

City of Mexico Beach, Florida

Annual Financial Statements

September 30, 2009

City of Mexico Beach, Florida
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September 30, 2009

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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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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, 2009, 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 April 25, 2010, 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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis information on pages 3 through 8 are not a required part of the basic financial statements but are 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 required 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 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.

Carly Riggs & Ingram, L.L.C.

April 25, 2010

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 \$10,447,139 (net assets). Of this amount, \$2,223,119 is unrestricted net assets for governmental activities and \$1,579,100 is unrestricted net assets for business-type activities, \$444,669 is restricted net assets for governmental activities and \$1,120,269 is restricted net assets for business-type activities.
- Total net assets increased by \$780,568. Of this amount, \$724,491 is attributable to governmental activities and \$56,077 is attributable to business-type activities.
- As of September 30, 2009, the general fund's unreserved fund balance was \$2,259,368 or 64% of total general fund expenditures.
- Governmental activities revenues decreased to \$3,534,894 or 12%, while governmental activities expenditures decreased 2% to \$2,810,403. Business-type activities revenues decreased to \$2,338,934 or 20%, while business-type activities expenditures decreased 8% to \$2,282,857.

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 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, 2009 and 2008. 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	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,764,223	\$ 2,134,378	\$ 2,889,632	\$ 2,951,033	\$ 5,653,855	\$ 5,085,411
Capital assets	3,300,379	3,302,562	9,694,977	10,310,478	12,995,356	13,613,040
Total assets	6,064,602	5,436,940	12,584,609	13,261,511	18,649,211	18,698,451
Current liabilities	62,735	90,543	179,805	155,127	242,540	245,670
Noncurrent liabilities	728,022	797,043	7,231,510	7,886,581	7,959,532	8,683,624
Total liabilities	790,757	887,586	7,411,315	8,041,708	8,202,072	8,929,294
Net assets invested in capital assets, net of related debt	2,606,057	2,531,309	2,473,925	2,439,982	5,079,982	4,971,291
Net assets – restricted	444,669	524,296	1,120,269	1,782,562	1,564,938	2,306,858
Net assets – unrestricted	2,223,119	1,493,749	1,579,100	997,259	3,802,219	2,491,008
Total net assets	\$ 5,273,845	\$ 4,549,354	\$ 5,173,294	\$ 5,219,803	\$ 10,447,139	\$ 9,769,157

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 (49%). 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 15% 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* (\$3,802,219) may be used to help meet the government's ongoing obligations to citizens and creditors.

Governmental activities' noncurrent liabilities were reduced by principal reductions (\$756,931) of long-term obligations offset by the increase by new debt (\$687,910).

The following schedule provides a summary of the changes in net assets for the years ended September 30, 2009 and 2008.

Changes in Net Assets

Years Ended September 30,	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Program revenues						
Charges for services	\$ 140,102	\$ 164,636	\$2,639,001	\$2,842,026	\$ 2,779,103	\$ 3,006,662
Operating grants/contributions	-	106,950	-	-	-	106,950
Capital grants/contributions	532,472	950,436	-	-	532,472	950,436
General revenues						
Ad valorem taxes	2,149,005	2,101,387	-	-	2,149,005	2,101,387
Utility taxes/franchise fees	468,698	428,002	-	-	468,698	428,002
Interest	31,841	39,800	52,806	76,915	84,647	116,715
Other	64,562	205,475	(204,659)	-	(140,097)	205,475
Transfers	148,214	-	(148,214)	-	-	-
Total revenues	3,534,894	3,996,686	2,338,934	2,918,941	5,873,828	6,915,627
Expenses						
General government	647,421	497,269	-	-	647,421	497,269
Public safety	740,270	765,947	-	-	740,270	765,947
Economic environment	344,447	173,289	-	-	344,447	173,289
Highways and streets	308,943	313,047	-	-	308,943	313,047
Human services	83,435	363,235	-	-	83,435	363,235
Parks and recreation	177,261	268,237	-	-	177,261	268,237
Physical environment	323,892	454,092	-	-	323,892	454,092
Interest on long-term debt	184,734	22,125	-	-	184,734	22,125
Water	-	-	762,393	1,064,952	762,393	1,064,952
Sewer	-	-	1,047,057	945,516	1,047,057	945,516
Sanitation	-	-	473,407	468,397	473,407	468,397
Total expenses	2,810,403	2,857,241	2,282,857	2,478,865	5,093,260	5,336,106
Increase in net assets	\$ 724,491	\$1,139,445	\$ 56,077	\$ 440,076	\$ 780,568	\$ 1,579,521

Governmental activities revenues exceeded expenses by \$724,491, while business-type activities revenues exceeded expenses by \$56,077. Total revenues decreased \$1,041,799 from the previous year. Total expenses decreased \$242,846 from the previous year.

61% of the revenues for governmental activities were generated by taxes, while most of the governmental resources were expended for general government (23%), public safety (26%), and economic environment (12%).

Charges for services provide 113% 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, 2009, total assets were \$2,771,554 and total liabilities were \$62,571. At the end of fiscal year 2009, unreserved fund balance of the general fund was \$2,259,368.

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	
	2009	2008
<i>September 30,</i>		
Water	\$ 825,512	\$ 577,499
Sewer	684,571	343,468
Sanitation	69,017	76,292
Total	\$ 1,579,100	\$ 997,259

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, 2009, was \$12,995,356 (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	
	2009	2008	2009	2008	2009	2008
Land	\$ 150,000	\$ 348,020	\$ 288,191	\$ 288,191	\$ 438,191	\$ 636,211
Construction in progress	87,192	-	201,075	-	288,267	-
Buildings	403,751	413,192	-	-	403,751	413,192
Improvements	2,063,418	1,697,759	8,748,208	9,759,804	10,811,626	11,457,563
Machinery and equipment	596,018	843,591	457,503	262,483	1,053,521	1,106,074
Total	\$ 3,300,379	\$ 3,302,562	\$9,694,977	\$10,310,478	\$12,995,356	\$13,613,040

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, 2009 the City had total bond debt outstanding of \$6,033,304. This debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Outstanding Bond Debt

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenue bonds	\$ 669,239	\$ -	\$ 5,364,065	\$ 3,248,580	\$ 6,033,304	\$ 3,248,580

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 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, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 2,196,369	\$ 1,448,299	\$ 3,644,668
Accounts receivable, net	100,209	136,730	236,939
Internal balances	18,030	(18,030)	-
Fuel inventory	4,946	-	4,946
Total current assets (unrestricted)	2,319,554	1,566,999	3,886,553
Restricted assets			
Cash and cash equivalents	444,669	1,177,257	1,621,926
Total current assets (restricted)	444,669	1,177,257	1,621,926
Total current assets	2,764,223	2,744,256	5,508,479
Noncurrent assets			
Deferred charges	-	91,189	91,189
Capacity rights	-	54,187	54,187
Capital assets			
Nondepreciable	237,192	489,266	726,458
Depreciable, net	3,063,187	9,205,711	12,268,898
Total noncurrent assets	3,300,379	9,840,353	13,140,732
Total assets	6,064,602	12,584,609	18,649,211
Liabilities			
Current liabilities			
Accounts payable	27,439	79,722	107,161
Payroll liabilities	27,801	9,277	37,078
Deferred revenue	-	33,818	33,818
Accrued interest	7,495	56,988	64,483
Total current liabilities	62,735	179,805	242,540
Noncurrent liabilities			
Due within one year			
Accrued compensated absences	6,740	2,092	8,832
Notes payable	21,178	118,136	139,314
Revenue bonds payable	44,505	249,289	293,794
Due in more than one year			
Accrued compensated absences	26,960	8,366	35,326
Notes payable	3,905	1,738,851	1,742,756
Revenue bonds payable	624,734	5,114,776	5,739,510
Total noncurrent liabilities	728,022	7,231,510	7,959,532
Total liabilities	790,757	7,411,315	8,202,072
Net assets			
Invested in capital assets (net of related debt)	2,606,057	2,473,925	5,079,982
Restricted for			
Bond retirement	-	181,031	181,031
Law enforcement	8,113	-	8,113
Impact fees	436,556	939,238	1,375,794
Unrestricted	2,223,119	1,579,100	3,802,219
Total net assets	\$ 5,273,845	\$ 5,173,294	\$ 10,447,139

See accompanying notes

City of Mexico Beach, Florida
Statement of Activities
Year Ended September 30, 2009

Functions / Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 647,421	\$ 101,545	-	\$ 531,472	\$ (14,404)	\$ -	\$ (14,404)
Public safety	740,270	15,014	-	1,000	(724,256)	-	(724,256)
Economic environment	344,447	-	-	-	(344,447)	-	(344,447)
Highways and streets	308,943	23,543	-	-	(285,400)	-	(285,400)
Human services	83,435	-	-	-	(83,435)	-	(83,435)
Parks and recreation	177,261	-	-	-	(177,261)	-	(177,261)
Physical environment	323,892	-	-	-	(323,892)	-	(323,892)
Interest on long-term debt	184,734	-	-	-	(184,734)	-	(184,734)
Total governmental activities	2,810,403	140,102	-	532,472	(2,137,829)	-	(2,137,829)
Business-type activities							
Water	762,393	1,115,138	-	-	-	352,745	352,745
Sewer	1,047,057	1,053,865	-	-	-	6,808	6,808
Sanitation	473,407	469,998	-	-	-	(3,409)	(3,409)
Total business-type activities	2,282,857	2,639,001	-	-	-	356,144	356,144
Total primary government	\$ 5,093,260	\$ 2,779,103	\$ -	\$ 532,472	(2,137,829)	356,144	(1,781,685)
General revenues							
Taxes							
Ad valorem					2,149,005	-	2,149,005
Utility					130,331	-	130,331
Franchise fees					168,027	-	168,027
Local option gas tax					53,289	-	53,289
Sales tax and other shared revenues					117,051	-	117,051
Miscellaneous					64,562	-	64,562
Sale of surplus property					-	57,825	57,825
Interest earnings					31,841	(262,484)	(230,643)
Transfers					148,214	52,806	201,020
Total general revenues and interest					2,862,320	(300,067)	2,562,253
Change in net assets					724,491	56,077	780,568
Net assets - beginning					4,549,354	5,219,803	9,769,157
Prior period adjustment					-	(102,586)	(102,586)
Net assets - beginning (restated)					4,549,354	5,117,217	9,666,571
Net assets - ending					\$ 5,273,845	\$ 5,173,294	\$ 10,447,139

See accompanying notes
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City of Mexico Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2009

	<u>General</u>
Assets	
Cash and cash equivalents	
Accounts receivable, net	\$ 2,196,369 ✓
Due from other funds	100,209 ✓
Fuel inventory	25,361 ✓
Cash and cash equivalents - restricted	4,946 ✓
	<u>444,669</u> ✓
Total assets	<u>2,771,554</u>
Liabilities and fund balance	
Liabilities	
Accounts payable	
Accrued expenses	27,439 ✓
Due to other funds	27,801
	<u>7,331</u>
Total liabilities	<u>62,571</u>
Fund balance	
Reserved for	
Inventory	4,946
Impact fees	436,556
Law enforcement	8,113
Unreserved	2,259,368
	<u>2,708,983</u>
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.	3,300,379
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(735,517)</u>
Net assets of governmental activities	<u>\$ 5,273,845</u>

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended September 30, 2009

	General
Revenues	
Taxes	
Licenses and permits	\$ 2,500,652
Intergovernmental	19,780
Fines and forfeitures	649,523
Charges for services	5,915
Miscellaneous revenues	114,407
	96,403
Total revenues	3,386,680
Expenditures	
Current operating	
General government	462,705
Public safety	641,803
Economic environment	344,447
Highways and streets	276,243
Physical environment	224,279
Human services	83,221
Parks and recreation	166,295
Capital outlay	416,582
Debt service	934,170
Total expenditures	3,549,745
Excess (deficit) of revenues over (under) expenditures	(163,065)
Other financing sources	
Transfers in	
Installment loan proceeds	148,214
	679,999
Total other financing sources	828,213
Excess of revenues and other financing sources over expenditures	665,148
Fund balance - beginning	2,043,835
Fund balance - ending	\$ 2,708,983

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, 2009

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

Net change in fund balance - total governmental funds	\$	665,148
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.		(2,183)
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.		(7,911)
The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of the issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long term debt and related items.		69,437
<u>Change in net assets of governmental activities</u>	<u>\$</u>	<u>724,491</u>

See accompanying notes

City of Mexico Beach, Florida
General Fund
Year Ended September 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Licenses and permits	\$ 2,547,894	\$ 2,492,594	\$ 2,500,652	\$ 8,058
Intergovernmental	42,950	19,895	19,780	(115)
Fines and forfeitures	1,800,656	646,056	649,523	3,467
Charges for services	3,500	5,600	5,915	315
Miscellaneous revenues	389,000	123,260	114,407	(8,853)
	57,000	83,953	96,403	12,450
Total revenues	4,841,000	3,371,358	3,386,680	15,322
Expenditures				
Current				
General government				
Public safety	498,891	469,581	462,705	6,876
Economic environment	663,873	649,539	641,803	7,736
Highways and streets	300,000	348,000	344,447	3,553
Physical environment	318,366	282,161	276,243	5,918
Human services	244,448	220,689	224,279	(3,590)
Culture and recreation	88,473	84,282	83,221	1,061
Capital outlay	148,848	168,206	166,295	1,911
Debt service	2,246,255	518,450	416,582	101,868
	367,846	630,450	934,170	(303,720)
Total expenditures	4,877,000	3,371,358	3,549,745	(178,387)
Excess (deficit) of revenues over (under) expenditures	(36,000)	-	(163,065)	(163,065)
Other financing sources				
Transfers in				
Installment loan proceeds	-	-	148,214	148,214
	-	-	679,999	679,999
Total other financing sources	-	-	828,213	828,213
Net change in fund balance	(36,000)	-	665,148	665,148
Fund balance - beginning	2,043,835	2,043,835	2,043,835	-
Fund balance - ending	\$ 2,007,835	\$ 2,043,835	\$ 2,708,983	\$ 665,148

See accompanying notes

City of Mexico Beach, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2009

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 605,207	\$ 795,814	\$ 47,278	\$ 1,448,299
Accounts receivable, net	79,022	38,773	18,935	136,730
Due from other funds	215,186	1,419	17,657	234,262
Total current assets	899,415	836,006	83,870	1,819,291
Restricted assets - cash				
Bond retirement	87,560	150,459	-	238,019
Impact fees	849,997	89,241	-	939,238
Total restricted assets - cash	937,557	239,700	-	1,177,257
Noncurrent assets				
Deferred charges	15,600	75,589	-	91,189
Capacity rights	-	54,187	-	54,187
Property, plant, and equipment	6,241,352	7,147,706	544,261	13,933,319
Less accumulated depreciation	(2,012,391)	(1,815,826)	(410,125)	(4,238,342)
Total noncurrent assets	4,244,561	5,461,656	134,136	9,840,353
Total assets	6,081,533	6,537,362	218,006	12,836,901
Liabilities				
Current liabilities				
Accounts payable	32,548	40,886	6,288	79,722
Accrued expenses	2,406	2,571	4,300	9,277
Due to other funds	19,636	232,656	-	252,292
Deferred revenue	30,258	2,571	989	33,818
Notes payable, current portion	118,136	-	-	118,136
Revenue bonds payable, current portion	102,100	147,189	-	249,289
Total current liabilities	305,084	425,873	11,577	742,534
Current liabilities payable from restricted assets				
Accrued interest	29,163	27,825	-	56,988
Total current liabilities payable from restricted assets	29,163	27,825	-	56,988
Noncurrent liabilities				
Accrued compensated absences	4,655	2,527	3,276	10,458
Notes payable - due after one year	1,738,851	-	-	1,738,851
Revenue bonds payable - due after one year	1,433,213	3,681,563	-	5,114,776
Total noncurrent liabilities	3,176,719	3,684,090	3,276	6,864,085
Total liabilities	3,510,966	4,137,788	14,853	7,663,607
Net assets				
Invested in capital assets (net of related debt)	836,661	1,503,128	134,136	2,473,925
Restricted for				
Bond retirement	58,397	122,634	-	181,031
Impact fees	849,997	89,241	-	939,238
Unrestricted	825,512	684,571	69,017	1,579,100
Total net assets	\$ 2,570,567	\$ 2,399,574	\$ 203,153	\$ 5,173,294

Original total cash and restricted

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2009

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating revenues				
Charges for services	\$ 1,075,149	\$ 1,027,427	\$ 396,599	\$ 2,499,175
New installations	4,278	2,303	-	6,581
Reconnections	11,565	-	-	11,565
Impact fees	6,332	9,990	-	16,322
Other utility income	18,775	71,970	73,399	164,144
Total operating revenues	1,116,099	1,111,690	469,998	2,697,787
Operating expenses				
Personal services	143,461	101,725	278,043	523,229
Professional services	12,000	15,446	9,000	36,446
Office supplies	1,809	1,856	-	3,665
Utilities	22,917	17,969	-	40,886
Insurance	26,673	19,462	9,526	55,661
Repairs and maintenance	55,403	50,732	11,161	117,296
Operating supplies	32,357	36,064	34,260	102,681
Communication services	12,241	2,485	2,100	16,826
Public utility services	171,685	343,581	-	515,266
Tipping fees	-	-	84,071	84,071
Printing and binding	4,041	1,270	-	5,311
Miscellaneous	1,291	27,290	13,595	42,176
Amortization	-	23,313	-	23,313
Depreciation	166,536	202,907	31,651	401,094
Bad debts	267	-	-	267
Total operating expenses	650,681	844,100	473,407	1,968,188
Operating income (loss)	465,418	267,590	(3,409)	729,599
Nonoperating revenues (expenses)				
Interest income	28,043	23,461	1,302	52,806
Interest expense	(111,712)	(202,957)	-	(314,669)
Loss on sale of assets	(263,445)	-	-	(263,445)
Transfers in	37,948	-	-	37,948
Transfers out	(104,274)	(81,888)	-	(186,162)
Total nonoperating revenues (expenses)	(413,440)	(261,384)	1,302	(673,522)
Net income (loss)	51,978	6,206	(2,107)	56,077
Net assets - beginning	2,518,589	2,459,135	242,079	5,219,803
Prior period adjustment	-	(65,767)	(36,819)	(102,586)
Net assets - beginning (restated)	2,518,589	2,393,368	205,260	5,117,217
Net assets - ending	\$ 2,570,567	\$ 2,399,574	\$ 203,153	\$ 5,173,294

See accompanying notes

City of Mexico Beach, Florida
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2009

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating activities				
Receipts from customers and users	\$ 1,176,309	\$ 1,115,335	\$ 454,049	\$ 2,745,693
Payments to suppliers and others	(337,700)	(654,340)	(182,097)	(1,174,137)
Payments for personal services	(143,461)	(101,725)	(278,043)	(523,229)
Net cash provided (used) by operating activities	695,148	359,270	(6,091)	1,048,327
Noncapital financing activities				
Transfers in	37,948	-	-	37,948
Transfers out	(104,274)	(81,888)	-	(186,162)
Net cash used by noncapital financing activities	(66,326)	(81,888)	-	(148,214)
Capital and related financing activities				
Principal paid on revenue bonds	(1,758,454)	(57,851)	-	(1,816,305)
Principal paid on notes and leases	(114,580)	(2,038,559)	-	(2,153,139)
Proceeds from revenue bonds	1,559,998	1,760,003	-	3,320,001
Interest paid on bonds, notes and leases	(99,379)	(194,822)	-	(294,201)
Purchase of capital assets	(284,038)	-	-	(284,038)
Net cash used by capital and related financing activities	(696,453)	(531,229)	-	(1,227,682)
Investing activities				
Proceeds from sale of fixed assets	235,000	-	-	235,000
Interest received	28,043	23,461	1,302	52,806
Net cash provided by investing activities	263,043	23,461	1,302	287,806
Net increase (decrease) in cash and cash equivalents	195,412	(230,386)	(4,789)	(39,763)
Cash and cash equivalents - beginning	1,347,352	1,265,900	52,067	2,665,319
Cash and cash equivalents - ending	\$ 1,542,764	\$ 1,035,514	\$ 47,278	\$ 2,625,556
Classified as cash				
Current assets - cash and cash equivalents	\$ 605,207	\$ 795,814	\$ 47,278	\$ 1,448,299
Restricted assets - cash and cash equivalents	937,557	239,700	-	1,177,257
Cash and cash equivalents - ending	\$ 1,542,764	\$ 1,035,514	\$ 47,278	\$ 2,625,556
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 465,418	\$ 267,590	\$ (3,409)	\$ 729,599
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Amortization	-	23,313	-	23,313
Depreciation	166,536	202,907	31,651	401,094
(Increase) decrease in assets				
Accounts receivable, net	(17,165)	4,524	1,641	(11,000)
Due from other funds	65,177	(879)	(17,590)	46,708
Increase (decrease) in liabilities				
Accounts payable	(4,518)	(5,735)	(6,305)	(16,558)
Accrued expenses	(3,569)	667	1,221	(1,681)
Deferred revenue	12,198	-	-	12,198
Accrued compensated absences	(2,864)	(410)	(2,353)	(5,627)
Due to other funds	13,935	(132,707)	(10,947)	(129,719)
Total adjustments	229,730	91,680	(2,682)	318,728
Net cash provided (used) by operating activities	\$ 695,148	\$ 359,270	\$ (6,091)	\$ 1,048,327

See accompanying notes

City of Mexico Beach, Florida

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 (U.S. 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.

City of Mexico Beach, Florida

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

The City reports the following major proprietary funds:

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

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Encumbrances

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

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

Cash and Temporary Cash Investments

The City considers 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.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. 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.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Accrued Compensated Absences

All full-time employees earn two weeks vacation per year (which cannot be taken until 6 months of probationary service are completed), 14 days after 5 years, 18 days after 11 years, and 20 days after 15 years. Annual leave may be accumulated at a maximum of 25 days per calendar year. Employees who have completed their probationary period are eligible for payment of accumulated annual leave not to exceed a maximum of 25 days upon their separation from the City.

Employees with one year of service may request payment of their hourly rate times a maximum of 50 percent of the employee's annually accrued vacation time up to sixty hours per year.

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

Both the current and long-term portion of compensated absences are accrued and reported in the government-wide financial statements. No expenditure is reported in the government fund level statements for these amounts until payment is made. Proprietary fund types accrue sick leave and vacation benefits in the period they are earned. Compensated absences liability is based on current rates of pay. This is accounted for pursuant to GASB Statement 16, *Accounting for Compensated Absences*.

Property Taxes

Property taxes consist of ad valorem taxes on real and personal property within the City. Property values are determined by the Bay County Property Appraiser. Florida Statutes permit municipalities to levy property taxes at a rate of up to 10 mills for general operations. The City's millage rate for the year ended September 30, 2009, was 3.70 mills. The tax levy of the City is established by the City Council prior to October 1 of each year.

City of Mexico Beach, Florida

Notes to 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.

Subsequent events

The City evaluates subsequent events through the date the financial statements are issued.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

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

The governmental funds balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this \$3,300,379 difference are as follows:

Cost of capital assets	\$	5,332,338
Less: accumulated depreciation		2,031,959
<hr/>		
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	3,300,379

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 \$735,517 difference are as follows:

Notes and revenue bonds payable	\$	701,817
Compensated absences		33,700
<hr/>		
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	735,517

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 change 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 costs of these assets are allocated over their estimated useful lives and reported as depreciation expense." The details of this (\$2,183) difference are as follows:

Capital outlay	\$	416,582
Depreciation expense		(273,810)
Loss on disposal of assets		(144,955)
<hr/>		
Net adjustment to decrease <i>net change in fund balance - total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	(2,183)

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

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 \$7,911 difference are as follows:

Compensated absences	\$	7,911
<hr/>		
Net adjustment to decrease <i>net change in fund balance - total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	7,911

Another element of that reconciliation states, "the issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$69,437 difference are as follows:

Installment loan proceeds	\$	(679,999)
Interest accrual		(7,495)
Principal repayments – notes payable		756,931
<hr/>		
Net adjustment to increase <i>net change in fund balance - total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	69,437

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.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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

The City had no investments at September 30, 2009.

Interest Rate Risks

At September 30, 2009, the City did not hold any investments that were considered to be an interest rate risk.

Credit Risks

At September 30, 2009, the City did not hold any investments that were considered to be a credit risk.

Custodial Risks

At September 30, 2009, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

As September 30, 2009, 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, 2009, accounts receivable in the governmental funds are summarized as follows:

Total accounts receivable	\$	100,209
Less: allowance for doubtful accounts		-
<hr/>		
Accounts receivable, net	\$	100,209

At September 30, 2009, accounts receivable in the proprietary funds are summarized as follows:

Total accounts receivable	\$	136,730
Less: allowance for doubtful accounts		-
<hr/>		
Accounts receivable, net	\$	136,730

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of September 30, 2009 is as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 25,361	\$ 7,331
Water fund	215,186	19,636
Sewer fund	1,419	232,656
Sanitation fund	17,657	-
Total	\$ 259,623	\$ 259,623

The sewer fund owes the general and water funds \$23,382 and \$209,274, respectively, for operating advances.

Interfund transfers for the year ended September 30, 2009, consisted of the following:

	Transfers in	Transfers out
General fund	\$ 148,214	\$ -
Water fund	-	66,326
Sewer fund	-	81,888
Total	\$ 148,214	\$ 148,214

The transfers to the general fund from the water fund and the sewer fund were due to the debt refunding done during the year.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009 was as follows:

	September 30, 2008	Increases	Decreases	September 30, 2009
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 150,000	\$ -	\$ -	\$ 150,000
Construction in process	198,020	187,078	(297,906)	87,192
Total capital assets, not being depreciated	348,020	187,078	(297,906)	237,192
Capital assets, being depreciated				
Buildings	472,633	-	-	472,633
Improvements	2,234,492	337,675	-	2,572,167
Machinery and equipment	2,005,566	44,780	-	2,050,346
Total capital assets, being depreciated	4,712,691	382,455	-	5,095,146

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	September 30, 2008	Increases	Decreases	September 30, 2009
Less accumulated depreciation				
Buildings	\$ (59,441)	\$ (9,441)	\$ -	\$ (68,882)
Improvements	(536,733)	(85,834)	-	(508,749)
Machinery and equipment	(1,161,975)	(178,535)	-	(1,454,328)
Total accumulated depreciation	(1,758,149)	(273,810)	-	(2,031,959)
Total capital assets, being depreciated, net	2,954,542	108,645	-	3,063,187
Total governmental activities' capital assets, net	\$ 3,302,562	\$ 295,723	\$ (297,906)	\$ 3,300,379
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 288,191	\$ -	\$ -	\$ 288,191
Construction in progress	-	201,075	-	201,075
Total capital assets, not being depreciated	288,191	201,075	-	489,266
Capital assets, being depreciated				
Buildings	10,606	-	-	10,606
Improvements	13,035,881	887	(722,418)	12,314,350
Machinery and equipment	883,271	235,826	-	1,119,097
Total capital assets, being depreciated	13,929,758	236,713	(722,418)	13,444,053
Less accumulated depreciation				
Buildings	(10,606)	-	-	(10,606)
Improvements	(3,276,077)	(360,288)	70,223	(3,566,142)
Machinery and equipment	(620,788)	(40,806)	-	(661,594)
Total accumulated depreciation	(3,907,471)	(401,094)	70,223	(4,238,342)
Total capital assets, being depreciated, net	10,022,287	(164,381)	(652,195)	9,205,711
Total business-type activities' capital assets, net	\$ 10,310,478	\$ 36,694	\$ (652,195)	\$ 9,694,977

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
Construction in progress	-	-	201,075	201,075
Buildings	-	-	10,606	10,606
Improvements	-	6,817,054	5,497,296	12,314,350
Machinery and equipment	544,261	60,226	514,610	1,119,097
Total	544,261	7,147,706	6,241,352	13,933,319
Less: accumulated depreciation				
Buildings	-	-	(10,606)	(10,606)
Improvements	-	(1,796,697)	(1,769,445)	(3,566,142)
Machinery and equipment	(410,125)	(19,128)	(232,341)	(661,594)
Total accumulated depreciation	(410,125)	(1,815,825)	(2,012,392)	(4,238,342)
Total business-type activities' capital assets, net	\$ 134,136	\$5,331,881	\$ 4,228,960	\$ 9,694,977

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

General government	\$ 37,005
Public safety	95,986
Highways and streets	31,937
Physical environment	97,328
Parks and recreation	11,554
Total depreciation expense - governmental activities	\$ 273,810

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

Sanitation	\$ 31,651
Sewer	202,907
Water	166,536
Total depreciation expense - business-type activities	\$ 401,094

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 7 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2008	Increase	Reduction	Balance September 30, 2009	Due within one year
Notes Payable					
Note payable to City of Gulf Breeze, Florida Capital funding loan program (See Note 8 (A)).	\$ 716,642	\$ -	\$(716,642)	\$ -	\$ -
Note payable for the purchase of (2) tractors and (1) vehicle, payable in quarterly installments of \$5,880, including 4.17% interest.	5,820	-	(5,820)	-	-
Note payable for the purchase of a beach rake, payable in monthly payments of \$1,002, including 4.54% interest.	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.	45,212	-	(20,129)	25,083	21,178
Total notes payable	771,254	-	(746,171)	25,083	21,178
Bonds Payable					
2009 Utility Systems Refunding Bonds, to refund note payable to City of Gulf Breeze, Florida Capital funding loan program. Payable in quarterly payments including interest at 4.48% and maturing in April 2021.	-	510,000	(8,070)	501,930	33,379
2009 Capital Improvement Bonds, to refund note payable to City of Gulf Breeze, Florida Capital funding loan program. Payable in quarterly payments including interest at 4.48% and maturing in April 2021.	-	169,999	(2,690)	167,309	11,126
Total bonds payable	-	679,999	(10,760)	669,239	44,505
Liability for compensated absences	25,789	7,911	-	33,700	6,740
Total governmental activities long-term obligations	\$ 797,043	\$687,910	\$(756,931)	\$ 728,022	\$ 72,423

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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, 2009 are as follows:

Year Ending September 30,	Principal	Interest	Total
2010	\$ 65,683	\$ 30,236	\$ 95,919
2011	50,416	27,382	77,798
2012	48,639	25,092	73,731
2013	50,829	22,877	73,706
2014	53,087	20,564	73,651
2015-2019	303,579	64,288	367,867
2020-2021	122,089	5,498	127,587
Compensated absences	33,700	-	33,700
Total	\$ 728,022	\$ 195,937	\$ 923,959

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

Bonds Payable	Original Issue	Balance September 30, 2008	Increase	Reduction	Balance September 30, 2009	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	\$ 420,380	\$ -	\$(420,380)	\$ -	\$ -
4.5% Water system Junior Lien Revenue Bonds, Series 1995, used to improve water system.	829,600	701,600	-	(701,600)	-	-
2009 Utility System Refunding Bonds	2,490,000	-	2,490,000	(39,402)	2,450,598	162,967
2009 Capital Improvement Bonds	830,001	-	830,001	(13,134)	816,867	54,322
4.875% Sewer System Junior Lien Revenue Bonds, Series 2000, to improve sewer system.	2,303,100	2,126,600	-	(30,000)	2,096,600	32,000
Total bonds payable – enterprise funds		\$ 3,248,580	\$3,320,001	\$(1,204,516)	\$ 5,364,065	\$ 249,289

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

2009 Capital Improvements Bond, Series 2009 - \$816,867 balance. These bonds were issued to refund the Series 1979, 1980, 1982, and 1995 bonds and the note payable to City of Gulf Breeze, Florida. The bonds mature annually through April 1, 2021. Interest at 4.48% per annum is payable each July 1. The bonds are secured by pledged revenue consisting of such amounts of non-advalorem revenues as shall be budgeted and appropriated for the payment of the 2009 Capital Improvements Bond, and any proceeds from the 2009 Capital Improvements Bond held in any of the funds and accounts created. Annual principal and interest payments on the bonds are 100 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$1,045,458. Principal and interest paid for the current year and total pledged revenues were \$31,579 and \$31,579, respectively.

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

Debt service requirements to maturity on revenue bonds payable at September 30, 2009 are as follows:

Year Ending September 30,	Principal	Interest	Total
2010	\$ 249,289	\$ 245,260	\$ 494,549
2011	260,080	233,862	493,942
2012	272,473	222,018	494,491
2013	284,665	209,198	493,863
2014	297,688	196,400	494,088
2015-2019	1,703,683	763,383	2,467,066
2020-2024	878,087	416,341	1,294,428
2025-2029	357,000	314,000	671,000
2030-2034	453,500	218,000	671,500
2035-2039	607,600	96,500	704,100
Total	\$ 5,364,065	\$ 2,914,962	\$ 8,279,027

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

Notes Payable

	Balance September 30, 2008	Increase	Reduction	Balance September 30, 2009	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)	\$ 2,005,891	\$ -	\$ (2,005,891)	\$ -	\$ -
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)	611,791	-	(611,791)	-	-
Note payable for purpose of financing Gulf Breeze loan costs with variable interest at 2.3%. Principal and interest payable monthly.	30,285	-	(30,285)	-	-
Florida Department of Environmental Protection state revolving fund loan. Repayable over 20 years upon completion of water system improvements. (See (B) below).	1,971,567	-	(114,580)	1,856,987	118,136
Note payable in monthly installments of \$397, including interest at 4.61%, secured by equipment.	2,382	-	(2,382)	-	-
Total notes payable – enterprise funds	\$ 4,621,916	\$ -	\$ 2,764,929	\$ 1,856,987	\$ 118,136

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

A synopsis of significant enterprise fund notes payable follows:

- (A) The note payable to the City of Gulf Breeze, Florida was incurred in 1995 in the principal amount of \$4,190,000 under the Gulf Breeze, Florida Capital Funding Loan Program, Series 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 note is secured by a pledge of the net revenues of the water and sewer system. The note payable was repaid through the issuance of the 2009 Utility System Refunding Bond and 2009 Capital Improvement Bonds.
- (B) The balance of \$1,856,987 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. Annual principal and interest payments on the bonds are 16 percent of pledged revenues. The total principal and interest remaining to be paid on the note is \$2,267,574. Principal and interest paid for the current year and total pledged revenues were \$173,429 and \$1,075,149, respectively.

Debt service requirements to maturity on notes payable at September 30, 2009 are as follows:

Year Ending September 30,	Principal	Interest	Total
2010	\$ 118,136	\$ 56,293	\$ 174,429
2011	121,803	52,626	174,429
2012	125,583	48,846	147,429
2013	129,481	44,948	174,429
2014	133,500	40,929	174,429
2015-2019	732,283	139,861	872,144
2020-2022	496,201	27,084	523,285
Total	\$ 1,856,987	\$ 410,587	\$ 2,267,574

NOTE 9 – FUND EQUITY

Net Asset Restrictions

The government-wide statement of net assets governmental activities reports \$444,669 of restricted net assets, all of which is restricted by enabling legislation. Business-type activities reports \$1,120,269 of restricted net assets, of which, \$939,238 is restricted by enabling legislation.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 9 – FUND EQUITY (CONTINUED)

Reserved Fund Equity

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

Funds	Purpose	Amount
General fund	Impact fees	\$ 436,556
General fund	Law enforcement	8,113
Water fund	Debt service	58,397
Water fund	Impact fees	849,997
Sewer fund	Debt service	122,634
Sewer fund	Impact fees	89,241
Total reserved fund equity		\$ 1,564,938

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.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 11 – PENSION PLAN

Plan Description and Administration

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 years ended September 30, 2009, 2008 and 2007 was \$1,175,478, \$1,369,104 and \$1,244,981, respectively.

FRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State of Florida Division of Retirement, 1317 Winewood Blvd., Bldg B, Tallahassee, Florida, 32399-1560.

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, 2008 Through June 30, 2009	July 1, 2009 Through September 30, 2009
Regular employees	9.85%	9.85%
Special risk employees	20.92%	20.92%

During the year ended September 30, 2009, the City contributed \$142,214 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
2009	\$ 142,214	100%	-
2008	159,439	100%	-
2007	104,692	100%	-

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The City provides health insurance to its active and retired employees (the OPEB Plan). Pursuant to Section 112.0801, Florida Statutes, the City is required to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Currently, the City funds the OPEB Plan on a pay-as-you-go basis as a current operating expense, and reflects the

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

expense in its financial statements in the fiscal year in which the payments are made. Pursuant to the provisions of GASB 43, *Financial Reporting for Postemployment Benefits Other Than Pensions*, and GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, governments who provide post employment benefits other than pensions will be required to begin showing all or a portion of the liabilities associated with their OPEB Plans in their financial statements and whether, and to what extent, progress is being made in funding those liabilities. The City intends to implement the requirements of GASB 45 and will obtain an actuarial valuation of the OPEB liability as of October 1, 2009.

NOTE 13 – RISK MANAGEMENT

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

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

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

NOTE 14 – INTERLOCAL AGREEMENTS

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

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

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 15 – BUDGETARY DATA

The City had actual expenditures in excess of budgeted amounts in the general fund for the year ended September 30, 2009. The primary cause of this excess was due to the refunding of previous bonds and the proceeds from the new debt.

NOTE 16 – PRIOR PERIOD ADJUSTMENT

The beginning net assets decreased in the sewer fund and the sanitation fund by \$65,767 and \$36,819, respectively, to reflect a correction of accounts receivable from prior years.

Supplementary Information

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

September 30,	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 605,207	\$ 293,232
Accounts receivable, net	79,022	61,857
Due from other funds	215,186	280,363
Total current assets	899,415	635,452
Restricted assets - cash		
Bond and interest sinking	87,560	228,305
Impact fees	849,997	825,815
Total restricted assets - cash	937,557	1,054,120
Noncurrent assets		
Deferred charges	15,600	16,367
Property, plant, and equipment	6,241,352	6,525,982
Less accumulated depreciation	(2,012,391)	(1,916,078)
Total noncurrent assets	4,244,561	4,626,271
Total assets	6,081,533	6,315,843
Liabilities		
Current liabilities		
Accounts payable	32,548	37,065
Accrued expenses	2,406	5,975
Due to other funds	19,636	5,701
Deferred revenue	30,258	18,060
Notes payable, current portion	118,136	133,948
Revenue bonds payable, current portion	102,100	40,000
Total current liabilities	305,084	240,749
Current liabilities payable from restricted assets		
Accrued interest	29,163	17,597
Total current liabilities payable from restricted assets	29,163	17,597
Noncurrent liabilities		
Accrued compensated absences	4,655	7,519
Notes payable - due after one year	1,738,851	2,449,409
Revenue bonds payable - due after one year	1,433,213	1,081,980
Total noncurrent liabilities	3,176,719	3,538,908
Total liabilities	3,510,966	3,797,254
Net assets		
Invested in capital assets (net of related debt)	836,661	904,567
Restricted for		
Bond retirement	58,397	210,708
Impact fees	849,997	825,815
Unrestricted	825,512	577,499
Total net assets	\$ 2,570,567	\$ 2,518,589

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

September 30,	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 795,814	\$ 511,190
Accounts receivable, net	38,773	109,064
Due from other funds	1,419	540
Total current assets	836,006	620,794
Restricted assets - cash		
Bond and interest sinking	150,459	426,845
Impact fees	89,241	327,865
Total restricted assets - cash	239,700	754,710
Noncurrent assets		
Deferred charges	75,589	87,884
Capacity rights	54,187	54,187
Property, plant, and equipment	7,147,706	7,147,706
Less accumulated depreciation	(1,815,826)	(1,612,919)
Total noncurrent assets	5,461,656	5,676,858
Total assets	6,537,362	7,052,362
Liabilities		
Current liabilities		
Accounts payable	40,886	46,622
Accrued expenses	2,571	1,904
Due to other funds	232,656	365,363
Deferred revenue	2,571	2,571
Notes payable, current portion	-	68,058
Revenue bonds payable, current portion	147,189	30,000
Total current liabilities	425,873	514,518
Current liabilities payable from restricted assets		
Accrued interest	27,825	8,671
Total current liabilities payable from restricted assets	27,825	8,671
Noncurrent liabilities		
Accrued compensated absences	2,527	2,937
Notes payable - due after one year	-	1,970,501
Revenue bonds payable - due after one year	3,681,563	2,096,600
Total noncurrent liabilities	3,684,090	4,070,038
Total liabilities	4,137,788	4,593,227
Net assets		
Invested in capital assets (net of related debt)	1,503,128	1,369,628
Restricted for		
Bond retirement	122,634	418,174
Impact fees	89,241	327,865
Unrestricted	684,571	343,468
Total net assets	\$ 2,399,574	\$ 2,459,135

See accompanying notes

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

September 30,	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 47,278	\$ 52,067
Accounts receivable, net	18,935	57,396
Due from other funds	17,657	67
Total current assets	83,870	109,530
Noncurrent assets		
Property, plant, and equipment	544,261	544,261
Less accumulated depreciation	(410,125)	(378,474)
Total noncurrent assets	134,136	165,787
Total assets	218,006	275,317
Liabilities		
Current liabilities		
Accounts payable	6,288	12,593
Accrued expenses	4,300	3,080
Due to other funds	-	10,947
Deferred revenue	989	989
Total current liabilities	11,577	27,609
Noncurrent liabilities		
Accrued compensated absences	3,276	5,629
Total noncurrent liabilities	3,276	5,629
Total liabilities	14,853	33,238
Net assets		
Invested in capital assets (net of related debt)	134,136	165,787
Unrestricted	69,017	76,292
Total net assets	\$ 203,153	\$ 242,079

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,	2009	2008
Operating revenues		
Charges for services	\$ 1,075,149	\$ 1,250,748
New installations	4,278	4,162
Reconnections	11,565	12,154
Impact fees	6,332	13,241
Other utility income	18,775	46,685
Total operating revenues	1,116,099	1,326,990
Operating expenses		
Personal services	143,461	309,788
Professional services	12,000	12,000
Office supplies	1,809	24,194
Utilities	22,917	17,415
Insurance	26,673	23,266
Repairs and maintenance	55,403	40,170
Operating supplies	32,357	27,945
Communication services	12,241	13,386
Public utility services	171,685	262,517
Transportation	-	2,748
Rentals	-	168
Printing and binding	4,041	1,661
Miscellaneous	1,291	4,564
Amortization	-	966
Depreciation	166,536	175,803
Bad debts	267	8,613
Total operating expenses	650,681	925,204
Operating income	465,418	401,786
Nonoperating revenues (expenses)		
Interest income	28,043	38,386
Interest expense	(111,712)	(139,748)
Loss on sale of assets	(263,445)	-
Transfers in	37,948	-
Transfers out	(104,274)	-
Total nonoperating revenues (expenses)	(413,440)	(101,362)
Net income	51,978	300,424
Net assets - beginning	2,518,589	2,218,165
Net assets - ending	\$ 2,570,567	\$ 2,518,589

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,	2009	2008
Operating revenues		
Charges for services	\$ 1,027,427	\$ 1,022,304
New installations	2,303	8,453
Impact fees	9,990	18,274
Other utility income	71,970	-
Total operating revenues	1,111,690	1,049,031
Operating expenses		
Personal services	101,725	86,227
Professional services	15,446	19,680
Office supplies	1,856	20,011
Utilities	17,969	12,975
Insurance	19,462	19,866
Repairs and maintenance	50,732	32,187
Operating supplies	36,064	44,624
Communication services	2,485	4,072
Public utility services	343,581	304,337
Transportation	-	2,098
Printing and binding	1,270	103
Miscellaneous	27,290	7,639
Amortization	23,313	9,227
Depreciation	202,907	205,395
Bad debts	-	6,369
Total operating expenses	844,100	774,810
Operating income	267,590	274,221
Nonoperating revenues (expenses)		
Interest income	23,461	36,122
Interest expense	(202,957)	(170,706)
Transfers out	(81,888)	-
Total nonoperating revenues (expenses)	(261,384)	(134,584)
Net income	6,206	139,637
Net assets - beginning	2,459,135	2,319,498
Prior period adjustment	(65,767)	-
Net assets - beginning (restated)	2,393,368	2,319,498
Net assets - ending	\$ 2,399,574	\$ 2,459,135

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,	2009	2008
Operating revenues		
Charges for services	\$ 396,599	\$ 401,873
Other utility income	73,399	64,132
Total operating revenues	469,998	466,005
Operating expenses		
Personal services	278,043	258,644
Professional services	9,000	9,000
Office supplies	-	3,544
Utilities	-	50
Insurance	9,526	9,930
Repairs and maintenance	11,161	14,079
Operating supplies	34,260	46,407
Communication services	2,100	2,072
Tipping fees	84,071	91,030
Rentals	-	188
Miscellaneous	13,595	724
Depreciation	31,651	28,093
Bad debts	-	4,636
Total operating expenses	473,407	468,397
Operating income (loss)	(3,409)	(2,392)
Nonoperating revenues (expenses)		
Interest income	1,302	2,407
Total nonoperating revenues (expenses)	1,302	2,407
Net income (loss)	(2,107)	15
Net assets - beginning	242,079	242,064
Prior period adjustment	(36,819)	-
Net assets - beginning (restated)	205,260	242,064
Net assets - ending	\$ 203,153	\$ 242,079

See accompanying notes

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

Year Ended September 30,	2009	2008
Operating activities		
Receipts from customers and users	\$ 1,176,309	\$ 1,352,992
Payments to suppliers and others	(337,700)	(429,793)
Payments for personal services	(143,461)	(309,788)
Net cash provided by operating activities	695,148	613,411
Noncapital financing activities		
Transfers in	37,948	-
Transfers out	(104,274)	-
Net cash used in noncapital financing activities	(66,326)	-
Capital and related financing activities		
Principal paid on revenue bonds	(1,758,454)	(38,000)
Principal paid on notes and leases	(114,580)	(132,412)
Proceeds from revenue bonds	1,559,998	-
Interest paid on bonds, notes, and leases	(99,379)	(140,645)
Purchase of capital assets	(284,038)	(166,915)
Net cash used in capital and related financing activities	(696,453)	(477,972)
Investing activities		
Proceeds from sale of fixed assets	235,000	-
Interest received	28,043	38,386
Net cash provided by investing activities	263,043	38,386
Net increase in cash and cash equivalents	195,412	173,825
Cash and cash equivalents, beginning	1,347,352	1,173,527
Cash and cash equivalents, ending	\$ 1,542,764	\$ 1,347,352
Classified as cash		
Current assets - cash and cash equivalents	\$ 605,207	\$ 293,232
Restricted assets - cash and cash equivalents	937,557	1,054,120
Cash and cash equivalents, ending	\$ 1,542,764	\$ 1,347,352
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	\$ 465,418	\$ 401,786
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	-	966
Depreciation	166,536	175,803
(Increase) decrease in assets		
Accounts receivable, net	(17,165)	10,344
Due from other funds	65,177	13,831
Due from other governments	-	39
Increase (decrease) in liabilities		
Accounts payable	(4,518)	18,995
Accrued expenses	(3,569)	(15,878)
Deferred revenue	12,198	1,788
Accrued compensated absences	(2,864)	36
Due to other funds	13,935	5,701
Total adjustments	229,730	211,625
Net cash provided by operating activities	\$ 695,148	\$ 613,411

See accompanying notes

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

Year Ended September 30,	2009	2008
Operating activities		
Receipts from customers and users	\$ 1,115,335	\$ 1,035,386
Payments to suppliers and others	(654,340)	(586,807)
Payments for personal services	(101,725)	(86,227)
Net cash provided by operating activities	359,270	362,352
Noncapital financing activities		
Transfer Out	(81,888)	-
Net cash used by noncapital financing activities	(81,888)	-
Capital and related financing activities		
Principal paid on revenue bonds	(57,851)	(29,000)
Principal paid on notes and leases	(2,038,559)	(60,959)
Proceeds from bond refinanced	1,760,003	-
Interest paid on bonds, notes, and leases	(194,822)	(170,706)
Purchase of capital assets	-	(3,378)
Net cash used in capital and related financing activities	(531,229)	(264,043)
Investing activities		
Interest received	23,461	36,122
Net cash provided by investing activities	23,461	36,122
Net increase (decrease) in cash and cash equivalents	(230,386)	134,431
Cash and cash equivalents, beginning	1,265,900	1,131,469
Cash and cash equivalents, ending	\$ 1,035,514	\$ 1,265,900
Classified as cash		
Current assets - cash and cash equivalents	\$ 795,814	\$ 511,190
Restricted assets - cash and cash equivalents	239,700	754,710
Cash and cash equivalents, ending	\$ 1,035,514	\$ 1,265,900
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	\$ 267,590	\$ 274,221
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	23,313	7,017
Depreciation	202,907	205,395
(Increase) decrease in assets		
Accounts receivable, net	4,524	(15,676)
Due from other funds	(879)	(540)
Increase (decrease) in liabilities		
Accounts payable	(5,735)	(4,721)
Accrued expenses	667	(4,150)
Deferred revenues	-	2,571
Accrued compensated absences	(410)	(261)
Due to other funds	(132,707)	(101,504)
Total adjustments	91,680	88,131
Net cash provided by operating activities	\$ 359,270	\$ 362,352

See accompanying notes

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

Year Ended September 30,	2009	2008
Operating activities		
Receipts from customers and users	\$ 454,049	\$ 405,704
Payments to suppliers and others	(182,097)	(119,286)
Payments for personal services	(278,043)	(259,123)
Net cash provided by (used in) operating activities	(6,091)	27,295
Capital and related financing activities		
Purchase of capital assets	-	(109,578)
Net cash used in capital and related financing activities	-	(109,578)
Investing activities		
Interest received	1,302	2,407
Net cash provided by investing activities	1,302	2,407
Net decrease in cash and cash equivalents	(4,789)	(79,876)
Cash and cash equivalents, beginning	52,067	131,943
Cash and cash equivalents, ending	\$ 47,278	\$ 52,067
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (3,409)	\$ (2,392)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation	31,651	28,093
(Increase) decrease in assets		
Accounts receivable, net	1,641	(3,831)
Due from other funds	(17,590)	(67)
Increase (decrease) in liabilities		
Accounts payable	(6,305)	7,359
Accrued expenses	1,221	(14,282)
Deferred revenue	-	989
Accrued compensated absences	(2,353)	479
Due to other funds	(10,947)	10,947
Total adjustments	(2,682)	29,687
Net cash provided by (used in) operating activities	\$ (6,091)	\$ 27,295

See accompanying notes

Compliance Section



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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, 2009, and have issued our report thereon dated April 25, 2010.

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* and issued by the Comptroller General of the United States. We have issued our independent auditor's report on internal control over financial reporting and on compliance and other matters. Disclosures in this report, which is dated April 25, 2010, 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 governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's report.

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to the extent considered necessary, other than for those comments repeated in the 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*.

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. 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, 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, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. 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 are 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 determine whether the annual financial report for the City of Mexico Beach, Florida for the fiscal year ended September 30, 2009, 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, 2009. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(i)7.c., and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City'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 Commission, 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.

Carri Riggs E. Ingram, L.L.C.

April 25, 2010



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

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

We have audited the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Mexico Beach, Florida (the City) as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 25, 2010. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

09-01 (Prior year 08-01) Significant adjustments to the financial records were made in order for the financial statements to conform to generally accepted accounting principles.

Management's response - Management has considered the above significant deficiencies in the City's internal control and believes the costs required to correct them would outweigh the benefits derived from implementing corrective action.

09-02 (Prior year 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.

Management's response - Management has considered the above significant deficiencies in the City's internal control and believes the costs required to correct them would outweigh the benefits derived from implementing corrective action.

09-03 Actual expenditures exceeded budgeted amounts during the year. Budgets should be reviewed and amended as needed throughout the year in order to maintain compliance with State law.

Management's response - The City will review the budget and amend as needed during the year in accordance with the City's current policy.

The City's responses to the findings identified in our audit are included above. We did not audit the City's responses and, accordingly, we express no opinion on them.

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 management, the City Council, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

April 25, 2010