

City of Mexico Beach, Florida

Annual Financial Statements

September 30, 2008

City of Mexico Beach, Florida
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September 30, 2008

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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, 2008, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City, as of September 30, 2008, and the respective changes in financial position and, cash flows, where applicable thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2009, 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 important for assessing the results of our audit.

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 accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and 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.

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

January 27, 2009

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 \$9,769,157 (net assets). Of this amount, \$1,493,749 is unrestricted net assets for governmental activities and \$997,259 is unrestricted net assets for business-type activities, \$524,296 is restricted net assets for governmental activities and \$1,782,562 is restricted net assets for business-type activities.
- Total net assets increased by \$1,835,062. Of this amount, \$1,139,445 is attributable to governmental activities and \$695,617 is attributable to business-type activities.
- As of September 30, 2008, the general fund's unreserved fund balance was \$2,000,929 or 56% of total general fund expenditures.
- Governmental activities revenues increased to \$3,996,686 or 21%, while governmental activities expenditures increased 38% to \$2,857,241. Business-type activities revenues increased to \$2,918,941 or 3%, while business-type activities expenditures decreased 6% to \$2,223,324.

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, 2008 and 2007. 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.

Net Assets

September 30,	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 2,134,378	\$ 1,781,409	\$ 2,951,033	\$ 2,649,880	\$ 5,085,411	\$ 4,431,289
Capital assets	3,302,562	2,904,887	10,310,478	10,439,900	13,613,040	13,344,787
Total assets	5,436,940	4,686,296	13,261,511	13,089,780	18,698,451	17,776,076
Current liabilities	90,543	165,648	155,127	163,354	245,670	329,002
Noncurrent liabilities	797,043	1,110,739	7,886,581	8,146,699	8,683,624	9,257,438
Total liabilities	887,586	1,276,387	8,041,708	8,310,053	8,929,294	9,586,440
Net assets invested in capital assets, net of related debt	2,531,309	1,816,721	2,439,982	2,309,033	4,971,291	4,125,754
Net assets – restricted	524,296	328,269	1,782,562	1,035,469	2,306,858	1,363,738
Net assets – unrestricted	1,493,749	1,264,919	997,259	1,435,225	2,491,008	2,700,144
Total net assets	\$ 4,549,354	\$ 3,409,909	\$ 5,219,803	\$ 4,779,727	\$ 9,769,157	\$ 8,189,636

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 (51%). 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 24% 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* (\$2,491,008) may be used to help meet the government's ongoing obligations to citizens and creditors.

Governmental activities' noncurrent liabilities were reduced by principal reductions (\$573,814) of long-term obligations.

The following schedule provides a summary of the changes in net assets for the years ended September 30, 2008 and 2007.

Changes in Net Assets

Years Ended September 30,	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program revenues						
Charges for services	\$ 164,636	\$ 408,102	\$2,842,026	\$2,775,349	\$ 3,006,662	\$ 3,183,451
Operating grants/contributions	106,950	94,812	-	-	106,950	94,812
Capital grants/contributions	950,436	118,851	-	-	950,436	118,851
General revenues						
Ad valorem taxes	2,101,387	2,205,366	-	-	2,101,387	2,205,366
Utility taxes/franchise fees	428,002	390,684	-	-	428,002	390,684
Interest	39,800	25,806	76,915	32,594	116,715	58,400
Other	205,475	65,150	-	16,888	205,475	82,038
Total revenues	3,996,686	3,308,771	2,918,941	2,824,831	6,915,627	6,133,602
Expenses						
General government	497,269	454,974	-	-	497,269	454,974
Public safety	765,947	681,997	-	-	765,947	681,997
Economic environment	173,289	-	-	-	173,289	-
Highways and streets	313,047	343,379	-	-	313,047	343,379
Human Services	363,235	191,692	-	-	363,235	191,692
Parks and recreation	268,237	177,003	-	-	268,237	177,003
Physical environment	454,092	180,351	-	-	454,092	180,351
Interest on long-term debt	22,125	45,186	-	-	22,125	45,186
Water	-	-	1,064,952	969,740	1,064,952	969,740
Sewer	-	-	945,516	972,225	945,516	972,225
Sanitation	-	-	468,397	431,541	468,397	431,541
Total expenses	2,857,241	2,074,582	2,478,865	2,373,506	5,336,106	4,448,088
Increase in net assets	\$1,139,445	\$1,234,189	\$ 440,076	\$ 451,325	\$ 1,579,521	\$ 1,685,514

Governmental activities revenues exceeded expenses by \$1,139,445, while business-type activities revenues exceeded expenses by \$440,076. Total revenues increased \$782,025 from the previous year. Total expenses increased \$888,018 from the previous year.

53% of the revenues for governmental activities were generated by taxes, while most of the governmental resources were expended for general government (17%), public safety (27%), and physical environment (16%).

Charges for services provide 97% 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, 2008, total assets were \$2,135,608 and total liabilities were \$91,773. At the end of fiscal year 2008, unreserved fund balance of the general fund was \$2,000,929.

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	Unrestricted Net Assets	
	2008	2007
<i>September 30,</i>		
Water	\$ 577,499	\$ 1,070,556
Sewer	343,468	206,907
Sanitation	76,292	157,762
Total	\$ 997,259	\$ 1,435,225

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, 2008, was \$13,613,040 (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	
	2008	2007	2008	2007	2008	2007
Land	\$ 348,020	\$ 150,000	\$ 288,191	\$ 288,191	\$ 636,211	\$ 438,191
Construction in progress						
Buildings	413,192	422,633	-	-	413,192	422,633
Improvements	1,697,759	1,546,658	9,759,804	9,978,809	11,457,563	11,525,467
Machinery and equipment	843,591	785,596	262,483	172,900	1,106,074	958,496
Total	\$ 3,302,562	\$ 2,904,887	\$10,310,478	\$10,439,900	\$13,613,040	\$13,344,787

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, 2008 the City had total bond debt outstanding of \$3,248,580. This debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Outstanding Bond Debt

<i>September 30,</i>	Water		Sewer		Total	
	2008	2007	2008	2007	2008	2007
Revenue bonds	\$ 1,121,980	\$ 1,159,980	\$ 2,126,600	\$ 2,155,600	\$ 3,248,580	\$ 3,315,580

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 7 and 8 of the notes to the basic financial statements.

Other Financial Information

Due to a downturn in the national economy, the City's tourism industry has reflected this and taken a similar downturn.

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, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 963,031	\$ 856,489	\$ 1,819,520
Accounts receivable (net)	512,471	228,317	740,788
Internal balances	101,041	(101,041)	-
Prepaid expenses	7,144	-	7,144
Fuel inventory	26,395	-	26,395
Total current assets (unrestricted)	1,610,082	983,765	2,593,847
Restricted assets			
Cash and cash equivalents	524,296	1,808,830	2,333,126
Total current assets (restricted)	524,296	1,808,830	2,333,126
Total current assets	2,134,378	2,792,595	4,926,973
Noncurrent assets			
Deferred charges	-	104,251	104,251
Capacity rights	-	54,187	54,187
Capital assets			
Nondepreciable	348,020	288,191	636,211
Depreciable (net of accumulated depreciation)	2,954,542	10,022,287	12,976,829
Total noncurrent assets	3,302,562	10,468,916	13,771,478
Total assets	5,436,940	13,261,511	18,698,451
Liabilities			
Current liabilities			
Accounts payable	57,306	96,280	153,586
Payroll liabilities	25,987	10,959	36,946
Deferred revenue	7,250	21,620	28,870
Accrued interest	-	26,268	26,268
Total current liabilities	90,543	155,127	245,670
Noncurrent liabilities			
Due within one year			
Notes payable	52,630	202,006	254,636
Bonds payable	-	70,000	70,000
Due in more than one year			
Accrued compensated absences	25,790	16,085	41,875
Notes payable	718,623	4,419,910	5,138,533
Revenue bonds payable	-	3,178,580	3,178,580
Total noncurrent liabilities	797,043	7,886,581	8,683,624
Total liabilities	887,586	8,041,708	8,929,294
Net assets			
Invested in capital assets (net of related debt)	2,531,309	2,439,982	4,971,291
Restricted for			
Bond retirement	-	628,882	628,882
Law enforcement	9,367	-	9,367
Impact fees	514,929	1,153,680	1,668,609
Unrestricted	1,493,749	997,259	2,491,008
Total net assets	\$ 4,549,354	\$ 5,219,803	\$ 9,769,157

See accompanying notes

City of Mexico Beach, Florida
Statement of Activities
Year Ended September 30, 2008

	Program Revenues				Primary Government			Total
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities		
Functions / Programs								
Primary Government								
Governmental activities								
General government	\$ 497,269	\$ 131,178	\$ 106,950	\$ 939,758	\$ 680,617	\$ -	\$ -	\$ 680,617
Public safety	765,947	13,750	-	10,678	(741,519)	-	-	(741,519)
Economic environment	173,289	-	-	-	(173,289)	-	-	(173,289)
Highways and streets	313,047	19,708	-	-	(293,339)	-	-	(293,339)
Human services	363,235	-	-	-	(363,235)	-	-	(363,235)
Parks and recreation	268,237	-	-	-	(268,237)	-	-	(268,237)
Physical environment	454,092	-	-	-	(454,092)	-	-	(454,092)
Interest on long-term debt	22,125	-	-	-	(22,125)	-	-	(22,125)
Total governmental activities	2,857,241	164,636	106,950	950,436	(1,635,219)	-	-	(1,635,219)
Business-type activities								
Water	1,064,952	1,326,990	-	-	-	262,038	-	262,038
Sewer	945,516	1,049,031	-	-	-	103,515	-	103,515
Sanitation	468,397	466,005	-	-	-	(2,392)	-	(2,392)
Total business-type activities	2,478,865	2,842,026	-	-	-	363,161	-	363,161
Total primary government	\$ 5,336,106	\$ 3,006,662	\$ 106,950	\$ 950,436	(1,635,219)	363,161	-	(1,272,058)

General revenues		Taxes	
		Ad valorem	2,101,387
		Utility	127,396
		Franchise fees	147,283
		Local option gas tax	51,200
		Sales tax and other shared revenues	102,123
		Miscellaneous	40,303
		Sale of surplus property	165,172
		Interest earnings	39,800
		Total general revenues and interest	2,774,664
		Change in net assets	1,139,445
		Net assets - beginning	3,409,909
		Net assets - ending	\$ 4,549,354
		Total primary government	\$ 5,219,803
		Net assets - ending	\$ 9,769,157

City of Mexico Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2008

	General
Assets	
Cash and cash equivalents	\$ 963,031
Accounts receivable (net)	512,471
Due from other funds	102,271
Fuel inventory	26,395
Prepays	7,144
Cash and cash equivalents - restricted	524,296
Total assets	\$ 2,135,608
Liabilities and fund balance	
Liabilities	
Accounts payable	\$ 57,306
Accrued expenses	25,987
Due to other funds	1,230
Deferred revenue	7,250
Total liabilities	91,773
Fund balance	
Reserved for	
Inventory	26,395
Prepays	7,144
Law enforcement	9,367
Unreserved	2,000,929
Total fund balance	2,043,835
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.	3,302,562
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(797,043)
Net assets of governmental activities	\$ 4,549,354

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended September 30, 2008

	General
Revenues	
Taxes	\$ 2,438,281
Licenses and permits	6,853
Intergovernmental	1,160,026
Fines and forfeitures	6,290
Charges for services	84,309
Miscellaneous revenues	300,927
<hr/>	
Total revenues	3,996,686
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Expenditures	
Current operating	
General government	451,741
Public safety	662,556
Economic environment	173,289
Highways and streets	283,919
Physical environment	453,859
Human services	77,165
Parks and recreation	257,160
Capital outlay	869,887
Debt service	339,037
<hr/>	
Total expenditures	3,568,613
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Excess of revenues over expenditures	428,073
<hr/>	
Fund balance - beginning	1,615,762
<hr/>	
Fund balance - ending	\$ 2,043,835

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, 2008

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

Net change in fund balance - total governmental funds	\$	428,073
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.		397,676
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.		(3,216)
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.		316,912
<hr/>		
<u>Change in net assets of governmental activities</u>	<u>\$</u>	<u>1,139,445</u>

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,485,804	\$ 2,525,997	\$ 2,438,281	\$ (87,716)
Licenses and permits	30,300	7,400	6,853	(547)
Intergovernmental	2,078,899	1,276,862	1,160,026	(116,836)
Fines and forfeitures	6,000	6,000	6,290	290
Charges for services	26,505	34,750	84,309	49,559
Miscellaneous revenues	279,500	311,500	300,927	(10,573)
Total revenues	4,907,008	4,162,509	3,996,686	(165,823)
Expenditures				
Current				
General government	499,025	470,361	451,741	18,620
Public safety	759,566	695,063	662,556	32,507
Economic environment	600,000	175,000	173,289	1,711
Highways and streets	322,401	307,180	283,919	23,261
Physical environment	220,279	314,609	453,859	(139,250)
Human services	83,642	82,062	77,165	4,897
Culture and recreation	356,607	453,384	257,160	196,224
Capital outlay	1,524,000	856,500	869,887	(13,387)
Debt service	361,241	338,224	339,037	(813)
Total expenditures	4,726,761	3,692,383	3,568,613	123,770
Excess of revenues over expenditures	180,247	470,126	428,073	(42,053)
Fund balance - beginning	1,615,762	1,615,762	1,615,762	-
Fund balance - ending	\$ 1,796,009	\$ 2,085,888	\$ 2,043,835	\$ (42,053)

5 Orig Final Budget
PD 519,894 2008 530,000
 476,026 2007 476,026
 433,777 2006 466,614

City of Mexico Beach, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2008

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 293,232	\$ 511,190	\$ 52,067	\$ 856,489
Accounts receivable (net)	61,857	109,064	57,396	228,317
Due from other funds	280,363	540	67	280,970
Total current assets	635,452	620,794	109,530	1,365,776
Restricted assets - cash				
Bond retirement	228,305	426,845	-	655,150
Impact fees	825,815	327,865	-	1,153,680
Total restricted assets - cash	1,054,120	754,710	-	1,808,830
Noncurrent assets				
Deferred charges	16,367	87,884	-	104,251
Capacity rights	-	54,187	-	54,187
Property, plant, and equipment	6,525,982	7,147,706	544,261	14,217,949
Less accumulated depreciation	(1,916,078)	(1,612,919)	(378,474)	(3,907,471)
Total noncurrent assets	4,626,271	5,676,858	165,787	10,468,916
Total assets	6,315,843	7,052,362	275,317	13,643,522
Liabilities				
Current liabilities				
Accounts payable	37,065	46,622	12,593	96,280
Accrued expenses	5,975	1,904	3,080	10,959
Due to other funds	5,701	365,363	10,947	382,011
Deferred revenue	18,060	2,571	989	21,620
Notes payable, current portion	133,948	68,058	-	202,006
Revenue bonds payable, current portion	40,000	30,000	-	70,000
Total current liabilities	240,749	514,518	27,609	782,876
Current liabilities payable from restricted assets				
Accrued interest	17,597	8,671	-	26,268
Total current liabilities payable from restricted assets	17,597	8,671	-	26,268
Noncurrent liabilities				
Accrued compensated absences	7,519	2,937	5,629	16,085
Notes payable - due after one year	2,449,409	1,970,501	-	4,419,910
Bonds payable - due after one year	1,081,980	2,096,600	-	3,178,580
Total noncurrent liabilities	3,538,908	4,070,038	5,629	7,614,575
Total liabilities	3,797,254	4,593,227	33,238	8,423,719
Net assets				
Invested in capital assets (net of related debt)	904,567	1,369,628	165,787	2,439,982
Restricted for				
Bond retirement	210,708	418,174	-	628,882
Impact fees	825,815	327,865	-	1,153,680
Unrestricted	577,499	343,468	76,292	997,259
Total net assets	\$ 2,518,589	\$ 2,459,135	\$ 242,079	\$ 5,219,803

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2008

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating revenues				
Charges for services	\$ 1,250,748	\$ 1,022,304	\$ 401,873	\$ 2,674,925
New installations	4,162	8,453	-	12,615
Reconnections	12,154	-	-	12,154
Impact fees	13,241	18,274	-	31,515
Other utility income	46,685	-	64,132	110,817
Total operating revenues	1,326,990	1,049,031	466,005	2,842,026
Operating expenses				
Personal services	309,788	86,227	258,644	654,659
Professional services	12,000	19,680	9,000	40,680
Office supplies	24,194	20,011	3,544	47,749
Utilities	17,415	12,975	50	30,440
Insurance	23,266	19,866	9,930	53,062
Repairs and maintenance	40,170	32,187	14,079	86,436
Operating supplies	27,945	44,624	46,407	118,976
Communication services	13,386	4,072	2,072	19,530
Public utility services	262,517	304,337	-	566,854
Tipping fees	-	-	91,030	91,030
Transportation	2,748	2,098	-	4,846
Rentals	168	-	188	356
Printing and binding	1,661	103	-	1,764
Miscellaneous	4,564	7,639	724	12,927
Amortization	966	9,227	-	10,193
Depreciation	175,803	205,395	28,093	409,291
Bad debts	8,613	6,369	4,636	19,618
Total operating expenses	925,204	774,810	468,397	2,168,411
Operating income (loss)	401,786	274,221	(2,392)	673,615
Nonoperating revenues (expenses)				
Interest income	38,386	36,122	2,407	76,915
Interest expense	(139,748)	(170,706)	-	(310,454)
Total nonoperating revenues (expenses)	(101,362)	(134,584)	2,407	(233,539)
Net income	300,424	139,637	15	440,076
Net assets - beginning	2,218,165	2,319,498	242,064	4,779,727
Net assets - ending	\$ 2,518,589	\$ 2,459,135	\$ 242,079	\$ 5,219,803

City of Mexico Beach, Florida
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2008

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating activities				
Receipts from customers and users	\$ 1,352,992	\$ 1,037,980	\$ 405,704	\$ 2,796,676
Payments to suppliers and others	(429,793)	(589,663)	(119,286)	(1,138,742)
Payments for personal services	(309,788)	(85,965)	(259,123)	(654,876)
Net cash provided by operating activities	613,411	362,352	27,295	1,003,058
Capital and related financing activities				
Principal paid on revenue bonds	(38,000)	(29,000)	-	(67,000)
Principal paid on notes and leases	(132,412)	(60,959)	-	(193,371)
Interest paid on bonds, notes and leases	(140,645)	(170,706)	-	(311,351)
Purchase of capital assets	(166,915)	(3,378)	(109,578)	(279,871)
Net cash used in capital and related financing activities	(477,972)	(264,043)	(109,578)	(851,593)
Investing activities				
Interest received	38,386	36,122	2,407	76,915
Net cash provided by investing activities	38,386	36,122	2,407	76,915
Net increase (decrease) in cash and cash equivalents	173,825	134,431	(79,876)	228,380
Cash and cash equivalents - beginning	1,173,527	1,131,469	131,943	2,436,939
Cash and cash equivalents - ending	\$ 1,347,352	\$ 1,265,900	\$ 52,067	\$ 2,665,319
Classified as cash				
Current assets - cash and cash equivalents	\$ 293,232	\$ 511,190	\$ 52,067	\$ 856,489
Restricted assets - cash and cash equivalents	1,054,120	754,710	-	1,808,830
Cash and cash equivalents - ending	\$ 1,347,352	\$ 1,265,900	\$ 52,067	\$ 2,665,319
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 401,786	\$ 274,221	\$ (2,392)	\$ 673,615
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Amortization	966	7,017	-	7,983
Depreciation	175,803	205,395	28,093	409,291
(Increase) decrease in assets				
Accounts receivable	10,344	(15,676)	(3,831)	(9,163)
Due from other funds	13,831	(540)	(67)	13,224
Due from other governments	39	-	-	39
Increase (decrease) in liabilities				
Accounts payable	18,995	(4,721)	7,359	21,633
Accrued expenses	(15,878)	(4,150)	(14,281)	(34,309)
Deferred revenue	1,788	2,571	989	5,348
Compensated absences	36	(261)	479	254
Due to other funds	5,701	(101,504)	10,947	(84,856)
Total adjustments	211,625	88,131	29,688	329,444
Net cash provided by operating activities	\$ 613,411	\$ 362,352	\$ 27,296	\$ 1,003,059

See accompanying notes

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 actual cost is unknown. 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 mils for general operations. The City's millage rate for the year ended September 30, 2008, was 3.70 mils. The tax levy of the City is established by the City Council prior to October 1 of each year.

City of Mexico Beach, Florida

Notes to 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 \$3,302,562 difference are as follows:

Cost of capital assets	\$	5,060,711
Less: accumulated depreciation		1,758,149
<hr/>		
Net adjustment to increase <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>	\$	3,302,562

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 \$797,043 difference are as follows:

Notes and revenue bonds payable	\$	771,253
Compensated absences		25,790
<hr/>		
Net adjustment to reduce <i>fund balance - total governmental fund to arrive at net assets - governmental activities</i>	\$	797,043

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 \$397,676 difference are as follows:

Capital outlay	\$	869,889
Depreciation expense		(300,139)
Loss on disposal of assets		(172,074)
<hr/>		
Net adjustment to increase <i>net change in fund balance - total governmental funds to arrive at change in net assets - governmental activities</i>	\$	397,676

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 \$3,216 difference are as follows:

Compensated absences	\$	3,216
<hr/>		
Net adjustment to decrease <i>net change in fund balance - total governmental funds to arrive at change in net assets - governmental activities</i>	\$	3,216

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 \$316,912 difference are as follows:

Principal repayments		
Notes payable	\$	316,912
<hr/>		
Net adjustment to increase <i>net change in fund balance - total governmental funds</i> to arrive at <i>change in net assets - governmental activities</i>	\$	316,912
<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

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, 2008.

Interest Rate Risks

At September 30, 2008, the City did not hold any investments that were considered to be an interest rate risk.

Credit Risks

At September 30, 2008, the City did not hold any investments that were considered to be a credit risk.

Custodial Risks

At September 30, 2008, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

As September 30, 2008, 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, 2008, accounts receivable in the governmental funds are summarized as follows:

Total accounts receivable	\$ 512,471
Less: allowance for doubtful accounts	-
Net accounts receivable	\$ 512,471

At September 30, 2008, accounts receivable in the proprietary funds are summarized as follows:

Total accounts receivable	\$ 228,317
Less: allowance for doubtful accounts	-
Net accounts receivable	\$ 228,317

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, 2008 is as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 102,271	\$ 1,230
Water fund	280,363	5,701
Sewer fund	540	365,363
Sanitation fund	67	10,947
Total	\$ 383,241	\$ 383,241

The sewer fund owes the general and water funds \$85,623 and \$279,740, respectively, for operating advances.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008 was as follows:

	September 30, 2007	Increases	Decreases	September 30, 2008
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 150,000	\$ -	\$ -	\$ 150,000
Construction in process	-	198,020	-	198,020
Total capital assets, not being depreciated	150,000	198,020	-	348,020
Capital assets, being depreciated				
Buildings	472,633	-	-	472,633
Improvements	1,894,561	538,861	(198,930)	2,234,492
Machinery and equipment	1,872,559	133,007	-	2,005,566
Total capital assets, being depreciated	4,239,753	671,868	(198,930)	4,712,691

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	September 30, 2007	Increases	Decreases	September 30, 2008
Less accumulated depreciation				
Buildings	\$ (50,000)	\$ (9,441)	\$ -	\$ (59,441)
Improvements	(347,903)	(188,830)	-	(536,733)
Machinery and equipment	(1,086,963)	(101,868)	26,856	(1,161,975)
Total accumulated depreciation	(1,484,866)	(300,139)	26,856	(1,758,149)
Total capital assets, being depreciated, net	2,754,887	371,729	(172,074)	2,954,542
Total governmental activities' capital assets, net	\$ 2,904,887	\$ 569,749	\$ (172,074)	\$ 3,302,562
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	153,750	-	13,035,881
Machinery and equipment	757,150	126,121	-	883,271
Total capital assets, being depreciated	13,649,887	279,871	-	13,929,758
Less accumulated depreciation				
Buildings	(10,606)	-	-	(10,606)
Improvements	(2,903,322)	(372,755)	-	(3,276,077)
Machinery and equipment	(584,250)	(36,538)	-	(620,788)
Total accumulated depreciation	(3,498,178)	(409,293)	-	(3,907,471)
Total capital assets, being depreciated, net	10,151,709	(129,422)	-	10,022,287
Total business-type activities' capital assets, net	\$ 10,439,900	\$ (129,422)	\$ -	\$ 10,310,478

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	6,218,827	13,035,881
Machinery and equipment	544,261	60,226	278,784	883,271
Total	544,261	7,147,706	6,525,982	14,217,949
Less: accumulated depreciation				
Buildings	-	-	(10,606)	(10,606)
Improvements	-	(1,595,769)	(1,680,310)	(3,276,079)
Machinery and equipment	(378,474)	(17,150)	(225,162)	(620,786)
Total accumulated depreciation	(378,474)	(1,612,919)	(1,916,078)	(3,907,471)
Total business-type activities' capital assets, net	\$ 165,787	\$5,534,787	\$ 4,609,904	\$ 10,310,478

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

General government	\$ 44,755
Public safety	101,928
Highways and streets	28,690
Physical environment	113,840
Parks and recreation	10,926
Total depreciation expense - governmental activities	\$ 300,139

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

Sanitation	\$ 28,095
Sewer	205,395
Water	175,803
Total depreciation expense - business-type activities	\$ 409,293

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 7 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2007	Increase	Reduction	Balance September 30, 2008	Due within one year
Note payable to City of Gulf Breeze, Florida Capital funding loan program (See Note 8 (A)).	\$ 738,123	\$ -	\$ (21,481)	\$ 716,642	\$ 22,692
Note payable for purchase of (5) vehicles, payable in quarterly installments of \$8,829, including 6.36% interest.	25,957	-	(25,957)	-	-
Lease obligation for purchase of copier, monthly payments of \$136, including 11% interest.	1,166	-	(1,166)	-	-
Note payable for the purchase of a dredge, payable in quarterly installments of \$14,077, including 4.17% interest.	206,469	-	(206,469)	-	-
Note payable for the purchase of (2) tractors and (1) vehicle, payable in quarterly installments of \$5,880, including 4.17% interest.	28,504	-	(22,684)	5,820	5,820
Note payable for the purchase of (4) automobiles, payable in quarterly installments of \$5,445, including 4.61% interest.	5,406	-	(5,406)	-	-
Note payable for the purchase of a beach rake, payable in monthly payments of \$1,002, including 4.54% interest.	10,601	-	(7,021)	3,580	3,580
Note payable for the purchase of (2) automobiles and (1) tractor, payable in monthly installments of \$5,543, including 6.41% interest.	71,940	-	(26,728)	45,212	20,538
Liability for compensated absences	22,573	3,216	-	25,789	-
Total governmental activities long-term obligations	\$ 1,110,739	\$ 3,216	\$ (316,912)	\$ 797,043	\$ 52,630

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 7 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (CONTINUED)

Debt service requirements to maturity for the governmental funds at September 30, 2008 are as follows:

Year Ending September 30,	Principal	Interest	Total
2009	\$ 52,630	\$ 15,281	\$ 67,911
2010	45,369	13,889	59,258
2011	28,603	12,694	41,297
2012	26,753	12,138	38,891
2013	28,263	11,611	39,874
2014-2018	167,102	49,036	216,138
2019-2023	422,534	21,251	443,785
Compensated absences	25,789	-	25,789
Total	\$ 797,043	\$ 135,900	\$ 932,943

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

Bonds Payable	Original Issue	Balance September 30, 2007	Increase	Reduction	Balance September 30, 2008	Due within one year
5% to 10.5% Water System Revenue Bonds, Series 1979, 1980 and 1984, to construct and improve existing water system.	773,200	444,380	400 232 2320	(24,000)	420,380	26,000
4.5% Water system Junior Lien Revenue Bonds, Series 1995, used to improve water system.	829,600	715,600	400 232 2321	(14,000)	701,600	14,000
4.875% Sewer System Junior Lien Revenue Bonds, Series 2000, to improve sewer system.	2,303,100	2,155,600	420 232 2330 420 232 2335 420 232 2330 420 232 2330 420 232 2330	(29,000)	2,126,600	30,000
Total bonds payable – enterprise funds		\$ 3,315,580	\$ -	\$ (67,000)	\$ 3,248,580	\$ 70,000

Notes to Basic Financial Statements

NOTE 8 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

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

Water and Sewer System Revenue Bonds, Series 1979, 1980, and 1984 - \$420,380 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.

Water and Sewer Revenue Bonds, Series 1995 - \$701,600 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.

Water and Sewer Revenue Bonds, Series 2000 - \$2,126,600 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.

Restricted cash account balances relating to the bond issues at September 30, 2008, are as follows:

	Series 1979, 1980, and 1984	Series 1995	Series 2000	Total
Sinking fund – principal and interest, including reserves:				
Required	\$ 58,420	\$ 86,726	\$ 212,507	\$ 357,653
Actual	58,421	87,557	216,076	362,054
Excess (shortage)	\$ 1	\$ 831	\$ 3,569	\$ 4,401

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 8 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

Debt service requirements to maturity on revenue bonds payable at September 30, 2008 are as follows:

Year Ending September 30,	Principal	Interest	Total
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	85,500	146,922	232,422
2014-2018	499,500	663,629	1,163,129
2019-2023	471,880	525,885	997,765
2024-2028	489,000	410,105	899,105
2029-2033	617,500	283,285	900,785
2034-2038	625,100	128,022	753,122
2039-2041	159,100	8,000	167,100
Total	\$ 3,248,580	\$ 2,794,200	\$ 6,042,780

Notes Payable

Rec'd Jct Trust 2009

	Balance September 30, 2007	Increase	Reduction	Balance September 30, 2008	Due within one year
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)	\$ 2,058,318	\$ -	\$ (52,427)	\$ 2,005,891	\$ 63,265
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)	630,124		(18,333)	611,791	19,367
Note payable for purpose of financing Gulf Breeze loan costs with variable interest at 2.3%. Principal and interest payable monthly.	32,697		(2,412)	30,285	2,412

Handwritten notes and corrections:
 - Sewer Fund: 420, 232, 2321
 - Water Fund: 400, 232, 2321, 422, 18,333, 611,791, 19,367
 - Note payable: 420, 239, 500

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 8 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

	Balance September 30, 2007	Increase	Reduction	Balance September 30, 2008	Due within one year
✓ Florida Department of Environmental Protection state revolving fund loan. Repayable over 20 years upon completion of water system improvements. (See (B) below) <i>SEP 2007</i> <i>400-2039000</i> <i>114,580</i>	\$ 2,082,698	\$ -	\$ (111,131)	\$ 1,971,567	\$ 114,580
Note payable in monthly installments of \$397, including interest at 4.61%, secured by equipment.	7,030	-	(4,648)	2,382	2,382
Note payable in quarterly installments of \$1,485, including interest at 4.61%, secured by vehicles.	1,474	-	(1,474)	-	-
Note payable in quarterly installments of \$2,970, including interest at 4.61%, secured by vehicles.	2,948	-	(2,948)	-	-
Total notes payable – enterprise funds	\$ 4,815,289	\$ -	\$ (193,373)	\$ 4,621,916	\$ 202,006

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 1995A. The loan is payable in monthly installments of principal and interest with a final balloon payment of \$1,483,135 at maturity in May 2021. The interest rate is variable and consists of the interest payable on the proportionate amount of the bonds and the annual cost of operating the pool with respect to the loan. The annual cost consists of (1) the letter of credit fee, (2) the remarketing agent fee, (3) the sponsorship/advisory fee, (4) the trustee fee, and (5) a proportionate part of the expense of establishing the pool. The rate at September 30, 2008 was 3.51%. The note is secured by a pledge of the net revenues of the water and sewer system. The note payable is repayable from the following funds:

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 8 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

General fund	\$ 716,642
Sewer fund	2,005,891
Water fund	611,789
<hr/>	
Total	\$ 3,334,322

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. The loan is repayable over 20 years in semiannual installments each January 15 and July 15 of \$87,214 including interest at 3.08%. The loan is secured by pledged revenues of water charges by the utility fund.

Debt service requirements to maturity on notes payable at September 30, 2008 are as follows:

Year Ending September 30,	Principal	Interest	Total
2009	\$ 202,006	\$ 109,924	\$ 311,930
2010	207,840	104,657	312,497
2011	216,431	99,182	315,613
2012	225,412	93,529	318,941
2012	234,807	88,110	322,917
2013-2017	1,330,771	341,868	1,672,639
2018-2022	2,204,649	123,591	2,328,240
<hr/>			
Total	\$ 4,621,916	\$ 960,861	\$ 5,582,777

NOTE 9 – FUND EQUITY

Net Asset Restrictions

The government-wide statement of net assets reports \$524,296 of restricted net assets, all of which is restricted by enabling legislation.

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:

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 9 – FUND EQUITY (CONTINUED)

Funds	Purpose	Amount
General fund	Impact fees	\$ 514,929
General fund	Law enforcement	9,367
Water fund	Debt service	210,708
Water fund	Impact fees	825,815
Sewer fund	Debt service	418,174
Sewer fund	Impact fees	327,865
Total reserved fund equity		\$ 2,306,858

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation

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

Contingent Liability

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

Notes to Basic 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, 2008, was \$1,369,104.

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:

	October 1, 2007 Through June 30, 2008	July 1, 2008 Through September 30, 2008
Regular employees	9.85%	9.85%
Special risk employees	20.92%	20.92%

During the year ended September 30, 2008, the City contributed \$159,439 to the system. These contributions represented 12% of covered payroll.

Three Year Trend Information

Year Ended September 30,	Annual Pension Cost (APC)	Percent of APC Contribution	Net Pension Obligation
2008	\$ 159,439	100%	-
2007	104,692	100%	-
2006	18,209	100%	-

Notes to Basic Financial Statements

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.

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.

Supplementary Information

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

September 30,	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 293,232	\$ 750,469
Accounts receivable (net)	61,857	72,201
Due from other funds	280,363	294,194
Due from other governments	-	39
Total current assets	635,452	1,116,903
Restricted assets - cash		
Bond and interest sinking	228,305	239,442
Impact fees	825,815	183,616
Total restricted assets - cash	1,054,120	423,058
Noncurrent assets		
Deferred charges	16,367	17,333
Property, plant, and equipment	6,525,982	6,359,069
Less accumulated depreciation	(1,916,078)	(1,740,275)
Total noncurrent assets	4,626,271	4,636,127
Total assets	6,315,843	6,176,088
Liabilities		
Current liabilities		
Accounts payable	37,065	18,071
Accrued expenses	5,975	21,854
Due to other funds	5,701	-
Deferred revenue	18,060	16,272
Notes payable, current portion	133,948	132,413
Revenue bonds payable, current portion	40,000	38,000
Total current liabilities	240,749	226,610
Current liabilities payable from restricted assets		
Accrued interest	17,597	18,494
Total current liabilities payable from restricted assets	17,597	18,494
Noncurrent liabilities		
Accrued compensated absences	7,519	7,483
Notes payable - due after one year	2,449,409	2,583,356
Bonds payable - due after one year	1,081,980	1,121,980
Total noncurrent liabilities	3,538,908	3,712,819
Total liabilities	3,797,254	3,957,923
Net assets		
Invested in capital assets (net of related debt)	904,567	743,045
Restricted for		
Bond retirement	210,708	220,948
Impact fees	825,815	183,616
Unrestricted	577,499	1,070,556
Total net assets	\$ 2,518,589	\$ 2,218,165

See accompanying notes

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

September 30,	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 511,190	\$ 491,893
Accounts receivable (net)	109,064	93,388
Due from other funds	540	-
Total current assets	620,794	585,281
Restricted assets - cash		
Bond and interest sinking	426,845	351,089
Impact fees	327,865	288,487
Total restricted assets - cash	754,710	639,576
Noncurrent assets		
Deferred charges	87,884	94,901
Capacity rights	54,187	54,187
Property, plant, and equipment	7,147,706	7,144,328
Less accumulated depreciation	(1,612,919)	(1,407,524)
Total noncurrent assets	5,676,858	5,885,892
Total assets	7,052,362	7,110,749
Liabilities		
Current liabilities		
Accounts payable	46,622	51,342
Accrued expenses	1,904	6,054
Due to other funds	365,363	466,867
Deferred revenue	2,571	-
Notes payable, current portion	68,058	68,420
Revenue bonds payable, current portion	30,000	29,000
Total current liabilities	514,518	621,683
Current liabilities payable from restricted assets		
Accrued interest	8,671	8,671
Total current liabilities payable from restricted assets	8,671	8,671
Noncurrent liabilities		
Accrued compensated absences	2,937	3,199
Notes payable - due after one year	1,970,501	2,031,098
Bonds payable - due after one year	2,096,600	2,126,600
Total noncurrent liabilities	4,070,038	4,160,897
Total liabilities	4,593,227	4,791,251
Net assets		
Invested in capital assets (net of related debt)	1,369,628	1,481,686
Restricted for		
Bond retirement	418,174	342,418
Impact fees	327,865	288,487
Unrestricted	343,468	206,907
Total net assets	\$ 2,459,135	\$ 2,319,498

See accompanying notes

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

September 30,	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 52,067	\$ 131,943
Accounts receivable (net)	57,396	53,565
Due from other funds	67	-
Total current assets	109,530	185,508
Noncurrent assets		
Property, plant, and equipment	544,261	434,683
Less accumulated depreciation	(378,474)	(350,381)
Total noncurrent assets	165,787	84,302
Total assets	275,317	269,810
Liabilities		
Current liabilities		
Accounts payable	12,593	5,234
Accrued expenses	3,080	17,362
Due to other funds	10,947	-
Deferred revenue	989	-
Total current liabilities	27,609	22,596
Noncurrent liabilities		
Accrued compensated absences	5,629	5,150
Total noncurrent liabilities	5,629	5,150
Total liabilities	33,238	27,746
Net assets		
Invested in capital assets (net of related debt)	165,787	84,302
Unrestricted	76,292	157,762
Total net assets	\$ 242,079	\$ 242,064

See accompanying notes

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

Year Ended September 30,	2008	2007
Operating revenues		
Charges for services	\$ 1,250,748	\$ 943,427
New installations	4,162	8,218
Reconnections	12,154	10,893
Impact fees	13,241	191,943
Other utility income	46,685	37,612
Total operating revenues	1,326,990	1,192,093
Operating expenses		
Personal services	309,788	270,560
Professional services	12,000	14,400
Office supplies	24,194	904
Utilities	17,415	45,644
Insurance	23,266	22,700
Repairs and maintenance	40,170	40,050
Operating supplies	27,945	28,278
Communication services	13,386	9,128
Public utility services	262,517	170,480
Transportation	2,748	936
Rentals	168	262
Printing and binding	1,661	1,485
Miscellaneous	4,564	8,449
Amortization	966	967
Depreciation	175,803	174,520
Bad debts	8,613	117
Total operating expenses	925,204	788,880
Operating income	401,786	403,213
Nonoperating revenues (expenses)		
Interest income	38,386	10,450
Interest expense	(139,748)	(180,859)
Total nonoperating revenues (expenses)	(101,362)	(170,409)
Net income	300,424	232,804
Net assets - beginning	2,218,165	1,985,361
Net assets - ending	\$ 2,518,589	\$ 2,218,165

See accompanying notes

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

Year Ended September 30,	2008	2007
Operating revenues		
Charges for services	\$ 1,022,304	\$ 808,794
New installations	8,453	7,695
Reconnections	-	490
Impact fees	18,274	293,386
Total operating revenues	1,049,031	1,110,365
Operating expenses		
Personal services	86,227	82,321
Professional services	19,680	23,724
Office supplies	20,011	117
Utilities	12,975	17,308
Insurance	19,866	20,386
Repairs and maintenance	32,187	31,978
Operating supplies	44,624	37,943
Communication services	4,072	3,755
Public utility services	304,337	321,105
Transportation	2,098	-
Loan servicing costs	-	28,350
Rentals	-	92
Printing and binding	103	170
Miscellaneous	7,639	9,367
Amortization	9,227	7,016
Depreciation	205,395	209,018
Bad debts	6,369	-
Total operating expenses	774,810	792,650
Operating income	274,221	317,715
Nonoperating revenues (expenses)		
Interest income	36,122	18,754
Interest expense	(170,706)	(179,577)
Total nonoperating revenues (expenses)	(134,584)	(160,823)
Net income (loss)	139,637	156,892
Net assets - beginning	2,319,498	2,162,606
Net assets - ending	\$ 2,459,135	\$ 2,319,498

See accompanying notes

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

Year Ended September 30,	2008	2007
Operating revenues		
Charges for services	\$ 401,873	\$ 431,022
Other utility income	64,132	50,053
Total operating revenues	466,005	481,075
Operating expenses		
Personal services	258,644	249,492
Professional services	9,000	9,000
Office supplies	3,544	-
Utilities	50	257
Insurance	9,930	9,573
Repairs and maintenance	14,079	20,227
Operating supplies	46,407	28,439
Communication services	2,072	2,445
Tipping fees	91,030	75,044
Rentals	188	5,302
Printing and binding	-	70
Miscellaneous	724	-
Depreciation	28,093	31,690
Bad debts	4,636	-
Total operating expenses	468,397	431,539
Operating income (loss)	(2,392)	49,536
Nonoperating revenues (expenses)		
Interest income	2,407	3,390
Gain on sale of assets	-	8,703
Total nonoperating revenues (expenses)	2,407	12,093
Net income	15	61,629
Net assets - beginning	242,064	180,435
Net assets - ending	\$ 242,079	\$ 242,064

See accompanying notes

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

Year Ended September 30,	2008	2007
Operating activities		
Receipts from customers and users	\$ 1,352,992	\$ 1,212,665
Payments to suppliers and others	(429,793)	(327,403)
Payments for personal services	(309,788)	(270,560)
Net cash provided by operating activities	613,411	614,702
Capital and related financing activities		
Principal paid on revenue bonds	(38,000)	(37,000)
Principal paid on notes and leases	(132,412)	(136,719)
Interest paid on bonds, notes, and leases	(140,645)	(182,491)
Purchase of capital assets	(166,915)	-
Net cash used in capital and related financing activities	(477,972)	(356,210)
Investing activities		
Interest received	38,386	10,450
Net cash provided by investing activities	38,386	10,450
Net increase (decrease) in cash and cash equivalents	173,825	268,942
Cash and cash equivalents, beginning	1,173,527	904,585
Cash and cash equivalents, ending	\$ 1,347,352	\$ 1,173,527
Classified as cash		
Current assets - cash and cash equivalents	\$ 293,232	\$ 750,469
Restricted assets - cash and cash equivalents	1,054,120	423,058
Cash and cash equivalents, ending	\$ 1,347,352	\$ 1,173,527
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	\$ 401,786	\$ 403,213
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	966	967
Depreciation	175,803	174,520
(Increase) decrease in assets		
Accounts receivable	10,344	14,904
Due from other funds	13,831	(10,604)
Due from other governments	39	-
Prepaid assets	-	7,516
Increase (decrease) in liabilities		
Accounts payable	18,995	11,622
Accrued expenses	(15,878)	12,003
Deferred revenue	1,788	16,272
Compensated absences	36	(4,917)
Due to other funds	5,701	(10,794)
Total adjustments	211,625	211,489
Net cash provided by operating activities	\$ 613,411	\$ 614,702

See accompanying notes

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

Year Ended September 30,	2008	2007
Operating activities		
Receipts from customers and users	\$ 1,035,386	\$ 1,100,033
Payments to suppliers and others	(586,807)	(424,544)
Payments for personal services	(86,227)	(82,321)
Net cash provided by operating activities	362,352	593,168
Capital and related financing activities		
Principal paid on revenue bonds	(29,000)	(27,500)
Principal paid on notes and leases	(60,959)	(69,387)
Interest paid on bonds, notes, and leases	(170,706)	(179,818)
Purchase of capital assets	(3,378)	-
Net cash used in capital and related financing activities	(264,043)	(276,705)
Investing activities		
Interest received	36,122	18,754
Net cash provided by investing activities	36,122	18,754
Net increase in cash and cash equivalents	134,431	335,217
Cash and cash equivalents, beginning	1,131,469	796,252
Cash and cash equivalents, ending	\$ 1,265,900	\$ 1,131,469
Classified as cash		
Current assets - cash and cash equivalents	\$ 511,190	\$ 491,893
Restricted assets - cash and cash equivalents	754,710	639,576
Cash and cash equivalents, ending	\$ 1,265,900	\$ 1,131,469
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	\$ 274,221	\$ 317,715
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	7,017	7,016
Depreciation	205,395	209,018
(Increase) decrease in assets		
Accounts receivable	(15,676)	(16,248)
Due from other funds	(540)	5,916
Prepaid assets	-	3,948
Increase (decrease) in liabilities		
Accounts payable	(4,721)	(12,096)
Accrued expenses	(4,150)	5,822
Deferred revenues	2,571	-
Compensated absences	(261)	(923)
Due to other funds	(101,504)	73,000
Total adjustments	88,131	275,453
Net cash provided by operating activities	\$ 362,352	\$ 593,168

See accompanying notes

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

Year Ended September 30,	2008	2007
Operating activities		
Receipts from customers and users	\$ 405,704	\$ 477,732
Payments to suppliers and others	(119,286)	(161,729)
Payments for personal services	(259,123)	(249,492)
Net cash provided by operating activities	27,295	66,511
Capital and related financing activities		
Purchase of capital assets	(109,578)	(8,970)
Net cash used in capital and related financing activities	(109,578)	(8,970)
Investing activities		
Interest received	2,407	3,390
Net cash provided by investing activities	2,407	3,390
Net increase (decrease) in cash and cash equivalents	(79,876)	60,931
Cash and cash equivalents, beginning	131,943	71,012
Cash and cash equivalents, ending	\$ 52,067	\$ 131,943
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (2,392)	\$ 49,536
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	28,093	31,690
Gain on sale of assets	-	8,703
(Increase) decrease in assets		
Accounts receivable	(3,831)	(12,047)
Due from other funds	(67)	-
Increase (decrease) in liabilities		
Accounts payable	7,359	(17,793)
Accrued expenses	(14,282)	15,262
Deferred revenue	989	-
Compensated absences	479	(2,665)
Due to other funds	10,947	(6,175)
Total adjustments	29,687	16,975
Net cash provided by operating activities	\$ 27,295	\$ 66,511

Compliance Section

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Honorable Mayor and 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, as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated January 27, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule which are dated January 27, 2009, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General which govern the conduct of local governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address the findings and recommendations made in the preceding annual financial audit report.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Mexico Beach, Florida complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations and contractual provisions on abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The City of Mexico Beach, Florida, was established in 1967, under a Charter in accordance with the laws of Florida 67-1717. There were no component units of the City.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Mexico Beach, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determined whether the annual financial report for the City of Mexico Beach, Florida for the fiscal year ended September 30, 2008, filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2008. In connection with our audit, we determined that these two reports were in agreement.

Sections 10.554(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition 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 the same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the City of Mexico Beach, Florida's management, the City Council, certain regulatory agencies, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

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

January 27, 2009

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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 27, 2009. 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.

08-01 Significant adjustments to the financial records were made in order for the financial statements to conform to generally accepted accounting principles.

08-02 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.

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.

Carver, Riggs & Ingram, L.L.C.

January 27, 2009

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

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

Compliance

We have audited the compliance of the City of Mexico Beach, Florida with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The City of Mexico Beach, Florida's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Mexico Beach, Florida's management. Our responsibility is to express an opinion on the City of Mexico Beach, Florida's compliance based on our audit.

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

In our opinion, the City of Mexico Beach, Florida, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal awards for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the City of Mexico Beach, Florida is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Mexico Beach, Florida's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the

purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Mexico Beach, Florida's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a major federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a major federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a major federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a major federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Mexico Beach, Florida's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Mexico Beach, Florida's responses and, accordingly, we express no opinion on them.

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

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

January 27, 2009

City of Mexico Beach, Florida
 Schedule of Expenditures of Federal Awards
 Year Ended September 30, 2008

<u>Federal Awards Programs</u>	<u>CFDA No.</u>	<u>Contract/ Grant Number</u>	<u>Expenditures</u>
U.S. Department of Housing and - Urban Development Passed through the State of Florida Department of Community Affairs			
Neighborhood Revitalization	14.228	08-DB-T3-01-13-02-H04	\$ 180,174
U.S. Department of Justice Passed through the State of Florida Department of Law Enforcement			
Local Law Enforcement Block Grant - Equipment	16.738	2008-JAGC-BAY-8-Q9-172	10,678
U.S. Department of Homeland Security - Federal Emergency Management Agency Passed through the State of Florida Department of Community Affairs			
Disaster Relief Funding Agreement	97.036	06-DN-@G-01-13-02-658	491,040
<u>Total expenditures of federal awards</u>			<u>\$ 681,892</u>

Note:

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

City of Mexico Beach, Florida
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs	
Material weakness(es) identified?	___ yes <u>X</u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	___ yes <u>X</u> none reported
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	___ yes <u>X</u> no

Identification of major federal award programs

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

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

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

(Continued)

City of Mexico Beach, Florida
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2008

Section II - Financial Statement Findings

08-1 Significant adjustments to the financial records were made in order for the financial statements to conform to generally accepted accounting principles.

Grantee 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 accounting principles. We don't feel that in the near future the benefits derived from investing in the resources necessary for us to implement an effective internal control system would outweigh the cost of those resources.

08-2 Inadequate design of internal control over the preparation of the financial statements being audited gives rise to a significant deficiency in internal control.

Grantee response: Our Auditors assist us with the preparation of our financial statements. We don't feel that in the near future the benefits derived from investing in the resources necessary for us to prepare our own financial statements would outweigh the cost of those resources.

Section III - Federal Awards Financial Assistance Findings

There were no findings.

Section IV - Other Issues

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to major federal programs.