

City of Mexico Beach, Florida

Annual Financial Statements

September 30, 2007

City of Mexico Beach, Florida
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September 30, 2007

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INDEPENDENT AUDITOR'S 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, and the aggregate remaining fund information of the City of Mexico Beach, Florida (the City), as of and for the year ended September 30, 2007, 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, and the aggregate remaining fund information of the City, as of September 30, 2007, 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 5, 2008, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Florida Institute of
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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 schedules 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.

Carri Riggs & Ingram, L.L.C.

Panama City, Florida
February 5, 2008

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 \$8,189,636 (net assets). Of this amount, \$1,264,919 is unrestricted net assets for governmental activities and \$1,435,225 is unrestricted net assets for business-type activities, \$328,269 is restricted net assets for governmental activities and \$1,035,469 is restricted net assets for business-type activities.
- Total net assets increased by \$1,685,514. Of this amount, \$1,234,189 is attributable to governmental activities and \$451,325 is attributable to business-type activities.
- As of September 30, 2007, the general fund's unreserved fund balance was \$1,615,761 or 70% of total general fund expenditures.
- Governmental activities revenues increased to \$3,308,771 or 11%, while governmental activities expenditures decreased 27% to \$2,074,582. Business-type activities revenues increased to \$2,824,831 or 15%, while business-type activities expenditures decreased 2% to \$2,373,506.

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, 2007 and 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

September 30,	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 1,781,409	\$ 716,387	\$ 2,649,880	\$ 2,042,189	\$ 4,431,289	\$ 2,758,576
Capital assets	2,904,887	2,849,574	10,439,900	10,846,159	13,344,787	13,695,733
Total assets	4,686,296	3,565,961	13,089,780	12,888,348	17,776,076	16,454,309
Current liabilities	165,648	105,678	163,354	404,919	329,002	681,959
Noncurrent liabilities	1,110,739	1,284,563	8,146,699	8,155,027	9,257,438	9,268,228
Total liabilities	1,276,387	1,390,241	8,310,053	8,559,946	9,586,440	9,950,187
Net assets invested in capital assets, net of related debt	1,816,721	1,591,211	2,309,033	2,444,686	4,125,754	4,035,897
Net assets – restricted	328,269	147,746	1,035,469	1,205,731	1,363,738	1,353,477
Net assets – unrestricted	1,264,919	436,763	1,435,225	677,985	2,700,144	1,114,748
Total net assets	\$ 3,409,909	\$ 2,175,720	\$ 4,779,727	\$ 4,328,402	\$ 8,189,636	\$ 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 (50%). 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 17% 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* (\$2,700,144) may be used to help meet the government's ongoing obligations to citizens and creditors.

Governmental activities' noncurrent liabilities were reduced by principal reductions (\$173,823) of long-term obligations.

The following schedule provides a summary of the changes in net assets for the years ended September 30, 2007 and 2006.

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

Years Ended September 30,	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program revenues						
Charges for services	\$ 408,102	\$ 397,054	\$2,775,349	\$2,418,031	\$ 3,183,451	\$ 2,815,085
Operating grants/contributions	94,812	821,428	-	-	94,812	821,428
Capital grants/contributions	118,851	47,038	-	-	118,851	47,038
General revenues						
Ad valorem taxes	2,205,366	1,243,705	-	-	2,205,366	1,243,705
Utility taxes/franchise fees	390,684	385,837	-	-	390,684	385,837
Interest	25,806	15,620	32,594	29,138	58,400	44,758
Other	65,150	79,458	16,888	(1,329)	82,038	78,129
Total revenues	3,308,771	2,990,140	2,824,831	2,445,840	6,133,602	5,435,980
Expenses						
General government	454,974	613,932	-	-	454,974	613,932
Public safety	681,997	665,345	-	-	681,997	665,345
Highways and streets	343,379	228,785	-	-	343,379	228,785
Human Services	191,692	152,347	-	-	191,692	152,347
Parks and recreation	177,003	706,969	-	-	177,003	706,969
Physical environment	180,351	422,065	-	-	180,351	422,065
Interest on long-term debt	45,186	35,503	-	-	45,186	35,503
Water	-	-	969,740	982,223	969,740	982,223
Sewer	-	-	972,225	1,009,994	972,225	1,009,994
Sanitation	-	-	431,541	419,691	431,541	419,691
Total expenses	2,074,582	2,824,946	2,373,506	2,411,908	4,448,088	5,236,854
Increase in net assets	\$1,234,189	\$ 165,194	\$ 451,325	\$ 33,932	\$ 1,685,514	\$ 199,126

Governmental activities revenues exceeded expenses by \$1,234,189, while business-type activities revenues exceeded expenses by \$451,325. Total revenues increased \$697,622 from the previous year. Total expenses decreased \$788,766 from the previous year.

67% of the revenues for governmental activities were generated by taxes, while most of the governmental resources were expended for general government (22%), public safety (33%), and highways and streets (17%).

Charges for services provide 98% 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, 2007, total assets were \$1,781,409 and total liabilities were \$165,648. At the end of fiscal year 2007, unreserved fund balance of the general fund was \$1,615,761.

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:

Fund <i>September 30,</i>	Unrestricted Net Assets	
	2007	2006
Water		
Sewer	\$ 1,070,556	\$ 570,114
Sanitation	206,907	34,459
	157,762	73,412
Total	\$ 1,435,225	\$ 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, 2007, was \$13,344,787 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, and infrastructure.

**Capital Assets
(net of depreciation)**

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 150,000	\$ 150,000	\$ 288,191	\$ 288,191	\$ 438,191	\$ 438,191
Construction in progress						
Buildings	422,633	432,074	-	-	422,633	432,074
Improvements	1,546,658	1,381,636	9,978,809	10,355,439	11,525,467	11,737,075
Machinery and equipment	785,596	885,864	172,900	202,529	958,496	1,088,393
Total	\$ 2,904,887	\$ 2,849,574	\$10,439,900	\$10,846,159	\$13,344,787	\$ 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 September 30, 2007 the City had total bond debt outstanding of \$3,315,580. This debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Outstanding Bond Debt

<i>September 30,</i>	Water		Sewer		Total	
	2007	2006	2007	2006	2007	2006
Revenue bonds	\$ 1,159,980	\$ 1,196,980	\$ 2,155,600	\$ 2,183,100	\$ 3,315,580	\$ 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, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents			
Accounts receivable (net)	\$ 1,119,937	\$ 1,374,305	\$ 2,494,242
Internal balances	26,434	219,154	245,588
Due from other governmental units	172,673	(172,673)	-
Prepaid expenses	-	39	39
Fuel inventory	1,275	-	1,275
	19,942	-	19,942
Total current assets (unrestricted)	1,340,261	1,420,825	2,761,086
Restricted assets			
Cash and cash equivalents	441,148	1,062,634	1,503,782
Total current assets (restricted)	441,148	1,062,634	1,503,782
Total current assets	1,781,409	2,483,459	4,264,868
Noncurrent assets			
Deferred charges			
Capacity rights	-	112,234	112,234
Capital assets	-	54,187	54,187
Nondepreciable			
Depreciable (net of accumulated depreciation)	150,000	288,191	438,191
	2,754,887	10,151,709	12,906,596
Total noncurrent assets	2,904,887	10,606,321	13,511,208
Total assets	4,686,296	13,089,780	17,776,076
Liabilities			
Current liabilities			
Accounts payable	57,388	74,646	132,034
Payroll liabilities	91,510	45,267	136,777
Deferred revenue	16,750	16,275	33,025
Accrued interest	-	27,166	27,166
Total current liabilities	165,648	163,354	329,002
Noncurrent liabilities			
Due within one year			
Capital leases payable	1,166	-	1,166
Notes payable	150,515	200,833	351,348
Bonds payable	-	67,000	67,000
Due in more than one year			
Accrued compensated absences	22,573	15,832	38,405
Notes payable	936,485	4,614,454	5,550,939
Revenue bonds payable	-	3,248,580	3,248,580
Total noncurrent liabilities	1,110,739	8,146,699	9,257,438
Total liabilities	1,276,387	8,310,053	9,586,440
Net assets			
Invested in capital assets (net of related debt)	1,816,721	2,309,033	4,125,754
Restricted for			
Bond retirement	-	563,366	563,366
Impact fees	328,269	472,103	800,372
Unrestricted	1,264,919	1,435,225	2,700,144
Total net assets	\$ 3,409,909	\$ 4,779,727	\$ 8,189,636

See accompanying notes

City of Mexico Beach, Florida
Statement of Activities
Year Ended September 30, 2007

Functions / Programs	Program Revenues				Primary Government			Total
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Net (Expenses) Revenues and Changes in Net Assets	
Primary Government								
Governmental activities								
General government	\$ 454,974	\$ 104,923	\$ 4,812	\$ 11,556	\$ (333,683)	\$ -	\$ -	\$ (333,683)
Public safety	681,997	74,756	15,000	-	(592,241)	-	-	(592,241)
Highways and streets	343,379	11,141	-	-	(332,238)	-	-	(332,238)
Human services	191,692	-	-	-	(191,692)	-	-	(191,692)
Parks and recreation	177,003	217,282	-	107,295	147,574	-	-	147,574
Physical environment	180,351	-	75,000	-	(105,351)	-	-	(105,351)
Interest on long-term debt	45,186	-	-	-	(45,186)	-	-	(45,186)
Total governmental activities	2,074,582	408,102	94,812	118,851	(1,452,817)	-	-	(1,452,817)
Business-type activities								
Water	969,740	1,192,094	-	-	-	222,354	-	222,354
Sewer	972,225	1,102,180	-	-	-	129,955	-	129,955
Sanitation	431,541	481,075	-	-	-	49,534	-	49,534
Total business-type activities	2,373,506	2,775,349	-	-	-	401,843	-	401,843
Total primary government	\$ 4,448,088	\$ 3,183,451	\$ 94,812	\$ 118,851	(1,452,817)	401,843	-	(1,050,974)
General revenues								
Taxes								
Ad valorem					2,205,366	-	-	2,205,366
Utility					105,856	-	-	105,856
Franchise fees					145,687	-	-	145,687
Local option gas tax					52,340	-	-	52,340
1/2 cent sales tax					86,801	-	-	86,801
Miscellaneous					40,550	16,888	-	57,438
Sale of surplus property					24,600	-	-	24,600
Interest earnings					25,806	-	-	25,806
Total general revenues and interest					2,687,006	49,482	-	2,736,488
Change in net assets					1,234,189	451,325	-	1,685,514
Net assets - beginning					2,175,720	4,328,402	-	6,504,122
Net assets - ending					\$ 3,409,909	\$ 4,779,727	\$ -	\$ 8,189,636

City of Mexico Beach, Florida
 Balance Sheet
 Governmental Funds
 September 30, 2007

	General
Assets	
Cash and cash equivalents	
Accounts receivable (net)	\$ 1,119,937
Due from other funds	26,434
Fuel inventory	172,673
Prepaid expenses	19,942
Cash and cash equivalents - restricted	1,275
	441,148
Total assets	\$ 1,781,409
Liabilities and fund balance	
Liabilities	
Accounts payable	
Accrued expenses	\$ 57,388
Deferred revenue	91,510
	16,750
Total liabilities	165,648
Fund balance	
Unreserved	1,615,761
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.	2,904,887
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(1,110,739)
Net assets of governmental activities	\$ 3,409,909

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended September 30, 2007

	General
Revenues	
Taxes	\$ 2,509,249
Licenses and permits	36,137
Intergovernmental	282,104
Fines and forfeitures	8,502
Charges for services	318,143
Miscellaneous revenues	154,636
Total revenues	3,308,771
Expenditures	
Current operating	
General government	412,798
Public safety	585,306
Highways and streets	325,081
Physical environment	180,351
Human services	74,423
Parks and recreation	164,183
Capital outlay	346,130
Debt service	215,447
Total expenditures	2,303,719
Excess of revenues over expenditures	1,005,052
Fund balance - beginning	610,709
Fund balance - ending	\$ 1,615,761

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, 2007

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

Net change in fund balance - total governmental funds	\$ 1,005,052
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.	55,313
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.	3,627
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.	170,197
<u>Change in net assets of governmental activities</u>	<u>\$ 1,234,189</u>

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,488,855	\$ 2,500,532	\$ 2,509,249	\$ 8,717
Licenses and permits	44,000	34,538	36,137	1,599
Intergovernmental	778,048	260,658	282,104	21,446
Fines and forfeitures	12,000	7,500	8,502	1,002
Charges for services	26,505	26,639	318,143	291,504
Miscellaneous revenues	125,059	163,256	154,636	(8,620)
Total revenues	3,474,467	2,993,123	3,308,771	315,648
Expenditures				
Current				
General government	492,939	473,289	412,798	60,491
Public safety	708,626	694,455	585,306	109,149
Highways and streets	302,529	347,978	325,081	22,897
Physical environment	244,689	207,473	180,351	27,122
Human services	77,000	79,653	74,423	5,230
Culture and recreation	142,679	154,498	164,183	(9,685)
Capital outlay	968,900	388,018	346,130	41,888
Debt service	205,000	205,000	215,447	(10,447)
Total expenditures	3,142,362	2,550,364	2,303,719	246,645
Excess of revenues over expenditures	332,105	442,759	1,005,052	562,293
Fund balance - beginning	610,709	610,709	610,709	-
Fund balance - ending	\$ 942,814	\$ 1,053,468	\$ 1,615,761	\$ 562,293

See accompanying notes

City of Mexico Beach, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2007

	Business-type Activities / Enterprise Funds			
	Water	Sewer	Sanitation	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 750,469	\$ 491,893	\$ 131,943	\$ 1,374,305
Accounts receivable (net)	72,201	93,388	53,565	219,154
Due from other funds	294,194	-	-	294,194
Due from other governments	39	-	-	39
Total current assets	1,116,903	585,281	185,508	1,887,692
Restricted assets - cash				
Bond retirement	239,442	351,089	-	590,531
Impact fees	183,616	288,487	-	472,103
Total restricted assets - cash	423,058	639,576	-	1,062,634
Noncurrent assets				
Deferred charges	17,333	94,901	-	112,234
Capacity rights	-	54,187	-	54,187
Property, plant, and equipment	6,359,069	7,144,328	434,683	13,938,080
Less accumulated depreciation	(1,740,275)	(1,407,524)	(350,381)	(3,498,180)
Total noncurrent assets	4,636,127	5,885,892	84,302	10,606,321
Total assets	6,176,088	7,110,749	269,810	13,556,647
Liabilities				
Current liabilities				
Accounts payable	18,071	51,342	5,234	74,647
Accrued expenses	21,854	6,054	17,362	45,270
Due to other funds	-	466,867	-	466,867
Deferred revenue	16,272	-	-	16,272
Notes payable, current portion	132,413	68,420	-	200,833
Revenue bonds payable, current portion	38,000	29,000	-	67,000
Total current liabilities	226,610	621,683	22,596	870,889
Current liabilities payable from restricted assets				
Accrued interest	18,494	8,671	-	27,165
Total current liabilities payable from restricted assets	18,494	8,671	-	27,165
Noncurrent liabilities				
Accrued compensated absences	7,483	3,199	5,150	15,832
Notes payable - due after one year	2,583,356	2,031,098	-	4,614,454
Bonds payable - due after one year	1,121,980	2,126,600	-	3,248,580
Total noncurrent liabilities	3,712,819	4,160,897	5,150	7,878,866
Total liabilities	3,957,923	4,791,251	27,746	8,776,920
Net assets				
Invested in capital assets (net of related debt)	743,045	1,481,686	84,302	2,309,033
Restricted for				
Bond retirement	220,948	342,418	-	563,366
Impact fees	183,616	288,487	-	472,103
Unrestricted	1,070,556	206,907	157,762	1,435,225
Total net assets	\$ 2,218,165	\$ 2,319,498	\$ 242,064	\$ 4,779,727

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2007

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating revenues				
Charges for services	\$ 943,427	\$ 808,794	\$ 431,022	\$ 2,183,243
New installations	8,218	7,695	-	15,913
Reconnections	10,893	490	-	11,383
Impact fees	191,943	293,386	-	485,329
Other utility income	37,612	-	50,053	87,665
Total operating revenues	1,192,093	1,110,365	481,075	2,783,533
Operating expenses				
Personal services	270,560	82,321	249,492	602,373
Professional services	14,400	23,724	9,000	47,124
Office supplies	904	117	-	1,021
Utilities	45,644	17,308	257	63,209
Insurance	22,700	20,386	9,573	52,659
Repairs and maintenance	40,050	31,978	20,227	92,255
Operating supplies	28,278	37,943	28,439	94,660
Communication services	9,128	3,755	2,445	15,328
Public utility services	170,480	321,105	-	491,585
Tipping fees	-	-	75,044	75,044
Transportation	936	-	-	936
Loan servicing costs	-	28,350	-	28,350
Rentals	262	92	5,302	5,656
Printing and binding	1,485	170	70	1,725
Miscellaneous	8,449	9,367	-	17,816
Amortization	967	7,016	-	7,983
Depreciation	174,520	209,018	31,690	415,228
Bad debts	117	-	-	117
Total operating expenses	788,880	792,650	431,539	2,013,069
Operating income	403,213	317,715	49,536	770,464
Nonoperating revenues (expenses)				
Interest income	10,450	18,754	3,390	32,594
Interest expense	(180,859)	(179,577)	-	(360,436)
Gain on sale of assets	-	-	8,703	8,703
Total nonoperating revenues (expenses)	(170,409)	(160,823)	12,093	(319,139)
Net income	232,804	156,892	61,629	451,325
Net assets - beginning	1,985,361	2,162,606	180,435	4,328,402
Net assets - ending	\$ 2,218,165	\$ 2,319,498	\$ 242,064	\$ 4,779,727

See accompanying notes
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City of Mexico Beach, Florida
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2007

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating activities				
Receipts from customers and users	\$ 1,212,665	\$ 1,100,033	\$ 477,732	\$ 2,790,430
Payments to suppliers and others	(327,403)	(424,544)	(161,729)	(913,676)
Payments for personal services	(270,560)	(82,321)	(249,492)	(602,373)
Net cash provided by operating activities	614,702	593,168	66,511	1,274,381
Capital and related financing activities				
Principal paid on revenue bonds	(37,000)	(27,500)	-	(64,500)
Principal paid on notes and leases	(136,719)	(69,387)	-	(206,106)
Interest paid on bonds, notes and leases	(182,491)	(179,818)	-	(362,309)
Purchase of capital assets	-	-	(8,970)	(8,970)
Net cash used in capital and related financing activities	(356,210)	(276,705)	(8,970)	(641,885)
Investing activities				
Interest received	10,450	18,754	3,390	32,594
Net cash provided by investing activities	10,450	18,754	3,390	32,594
Net increase in cash and cash equivalents	268,942	335,217	60,931	665,090
Cash and cash equivalents - beginning	904,585	796,252	71,012	1,771,849
Cash and cash equivalents - ending	\$ 1,173,527	\$ 1,131,469	\$ 131,943	\$ 2,436,939
Classified as cash				
Current assets - cash and cash equivalents	\$ 750,469	\$ 491,893	\$ 131,943	\$ 1,374,305
Restricted assets - cash and cash equivalents	423,058	639,576	-	1,062,634
	\$ 1,173,527	\$ 1,131,469	\$ 131,943	\$ 2,436,939
Reconciliation of net operating income to net cash provided by operating activities				
Operating income	\$ 403,213	\$ 317,715	\$ 49,536	\$ 770,464
Adjustments to reconcile net operating income to net cash provided by operating activities				
Amortization	967	7,016	-	7,983
Depreciation	174,520	209,018	31,690	415,228
Gain on sale of assets	-	-	8,703	8,703
(Increase) decrease in assets				
Accounts receivable	14,904	(16,248)	(12,047)	(13,391)
Due from other funds	(10,604)	5,916	-	(4,688)
Prepaid assets	7,516	3,948	-	11,464
Increase (decrease) in liabilities				
Accounts payable	11,622	(12,096)	(17,793)	(18,267)
Accrued expenses	12,003	5,822	15,262	33,087
Deferred revenue	16,272	-	-	16,272
Compensated absences	(4,917)	(923)	(2,665)	(8,505)
Due to other funds	(10,794)	73,000	(6,175)	56,031
Total adjustments	211,489	275,453	16,975	503,917
Net cash provided by operating activities	\$ 614,702	\$ 593,168	\$ 66,511	\$ 1,274,381

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Mexico Beach, Florida (the City) have been prepared in conformity with United States generally accepted accounting principles (GAAP) as applied to governmental units promulgated by the Governmental Accounting Standards Board (GASB).

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

Reporting Entity

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

As outlined in Governmental Accounting Standards Board (GASB) Statement 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 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); or (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 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 Statutes.

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

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

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, certificates of deposit, and highly liquid debt instruments with an original maturity of three months or less from the date of acquisition to be cash equivalents.

Accounts Receivable

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The City estimates there are no 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.

Depreciation on all assets is provided on the straight-line basis over their estimated useful lives which are generally as follows:

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 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, 2007, was 3.79 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

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 \$ 2,904,887 difference are as follows:

Cost of capital assets	\$ 4,389,753
Less: accumulated depreciation	(1,484,866)
<u>Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities</u>	<u>\$ 2,904,887</u>

Another element of that reconciliation states, "long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$1,110,739 difference are as follows:

Notes and revenue bonds payable	\$ 1,087,000
Capital leases	1,166
Compensated absences	22,573
<u>Net adjustment to reduce fund balance - total governmental fund to arrive at net assets - governmental activities</u>	<u>\$ 1,110,739</u>

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 \$55,313 difference are as follows:

Capital outlay	\$ 346,130
Depreciation expense	(290,817)
<u>Net adjustment to increase net change in fund balance - total governmental funds to arrive at changes in net assets - governmental activities</u>	<u>\$ 55,313</u>

Another element of that reconciliation states, "some expenses reported in the statement of activities do not require the use of current financial resource and, therefore, are not reported as expenditures in governmental funds." The details of this \$3,627 difference are as follows:

Compensated absences	\$ 3,627
<u>Net adjustment to decrease net change in fund balance - total governmental funds to arrive at changes in net assets - governmental activities</u>	<u>\$ 3,627</u>

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 \$170,197 difference are as follows:

Principal repayments	\$	1,413
Capital leases		168,784
Notes payable		
<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>	\$	170,197
<hr/>		

NOTE 3 – CASH AND INVESTMENTS

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

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

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

investment trust takes delivery of such collateral either directly or through an authorized custodian.

There were no investments at September 30, 2007.

Interest Rate Risks

At September 30, 2007, the City did not hold any investments that were considered to be an interest rate risk.

Credit Risks

At September 30, 2007, the City did not hold any investments that were considered to be a credit risk.

Custodial Risks

At September 30, 2007, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

As September 30, 2007, the City did not hold any deposits or investments that were considered to be a concentration of credit risk.

NOTE 4 – ACCOUNTS RECEIVABLE

At September 30, 2007, accounts receivable in the governmental funds are summarized as follows:

Total accounts receivable	\$	26,434
Less: allowance for doubtful accounts		-
Net accounts receivable	\$	26,434

At September 30, 2007, accounts receivable in the proprietary funds are summarized as follows:

Total accounts receivable	\$	219,154
Less: allowance for doubtful accounts		-
Net accounts receivable	\$	219,154

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of September 30, 2007 is as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 172,673	\$ -
Water fund	294,194	-
Sewer fund	-	466,867
Total	\$ 466,867	\$ 466,867

The sewer fund owes the general and water funds \$172,673 and \$294,194, respectively, for operating advances.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007 was as follows:

	September 30, 2006	Increases	Decreases	September 30, 2007
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	1,634,361	260,200	-	1,894,561
Machinery and equipment	1,906,930	85,930	(120,301)	1,872,559
Total capital assets, being depreciated	4,013,924	346,130	(120,301)	4,239,753

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	September 30, 2006	Increases	Decreases	September 30, 2007
Less accumulated depreciation				
Buildings	\$ (40,559)	\$ (9,441)	\$ -	(50,000)
Improvements	(252,725)	(95,178)	-	(347,903)
Machinery and equipment	(1,021,066)	(186,198)	120,301	(1,086,963)
Total accumulated depreciation	(1,314,350)	(290,817)	120,301	(1,484,866)
Total capital assets, being depreciated, net	2,699,574	55,313	-	2,754,887
Total governmental activities' capital assets, net	\$ 2,849,574	\$ 55,313	\$ -	2,904,887
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	12,882,131	-	-	12,882,131
Machinery and equipment	835,615	8,969	(87,434)	757,150
Total capital assets, being depreciated	13,728,352	8,969	(87,434)	13,649,887
Less accumulated depreciation				
Buildings	(10,606)	-	-	(10,606)
Improvements	(2,526,692)	(376,630)	-	(2,903,322)
Machinery and equipment	(633,086)	(38,598)	87,434	(584,250)
Total accumulated depreciation	(3,170,384)	(415,228)	87,434	(3,498,178)
Total capital assets, being depreciated, net	10,557,968	(406,259)	-	10,151,709
Total business-type activities' capital assets, net	\$ 10,846,159	\$ (406,259)	\$ -	10,439,900

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	6,065,079	12,882,133
Machinery and equipment	434,683	56,848	265,619	757,150
Total	434,683	7,144,328	6,359,069	13,938,080
Less: accumulated depreciation				
Buildings	-	-	(10,606)	(10,606)
Improvements	(350,381)	(1,392,306)	(1,511,018)	(2,903,324)
Machinery and equipment	-	(15,218)	(218,651)	(584,250)
Total accumulated depreciation	(350,381)	(1,407,524)	(1,740,275)	(3,498,180)
Total business-type activities' capital assets, net	\$ 84,302	\$5,736,804	\$ 4,618,794	\$ 10,439,900

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

General government	\$ 45,740
Public safety	96,692
Highways and streets	18,297
Physical environment	117,269
Parks and recreation	12,819
Total depreciation expense - governmental activities	\$ 290,817

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

Sanitation	\$ 31,690
Sewer	209,018
Water	174,520
Total depreciation expense - business-type activities	\$ 415,228

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	(10,173)
Net	\$ 1,885

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, 2007 were as follows:

Year Ending September 30,	General Fund
2008	\$ 1,220
Total minimum lease payments	1,220
Less amount representing interest	(54)
Present value of minimum lease payments	\$ 1,166

NOTE 8 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance October 1, 2006	Increase	(Reductions)	Balance September 30, 2007
Note payable to City of Gulf Breeze, Florida Capital funding loan program (See Note 10 (A)).	\$ 758,458	\$ -	\$ (20,335)	\$ 738,123
Note payable for purchase of (5) vehicles, payable in quarterly installments of \$8,829, including 6.36% interest.	59,360	-	(33,403)	25,957
Lease obligation for purchase of copier, monthly payments of \$136, including 11% interest.	2,579	-	(1,413)	1,166
Note payable for the purchase of a dredge, payable in quarterly installments of \$14,077, including 4.17% interest.	252,951	-	(46,482)	206,469

City of Mexico Beach, Florida
Notes to Basic Financial Statements

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

	Balance October 1, 2006	Increase	(Reductions)	Balance September 30, 2007
Note payable for the purchase of (2) tractors and (1) vehicle, payable in quarterly installments of \$5,880, including 4.17% interest.	\$ 50,267	\$ -	\$ (21,763)	\$ 28,504
Note payable for the purchase of (4) automobiles, payable in quarterly installments of \$5,445, including 4.61% interest.	26,636	-	(21,230)	5,406
Note payable for the purchase of a beach rake, payable in monthly payments of \$1,002, including 4.54% interest.	17,438	-	(6,837)	10,601
Liability for compensated absences	90,673	-	(18,733)	71,940
Total governmental activities long-term obligations	26,200	-	(3,627)	22,573
	<u>\$ 1,284,562</u>	<u>\$ -</u>	<u>\$ (173,823)</u>	<u>\$ 1,110,739</u>

Debt service requirements to maturity for the governmental funds at September 30, 2007 are as follows:

Year Ending September 30,	Principal	Interest	Total
2008	\$ 151,681	\$ 26,157	\$ 177,838
2009	102,924	21,297	124,221
2010	97,793	17,774	115,567
2011	91,115	14,244	105,359
2012	26,753	13,744	40,497
2013-2017	158,180	52,156	210,336
2018-2021	459,720	29,742	489,462
Compensated absences	22,573	-	22,573
Total	<u>\$ 1,110,739</u>	<u>\$ 175,114</u>	<u>\$ 1,285,853</u>

City of Mexico Beach, Florida
Notes to Basic Financial Statements

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

Bonds Payable	Original Issue	Balance October 1, 2006	Increase	(Reductions)	Balance September 30, 2007
5% to 10.5% Water System Revenue Bonds, Series 1979, 1980 and 1984, used to construct and improve existing water system.	\$ 773,200	\$ 468,380	\$ -	\$ (24,000)	\$ 444,380
4.5% Water system Junior Lien Revenue Bonds, Series 1995, used to improve water system.	829,600	728,600	-	(13,000)	715,600
4.875% Sewer System Junior Lien Revenue Bonds, Series 2000, used to improve sewer system.	2,303,100	2,183,100	-	(27,500)	2,155,600
Total bonds payable – enterprise funds	\$ 3,380,080	\$ -	\$ (64,500)	\$ -	\$ 3,315,580

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 - \$444,380 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 - \$715,600 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 - \$2,155,600 balance. The bonds are secured by a junior and subordinate pledge of gross revenues of the system. The bonds are due in annual installments each September 1 through September 1, 2039; interest at 4.875% per annum is payable annually on September 1.

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

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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, 2007, are as follows:

	Series 1979, 1980, and 1984	Series 1995	Series 2000	Total
Sinking fund – principal and interest, including reserves:				
Required	\$ 58,371	\$ 87,427	\$ 118,708	\$ 264,506
Actual	58,364	97,957	118,955	275,276
Excess (shortage)	\$ (7)	\$ 10,530	\$ 247	\$ 10,770

Debt service requirements to maturity on revenue bonds payable at September 30, 2007 are as follows:

Year Ending September 30,	Principal	Interest	Total
2008	\$ 67,000	\$ 166,157	\$ 233,157
2009	70,000	162,607	232,607
2010	73,000	159,011	232,011
2011	77,000	155,317	232,317
2012	81,000	151,417	232,417
2013-2017	474,500	688,250	1,162,750
2018-2022	496,879	552,995	1,049,874
2023-2027	467,500	432,540	900,040
2028-2032	589,000	311,250	900,250
2033-2037	640,100	158,814	798,914
2038-2041	279,601	22,000	301,601
Total	\$ 3,315,580	\$ 2,960,358	\$ 6,275,938

Notes Payable

	Balance October 1, 2006	Increase	(Reductions)	Balance September 30, 2007
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)	\$ 2,115,004	\$ -	\$ (56,686)	\$ 2,058,318

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

	Balance October 1, 2006	Increase	(Reductions)	Balance September 30, 2007
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)	\$ 647,476	\$ -	\$ (17,354)	\$ 630,122
Note payable for purpose of financing Gulf Breeze loan costs with variable interest at 2.3%. Principal and interest payable monthly.	35,109	-	(2,412)	32,697
Florida Department of Environmental Protection state revolving fund loan. Repayable over 20 years upon completion of water system improvements. (See (B) below)	2,190,483	-	(107,785)	2,082,698
Note payable in monthly installments of \$397, including interest at 4.61%, secured by equipment.	11,528	-	(4,498)	7,030
Note payable in quarterly installments of \$1,485, including interest at 4.61%, secured by vehicles.	7,264	-	(5,790)	1,474
Note payable in quarterly installments of \$2,970, including interest at 4.61%, secured by vehicles.	14,529	-	(11,581)	2,948
Total notes payable – enterprise funds	\$ 5,021,393	\$ -	\$ (206,106)	\$ 4,815,287

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:

Notes to Basic Financial Statements

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

General fund	\$ 738,123
Sewer fund	2,058,318
Water fund	630,122
Total	\$ 3,426,563

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, 2007 are as follows:

Year Ending September 30,	Principal	Interest	Total
2008	\$ 200,833	\$ 115,146	\$ 315,979
2009	202,005	109,924	311,929
2010	207,840	104,657	312,497
2011	216,431	99,182	315,613
2012	225,412	98,668	324,080
2013-2017	1,276,903	374,860	1,651,763
2018-2022	2,485,863	178,258	2,664,121
Total	\$ 4,815,287	\$ 1,080,695	\$ 5,895,982

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

CITY OF MEXICO BEACH

Balance Sheet

Fund 001

General Fund

Fiscal Year to Date Thru June 2008

Invoice Clearing	0.00
The Bank - General Fund	402,490.74
Payroll Account	60.91
The Bank - Paving & Maintenance Fund	165,618.07
The Bank - Canal Park Reserve	137,559.06
The Bank - Property Reserve Account	1,094.79
The Bank - Reserve Account	250,526.18
Parks & Recreation Impact Fees	170,081.57
Police Impact Fees	332.04
Fire/ESU Impact Fees	650.27
CDARS Inv - Municipal Impact Fees	326,928.31
CDBG Funds	14,375.00
The Bank - Law Enforcement Training Fund	385.18
The Bank - Utility Tax Fund	157,548.83
The Bank - Law Enforcement Education Fund	8,533.53
Comm. Dev Block Grant Funds	0.00
Employee Holiday Fund	400.00
Gulf Breeze Balloon Reserve	9.83
Gulf Breeze Inv - CDARS	11,526.08
TOTAL CASH RESOURCES	1,648,120.39
Cash on Hand	0.00
Accounts Receivable	0.00
CDC-Accounts Receivable	0.00
Fuel Inventory	32,166.57
Returned Check	0.00
Paving Assessments Receivable	0.00
Due From Special Revenue Fund - Local Option Gas	0.00
Due from Sewer	165,632.53
Due from Water	29,357.75
Due From Sanitation	23,761.29
Due from Other Gov.	-0.66
DUE FROM WATER	0.00
DUE FROM SANITATION	0.00
DUE FROM SEWER	0.00
Insurance Proceeds/Police Dept./Collision paymen	0.00
Prepaid Expense	2,388.00
Prepaid Insurance	69,086.19
Prepaid Postage	2,400.00
Fixed Assets	0.36
Accumulated Depreciation	0.00
TOTAL ACCOUNTS RECEIVABLES	324,792.03

CITY OF MEXICO BEACH

Balance Sheet

Fund 001

General Fund

Fiscal Year to Date Thru June 2008

Total Assets	1,972,912.42
Accounts Payable	18,898.64
Due To Other Funds (Water)	0.00
Income Tax Withheld	-740.49
Medicare	55.02
FICA	51.96
Child Support Withheld	1,144.00
Retirement Contributions Withheld	0.00
Insurance Withheld	4,144.63
Miscellaneous Withheld	200.00
AFLAC WITHHELD	-251.38
Due to Sanitation	0.00
Due to Special Revenue Fund	0.00
Due to Water	-295.83
Due to Sanitation	-238.41
Due to Sewer	-102.48
Deferred Revenue	7,250.00
Long-term Debt	0.02
Advances from Sewer	0.00
Accrued Salaries	10,045.84
Encumbrances	0.00
Reserve - P & R Impact Fees	30,768.80
Reserve - Fire/Rescue Impact Fees	6,826.71
Reserve Police - Impact Fees	3,235.94
Fund Balance	1,615,761.31
Cash Receipts Holding	4,933.07
Total Liabilities and Fund Balance	1,728,914.81
Year to Date Revenue	3,025,500.41
Year to Date Expenditures	2,754,275.34
Reserve for Encumbrances	27,227.46
	1,972,912.42

In Balance

General Fund \$ 561,510.64
Paving & Maintenance \$ 165,618.07
Canal Park \$ 144,232.07
Utility Tax Fund \$ 159,993.97

Enterprise Funds

Water Fund \$ 366,266.23 \$ 69,990.00
Sanitation \$ 80,981.42
Sewer Fund \$ 286,635.58 \$ 40,000.00

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CITY OF MEXICO BEACH

Balance Sheet

Fund 410

Sanitation Department

Fiscal Year to Date Thru June 2008

AP tansfer	0.00
Reserve	0.00
Sanitation Department/THE BANK	57,336.86
Capital Equipment Reserve Fund/THE BANK	0.00
Capital Eq. Depre. Reserve Fund/THE BANK	0.00
Accounts Receivable	63,030.37
Accounts Receivable-Other	120.00
Dumpster Fees Receivable	75.00
Miscellaneous Income 111/De-Commissioning Fees	0.00
Sway Car Receivable	0.00
Due from General Fund	-324.14
Due From General Fund	0.00
Due from Water fund	0.00
Due From Sewer	0.00
State Grant Rec.#9202-5018	0.00
Prepaid Insurance	0.00
Equipment	434,682.86
Accumulated Depreciation	-350,380.62
Total Assets	204,540.33
Accounts Payable	7,327.20
Due to Other Funds	0.00
Income Tax Withheld	0.00
Medicare	-12.64
FICA	-54.10
Child Support Withheld	-1,483.99
Retirement Contributions Withheld	0.00
Insurance Withheld	1,074.34
Miscellaneous Withheld	0.00
AFLAC WITHHELD	84.69
Note Payable	0.00
Note Payable - Current	0.00
Note Payable - Longterm	0.00
DUE TO GENERAL FUND	0.00
Due to General Fund	23,761.29
Due to General Fund-Truck	0.00
Due to Water Fund-Truck	0.00
Transfer to Water Fund	0.00
Due to Revenue Fund-Recycling	0.00
Accrued Salaries	2,064.74
Salary Advancement-Loan Proceeds	0.00

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CITY OF MEXICO BEACH

Balance Sheet

Fund 410

Sanitation Department

Fiscal Year to Date Thru June 2008

Loan Proceeds/Garbage Truck	0.00
Accrued Vacation	5,149.87
Deferred Revenue	988.91
Encumbrances	0.00
Retained Earnings	234,950.29
R/E - Equipment replacement	7,114.02
Total Liabilities and Fund Balance	286,588.78
Year to Date Revenue	350,615.55
Year to Date Expenditures	427,039.84
Reserve for Encumbrances	5,624.16
	204,540.33

In Balance

CITY OF MEXICO BEACH

Balance Sheet

Fund 420

Sewer Department

Fiscal Year to Date Thru June 2008

SunTrust-Gulf Breeze Bonds	232,134.41	
Sewer O & M Account/THE BANK	283,585.83	_____
Citizens Federal-Interim Financing	0.00	
Citizens Federal-Wastewater Construction Account	0.00	
Sewer Reserve Fund/THE BANK	341,810.38	_____
CDARS Inv Sewer Impact Fees	301,296.26	_____
Gulf Breeze Inv. - CDARS	62,633.96	_____
Sewer CD Reserve Fund/THE BANK	828.04	
Sewer Bond & Interest Sinking Fund/RECD/THE BANK	171,718.19	_____
Wastewater Collection Sys. Const #2/THE BANK	0.00	
City of MB Sewer Balloon Payment Fund	44.71	
Accounts Receivable-SunTrust	4,817.79	
Accounts Receivable-Other	954.50	
Acct.s Rec/Other-Reim Eng. Design Fees	0.00	
Accounts Receivable	115,831.64	
Interest Receivable	0.00	
DF Gen	-102.48	
Due From Water Fund	0.00	
Due from General Fund	0.00	
Advances to Water Fund	0.00	
Advances to General Fund	0.00	
Prepaid Insurance	0.00	
Loan Costs-NAB	32,705.00	
Loan Costs-Other	62,195.57	
Capacity Rights	54,186.50	
Project Costs-Engineering	0.00	
Advances to Water	0.00	
Advances to General Fund	0.00	
Land	270,426.00	
Improvements other than buildings	6,817,053.80	
Accumulated Depreciation	-1,407,524.03	
Equipment	56,848.14	
CONSTRUCTION IN PROGRESS	0.00	
Total Assets	7,401,444.21	
Accounts Payable	1,626.59	
Due To Other Funds	0.00	
Income Tax Withheld	0.00	
Medicare	0.00	
FICA	0.00	
Child Support Withheld	0.00	

CITY OF MEXICO BEACH

Balance Sheet

Fund 420

Sewer Department

Fiscal Year to Date Thru June 2008

Retirement Contributions Withheld	0.00
Insurance Withheld	300.44
Miscellaneous Withheld	0.00
Bonds Payable	0.00
Accounts Payable-Sun Trust	0.00
Accrued Interest & Fees Payable	0.00
AFLAC WITHHELD	-76.63
DUE TO GENERAL FUND	0.00
Due to General Fund	165,632.53
Transfer to Sani Dept.	0.00
Due to Water Fund	294,194.02
Loan Proceeds/2004 Utility Truck	0.00
Loan Proceeds/2004 Sewer Bypass Pump	2,382.17
Interest Payable	8,671.23
Accrued Salaries & Annual Leave	791.80
Accrued Vacation	3,199.12
Deferred Revenue	2,571.18
Bonds Payable/Long Term Debt/RECD	0.00
Loan Payable	1,998,430.53
Loan Payable-Virginia Water Project	0.00
Bonds Payable-Wastewater System	0.00
Bonds Payable	29,000.00
Bonds Payable/Wastewater	2,126,600.00
NAB-Loan Costs Payable	30,285.00
NAB Loan Costs	68,419.84
Contributed Capital-Federal Government	2,847,253.24
Contributed Capital-Developer	17,840.37
Encumbrances	0.00
Retained Earnings-Reserved	0.00
Contributed Capital-Federal Government	0.00
Contributed Capital-Developer	0.00
Retained Earnings	-875,634.78
Impact Fees Reserve	257,458.45
Retained Earnings-Reserved	89,146.00
Total Liabilities and Fund Balance	7,088,218.37
Year to Date Revenue	762,116.41
Year to Date Expenditures	428,273.30
Reserve for Encumbrances	20,127.27
	7,401,934.21
Out of Balance	-490.00

CITY OF MEXICO BEACH

Balance Sheet

Fund 400

Water Fund

Fiscal Year to Date Thru June 2008

Water Tower Reserve Fund/THE BANK	0.00
Water Revenue Fund/THE BANK	0.00
Water Operation & Maintenance Fund/THE BANK	315,636.23
Water Bond & Interest Sinking Fund-GMAC/THE BANK	86,049.46
Water Bond & Interest Sinking Fund-RECD/THE BANK	125,503.07
Water System Upgrade Fund	0.00
Interim Deposit-End of Month	0.00
Gulf Brz Water Escrow Fund CD/Wtr Trans/THE BANK	0.00
Water Impact Fees - CDARS Inv.	251,080.21
W/T Line Loan Repayment Fund-SRF/THE BANK	83,757.78
City of Mexico Beach/Water Impact Fees Res. Fund	288,462.57
CDARS Inv Water Impact Fees	263,939.86
Gulf Breeze Balloon Reserve	8.49
Gulf Breeze Inv - CDARS	9,837.24
Cash on Hand	200.00
Accounts Receivable	106,988.99
Accounts Receivable-Other	0.00
Accounts Receivable-RECD	0.00
Returned Checks	871.56
Accounts Receivable-Insurance Reimbursement	0.00
Reconnection Fees Receivable	0.00
Due from General Fund	-295.83
Due From Sanitation Department-Loan Proceeds	0.00
Due from General Fund	0.00
Due From Sewer	0.00
Prepaid Insurance	0.00
Bond Issue Cost	2,882.33
Bond Issue Cost-1995 Water	14,451.04
Land	17,765.29
Building & Plant	10,606.39
1995 Water System Upgrage	1,131,793.83
Accumulated Depreciation	-1,740,274.66
Improvements Other Than Buildings	4,933,282.94
Equipment-Furniture	265,619.51
Construction in Progress	0.18
Total Assets	6,168,166.48
Accounts Payable	6,889.57
Due to Other Funds	0.00
Income Tax Withheld	0.00
Medicare	0.00

CITY OF MEXICO BEACH

Balance Sheet

Fund 400

Water Fund

Fiscal Year to Date Thru June 2008

FICA	0.00
Child Support/ Withheld	-1,144.00
Retirement Contributions Withheld	0.00
Insurance Withheld	869.84
Misc. Withheld	0.00
AFLAC WITHHELD	-160.72
DUE TO GENERAL FUND	-86,457.60
Due To General Fund	110,570.73
Utility Tax-Due to General Fund	5,244.42
Due from Sewer Fund	-294,194.02
Due to Sewer Fund	0.00
Loan Proceeds to Sanitation Department-Truck	0.00
Due frm Sani Dept/Loan Proceeds/Loan -Garb truck	0.00
Due To/From Sanitation Department	21.14
Transfer from Va Water Project-Sewer	0.00
Transfer to Sewer Fund/Future trans S to W	44.39
Due to/from Sewer Department	0.00
Transfer to Sani Dept.	0.00
Loan Proceeds/SRF Water Transmission Line Financ	1,971,567.13
Transfer to Sewer Department	0.00
Loan Proceeds/2004 Utility Trucks (2)	0.00
Due to Bay County/Impact Fees	-38.74
Accrued Interest	18,494.31
Accrued Salaries	2,708.81
Accrued Vacation	7,483.22
Deferred Revenue	58,690.47
Notes Payable Current Portion (CRI)	132,412.66
Long Term Debt-GMAC&RECD/Bonds Payable	420,379.73
Bonds Payable-1995 Water Bonds	701,600.00
Bonds Payable- Current	38,000.00
Advances from Sewer fund	611,789.00
Encumbrances	0.00
Reserve Bonds	104,274.00
SRF/Loan Repayment Reserve	0.00
Contributions-General Fund	128,665.91
Contributions-Sewer & Water	25,000.00
Contributions-EPA	21,270.50
Contributions-FMHA Grant	508,500.00
CONTRIBUTIONS SUB TOTAL	4,514,237.31
Prior Year Retained Earnings Adj	0.00
Impact Fee Reserve	208,508.00

Run: 9/02/2008
9-04AM

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CITY OF MEXICO BEACH

Balance Sheet

Fund 400

Water Fund

Fiscal Year to Date Thru June 2008

Retained Earnings	1,238,511.40
Total Liabilities and Fund Balance	5,961,256.71
Year to Date Revenue	980,432.86
Year to Date Expenditures	751,766.53
Reserve for Encumbrances	21,756.56
	6,168,166.48

In Balance

Run: 9/02/2008
9-04AM

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CITY OF MEXICO BEACH

Balance Sheet

Fund 420

Sewer Department

Fiscal Year to Date Thru June 2008

APPLICANT CERTIFICATION OF PRIOR INDEBTEDNESS

Date

Rural Development Manager
Rural Utilities Services
USDA/Rural Development

Dear Sir:

This is to certify that the following constitute all of the outstanding obligations (bonded) indebtedness or otherwise, exclusive of operative expense which are liens upon the revenue of the _____ which (city) (town) of _____

(insert none if there are no outstanding obligations)

<u>Date of Issue</u>	<u>Total Amt of Issue</u>	<u>Int. Rate</u>	<u>Amount Outstanding Principle as of</u>	<u>Name of Bond Holder</u>	<u>Status of Lien 1st, 2nd, etc.</u>
1979	\$ 557,000	5%	\$)	GMAC	
1980	\$ 727,000	5%	\$ } 443,300		
1984	\$ 143,500	10.5	\$)		
1995	\$ 829,600	4.5%	\$ 715,600	RECO ✓	
2000	\$ 2,303,100	4.875	\$ 2,155,600	RECO ✓	
1995	\$ 2,870,089	vary	\$ 2,794,589	Gu's Bronze ✓	
	\$ 2,295,024	3.08	\$ 2,085,942	SRF	

(Mayor or Chairman)

(Clerk)

(Attorney)

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 – PENSION PLAN

Plan Description and Administration

During the prior year, the City participated in the Florida Municipal Pension Trust Fund. In October of 2006 there were no employee contributions to the Florida Municipal Pension Trust Fund. As of November 1, 2006, the City participates in the Florida Retirement System (FRS) which is a multiple-employer, cost-sharing retirement system established by Chapter 121, Florida Statutes. The Florida Retirement System is administered by the Division of Retirement of the State of Florida Department of Administration. The City's payroll for employees covered by the system for the year ended September 30, 2007, was \$1,244,981.

FRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by contacting the State of Florida Department of Management Services, Division of Retirement, Bureau of Research, Education and Policy, 2639 North Monroe Street, Building C, Tallahassee, Florida 32399-1650.

The system provides vesting of benefits after 6 years of creditable service. Members are eligible for normal retirement after attaining age 62 or 30 years of service. Generally, membership is compulsory for all full-time and part-time employees, except for elected City officials who may elect to not participate in the System. Retirement coverage is employee noncontributory. The employer pays all contributions. The rates, as a percentage of gross earnings, are as follows:

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 11 – PENSION PLAN (CONTINUED)

	October 1, 2006 Through June 30, 2007	July 1, 2007 Through September 30, 2007
Regular employees	9.85%	9.85%
Special risk employees	20.92%	20.92%

During the year ended September 30, 2007, the City contributed \$104,692 to the system. These contributions represented 8% of covered payroll.

Three Year Trend Information

Year Ended September 30,	Annual Pension Cost (APC)	Percent of APC Contribution	Net Pension Obligation
2007	\$ 104,692	100%	-
2006	18,209	100%	-
2005	15,930	100%	-

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

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.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 13 – INTERLOCAL AGREEMENTS (CONTINUED)

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	\$ 328,269
Water fund	Debt service	220,948
Water fund	Impact fees	183,616
Sewer fund	Debt service	342,418
Sewer fund	Impact fees	288,487
Total reserved fund equity		\$ 1,363,738

Supplementary Information

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

September 30,	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$ 750,469	\$ 98,509
Accounts receivable (net)	72,201	87,105
Due from other funds	294,194	283,591
Due from other governments	39	39
Prepaid expense	-	7,517
Total current assets	1,116,903	476,761
Restricted assets - cash		
Bond and interest sinking	239,442	228,041
Impact fees	183,616	578,035
Total restricted assets - cash	423,058	806,076
Noncurrent assets		
Unamortized loan costs	17,333	18,300
Property, plant, and equipment	6,359,069	6,368,419
Less accumulated depreciation	(1,740,275)	(1,575,105)
Total noncurrent assets	4,636,127	4,811,614
Total assets	6,176,088	6,094,451
Liabilities		
Current liabilities		
Accounts payable	18,071	6,448
Accrued expenses	21,854	9,850
Due to other funds	-	10,794
Deferred revenue	16,272	-
Notes payable, current portion	132,413	136,720
Revenue bonds payable, current portion	38,000	37,000
Total current liabilities	226,610	200,812
Current liabilities payable from restricted assets		
Accrued interest	18,494	20,126
Total current liabilities payable from restricted assets	18,494	20,126
Noncurrent liabilities		
Accrued compensated absences	7,483	12,404
Notes payable - due after one year	2,583,356	2,715,768
Bonds payable - due after one year	1,121,980	1,159,980
Total noncurrent liabilities	3,712,819	3,888,152
Total liabilities	3,957,923	4,109,090
Net assets		
Invested in capital assets (net of related debt)	743,045	743,846
Restricted for		
Bond retirement	220,948	207,915
Impact fees	183,616	578,035
Unrestricted	1,070,556	455,565
Total net assets	\$ 2,218,165	\$ 1,985,361

See accompanying notes

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

September 30,	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$ 491,893	\$ 22,354
Accounts receivable (net)	93,388	77,140
Due from other funds	-	5,916
Prepaid expenses	-	3,948
Total current assets	585,281	109,358
Restricted assets - cash		
Bond and interest sinking	351,089	353,330
Impact fees	288,487	420,568
Total restricted assets - cash	639,576	773,898
Noncurrent assets		
Unamortized loan costs	94,901	101,917
Capacity rights	54,187	54,187
Property, plant, and equipment	7,144,328	7,144,328
Less accumulated depreciation	(1,407,524)	(1,198,506)
Total noncurrent assets	5,885,892	6,101,926
Total assets	7,110,749	6,985,182
Liabilities		
Current liabilities		
Accounts payable	51,342	63,438
Accrued expenses	6,054	230
Due to other funds	466,867	393,868
Notes payable, current portion	68,420	69,567
Revenue bonds payable, current portion	29,000	27,500
Total current liabilities	621,683	554,603
Current liabilities payable from restricted assets		
Accrued interest	8,671	8,912
Total current liabilities payable from restricted assets	8,671	8,912
Noncurrent liabilities		
Accrued compensated absences	3,199	4,123
Notes payable - due after one year	2,031,098	2,099,338
Bonds payable - due after one year	2,126,600	2,155,600
Total noncurrent liabilities	4,160,897	4,259,061
Total liabilities	4,791,251	4,822,576
Net assets		
Invested in capital assets (net of related debt)	1,481,686	1,593,817
Restricted for		
Bond retirement	342,418	344,418
Impact fees	288,487	420,568
Unrestricted	206,907	(196,197)
Total net assets	\$ 2,319,498	\$ 2,162,606

See accompanying notes

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

September 30,	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$ 131,943	\$ 50,486
Accounts receivable (net)	53,565	41,517
Total current assets	185,508	92,003
Restricted assets - cash		
Renewal and replacement reserve	-	20,526
Total restricted assets - cash	-	20,526
Noncurrent assets		
Property, plant, and equipment	434,683	503,797
Less accumulated depreciation	(350,381)	(396,774)
Total noncurrent assets	84,302	107,023
Total assets	269,810	219,552
Liabilities		
Current liabilities		
Accounts payable	5,234	23,027
Accrued expenses	17,362	2,101
Due to other funds	-	6,175
Total current liabilities	22,596	31,303
Noncurrent liabilities		
Accrued compensated absences	5,150	7,814
Total noncurrent liabilities	5,150	7,814
Total liabilities	27,746	39,117
Net assets		
Invested in capital assets (net of related debt)	84,302	107,023
Unrestricted	157,762	73,412
Total net assets	\$ 242,064	\$ 180,435

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

Year Ended September 30,	2007	2006
Operating revenues		
Charges for services	\$ 943,427	\$ 828,964
New installations	8,218	165,039
Reconnections	10,893	12,038
Impact fees	191,943	-
Other utility income	37,612	44,824
Total operating revenues	1,192,093	1,050,865
Operating expenses		
Personal services	270,560	356,266
Professional services	14,400	24,275
Office supplies	904	1,178
Utilities	45,644	66,257
Insurance	22,700	16,800
Repairs and maintenance	40,050	28,078
Operating supplies	28,278	26,135
Communication services	9,128	4,139
Public utility services	170,480	89,024
Transportation	936	309
Rentals	262	1,015
Printing and binding	1,485	1,699
Miscellaneous	8,449	16,748
Amortization	967	967
Depreciation	174,520	174,266
Bad debts	117	5,750
Total operating expenses	788,880	812,906
Operating income	403,213	237,959
Nonoperating revenues (expenses)		
Interest income	10,450	14,204
Interest expense	(180,859)	(169,316)
Operating transfer out	-	(30,000)
Total nonoperating revenues (expenses)	(170,409)	(185,112)
Net income	232,804	52,847
Net assets - beginning	1,985,361	1,932,514
Net assets - ending	\$ 2,218,165	\$ 1,985,361

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

Year Ended September 30,	2007	2006
Operating revenues		
Charges for services	\$ 808,794	\$ 693,130
New installations	7,695	-
Reconnections	490	-
Impact fees	293,386	240,481
Total operating revenues	1,110,365	933,611
Operating expenses		
Personal services	82,321	81,782
Professional services	23,724	16,281
Office supplies	117	-
Utilities	17,308	16,944
Insurance	20,386	21,452
Repairs and maintenance	31,978	43,115
Operating supplies	37,943	44,694
Communication services	3,755	1,344
Public utility services	321,105	337,036
Transportation	-	309
Loan servicing costs	28,350	26,773
Rentals	92	-
Printing and binding	170	549
Miscellaneous	9,367	7,629
Amortization	7,016	7,016
Depreciation	209,018	213,144
Bad debts	-	4,258
Total operating expenses	792,650	822,326
Operating income	317,715	111,285
Nonoperating revenues (expenses)		
Interest income	18,754	14,630
Interest expense	(179,577)	(187,668)
Operating transfer in	-	30,000
Total nonoperating revenues (expenses)	(160,823)	(143,038)
Net income (loss)	156,892	(31,753)
Net assets - beginning	2,162,606	2,194,359
Net assets - ending	\$ 2,319,498	\$ 2,162,606

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

Year Ended September 30,	2006	2005
Operating revenues		
Charges for services	\$ 431,022	\$ 407,521
Other utility income	50,053	26,034
Total operating revenues	481,075	433,555
Operating expenses		
Personal services	249,492	252,042
Professional services	9,000	8,025
Office supplies	-	-
Utilities	257	197
Contractual services	-	-
Insurance	9,573	8,613
Repairs and maintenance	20,227	11,671
Operating supplies	28,439	22,975
Communication services	2,445	1,351
Tipping fees	75,044	68,197
Transportation	-	234
Rentals	5,302	8,128
Printing and binding	70	95
Miscellaneous	-	1,216
Depreciation	31,690	34,033
Bad debts	-	2,858
Total operating expenses	431,539	419,635
Operating income (loss)	49,536	13,920
Nonoperating revenues (expenses)		
Interest income	3,390	304
Interest expense	-	(57)
Operating transfer out	-	(1,329)
Gain on sale of assets	8,703	-
Total nonoperating revenues (expenses)	12,093	(1,082)
Net income	61,629	12,838
Net assets - beginning	180,435	167,597
Net assets - ending	\$ 242,064	\$ 180,435

See accompanying notes

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

Year Ended September 30,	2007	2006
Operating activities		
Receipts from customers and users	\$ 1,212,665	\$ 1,018,763
Payments to suppliers and others	(327,403)	(339,228)
Payments for personal services	(270,560)	(356,266)
Net cash provided by operating activities	614,702	323,269
Noncapital financing activities		
Transfers out	-	(30,000)
Capital and related financing activities		
Principal paid on revenue bonds	(37,000)	(35,000)
Principal paid on notes and leases	(136,719)	(132,214)
Interest paid on bonds, notes, and leases	(182,491)	(169,316)
Purchase of capital assets	-	(100,946)
Net cash used in capital and related financing activities	(356,210)	(437,476)
Investing activities		
Interest received	10,450	14,204
Net cash provided by investing activities	10,450	14,204
Net increase (decrease) in cash and cash equivalents	268,942	(130,003)
Cash and cash equivalents, beginning	904,585	1,034,588
Cash and cash equivalents, ending	\$ 1,173,527	\$ 904,585
Classified as cash		
Current assets - cash and cash equivalents	\$ 750,469	\$ 98,509
Restricted assets - cash and cash equivalents	423,058	806,076
	\$ 1,173,527	\$ 904,585
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	\$ 403,213	\$ 237,959
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	967	967
Depreciation	174,520	174,266
(Increase) decrease in assets		
Accounts receivable	14,904	(7,484)
Due from other funds	(10,604)	(24,579)
Due from other governments	-	(39)
Prepaid assets	7,516	(7,518)
Increase (decrease) in liabilities		
Accounts payable	11,622	(63,092)
Accrued expenses	12,003	8,167
Deferred revenue	16,272	-
Compensated absences	(4,917)	12,404
Due to other funds	(10,794)	(7,782)
Total adjustments	211,489	85,310
Net cash provided by operating activities	\$ 614,702	\$ 323,269

See accompanying notes

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

Year Ended September 30,	2007	2006
Operating activities		
Receipts from customers and users	\$ 1,100,033	\$ 927,423
Payments to suppliers and others	(424,544)	(442,703)
Payments for personal services	(82,321)	(81,782)
Net cash provided by operating activities	593,168	402,938
Noncapital financing activities		
Transfers in	-	30,000
Capital and related financing activities		
Principal paid on revenue bonds	(27,500)	(26,500)
Principal paid on notes and leases	(69,387)	(65,940)
Interest paid on bonds, notes, and leases	(179,818)	(187,668)
Purchase of capital assets	-	(4,170)
Net cash used in capital and related financing activities	(276,705)	(284,278)
Investing activities		
Interest received	18,754	14,630
Net cash provided by investing activities	18,754	14,630
Net increase in cash and cash equivalents	335,217	163,290
Cash and cash equivalents, beginning	796,252	632,962
Cash and cash equivalents, ending	\$ 1,131,469	\$ 796,252
Classified as cash		
Current assets - cash and cash equivalents	\$ 491,893	\$ 22,354
Restricted assets - cash and cash equivalents	639,576	773,898
	\$ 1,131,469	\$ 796,252
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	\$ 317,715	\$ 111,285
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	7,016	7,016
Depreciation	209,018	213,144
(Increase) decrease in assets		
Accounts receivable	(16,248)	(6,188)
Due from other funds	5,916	-
Prepaid assets	3,948	(3,948)
Increase (decrease) in liabilities		
Accounts payable	(12,096)	(49,179)
Accrued expenses	5,822	(4)
Compensated absences	(923)	4,123
Due to other funds	73,000	126,689
Total adjustments	275,453	291,653
Net cash provided by operating activities	\$ 593,168	\$ 402,938

See accompanying notes

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

Year Ended September 30,	2007	2006
Operating activities		
Receipts from customers and users	\$ 477,732	\$ 429,379
Payments to suppliers and others	(161,729)	(154,914)
Payments for personal services	(249,492)	(252,042)
Net cash provided by operating activities	66,511	22,423
Noncapital financing activities		
Transfers out	-	(1,329)
Capital and related financing activities		
Interest paid on bonds, notes, and leases	-	(57)
Purchase of capital assets	(8,970)	(97,588)
Net cash used in capital and related financing activities	(8,970)	(97,645)
Investing activities		
Interest received	3,390	304
Net cash provided by investing activities	3,390	304
Net increase (decrease) in cash and cash equivalents	60,931	(76,247)
Cash and cash equivalents, beginning	71,012	147,259
Cash and cash equivalents, ending	\$ 131,943	\$ 71,012
Classified as cash		
Current assets - cash and cash equivalents	\$ 131,943	\$ 50,486
Restricted assets - cash and cash equivalents	-	20,526
	\$ 131,943	\$ 71,012
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	\$ 49,536	\$ 13,920
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	31,690	34,033
Gain on sale of assets	8,703	-
(Increase) decrease in assets		
Accounts receivable	(12,047)	(4,176)
Prepaid assets	-	13,968
Increase (decrease) in liabilities		
Accounts payable	(17,793)	(35,639)
Accrued expenses	15,262	(276)
Compensated absences	(2,665)	7,814
Due to other funds	(6,175)	(7,221)
Total adjustments	16,975	8,503
Net cash provided by operating activities	\$ 66,511	\$ 22,423

See accompanying notes

Compliance Section



CARR, RIGGS & INGRAM, LLC

101 Panama City Beach Pwky
Panama City Beach, FL 32413

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F | 850 784 4866

www.cricpa.com

INDEPENDENT AUDITOR'S 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, 2007, and have issued our report thereon dated February 5, 2008.

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. We have issued our 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*. Disclosures in that report, which is dated February 5, 2008, 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 auditor's 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 Audit Quality

07-01 Software (prior year finding 06-03)

During the previous years 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.

The City has budgeted for new software during the next fiscal year. We recommend the City follow up and continue to pursue options for new accounting software packages and implement a change as soon as practicable.

Status of Prior Year Recommendations

06-03 See Current Year Recommendations 07-01

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 auditor's 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.). See recommendations in our 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*.

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 of 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, 2007, 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, 2007.

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's 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.

Caus Riggs & Ingram, L.L.C.

Panama City, Florida
February 5, 2008



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

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

We have audited the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Mexico Beach, Florida (the City) as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Mexico Beach, Florida's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the following findings to be significant deficiencies in internal control over financial reporting.

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 Audit Quality

07-02 Significant adjustments to the financial records were made in order for the financial statements to conform to generally accepted accounting principles.

07-03 Inadequate design of internal control over the preparation of the financial statements being audited gives rise to a significant deficiency in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that neither of the significant deficiencies described above is 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 5, 2008.

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 5, 2008



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

February 14, 2008

Auditor General's Office
Claude Pepper Building, Room 412E
111 West Madison Street
Tallahassee, Florida 32399-1450

Re: Management letter rebuttal required by Sections 10-807(1) and 10.857(2), Rules of the Auditor General

Response to Current Year Recommendations

07-01 Record storage and retrieval (prior year finding 06-01)

During our audit we noticed that certain accounting records were not able to be located.

Response: We intend to 1) develop a system so employees will know how to find and refile documents, 2) institute use of sign-out cards to be filled out when a document is removed from a file, showing who took the record, and 3) assign a person the responsibility of maintaining the files in accordance with the established policy.

07-02 Software (prior year finding 06-03)

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.

Response: The City has budgeted for new software during the next fiscal year. We anticipate the purchase and implementation of the new accounting software will eliminate the issues that have given rise to this comment.

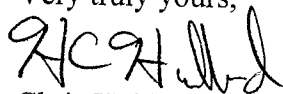
07-03 Significant adjustments to the financial records were made in order for the financial statements to conform to generally accepted accounting principles.

Response: We realize that ideally our internal control system should be designed in a manner that ensures the accuracy of the financial statements and that the Auditors should not have to recommend journal entries to see that they conform to generally accepted

necessary for us to prepare our own financial statements would outweigh the cost of those resources.

Should you need any further information or have any questions regarding this letter, we will be happy to provide any further information you require.

Very truly yours,

A handwritten signature in black ink, appearing to read "CH Hubbard". The signature is written in a cursive, somewhat stylized font.

Chris Hubbard
City Administrator