
Sanitation fund	-	6,175
Total	\$ 418,076	\$ 418,076

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	September 30, 2005	Increases	Decreases	September 30, 2006
Governmental activities				
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	1,589,761	44,600	-	1,634,361
Machinery and equipment	1,768,616	138,314	-	1,906,930
Total capital assets, being depreciated	3,831,010	182,914	-	4,013,924

Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	September 30, 2005	Increases	Decreases	September 30, 2006
Less accumulated depreciation				
Buildings	\$ (31,118)	\$ (9,441)	\$ -	\$ (40,559)
Improvements	(159,064)	(93,661)	-	(252,725)
Machinery and equipment	(817,447)	(203,619)	-	(1,021,066)
Total accumulated depreciation	(1,007,629)	(306,721)	-	(1,314,350)
Total capital assets, being depreciated, net	2,823,381	(123,807)	-	2,699,574
Total governmental activities' capital assets, net	\$ 2,973,381	\$ (123,807)	\$ -	\$ 2,849,574
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 288,191	\$ -	\$ -	\$ 288,191
Total capital assets, not being depreciated	288,191	-	-	288,191
Capital assets, being depreciated				
Buildings	10,606	-	-	10,606
Improvements	12,777,014	105,117	-	12,882,131
Machinery and equipment	738,027	97,588	-	835,615
Total capital assets, being depreciated	13,525,647	202,705	-	13,728,352
Less accumulated depreciation				
Buildings	(10,606)	-	-	(10,606)
Improvements	(2,147,363)	(379,329)	-	(2,526,692)
Machinery and equipment	(590,973)	(42,113)	-	(633,086)
Total accumulated depreciation	(2,748,942)	(421,442)	-	(3,170,384)
Total capital assets, being depreciated, net	10,776,705	(218,737)	-	10,557,968
Total business-type activities' capital assets, net	\$ 11,064,896	\$ (218,737)	\$ -	\$ 10,846,159

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	Sanitation Fund	Sewer Fund	Water Fund	Total
Land	\$ -	\$ 270,426	\$ 17,765	\$ 288,191
Buildings	-	-	10,606	10,606
Improvements	-	6,817,054	6,065,077	12,882,131
Machinery and equipment	503,797	56,848	274,970	835,615
Total	503,797	7,144,328	6,368,418	14,016,543
Less: accumulated depreciation				
Buildings	-	-	(10,606)	(10,606)
Improvements	-	(1,185,303)	(1,341,389)	(2,526,692)
Machinery and equipment	(396,772)	(13,204)	(223,110)	(633,086)
Total accumulated depreciation	(396,772)	(1,198,507)	(1,575,105)	(3,170,384)
Total business-type activities' capital assets, net	\$ 107,025	\$ 5,945,821	\$ 4,793,313	\$ 10,846,159

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

General government	\$ 47,919
Public safety	108,693
Highways and streets	17,163
Physical environment	120,938
Parks and recreation	12,008
Total depreciation expense - governmental activities	\$ 306,721

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

Sanitation	\$ 34,032
Sewer	213,144
Water	174,266
Total depreciation expense - business-type activities	\$ 421,442

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)

	General Fund
Equipment	\$ 12,058
Less accumulated depreciation	(7,761)
Net	\$ 4,297

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, 2006 were as follows:

Year Ending September 30,	General Fund
2007	\$ 1,413
2008	1,166
Total minimum lease payments	2,579
Less amount representing interest	(269)
Present value of minimum lease payments	\$ 2,310

NOTE 8 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance October 1, 2005	Increase	(Reductions)	Balance September 30, 2006
Note payable to City of Gulf Breeze, Florida Capital funding loan program (See Note 10 (A)).	\$ 777,710	\$ -	\$ (19,252)	\$ 758,458
Note payable for purchase of (5) vehicles, payable in quarterly installments of \$8,829, including 6.36% interest.	91,434	-	(32,074)	59,360
Lease obligation for purchase of copier, monthly payments of \$136, including 11% interest.	3,844	-	(1,265)	2,579
Note payable for the purchase of a dredge, payable in quarterly installments of \$14,077, including 4.17% interest.	297,544	-	(44,593)	252,951

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

	Balance October 1, 2005	Increase	(Reductions)	Balance September 30, 2006
Note payable for the purchase of (2) tractors and (1) vehicle, payable in quarterly installments of \$5,880, including 4.17% interest.	\$ 71,638	\$ -	\$ (21,371)	\$ 50,267
Note payable for the purchase of (4) automobiles, payable in quarterly installments of \$5,445, including 4.61% interest.	47,254	-	(20,618)	26,636
Note payable for the purchase of a beach rake, payable in monthly payments of \$1,002, including 4.54% interest.	24,130	-	(6,692)	17,438
Lease obligations for purchase of copier, monthly payments of \$169, including 4.1% interest.	2,309	-	(2,309)	-
Note payable for the purchase of (2) automobiles and (1) tractor, payable in monthly installments of \$5,543, including 6.41% interest.	-	99,756	(9,083)	90,673
Liability for compensated absences	50,482	-	(24,282)	26,200
Total governmental activities long-term obligations	\$ 1,366,345	\$ 99,756	\$ (181,539)	\$ 1,284,562

Debt service requirements to maturity for the governmental funds at September 30, 2006 are as follows:

Year Ending September 30,	Principal	Interest	Total
2007	\$ 171,362	\$ 32,217	\$ 203,579
2008	151,681	26,157	177,838
2009	102,925	21,297	124,222
2010	97,793	17,774	115,567
2011	91,115	14,244	105,359
2012-2016	149,734	55,108	204,842
2017-2021	493,752	38,928	532,680
Compensated absences	26,200	-	26,200
	\$ 1,284,562	\$ 205,725	\$ 1,490,287

Notes to Basic Financial Statements

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

Bonds Payable	Original Issue	Balance October 1, 2005	Increase	(Reductions)	Balance September 30, 2006
5% to 10.5% Water System Revenue Bonds, Series 1979, 1980 and 1984, used to construct and improve existing water system.	\$ 773,200	\$ 491,380	\$ -	\$ (23,000)	\$ 468,380
4.5% Water system Junior Lien Revenue Bonds, Series 1995, used to improve water system.	829,600	740,600	-	(12,000)	728,600
4.875% Sewer System Junior Lien Revenue Bonds, Series 2000, used to improve sewer system.	2,303,100	2,209,600	-	(26,500)	2,183,100
Total bonds payable – enterprise funds		\$ 3,441,580	\$ -	\$ (61,500)	\$ 3,380,080

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 - \$468,380 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 - \$728,600 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 - \$2,183,100 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, 2006, are as follows:

	Series 1979, 1980, and 1984	Series 1995	Series 2000	Total
Sinking fund – principal and interest, including reserves:				
Required	\$ 58,494 ✓	\$ 87,426 ✓	\$ 101,266 ✓	\$ 247,186
Actual	54,684	58,808	122,674	236,166
Excess (shortage)	\$ (3,810)	\$ (28,618)	\$ 21,408	\$ (11,020)

Debt service requirements to maturity on revenue bonds payable at September 30, 2006 are as follows:

Year Ending September 30,	Principal	Interest	Total
2007	\$ 64,500	\$ 169,212	\$ 233,712
2008	64,000	166,367	230,367
2009	71,000	162,922	233,922
2010	72,000	159,222	231,222
2011	76,000	155,632	231,632
2012-2016	447,500	714,494	1,161,994
2017-2021	505,000	585,344	1,090,344
2022-2026	469,380	457,205	926,585
2027-2031	562,500	337,180	899,680
2032-2036	654,100	190,316	844,416
2037-2041	394,100	41,500	435,600
	\$ 3,380,080	\$ 3,139,394	\$ 6,519,474

Notes Payable

	Balance October 1, 2005	Increase	(Reductions)	Balance September 30, 2006
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)	\$ 2,168,665	\$ -	\$ (53,661)	\$ 2,115,004 ✓

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

	Balance October 1, 2005	Increase	(Reductions)	Balance September 30, 2006
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)	\$ 663,903	\$ -	\$ (16,427)	\$ 647,476 ✓
Note payable for purpose of financing Gulf Breeze loan costs with variable interest at 2.3%. Principal and interest payable monthly.	37,521	-	(2,412)	35,109 ✓
Florida Department of Environmental Protection state revolving fund loan. Repayable over 20 years upon completion of water system improvements. (See (B) below)	2,295,024	-	(104,541)	2,190,483
Note payable in monthly installments of \$397, including interest at 4.61%, secured by equipment.	15,772	-	(4,244)	11,528
Note payable in quarterly installments of \$1,485, including interest at 4.61%, secured by vehicles.	12,887	-	(5,623)	7,264
Note payable in quarterly installments of \$2,970, including interest at 4.61%, secured by vehicles.	25,775	-	(11,246)	14,529
Total notes payable – enterprise funds	\$ 5,219,547	\$ -	\$ (198,154)	\$ 5,021,393

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:

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

General fund	\$ 758,458
Sewer fund	2,115,004
Water fund	647,476
<hr/>	
	\$ 3,520,938

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

(B) The \$2,190,483 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, 2006 are as follows:

Year Ending September 30,	Principal	Interest	Total
2007	\$ 206,287	\$ 120,577	\$ 326,864
2008	200,832	115,146	315,978
2009	202,005	109,923	311,928
2010	207,840	104,657	312,497
2011	216,431	99,244	315,675
2012-2016	1,225,412	406,590	1,632,002
2017-2021	2,592,285	237,047	2,829,332
2022-2026	170,301	3,948	174,249
<hr/>			
	\$ 5,021,393	\$ 1,197,132	\$ 6,218,525

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation

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

Contingent Liability

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by

Notes to Basic Financial Statements

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 \$18,209, which is 4.4% of covered payroll. Employee contributions were \$20,395, which is 4.9% of covered payroll. The City's covered payroll for the fiscal year was \$418,381 and total payroll for all employees was \$1,242,466.

NOTE 12 – 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

Notes to Basic Financial Statements

NOTE 12 – RISK MANAGEMENT (CONTINUED)

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 13 – 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.

NOTE 14 – 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:

Funds	Purpose	Amount
General fund	Impact fees	\$ 147,746
Water fund	Debt service	93,366
Water fund	Impact fees	578,035
Sewer fund	Debt service	113,762
Sewer fund	Impact fees	420,568
Total reserved fund equity		\$ 1,353,477

Supplementary Information

City of Mexico Beach, Florida
Comparative Schedule of Net Assets - Water
Proprietary Funds

September 30,	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 98,509	\$ 197,001
Accounts receivable (net)	87,105	79,621
Due from other funds	283,591	259,012
Due from other governments	39	-
Prepaid expense	7,517	-
Total current assets	476,761	535,634
Restricted assets - cash		
Bond and interest sinking	113,492	157,119
Impact fees	578,035	464,392
Renewal, replacement, and reserve	114,549	216,076
Total restricted assets - cash	806,076	837,587
Noncurrent assets		
Unamortized loan costs	18,300	19,268
Property, plant, and equipment	6,368,419	6,267,472
Less accumulated depreciation	(1,575,105)	(1,400,839)
Total noncurrent assets	4,811,614	4,885,901
Total assets	6,094,451	6,259,122
Liabilities		
Current liabilities		
Accounts payable	6,448	69,541
Accrued expenses	9,850	1,683
Due to other funds	10,794	18,576
Notes payable, current portion	136,720	134,626
Revenue bonds payable, current portion	37,000	34,000
Total current liabilities	200,812	258,426
Current liabilities payable from restricted assets		
Accrued interest	20,126	20,126
Total current liabilities payable from restricted assets	20,126	20,126
Noncurrent liabilities		
Accrued compensated absences	12,404	-
Notes payable - due after one year	2,715,768	2,850,076
Bonds payable - due after one year	1,159,980	1,197,980
Total noncurrent liabilities	3,888,152	4,048,056
Total liabilities	4,109,090	4,326,608
Net assets		
Invested in capital assets (net of related debt)	743,846	649,951
Restricted for:		
Bond retirement	93,366	136,993
Impact fees	578,035	464,392
Unrestricted	570,114	681,178
Total net assets	\$ 1,985,361	\$ 1,932,514

See accompanying notes

City of Mexico Beach, Florida
Comparative Schedule of Net Assets - Sewer
Proprietary Funds

September 30,	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 22,354	\$ 35,981
Accounts receivable (net)	77,140	70,952
Due from other funds	5,916	5,916
Prepaid expenses	3,948	-
Total current assets	109,358	112,849
Restricted assets - cash		
Bond and interest sinking	122,674	108,447
Impact fees	420,568	255,711
Renewal, replacement, and reserve	230,656	232,823
Total restricted assets - cash	773,898	596,981
Noncurrent assets		
Unamortized loan costs	101,917	108,933
Capacity rights	54,187	54,186
Property, plant, and equipment	7,144,328	7,140,157
Less accumulated depreciation	(1,198,506)	(985,362)
Total noncurrent assets	6,101,926	6,317,914
Total assets	6,985,182	7,027,744
Liabilities		
Current liabilities		
Accounts payable	63,438	112,617
Accrued expenses	230	232
Due to other funds	393,868	267,179
Notes payable, current portion	69,567	63,635
Revenue bonds payable, current portion	27,500	26,500
Total current liabilities	554,603	470,163
Current liabilities payable from restricted assets		
Accrued interest	8,912	8,912
Total current liabilities payable from restricted assets	8,912	8,912
Noncurrent liabilities		
Accrued compensated absences	4,123	-
Notes payable - due after one year	2,099,338	2,171,210
Bonds payable - due after one year	2,155,600	2,183,100
Total noncurrent liabilities	4,259,061	4,354,310
Total liabilities	4,822,576	4,833,385
Net assets		
Invested in capital assets (net of related debt)	1,593,817	1,710,350
Restricted for:		
Bond retirement	113,762	99,535
Impact fees	420,568	255,711
Unrestricted	34,459	128,763
Total net assets	\$ 2,162,606	\$ 2,194,359

City of Mexico Beach, Florida
Comparative Schedule of Net Assets - Sanitation
Proprietary Funds

September 30,	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 50,486	\$ 99,984
Accounts receivable (net)	41,517	37,341
Total current assets	92,003	137,325
Restricted assets - cash		
Renewal, replacement, and reserve	20,526	47,275
Total restricted assets - cash	20,526	47,275
Noncurrent assets		
Property, plant, and equipment	503,797	406,209
Less accumulated depreciation	(396,774)	(362,741)
Total noncurrent assets	107,023	43,468
Total assets	219,552	228,068
Liabilities		
Current liabilities		
Accounts payable	23,027	44,698
Accrued expenses	2,101	2,377
Due to other funds	6,175	13,396
Total current liabilities	31,303	60,471
Noncurrent liabilities		
Accrued compensated absences	7,814	-
Total noncurrent liabilities	7,814	-
Total liabilities	39,117	60,471
Net assets		
Invested in capital assets (net of related debt)	107,023	43,468
Unrestricted	73,412	124,129
Total net assets	\$ 180,435	\$ 167,597

See accompanying notes

City of Mexico Beach, Florida
 Comparative Schedule of Revenues, Expenses, and Changes in Net Assets - Water
 Proprietary Funds

Year Ended September 30,	2006	2005
Operating revenues		
Charges for services	\$ 828,964	\$ 796,850
New installations	165,039	162,207
Reconnections	12,038	12,465
Impact fees	-	2,866
Other utility income	44,824	25,929
Total operating revenues	1,050,865	1,000,317
Operating expenses		
Personal services	356,266	292,162
Professional services	24,275	49,895
Office supplies	1,178	785
Utilities	66,257	15,575
Insurance	16,800	14,887
Repairs and maintenance	28,078	41,626
Operating supplies	26,135	34,636
Communication services	4,139	3,634
Public utility services	89,024	120,582
Transportation	309	78
Rentals	1,015	3,303
Printing and binding	1,699	1,654
Miscellaneous	16,748	5,924
Amortization	967	967
Depreciation	174,266	174,581
Bad debts	5,750	7,508
Total operating expenses	812,906	767,797
Operating income	237,959	232,520
Nonoperating revenues (expenses)		
Interest income	14,204	12,398
Interest expense	(169,316)	(156,290)
Operating transfer out	(30,000)	-
Total nonoperating revenues (expenses)	(185,112)	(143,892)
Net income	52,847	88,628
Net assets - beginning	1,932,514	1,843,886
Net assets - ending	\$ 1,985,361	\$ 1,932,514

See accompanying notes

City of Mexico Beach, Florida
 Comparative Schedule of Revenues, Expenses, and Changes in Net Assets - Sewer
 Proprietary Funds

Year Ended September 30,	2006	2005
Operating revenues		
Charges for services	\$ 693,130	\$ 676,698
Impact fees	240,481	219,661
Total operating revenues	933,611	896,359
Operating expenses		
Personal services	81,782	89,738
Professional services	16,281	31,841
Office supplies	-	362
Utilities	16,944	15,320
Insurance	21,452	15,792
Repairs and maintenance	43,115	49,485
Operating supplies	44,694	51,094
Communication services	1,344	1,297
Public utility services	337,036	327,469
Transportation	309	-
Loan servicing costs	26,773	27,423
Printing and binding	549	1,089
Miscellaneous	7,629	7,884
Amortization	7,016	7,016
Depreciation	213,144	213,305
Bad debts	4,258	5,257
Total operating expenses	822,326	844,372
Operating income	111,285	51,987
Nonoperating revenues (expenses)		
Interest income	14,630	10,022
Interest expense	(187,668)	(173,724)
Operating transfer in	30,000	-
Total nonoperating revenues (expenses)	(143,038)	(163,702)
Net income (loss)	(31,753)	(111,715)
Net assets - beginning	2,194,359	2,306,074
Net assets - ending	\$ 2,162,606	\$ 2,194,359

See accompanying notes

City of Mexico Beach, Florida
 Comparative Schedule of Revenues, Expenses, and Changes in Net Assets - Sanitation
 Proprietary Funds

Year Ended September 30,	2006	2005
Operating revenues		
Charges for services	\$ 407,521	\$ 387,512
Other utility income	26,034	30,143
Total operating revenues	433,555	417,655
Operating expenses		
Personal services	252,042	221,454
Professional services	8,025	23,380
Office supplies	-	78
Utilities	197	230
Contractual services	-	12,110
Insurance	8,613	6,199
Repairs and maintenance	11,671	14,817
Operating supplies	22,975	34,445
Communication services	1,351	1,190
Tipping fees	68,197	63,734
Transportation	234	-
Rentals	8,128	17,940
Printing and binding	95	1,134
Miscellaneous	1,216	862
Depreciation	34,033	18,352
Bad debts	2,858	2,794
Total operating expenses	419,635	418,719
Operating income (loss)	13,920	(1,064)
Nonoperating revenues (expenses)		
Interest income	304	700
Interest expense	(57)	(155)
Operating transfer out	(1,329)	-
Total nonoperating revenues (expenses)	(1,082)	545
Net income (loss)	12,838	(519)
Net assets - beginning	167,597	168,116
Net assets - ending	\$ 180,435	\$ 167,597

See accompanying notes

City of Mexico Beach, Florida
Comparative Schedule of Cash Flows - Water
Proprietary Funds

Year Ended September 30,	2006	2005
Operating activities		
Receipts from customers and users	\$ 1,018,763	\$ 915,882
Payments to suppliers and others	(339,228)	(295,194)
Payments for personal services	(356,266)	(292,162)
Net cash provided by operating activities	323,269	328,526
Noncapital financing activities		
Transfers out	(30,000)	-
Capital and related financing activities		
Principal paid on revenue bonds	(35,000)	(25,287)
Principal paid on notes and leases	(132,214)	(134,131)
Interest paid on bonds, notes, and leases	(169,316)	(156,290)
Purchase of capital assets	(100,946)	(4,506)
Net cash (used in) capital and related financing activities	(437,476)	(320,214)
Investing activities		
Interest received	14,204	12,398
Net cash provided by investing activities	14,204	12,398
Net increase (decrease) in cash and cash equivalents	(130,003)	20,710
Cash and cash equivalents, beginning	1,034,588	1,013,878
Cash and cash equivalents, ending	\$ 904,585	\$ 1,034,588
Classified as cash		
Current assets - cash and cash equivalents	\$ 98,509	\$ 197,001
Restricted assets - cash and cash equivalents	806,076	837,587
	\$ 904,585	\$ 1,034,588
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	\$ 237,959	\$ 232,520
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	967	967
Depreciation	174,266	174,581
(Increase) decrease in assets		
Accounts receivable	(7,484)	(13,548)
Due from other funds	(24,579)	(70,887)
Due from other governments	(39)	-
Prepaid assets	(7,518)	-
Increase (decrease) in liabilities		
Accounts payable	(63,092)	3,792
Accrued expenses	8,167	1,123
Compensated absences	12,404	-
Due to other funds	(7,782)	(22)
Total adjustments	85,310	96,006
Net cash provided by operating activities	\$ 323,269	\$ 328,526

See accompanying notes

City of Mexico Beach, Florida
Comparative Schedule of Cash Flows - Sewer
Proprietary Funds

Year Ended September 30,	2006	2005
Operating activities		
Receipts from customers and users	\$ 927,423	\$ 890,905
Payments to suppliers and others	(442,703)	(442,817)
Payments for personal services	(81,782)	(89,738)
Net cash provided by operating activities	402,938	358,350
Noncapital financing activities		
Transfers in	30,000	-
Capital and related financing activities		
Principal paid on revenue bonds	(26,500)	(25,000)
Principal paid on notes and leases	(65,940)	(58,956)
Interest paid on bonds, notes, and leases	(187,668)	(173,724)
Purchase of capital assets	(4,170)	(22,285)
Net cash (used in) capital and related financing activities	(284,278)	(279,965)
Investing activities		
Interest received	14,630	10,022
Net cash provided by investing activities	14,630	10,022
Net increase in cash and cash equivalents	163,290	88,407
Cash and cash equivalents, beginning	632,962	544,555
Cash and cash equivalents, ending	\$ 796,252	\$ 632,962
Classified as cash		
Current assets - cash and cash equivalents	\$ 22,354	\$ 35,981
Restricted assets - cash and cash equivalents	773,898	596,981
	\$ 796,252	\$ 632,962
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	\$ 111,285	\$ 51,987
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	7,016	7,016
Depreciation	213,144	213,305
(Increase) decrease in assets		
Accounts receivable	(6,188)	(9,058)
Due from other funds	-	3,604
Prepaid assets	(3,948)	-
Increase (decrease) in liabilities		
Accounts payable	(49,179)	20,242
Accrued expenses	(4)	210
Compensated absences	4,123	-
Due to other funds	126,689	71,044
Total adjustments	291,653	306,363
Net cash provided by operating activities	\$ 402,938	\$ 358,350

See accompanying notes

City of Mexico Beach, Florida
Comparative Schedule of Cash Flows - Sanitation
Proprietary Funds

Year Ended September 30,	2006	2005
Operating activities		
Receipts from customers and users	\$ 429,379	\$ 413,185
Payments to suppliers and others	(154,914)	(154,333)
Payments for personal services	(252,042)	(221,454)
Net cash provided by operating activities	22,423	37,398
Noncapital financing activities		
Transfers out	(1,329)	-
Capital and related financing activities		
Principal paid on notes and leases	-	(7,640)
Interest paid on bonds, notes, and leases	(57)	(155)
Purchase of capital assets	(97,588)	(7,372)
Net cash (used in) capital and related financing activities	(97,645)	(15,167)
Investing activities		
Interest received	304	700
Net cash provided by investing activities	304	700
Net increase (decrease) in cash and cash equivalents	(76,247)	22,931
Cash and cash equivalents, beginning	147,259	124,328
Cash and cash equivalents, ending	\$ 71,012	\$ 147,259
Classified as cash		
Current assets - cash and cash equivalents	\$ 50,486	\$ 99,984
Restricted assets - cash and cash equivalents	20,526	47,275
	\$ 71,012	\$ 147,259
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	\$ 13,920	\$ (1,064)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	34,033	18,352
(Increase) decrease in assets		
Accounts receivable	(4,176)	(4,470)
Prepaid assets	13,968	-
Increase (decrease) in liabilities		
Accounts payable	(35,639)	20,308
Accrued expenses	(276)	2,115
Compensated absences	7,814	-
Due to other funds	(7,221)	2,157
Total adjustments	8,503	38,462
Net cash provided by operating activities	\$ 22,423	\$ 37,398

See accompanying notes

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, 2006, and have issued our report thereon dated February 23, 2007.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditors' Report on Compliance and Internal Control over Compliance Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports, which are dated February 23, 2007, should be considered in conjunction with this management letter.

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

Those rules (Section 10.554 (1)(h)1.) require that we address in the management letter, if not already addressed in the auditors' reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. The recommendations in the preceding annual financial audit report were corrected except as noted below under the heading Status of Prior Year Recommendations.

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

The *Rules of the Auditor General* (Sections 10.554(1)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures and internal controls.

American Institute of
Certified Public Accountants

Alabama Society of
Certified Public Accountants

Florida Institute of
Certified Public Accountants

Georgia Society of
Certified Public Accountants

Mississippi Society of
Certified Public Accountants

AICPA Alliance for CPA Firms

Center for Public
Company Audit Firms

Position	Annual Pay	Incentive Pay	Overtime	Taxes	Health	Workers Comp	Retirement	Total by Dept
Mayor	\$ 9,600.00			\$ 734.40				
Councilman	\$ 4,800.00			\$ 367.20		\$63	\$ -	\$ 10,397.40
Councilman	\$ 4,800.00			\$ 367.20		\$32		\$ 5,199.20
Councilman	\$ 4,800.00			\$ 367.20		\$32		\$ 5,199.20
Councilman	\$ 4,800.00			\$ 367.20		\$32		\$ 5,199.20
City Administrator	\$ 70,158.40			\$ 367.20		\$32		\$ 5,199.20
City Clerk	\$ 54,558.40			\$ 5,367.12	\$ 3,552.12	\$462	\$ 9,386.15	\$ 88,905.79
Admin. Asst. - CC	\$ 30,819.60		\$ 1,221.12	\$ 4,173.72	\$ 1,300.00	\$359	\$ 7,283.55	\$ 67,674.67
Public Works Dir.	\$ 51,729.60			\$ 2,451.57	\$ 6,677.76	\$203	\$ 2,956.18	\$ 44,335.23
Admin. Asst. - CR	\$ 25,480.00			\$ 3,957.31	\$ 1,300.00	\$341	\$ 4,960.87	\$ 62,288.78
Police Officer	\$ 31,340.40	\$ 720.00	\$ 3,040.54	\$ 1,949.22	\$ 7,352.64	\$168	\$ 2,443.53	\$ 37,393.39
Police Officer	\$ 29,265.60		\$ 3,417.98	\$ 2,885.22	\$ 11,277.72	\$3,723	\$ 6,898.02	\$ 59,684.90
DPS Director	\$ 61,195.68	\$ 1,320.00		\$ 2,600.29	\$ 3,552.12	\$3,476	\$ 6,441.36	\$ 48,653.35
Police Officer	\$ 30,619.68	\$ 480.00	\$ 2,912.39	\$ 4,681.47	\$ 11,277.72	\$7,269	\$ 13,469.17	\$ 99,213.04
Admin. Assistant	\$ 33,508.80			\$ 2,601.92	\$ 3,552.12	\$3,637	\$ 6,739.39	\$ 50,542.50
Police Capt.	\$ 41,954.64	\$ 960.00		\$ 2,563.42	\$ 7,352.64	\$55	\$ 803.37	\$ 44,283.24
Police Lt.	\$ 36,625.68	\$ 1,430.00		\$ 3,282.97	\$ 1,300.00	\$4,984	\$ 9,234.22	\$ 61,715.83
Part-time Police Officer	\$ 14,675.00			\$ 2,911.26	\$ 3,552.12	\$4,351	\$ 8,061.31	\$ 56,931.37
Boat Ramp Detail	\$ 3,600.00			\$ 1,122.64		\$2,051		\$ 17,848.64
Beach Patrol Detail	\$ 3,600.00			\$ 275.40				\$ 3,875.40
Volunteers	\$ 7,500.00			\$ 275.40				\$ 3,875.40
Code Enforcement	\$ 28,724.80			\$ 573.75				\$ 8,073.75
ESU Coordinator	\$ 29,993.60		\$ 3,750.00	\$ 2,484.32	\$ 1,300.80	\$3,412	\$ 2,754.71	\$ 42,426.63
Volunteers	\$ 7,717.00		\$ 4,079.43	\$ 2,606.59	\$ 3,683.11	\$3,563	\$ 2,636.69	\$ 46,562.42
Building Maint Worker	\$ 26,873.60		\$ 500.00	\$ 590.35				\$ 8,307.35
Building Maint Worker	\$ 26,873.60		\$ 500.00	\$ 2,094.08	\$ 7,352.64	\$2,047	\$ 2,577.18	\$ 41,444.50
Water Superintendent	\$ 38,937.60		\$ 1,145.48	\$ 3,066.36	\$ 1,300.00	\$2,047	\$ 2,577.18	\$ 35,391.86
Water Admin.	\$ 42,432.00			\$ 3,066.36	\$ 3,552.12	\$2,619	\$ 3,734.12	\$ 53,054.68
Sanitation Worker	\$ 28,579.20		\$ 600.00	\$ 3,246.05	\$ 11,277.72	\$280	\$ 4,069.23	\$ 61,305.00
Supervisor	\$ 38,937.60		\$ 1,248.75	\$ 2,232.21	\$ 1,300.00	\$7,330	\$ 2,740.75	\$ 42,782.16
Sanitation Driver	\$ 21,985.60		\$ 612.00	\$ 3,074.26	\$ 7,352.64	\$9,987	\$ 3,734.12	\$ 64,334.37
Sanitation Worker	\$ 23,712.00		\$ 625.80	\$ 1,728.72	\$ 1,300.00	\$5,639	\$ 2,108.42	\$ 33,373.74
Sanitation Worker	\$ 27,435.20		\$ 721.20	\$ 1,861.84	\$ 3,552.12	\$6,082	\$ 2,273.98	\$ 38,107.74
Sanitation Worker	\$ 27,601.60		\$ 600.00	\$ 2,153.96	\$ 3,552.12	\$7,037	\$ 2,631.04	\$ 43,530.52
Sewer Maint.	\$ 39,998.40		\$ 1,306.50	\$ 2,144.69	\$ 11,277.72	\$7,037	\$ 2,631.04	\$ 51,292.05
Sewer Maint.	\$ 24,918.40		\$ 727.80	\$ 3,159.82	\$ 1,300.00	\$1,997	\$ 3,835.85	\$ 51,597.57
Vehicle Super	\$ 33,550.40		\$ 3,355.04	\$ 2,167.20	\$ 3,552.12	\$1,378	\$ 2,389.67	\$ 35,133.19
Vehicle Maint. Worker	\$ 29,057.60		\$ 2,905.76	\$ 2,823.27	\$ 6,677.76	\$2,556	\$ 3,217.48	\$ 52,179.95
Street Lead Worker	\$ 29,099.20		\$ 375.00	\$ 2,445.20	\$ 3,552.12	\$2,214	\$ 2,786.62	\$ 42,961.30
Street Worker	\$ 26,603.20		\$ 375.00	\$ 2,254.78	\$ 72.00	\$3,506	\$ 2,790.61	\$ 38,097.59
Street Worker	\$ 22,984.00		\$ 250.00	\$ 2,063.83	\$ 72.00	\$3,205	\$ 2,551.26	\$ 34,870.28
Canal Worker	\$ 32,011.20		\$ 2,400.00	\$ 1,777.40	\$ 3,552.12	\$2,769	\$ 2,204.17	\$ 33,536.69
Canal Worker	\$ 33,030.40		\$ 2,400.00	\$ 2,632.46	\$ 3,552.12	\$10,537	\$ 3,069.87	\$ 54,202.65
P & R Worker	\$ 27,310.40		\$ 500.00	\$ 2,710.43	\$ 6,677.76	\$10,872	\$ 3,167.62	\$ 58,858.21
P & R Worker	\$ 25,771.20		\$ 500.00	\$ 2,127.50	\$ 3,552.12	\$3,009	\$ 2,619.07	\$ 39,118.09
	\$ 1,249,575.28	\$ 4,910.00	\$ 40,069.79	\$ 99,125.03	\$ 158,760.71	\$133,233	\$ 144,229.25	\$ 1,829,903.06

Name	Title	Salary
Sheri Martin	Admin. Utility Billing	\$ 42,432.00
Kevin Martin	Sewer Superintendent	\$ 39,998.40
Jerome Henderson	Sanitation Supervisor	\$ 38,937.60
Tim Coulter	Canal Maintenance	\$ 33,030.40
Guy Hall	DPS Chief	\$ 61,195.68
Mary Leonard	Water Superintendent	\$ 38,937.60
Pam Madrid	Parks & Recreation Supervisor	\$ 27,310.40
Dale Addison	Vehicle Maintenance	\$ 29,057.60
Richard Julian	Sanitation Worker	\$ 28,579.20
Laura Metcalf	Admin Asst. Police Dept.	\$ 33,508.80
Troy Williams	Public Works Director	\$ 51,729.60
James Norris	Captain	\$ 41,954.64
William Nixon	Street Maintenance Worker	\$ 26,603.20
Rodney McGee	Sanitation Driver	\$ 27,435.20
Ernie Rodgers	Sanitation Driver	\$ 27,601.60
Deborah Everett	Police Officer	\$ 29,265.60
William Cathey	Mayor	\$ 9,600.00
Diana Epple	ESU Coordinator	\$ 29,993.60
Joseph Spears	Head Mechanic	\$ 33,550.40
Robert Young	General Maintenance	\$ 26,873.60
Wendy Summers	Admin Asst - Cash Receipts	\$ 25,480.00
Judith Carter	Admin Asst. - City Clerk	\$ 30,825.60
Gary Perkins	Canal Dredge Operator	\$ 32,011.20
George Desrosier	Police Officer	\$ 31,340.40
Kenneth Middleton	Sanitation Worker	\$ 23,712.00
Deborah McLeod	City Clerk	\$ 54,558.40
Karry Kimbler	Police Lieutenant	\$ 36,625.68
Jack Mullen	City Councilman	\$ 4,800.00
Chris Hubbard	City Administrator	\$ 70,158.40
Carol Davis	Parks & Recreation Worker	\$ 25,771.20
Robert Ginsberg	Councilman	\$ 4,800.00
Jay Jecha	Code Enforcement Officer	\$ 28,724.80
Philip Hall	Street Supervisor	\$ 29,099.20
Willie Smith Jr.	Sewer Maintenance	\$ 24,918.40
Tommy Davis	General Maintenance	\$ 26,873.60
Charles Williams	Street Maintenance Worker	\$ 25,625.60
Jonathan Turner	Police Officer	\$ 30,619.68
Curtis Dale	Councilman	\$ 4,800.00
Jesse Burket	Police Officer	\$ 28,828.80
Gary Woodham	Councilman	\$ 4,800.00
Mark Brewer	Sanitation Worker	\$ 21,985.60

06-01 Record storage and retrieval (prior year finding 05-02)

During our audit we noticed that accounting records were not easily located and the filing and the established record policies were not yet fully functional. 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.

06-02 Personnel files should be maintained for each employee (prior year finding 05-05)

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. A new policy was created for employee files. In conjunction with the policy, a checklist was created showing the minimum of information that should be maintained in each employee's file. We suggest that all employee files are reviewed for the required information and that the files be updated.

06-03 Software (prior year finding 05-06)

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.

06-04 Deficit in operations (prior year finding 05-10)

The sewer fund continues to report a deficit in operations. The deficit amounts were \$31,573 for the year ended September 30, 2006, \$111,715 for the prior year, and \$193,924 for the fiscal year 2004.

06-05 Sinking fund and reserve requirements must be maintained

The cash balance in the sinking fund and reserve accounts must meet or exceed the required balance. There should be a periodic review of the required amounts and reconciliation to the cash balances. During our audit procedures we noted that the balances in these accounts were less than the required balance.

06-06 Need for improved accounting and financial management, general ledger and financial statement

The equity for each fund should be reviewed monthly to determine if the balance is correct. Additionally, it is important for all general journal entries to be reviewed before being posted, and monthly financial statements should be prepared for management review. During our audit procedures, it was noted that all of the equity accounts were out of balance and entries for budget purposes were being made incorrectly and affecting the general ledger.

06-07 Grant management

The grant files should be complete and requests for reimbursement should be reviewed. During our audit, it was noted that copies of invoices supporting grant reimbursements were not in the grant files and a reimbursement requested exceeded the amount invoiced for services. Reimbursement requests should be reviewed for accuracy before being submitted to the grantor agency.

06-08 Accounts receivable subsidiary ledger

During the audit we noted that there was not a subsidiary ledger that tied to the general ledger balance on September 30, 2006. It is important to maintain complete accounting records. We also suggest that the subsidiary ledger is reconciled to the general ledger each month.

Status of Prior Year Recommendations

05-02 See Current Year Recommendations 06-01

05-05 See Current Year Recommendations 06-02

05-06 See Current Year Recommendations 06-03

05-10 See Current Year Recommendations 06-04

The *Rules of the Auditor General* (Section 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditors' report on compliance and internal control and are not clearly inconsequential: (1) violations of laws, rules, regulations and contractual provisions that have occurred or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations or instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed no matters that are required to be disclosed by *Rules of the Auditor General* (Sections 10.554(1)(h)4.).

The *Rules of the Auditor General* (Section 10.554(1)(h)5.) require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The City was established in 1967, under a Charter in accordance with the Laws of Florida 67-1717. There were no component units related to the City.

As required by the *Rules of the Auditor General* (Section 10.554(1)(h)6.a.), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the City of Mexico Beach, Florida did not meet any of the conditions described in Section 218.503 (1), Florida Statutes.

As required by the *Rules of the Auditor General* (Section 10.554(1)(h)6.b.), we determined that the annual financial report for the City of Mexico Beach, Florida for the fiscal year ended September 30, 2006, was filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, and is in agreement with annual financial audit report for the fiscal year ended September 30, 2006.

As required by the *Rules of the Auditor General* (Section 10.554(1)(h)6.c.) and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

Cary Riggs & Ingram, L.L.C.

Panama City, Florida
February 23, 2007

**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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 23, 2007. 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 to maintain and reconciling subsidiary ledgers

Maintaining and reconciling subsidiary ledgers to the general ledger is an effective form of internal control over the general ledger totals. Utility billing supplies a significant portion of revenues to the City. Reconciling the subsidiary ledger ensures that revenues and receipts have been properly recorded.

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 February 23, 2007.

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.

Carly Riggs & Ingram, L.L.C.

Panama City, Florida
February 23, 2007



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Mexico Beach, Florida, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The City of Mexico Beach, Florida's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Mexico Beach, Florida's management. Our responsibility is to express an opinion on the City of Mexico Beach, Florida's compliance based on our audit.

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

In our opinion, the City of Mexico Beach, Florida, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2006-1.

Internal Control Over Compliance

The management of the City of Mexico Beach, Florida is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Mexico Beach, Florida's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management, City Council, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Panama City, Florida
February 23, 2007

City of Mexico Beach, Florida
 Schedule of Expenditures of Federal Awards
 Year Ended September 30, 2006

<u>Federal Awards Programs</u>	<u>CFDA No.</u>	<u>Contract/ Grant Number</u>	<u>Expenditures</u>
U.S. Department of Homeland Security - Federal Emergency Management Agency Passed through the State of Florida Department of Community Affairs			
Disaster Relief Funding Agreement	97.036	05-PA-G-01-13-02-616	\$ 519,399
<u>Total expenditures of federal awards</u>			<u>\$ 519,399</u>

Note:

- (1) The schedule of expenditures of federal awards was prepared on the modified accounting.

City of Mexico Beach, Florida
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued Unqualified
 Internal control over financial reporting
 Material weakness(es) identified? X yes ___ no
 Reportable condition(s) identified not
 considered to be material weaknesses? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards and State Financial Assistance

Internal control over major programs
 Material weakness(es) identified? ___ yes X no
 Reportable condition(s) identified not
 considered to be material weaknesses? X yes ___ none reported

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

Any audit findings disclosed that are required
 to be reported in accordance with Section .510(a)
 of Circular A-133? ___ yes X no

Identification of major federal award programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
97.036	Disaster Relief Funding

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

Auditee qualified as low-risk auditee? ___ yes X no

Section II - Financial Statement Findings

Need to maintain and reconciling subsidiary ledgers

Maintaining and reconciling subsidiary ledgers to the general ledger is an effective form of internal

Section III - Federal Awards and State Financial Assistance Findings

2006-1

Grant reimbursement requests and subsequent reimbursements exceeded the amount of the



P.O. Box 13425 · Mexico Beach, Florida · 32410
PHONE: 850-648-5700 · FAX: 850-648-8768

April 2, 2007

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

RE: Fiscal Year 2006 Audit

Status of Prior Year Recommendations

Prior year recommendations have been resolved except as noted in current year recommendations.

Current Year Recommendations

1. Record storage and retrieval

The City Administrator and City Clerk are actively reviewing and organizing all City records and hope to have all records in order by the end of Fiscal Year 2007.

2. Personnel files should be maintained for each employee

The City Clerk and Administrative Assistant have created a checklist for each employee file to ensure that all information for each file is accurate and up to date.

3. Software

The City is researching various software programs to correct this issue and anticipates purchasing new software in Fiscal Year 2008.

4. Deficit in operations

As stated in prior year recommendations, the City implemented a rate increase of 9.5% to offset any future deficits and will continue to closely monitor this situation.

5. Sinking fund and reserve requirements must be maintained

The City understands the necessity to closely monitor and maintain the Sinking Funds and will ensure that sufficient reserve requirements are met.

6. Need for improved accounting and financial management, general ledger and financial statement

This issue is in relation to software issues in that information in the general ledger is not consistently included in every report and staff believes that upon installation of new software, this matter will be resolved. Until this time, the City will closely monitor all transactions and correct any deficiencies in the future.

7. Grant Management


Any future grant requests will be reviewed by the City Clerk and the City Administrator prior to any requests for payment to ensure accurate submission requests to the grantors.

8. Accounts receivable subsidiary ledger

The accounts receivable subsidiary ledger is reviewed and balanced against the Utility Billing detail reports monthly.

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

Sincerely,


William A. Cathey, Mayor

/dm