

City of Mexico Beach, Florida

Annual Financial Statements

September 30, 2010

City of Mexico Beach, Florida
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September 30, 2010

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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, 2010, 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, 2010, 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 February 2, 2011, 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis information on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The comparative statements are presented for the purpose of additional analysis and are not a required part of the financial statements. The comparative statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the audit procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Carly Riggs & Ingram, L.L.C.

February 2, 2011

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 \$11,839,729 (net assets). Of this amount, \$2,376,418 is unrestricted net assets for governmental activities and \$1,244,824 is unrestricted net assets for business-type activities, \$303,230 is restricted net assets for governmental activities and \$1,755,229 is restricted net assets for business-type activities.
- Total net assets increased by \$1,392,590. Of this amount, \$889,906 is attributable to governmental activities and \$502,684 is attributable to business-type activities.
- As of September 30, 2010, the general fund's unreserved fund balance was \$2,398,696 or 77% of total general fund expenditures.
- Governmental activities revenues decreased to \$3,109,632 or 12%, while governmental activities expenditures decreased 21% to \$2,219,726. Business-type activities revenues increased to \$2,512,963 or 7%, while business-type activities expenditures decreased 12% to \$2,010,279.

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 parks 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 policies 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, 2010 and 2009. 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	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 2,785,795	\$ 2,764,223	\$ 3,166,922	\$ 2,889,632	\$ 5,952,717	\$ 5,653,855
Capital assets	4,097,381	3,300,379	9,473,627	9,694,977	13,571,008	12,995,356
Total assets	6,883,176	6,064,602	12,640,549	12,584,609	19,523,725	18,649,211
Current liabilities	77,095	62,735	158,042	179,805	235,137	242,540
Noncurrent liabilities	642,330	728,022	6,806,529	7,231,510	7,448,859	7,959,532
Total liabilities	719,425	790,757	6,964,571	7,411,315	7,683,996	8,202,072
Net assets invested in capital assets, net of related debt	3,484,103	2,606,057	2,675,925	2,473,925	6,160,028	5,079,982
Net assets – restricted	303,230	444,669	1,755,229	1,120,269	2,058,459	1,564,938
Net assets – unrestricted	2,376,418	2,223,119	1,244,824	1,579,100	3,621,242	3,802,219
Total net assets	\$ 6,163,751	\$ 5,273,845	\$ 5,675,978	\$ 5,173,294	\$ 11,839,729	\$ 10,447,139

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 (52%). These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. It should be noted, that although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The *restricted net assets*, representing 17% of the City's net assets, are subject to external restrictions, and thus are limited as to how they may be used. The remaining balance of *unrestricted net assets* (\$3,621,242) may be used to help meet the government's ongoing obligations to citizens and creditors.

The following schedule provides a summary of the changes in net assets for the years ended September 30, 2010 and 2009.

Changes in Net Assets

<i>Years Ended September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Program revenues						
Charges for services	\$ 118,312	\$ 140,102	\$2,474,407	\$2,639,001	\$ 2,592,719	\$ 2,779,103
Operating grants/contributions	6,544	-	-	-	6,544	-
Capital grants/contributions	585,673	532,472	-	-	585,673	532,472
General revenues						
Ad valorem taxes	1,849,104	2,149,005	-	-	1,849,104	2,149,005
Utility taxes/franchise fees	471,302	468,698	-	-	471,302	468,698
Interest	32,496	31,841	36,040	52,806	68,536	84,647
Other	46,201	64,562	2,516	(204,659)	48,717	(140,097)
Transfers	-	148,214	-	(148,214)	-	-
Total revenues	3,109,632	3,534,894	2,512,963	2,338,934	5,622,595	5,873,828
Expenses						
General government	507,744	647,421	-	-	507,744	647,421
Public safety	705,866	740,270	-	-	705,866	740,270
Economic environment	-	344,447	-	-	-	344,447
Highways and streets	338,857	308,943	-	-	338,857	308,943
Human services	84,271	83,435	-	-	84,271	83,435
Parks and recreation	216,069	177,261	-	-	216,069	177,261
Physical environment	348,881	323,892	-	-	348,881	323,892
Interest on long-term debt	18,038	184,734	-	-	18,038	184,734
Water	-	-	614,674	762,393	614,674	762,393
Sewer	-	-	941,740	1,047,057	941,740	1,047,057
Sanitation	-	-	453,865	473,407	453,865	473,407
Total expenses	2,219,726	2,810,403	2,010,279	2,282,857	4,230,005	5,093,260
Increase in net assets	\$ 889,906	\$ 724,491	\$ 502,684	\$ 56,077	\$ 1,392,590	\$ 780,568

Governmental activities revenues exceeded expenses by \$889,906 while business-type activities revenues exceeded expenses by \$502,684. Total revenues decreased \$251,233 from the previous year. Total expenses decreased \$863,255 from the previous year.

59% of the revenues for governmental activities were generated by taxes, while most of the governmental resources were expended for general government (23%), public safety (32%), physical environment (16%), and highways and streets (15%).

Charges for services provided 98% of the revenues for business-type activities while sewer costs made up the majority (47%) of total business-type expenses.

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, 2010, total assets were \$2,787,705 and total liabilities were \$79,005. At the end of fiscal year 2010, unreserved fund balance of the general fund was \$2,398,696.

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	
	2010	2009
September 30,		
Water	\$ 892,071	\$ 825,512
Sewer	246,150	684,571
Sanitation	106,603	69,017
Total	\$ 1,244,824	\$ 1,579,100

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, 2010, was \$13,571,009 (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	
	2010	2009	2010	2009	2010	2009
Land	\$ 150,000	\$ 150,000	\$ 288,191	\$ 288,191	\$ 438,191	\$ 438,191
Construction in progress	20,924	87,192	215,963	201,075	236,887	288,267
Buildings	394,310	403,751	-	-	394,310	403,751
Improvements	2,946,449	2,063,418	8,548,065	8,748,208	11,494,514	10,811,626
Machinery and equipment	585,698	596,018	421,408	457,503	1,007,106	1,053,521
Total	\$ 4,097,381	\$ 3,300,379	\$9,473,627	\$ 9,694,977	\$13,571,008	\$12,995,356

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, 2010 the City had total bond debt outstanding of \$5,672,129. 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	
	2010	2009	2010	2009	2010	2009
Revenue bonds	\$ 613,278	\$ 669,239	\$ 5,058,851	\$ 5,364,065	\$ 5,672,129	\$ 6,033,304

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, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 2,340,719	\$ 1,107,182	\$ 3,447,901
Accounts receivable, net	129,587	132,531	262,118
Internal balances	5,020	(5,020)	-
Prepaid expenses	465	-	465
Fuel inventory	6,774	-	6,774
Total current assets (unrestricted)	2,482,565	1,234,693	3,717,258
Restricted assets			
Cash and cash equivalents	303,230	1,794,260	2,097,490
Total current assets (restricted)	303,230	1,794,260	2,097,490
Total current assets	2,785,795	3,028,953	5,814,748
Noncurrent assets			
Deferred charges	-	83,782	83,782
Capacity rights	-	54,187	54,187
Capital assets			
Nondepreciable	170,923	504,154	675,077
Depreciable, net	3,926,458	8,969,473	12,895,931
Total noncurrent assets	4,097,381	9,611,596	13,708,977
Total assets	6,883,176	12,640,549	19,523,725
Liabilities			
Current liabilities			
Accounts payable	38,396	61,530	99,926
Payroll liabilities	31,136	10,902	42,038
Deferred revenue	7,563	46,579	54,142
Accrued interest	-	39,031	39,031
Total current liabilities	77,095	158,042	235,137
Noncurrent liabilities			
Due within one year			
Accrued compensated absences	5,810	1,765	7,575
Notes payable	-	121,803	121,803
Revenue bonds payable	47,024	262,588	309,612
Due in more than one year			
Accrued compensated absences	23,242	7,062	30,304
Notes payable	-	1,617,048	1,617,048
Revenue bonds payable	566,254	4,796,263	5,362,517
Total noncurrent liabilities	642,330	6,806,529	7,448,859
Total liabilities	719,425	6,964,571	7,683,996
Net assets			
Invested in capital assets (net of related debt)	3,484,103	2,675,925	6,160,028
Restricted for			
Bond retirement	-	210,467	210,467
Law enforcement	3,375	-	3,375
Impact fees	299,855	1,544,762	1,844,617
Unrestricted	2,376,418	1,244,824	3,621,242
Total net assets	\$ 6,163,751	\$ 5,675,978	\$ 11,839,729

See accompanying notes

City of Mexico Beach, Florida
Statement of Activities
Year Ended September 30, 2010

Functions / Programs	Program Revenues			Primary Government			Total
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary Government							
Governmental activities							
General government	\$ 507,744	\$ 83,940	\$ 6,544	\$ 486,849	\$ 69,589	\$ -	\$ 69,589
Public safety	705,866	17,231	-	98,824	(589,811)	-	(589,811)
Highways and streets	338,857	17,141	-	-	(321,716)	-	(321,716)
Human services	84,271	-	-	-	(84,271)	-	(84,271)
Parks and recreation	216,069	-	-	-	(216,069)	-	(216,069)
Physical environment	348,881	-	-	-	(348,881)	-	(348,881)
Interest on long-term debt	18,038	-	-	-	(18,038)	-	(18,038)
Total governmental activities	2,219,726	118,312	6,544	585,673	(1,509,197)	-	(1,509,197)
Business-type activities							
Water	614,674	917,780	-	-	-	303,106	303,106
Sewer	941,740	1,071,030	-	-	-	129,290	129,290
Sanitation	453,865	485,597	-	-	-	31,732	31,732
Total business-type activities	2,010,279	2,474,407	-	-	-	464,128	464,128
Total primary government	\$ 4,230,005	\$ 2,592,719	\$ 6,544	\$ 585,673	(1,509,197)	464,128	(1,045,069)
General revenues							
Taxes							
Ad valorem					1,849,104	-	1,849,104
Utility					124,948	-	124,948
Franchise fees					181,562	-	181,562
Local option gas tax					49,164	-	49,164
Sales tax and other shared revenues					115,628	-	115,628
Miscellaneous					44,333	-	44,333
Sale of surplus property					1,868	2,516	4,384
Interest earnings					32,496	36,040	68,536
Total general revenues and interest					2,399,103	38,556	2,437,659
Change in net assets					889,906	502,684	1,392,590
Net assets - beginning					5,273,845	5,173,294	10,447,139
Net assets - ending					\$ 6,163,751	\$ 5,675,978	\$ 11,839,729

City of Mexico Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2010

	General
Assets	
Cash and cash equivalents	\$ 2,340,719
Accounts receivable, net	129,587
Due from other funds	6,930
Fuel inventory	6,774
Prepays	465
Cash and cash equivalents - restricted	303,230
Total assets	2,787,705
Liabilities and fund balance	
Liabilities	
Accounts payable	37,557
Accrued expenses	31,975
Due to other funds	1,910
Deferred revenue	7,563
Total liabilities	79,005
Fund balance	
Reserved for	
Inventory	6,774
Impact fees	299,855
Law enforcement	3,375
Unreserved	2,398,696
Total fund balance	2,708,700
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.	4,097,381
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(642,330)
Net assets of governmental activities	\$ 6,163,751

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended September 30, 2010

	General
Revenues	
Taxes	\$ 2,204,778
Licenses and permits	23,276
Intergovernmental	707,845
Fines and forfeitures	2,485
Charges for services	92,551
Miscellaneous revenues	78,698
Total revenues	3,109,633
Expenditures	
Current operating	
General government	485,607
Public safety	631,320
Highways and streets	301,827
Physical environment	297,446
Human services	84,583
Parks and recreation	193,957
Capital outlay	1,008,599
Debt service	106,577
Total expenditures	3,109,916
Excess (deficit) of revenues over (under) expenditures	(283)
Fund balance - beginning	
	2,708,983
Fund balance - ending	
	\$ 2,708,700

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, 2010

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

Net change in fund balance - total governmental funds (page 12)	\$ (283)
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.	797,002
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.	4,648
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.	88,539
<u>Change in net assets of governmental activities (page 10)</u>	<u>\$ 889,906</u>

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,269,175	\$ 2,233,256	\$ 2,204,778	\$ (28,478)
Licenses and permits	313,400	31,550	23,276	(8,274)
Intergovernmental	1,178,280	709,160	707,845	(1,315)
Fines and forfeitures	6,500	3,050	2,485	(565)
Charges for services	87,900	93,400	92,551	(849)
Miscellaneous revenues	79,945	79,069	78,698	(371)
Total revenues	3,935,200	3,149,485	3,109,633	(39,852)
Expenditures				
Current				
General government	517,104	520,423	485,607	34,816
Public safety	631,335	659,306	631,320	27,986
Economic environment	600,000	-	-	-
Highways and streets	330,340	342,985	301,827	41,158
Physical environment	270,320	328,352	297,446	30,906
Human services	86,417	86,817	84,583	2,234
Culture and recreation	149,995	204,395	193,957	10,438
Capital outlay	1,060,436	995,107	1,008,599	(13,492)
Debt service	357,445	221,818	106,577	115,241
Total expenditures	4,003,392	3,359,203	3,109,916	249,287
Excess (deficit) of revenues over (under) expenditures	(68,192)	(209,718)	(283)	209,435
Fund balance - beginning	2,708,983	2,708,983	2,708,983	-
Fund balance - ending	\$ 2,640,791	\$ 2,499,265	\$ 2,708,700	\$ 209,435

City of Mexico Beach, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2010

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 686,246	\$ 320,009	\$ 100,927	\$ 1,107,182
Accounts receivable, net	55,996	51,054	25,481	132,531
Due from other funds	212,433	-	1,026	213,459
Total current assets	954,675	371,063	127,434	1,453,172
Restricted assets - cash				
Bond retirement	82,282	167,216	-	249,498
Impact fees	867,188	677,574	-	1,544,762
Total restricted assets - cash	949,470	844,790	-	1,794,260
Noncurrent assets				
Deferred charges	14,300	69,482	-	83,782
Capacity rights	-	54,187	-	54,187
Property, plant, and equipment	6,391,896	7,148,651	573,653	14,114,200
Less accumulated depreciation	(2,180,711)	(2,015,720)	(444,142)	(4,640,573)
Total noncurrent assets	4,225,485	5,256,600	129,511	9,611,596
Total assets	6,129,630	6,472,453	256,945	12,859,028
Liabilities				
Current liabilities				
Accounts payable	24,740	29,579	7,211	61,530
Accrued expenses	3,095	3,622	4,185	10,902
Due to other funds	1,354	210,542	6,583	218,479
Deferred revenue	43,019	2,571	989	46,579
Notes payable, current portion	121,803	-	-	121,803
Revenue bonds payable, current portion	107,879	154,709	-	262,588
Total current liabilities	301,890	401,023	18,968	721,881
Current liabilities payable from restricted assets				
Accrued interest	11,206	27,825	-	39,031
Total current liabilities payable from restricted assets	11,206	27,825	-	39,031
Noncurrent liabilities				
Accrued compensated absences	4,696	2,268	1,863	8,827
Notes payable - due after one year	1,617,048	-	-	1,617,048
Revenue bonds payable - due after one year	1,299,058	3,497,205	-	4,796,263
Total noncurrent liabilities	2,920,802	3,499,473	1,863	6,422,138
Total liabilities	3,233,898	3,928,321	20,831	7,183,050
Net assets				
Invested in capital assets (net of related debt)	1,065,397	1,481,017	129,511	2,675,925
Restricted for				
Bond retirement	71,076	139,391	-	210,467
Impact fees	867,188	677,574	-	1,544,762
Unrestricted	892,071	246,150	106,603	1,244,824
Total net assets	\$ 2,895,732	\$ 2,544,132	\$ 236,114	\$ 5,675,978

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2010

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating revenues				
Charges for services	\$ 871,239	\$ 1,042,900	\$ 411,608	\$ 2,325,747
New installations	13,091	2,450	-	15,541
Reconnections	11,436	-	-	11,436
Impact fees	6,125	10,625	-	16,750
Other utility income	18,405	15,055	73,989	107,449
Total operating revenues	920,296	1,071,030	485,597	2,476,923
Operating expenses				
Personal services	82,569	108,831	245,997	437,397
Professional services	40,258	14,048	9,315	63,621
Office supplies	1,443	619	-	2,062
Utilities	15,457	17,583	-	33,040
Insurance	25,636	17,840	8,732	52,208
Repairs and maintenance	24,846	29,072	17,360	71,278
Operating supplies	27,372	32,913	40,206	100,491
Communication services	15,000	3,089	1,879	19,968
Public utility services	125,083	361,846	-	486,929
Tipping fees	-	-	89,957	89,957
Printing and binding	1,847	-	-	1,847
Miscellaneous	3,085	598	6,402	10,085
Amortization	1,300	6,107	-	7,407
Depreciation	170,714	199,894	34,017	404,625
Total operating expenses	534,610	792,440	453,865	1,780,915
Operating income	385,686	278,590	31,732	696,008
Nonoperating revenues (expenses)				
Interest income	19,543	15,268	1,229	36,040
Interest expense	(80,064)	(149,300)	-	(229,364)
Total nonoperating revenues (expenses)	(60,521)	(134,032)	1,229	(193,324)
Changes in net assets	325,165	144,558	32,961	502,684
Net assets - beginning	2,570,567	2,399,574	203,153	5,173,294
Net assets - ending	\$ 2,895,732	\$ 2,544,132	\$ 236,114	\$ 5,675,978

See accompanying notes

City of Mexico Beach, Florida
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2010

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating activities				
Receipts from customers and users	\$ 958,836	\$ 1,060,168	\$ 495,682	\$ 2,514,686
Payments to suppliers and others	(305,387)	(510,237)	(167,873)	(983,497)
Payments for personal services	(82,569)	(108,831)	(245,997)	(437,397)
Net cash provided by operating activities	570,880	441,100	81,812	1,093,792
Capital and related financing activities				
Principal paid on revenue bonds	-	(176,838)	-	(176,838)
Principal paid on notes and leases	(118,136)	-	-	(118,136)
Proceeds from revenue bonds	(128,376)	-	-	(128,376)
Interest paid on bonds, notes and leases	(98,021)	(149,300)	-	(247,321)
Purchase of capital assets	(152,938)	(945)	(29,392)	(183,275)
Net cash used by capital and related financing activities	(497,471)	(327,083)	(29,392)	(853,946)
Investing activities				
Interest received	19,543	15,268	1,229	36,040
Net cash provided by investing activities	19,543	15,268	1,229	36,040
Net increase in cash and cash equivalents	92,952	129,285	53,649	275,886
Cash and cash equivalents - beginning	1,542,764	1,035,514	47,278	2,625,556
Cash and cash equivalents - ending	\$ 1,635,716	\$ 1,164,799	\$ 100,927	\$ 2,901,442
Classified as cash				
Current assets - cash and cash equivalents	\$ 686,246	\$ 320,009	\$ 100,927	\$ 1,107,182
Restricted assets - cash and cash equivalents	949,470	844,790	-	1,794,260
Cash and cash equivalents - ending	\$ 1,635,716	\$ 1,164,799	\$ 100,927	\$ 2,901,442
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 385,686	\$ 278,590	\$ 31,732	\$ 696,008
Adjustments to reconcile operating income to net cash provided by operating activities				
Amortization	1,300	6,107	-	7,407
Depreciation	170,714	199,894	34,017	404,625
(Increase) decrease in assets				
Accounts receivable, net	23,026	(12,281)	(6,546)	4,199
Due from other funds	2,753	1,419	16,631	20,803
Increase (decrease) in liabilities				
Accounts payable	(7,808)	(11,307)	923	(18,192)
Accrued expenses	689	1,051	(115)	1,625
Deferred revenue	12,761	-	-	12,761
Accrued compensated absences	41	(259)	(1,413)	(1,631)
Due to other funds	(18,282)	(22,114)	6,583	(33,813)
Total adjustments	185,194	162,510	50,080	397,784
Net cash provided by operating activities	\$ 570,880	\$ 441,100	\$ 81,812	\$ 1,093,792

See accompanying notes

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Mexico Beach, Florida (the City) have been prepared in conformity with United States generally accepted accounting principles (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 of is located in eastern Bay County in northwest Florida along the Gulf of Mexico. The City operates under an elected Mayor-Council and a four-member City Council, and serves approximately 1,500 residents by providing human services, community enrichment and development, law enforcement and fire safety, and general administrative services. In addition, the City operates water, sewer and sanitation utilities.

As outlined in Governmental Accounting Standards Board (GASB) Statement 14, *The Reporting Entity*, the financial reporting entity consists of the primary government, and its component units, for which the primary government is considered to be financially accountable. Also included are other entities whose exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Each potential component unit is individually evaluated using specific criteria outlined in GASB Statement 14 to determine whether the entity is: (a) part of the primary government; (b) a component unit which should be included in the reporting entity (blended or discretely presented); or (c) an organization which should be excluded from the reporting entity entirely.

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

A nonprofit corporation formed by the City's volunteer fire department is considered a component unit of the City. However, its operations and assets are not material to the City's financial statements. Accordingly, the volunteer fire department's operations and financial position are not included in the City's financial statements.

There were no entities for which there were positive responses to specific criteria used for establishing oversight responsibility that were excluded from the City's financial statements. The City did not participate in any joint ventures during the year.

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

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements

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

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

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

The City reports the following major governmental fund:

- General fund - The general fund is the City's primary operating fund. It 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.

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.

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 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.

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization and Deferred Charges

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

Reserves and Designations of Fund Equity

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

Capital Assets

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

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

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

Long-term Obligations

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

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, 2010, was 4.00 mills. The tax levy of the City is established by the City Council prior to October 1 of each year.

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property tax revenue is recognized when taxes are received by the City. Because any delinquent taxes collected after September 30 would not be material, delinquent taxes due are not accrued at year end. The City's tax calendar is as follows:

Lien date:	January 1
Levy date:	Not later than October 1
Delinquent date:	April 1 of year following assessment
Discount periods:	November through February (up to 4%)
Collection dates:	November 1 through March 31

Property taxes are collected by the Bay County Tax Collector. State Law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes and for enforcement of collection of real property taxes by the sale of interest bearing tax certificates.

Deferred Revenues

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

Restricted Assets

Certain assets of the various funds are required by resolutions and ordinances to be set aside and used for specific purposes; thus, they are not available to be used for general operations. When both restricted and unrestricted resources are available for use it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Estimates

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

Subsequent events

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

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 difference are as follows:

Cost of capital assets	\$	6,340,959
Less: accumulated depreciation		<u>2,243,578</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	<u>4,097,381</u>

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

Revenue bonds payable	\$	613,278
Compensated absences		<u>29,052</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	<u>642,330</u>

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenues, expenditures, and changes in fund, balance includes a reconciliation between *net 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 difference are as follows:

Capital outlay	\$	1,008,621
Depreciation expense		<u>(211,619)</u>
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>	\$	<u>797,002</u>

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 difference are as follows:

Compensated absences	\$	4,648
<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>	\$	4,648

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 difference are as follows:

Accrued interest	\$	7,495
Principal repayments – notes		25,083
Principal repayments – revenue bonds		55,961
<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>	\$	88,539

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.

Investment Policies

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

The Local Government Surplus Funds Trust Fund, 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 qualified public depositories as defined in s. 280.02.

Direct obligations of the United States Treasury.

Federal agencies and instrumentalities.

Notes to Basic Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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

The City had no investments at September 30, 2010.

Interest Rate Risks

At September 30, 2010, the City did not hold any investments that were considered to be an interest rate risk.

Credit Risks

At September 30, 2010, the City did not hold any investments that were considered to be a credit risk.

Custodial Risks

At September 30, 2010, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

As September 30, 2010, 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, 2010, accounts receivable in the governmental funds are summarized as follows:

Total accounts receivable	\$	129,587
Less: allowance for doubtful accounts		-
<hr/>		
Accounts receivable, net	\$	129,587
<hr/>		

At September 30, 2010, accounts receivable in the proprietary funds are summarized as follows:

Total accounts receivable	\$	132,531
Less: allowance for doubtful accounts		-
<hr/>		
Accounts receivable, net	\$	132,531
<hr/>		

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, 2010 is as follows:

	Due from Other Funds	Due to Other Funds
General fund	\$ 6,930	\$ 1,910
Water fund	212,433	1,354
Sewer fund	-	210,542
Sanitation fund	1,026	6,583
Total	\$ 220,389	\$ 220,389

The interfund loans were for the purpose of operating advances.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010 was as follows:

	September 30, 2009	Increases	Decreases	September 30, 2010
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 150,000	\$ -	\$ -	\$ 150,000
Construction in process	87,192	20,924	(87,192)	20,924
Total capital assets, not being Depreciated	237,192	20,924	(87,192)	170,924
Capital assets, being depreciated				
Buildings	472,633	-	-	472,633
Improvements	2,572,167	945,313	-	3,517,480
Machinery and equipment	2,050,346	129,576	-	2,179,922
Total capital assets, being Depreciated	5,095,146	1,074,889	-	6,170,035

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	September 30, 2009	Increases	Decreases	September 30, 2010
Less accumulated depreciation				
Buildings	\$ (68,882)	\$ (9,441)	\$ -	\$ (78,323)
Improvements	(508,749)	(62,281)	-	(571,030)
Machinery and equipment	(1,454,328)	(139,897)	-	(1,594,225)
Total accumulated depreciation	(2,031,959)	(211,619)	-	(2,243,578)
Total capital assets, being depreciated, net	3,063,187	863,270	-	3,926,457
Total governmental activities' capital assets, net	\$ 3,300,379	\$ 884,194	\$ (87,192)	\$ 4,097,381
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 288,191	\$ -	\$ -	\$ 288,191
Construction in progress	201,075	14,888	-	215,963
Total capital assets, not being Depreciated	489,266	14,888	-	504,154
Capital assets, being depreciated				
Buildings	10,606	-	-	10,606
Improvements	12,314,350	138,050	(494)	12,451,906
Machinery and equipment	1,119,097	30,337	(1,900)	1,147,534
Total capital assets, being Depreciated	13,444,053	168,387	(2,394)	13,610,046
Less accumulated depreciation				
Buildings	(10,606)	-	-	(10,606)
Improvements	(3,566,142)	(338,193)	494	(3,903,841)
Machinery and equipment	(661,594)	(66,432)	1,900	(726,126)
Total accumulated depreciation	(4,238,342)	(404,625)	2,394	(4,640,573)
Total capital assets, being depreciated, net	9,205,711	(236,238)	-	8,969,473
Total business-type activities' capital assets, net	\$ 9,694,977	\$ (221,350)	\$ -	\$ 9,473,627

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	-	-	215,963	215,963
Buildings	-	-	10,606	10,606
Improvements	-	6,817,054	5,634,852	12,451,906
Machinery and equipment	573,653	61,171	512,710	1,147,534
Total	573,653	7,148,651	6,391,896	14,114,200
Less: accumulated depreciation				
Buildings	-	-	(10,606)	(10,606)
Improvements	-	(1,994,562)	(1,909,279)	(3,903,841)
Machinery and equipment	(444,142)	(21,158)	(260,826)	(726,126)
Total accumulated depreciation	(444,142)	(2,015,720)	(2,180,711)	(4,640,573)
Total business-type activities' capital assets, net	\$ 129,511	\$ 5,132,931	\$ 4,211,185	\$ 9,473,627

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

General government	\$ 23,127
Public safety	76,166
Highways and streets	37,920
Physical environment	52,208
Parks and recreation	22,198
Total depreciation expense - governmental activities	\$ 211,619

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

Sanitation	\$ 34,017
Sewer	199,894
Water	170,714
Total depreciation expense - business-type activities	\$ 404,625

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 7 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2009	Increase	Reduction	Balance September 30, 2010	Due within one year
Notes Payable					
Note payable for the purchase of (2) automobiles and (1) tractor, payable in monthly installments of \$5,543, including 6.41% interest.	\$ 25,083	\$ -	\$ (25,083)	\$ -	\$ -
Total notes payable	25,083	-	(25,083)	-	-
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.	501,930	-	(41,971)	459,959	35,268
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.	167,309	-	(13,990)	153,319	11,756
Total bonds payable	669,239	-	(55,961)	613,278	47,024
Liability for compensated absences	33,700	-	(4,648)	29,052	5,810
Total governmental activities long-term obligations	\$ 728,022	\$ -	\$ (85,692)	\$ 642,330	\$ 52,834

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, 2010 are as follows:

Year Ending September 30,	Principal	Interest	Total
2011	\$ 47,024	\$ 26,692	\$ 73,716
2012	49,192	24,549	73,741
2013	51,375	22,309	73,684
2014	53,673	19,969	73,642
2015	56,091	17,524	73,615
2016-2020	320,766	46,908	367,674
2021	35,157	587	35,744
Compensated absences	29,052	-	29,052
Total	\$ 642,330	\$ 158,538	\$ 800,868

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

Bonds Payable	Original Issue	Balance September 30, 2009	Increase	Reduction	Balance September 30, 2010	Due within one year
2009 Utility System Refunding Bonds	\$2,490,000	\$ 2,450,598	\$ -	\$ (204,910)	\$ 2,245,688	\$ 172,191
2009 Capital Improvement Bonds	830,001	816,867	-	(68,304)	748,563	57,397
4.875% Sewer System Junior Lien Revenue Bonds, Series 2000, to improve sewer system.	2,303,100	2,096,600	-	(32,000)	2,064,600	33,000
Total bonds payable – enterprise funds		\$ 5,364,065	\$ -	\$ (305,214)	\$ 5,058,851	\$ 262,588

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

Water and Sewer Revenue Bonds, Series 2000 - \$2,064,600 balance. The bonds are secured by a junior and subordinate pledge of gross revenues of the system. The bonds are due in annual installments each through September 1, 2039; interest at 4.875% per annum is payable annually on September 1. Annual principal and interest payments on the bonds are 18 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$3,926,100. Principal and interest paid for the current year and total pledged revenues were \$134,500 and \$755,310, respectively.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

2009 Utility Refunding Bond, Series 2009 - \$2,245,688 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 net revenue of the water and sewer system, such amounts of non-advalorem revenues as shall be budgeted and appropriated for the payment of the 2009 Utility Note, and any proceeds from the 2009 Utility Note held in any of the funds and accounts created. Annual principal and interest payments on the bonds are 37 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$2,826,217. Principal and interest paid for the current year and total pledged revenues were \$270,037 and \$721,644, respectively.

2009 Capital Improvements Bond, Series 2009 - \$748,863 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 \$942,072. Principal and interest paid for the current year and total pledged revenues were \$90,013 and \$90,013, 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, 2010 are as follows:

Year Ending September 30,	Principal	Interest	Total
2011	\$ 262,588	\$ 231,319	\$ 493,907
2012	275,174	219,358	494,532
2013	287,329	206,419	493,748
2014	300,551	193,497	494,048
2015	313,857	179,560	493,417
2016-2020	1,799,101	667,526	2,466,627
2021-2025	466,651	378,860	845,511
2026-2030	375,000	296,500	671,500
2031-2035	475,000	196,000	671,000
2036-2039	503,600	66,500	570,100
Total	\$ 5,058,851	\$ 2,635,539	\$ 7,694,390

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

Notes Payable

	Balance September 30, 2009	Increase	Reduction	Balance September 30, 2010	Due within one year
Florida Department of Environmental Protection state revolving fund loan. Repayable over 20 years upon completion of water system improvements. (See (A) below).	\$ 1,856,987	\$ -	\$ (118,136)	\$ 1,738,851	\$ 121,803
Total notes payable – enterprise funds	\$ 1,856,987	\$ -	\$ (118,136)	\$ 1,738,851	\$ 121,803

A synopsis of significant enterprise fund notes payable follows:

- (A) The balance of \$1,738,851 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 20 percent of pledged revenues. The total principal and interest remaining to be paid on the note is \$2,093,145. Principal and interest paid for the current year and total pledged revenues were \$174,429 and \$871,239, respectively.

Debt service requirements to maturity on notes payable at September 30, 2010 are as follows:

Year Ending September 30,	Principal	Interest	Total
2011	\$ 121,803	\$ 52,626	\$ 174,429
2012	125,583	48,846	174,429
2013	129,481	44,948	174,429
2014	133,500	40,929	174,429
2015	137,643	36,786	174,429
2016-2020	755,011	117,133	872,144
2021-2022	335,830	13,027	348,857
Total	\$ 1,738,851	\$ 354,295	\$ 2,093,146

Notes to Basic Financial Statements

NOTE 9 – FUND EQUITY

Net Asset Restrictions

The government-wide statement of net assets governmental activities reports \$303,230 of restricted net assets, all of which is restricted by enabling legislation. Business-type activities reports \$1,755,229 of restricted net assets, of which, \$1,544,762 is restricted by enabling legislation.

Reserved Fund Equity

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

Funds	Purpose	Amount
General fund	Impact fees	\$ 299,855
General fund	Law enforcement	3,375
Water fund	Debt service	71,076
Water fund	Impact fees	867,188
Sewer fund	Debt service	139,391
Sewer fund	Impact fees	677,574
<hr/>		
Total reserved fund equity		<hr/> \$ 2,058,459 <hr/>

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.

Notes to Basic Financial Statements

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Conduit Debt Obligations (Continued)

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

NOTE 11 – PENSION PLAN

Plan Description and Administration

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, 2010, 2009 and 2008 was \$1,163,168, \$1,175,478, and \$1,369,104, 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, 2009 Through June 30, 2010	July 1, 2010 Through September 30, 2010
Regular employees	9.85%	10.77%
Special risk employees	20.92%	23.25%

During the year ended September 30, 2010, the City contributed \$149,039 to the system. These contributions represented 13% of covered payroll.

Notes to Basic Financial Statements

NOTE 11 – PENSION PLAN (CONTINUED)

Three Year Trend Information			
Year Ended September 30,	Annual Pension Cost (APC)	Percent of APC Contribution	Net Pension Obligation
2010	\$ 149,039	100%	-
2009	142,214	100%	-
2008	159,439	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 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 are required to show 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 has no related expense or liability at September 30, 2010.

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.

Notes to Basic Financial Statements

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.

Supplementary Information

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

September 30,	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 686,246	\$ 605,207
Accounts receivable, net	55,996	79,022
Due from other funds	212,433	215,186
Total current assets	954,675	899,415
Restricted assets - cash		
Bond and interest sinking	82,282	87,560
Impact fees	867,188	849,997
Total restricted assets - cash	949,470	937,557
Noncurrent assets		
Deferred charges	14,300	15,600
Property, plant, and equipment	6,391,896	6,241,352
Less accumulated depreciation	(2,180,711)	(2,012,391)
Total noncurrent assets	4,225,485	4,244,561
Total assets	6,129,630	6,081,533
Liabilities		
Current liabilities		
Accounts payable	24,740	32,548
Accrued expenses	3,095	2,406
Due to other funds	1,354	19,636
Deferred revenue	43,019	30,258
Notes payable, current portion	121,803	118,136
Revenue bonds payable, current portion	107,879	102,100
Total current liabilities	301,890	305,084
Current liabilities payable from restricted assets		
Accrued interest	11,206	29,163
Total current liabilities payable from restricted assets	11,206	29,163
Noncurrent liabilities		
Accrued compensated absences	4,696	4,655
Notes payable - due after one year	1,617,048	1,738,851
Revenue bonds payable - due after one year	1,299,058	1,433,213
Total noncurrent liabilities	2,920,802	3,176,719
Total liabilities	3,233,898	3,510,966
Net assets		
Invested in capital assets (net of related debt)	1,065,397	836,661
Restricted for		
Bond retirement	71,076	58,397
Impact fees	867,188	849,997
Unrestricted	892,071	825,512
Total net assets	\$ 2,895,732	\$ 2,570,567

See accompanying notes

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

September 30,	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 320,009	\$ 795,814
Accounts receivable, net	51,054	38,773
Due from other funds	-	1,419
Total current assets	371,063	836,006
Restricted assets - cash		
Bond and interest sinking	167,216	150,459
Impact fees	677,574	89,241
Total restricted assets - cash	844,790	239,700
Noncurrent assets		
Deferred charges	69,482	75,589
Capacity rights	54,187	54,187
Property, plant, and equipment	7,148,651	7,147,706
Less accumulated depreciation	(2,015,720)	(1,815,826)
Total noncurrent assets	5,256,600	5,461,656
Total assets	6,472,453	6,537,362
Liabilities		
Current liabilities		
Accounts payable	29,579	40,886
Accrued expenses	3,622	2,571
Due to other funds	210,542	232,656
Deferred revenue	2,571	2,571
Revenue bonds payable, current portion	154,709	147,189
Total current liabilities	401,023	425,873
Current liabilities payable from restricted assets		
Accrued interest	27,825	27,825
Total current liabilities payable from restricted assets	27,825	27,825
Noncurrent liabilities		
Accrued compensated absences	2,268	2,527
Revenue bonds payable - due after one year	3,497,205	3,681,563
Total noncurrent liabilities	3,499,473	3,684,090
Total liabilities	3,928,321	4,137,788
Net assets		
Invested in capital assets (net of related debt)	1,481,017	1,503,128
Restricted for		
Bond retirement	139,391	122,634
Impact fees	677,574	89,241
Unrestricted	246,150	684,571
Total net assets	\$ 2,544,132	\$ 2,399,574

See accompanying notes

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

September 30,	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 100,927	\$ 47,278
Accounts receivable, net	25,481	18,935
Due from other funds	1,026	17,657
Total current assets	127,434	83,870
Noncurrent assets		
Property, plant, and equipment	573,653	544,261
Less accumulated depreciation	(444,142)	(410,125)
Total noncurrent assets	129,511	134,136
Total assets	256,945	218,006
Liabilities		
Current liabilities		
Accounts payable	7,211	6,288
Accrued expenses	4,185	4,300
Due to other funds	6,583	-
Deferred revenue	989	989
Total current liabilities	18,968	11,577
Noncurrent liabilities		
Accrued compensated absences	1,863	3,276
Total noncurrent liabilities	1,863	3,276
Total liabilities	20,831	14,853
Net assets		
Invested in capital assets (net of related debt)	129,511	134,136
Unrestricted	106,603	69,017
Total net assets	\$ 236,114	\$ 203,153

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,	2010	2009
Operating revenues		
Charges for services	\$ 871,239	\$ 1,075,149
New installations	13,091	4,278
Reconnections	11,436	11,565
Impact fees	6,125	6,332
Other utility income	18,405	18,775
Total operating revenues	920,296	1,116,099
Operating expenses		
Personal services	82,569	143,461
Professional services	40,258	12,000
Office supplies	1,443	1,809
Utilities	15,457	22,917
Insurance	25,636	26,673
Repairs and maintenance	24,846	55,403
Operating supplies	27,372	32,357
Communication services	15,000	12,241
Public utility services	125,083	171,685
Printing and binding	1,847	4,041
Miscellaneous	3,085	1,291
Amortization	1,300	-
Depreciation	170,714	166,536
Bad debts	-	267
Total operating expenses	534,610	650,681
Operating income	385,686	465,418
Nonoperating revenues (expenses)		
Interest income	19,543	28,043
Interest expense	(80,064)	(111,712)
Loss on sale of assets	-	(263,445)
Transfers in	-	37,948
Transfers out	-	(104,274)
Total nonoperating revenues (expenses)	(60,521)	(413,440)
Net income	325,165	51,978
Net assets - beginning	2,570,567	2,518,589
Net assets - ending	\$ 2,895,732	\$ 2,570,567

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

Year Ended September 30,	2010	2009
Operating revenues		
Charges for services	\$ 1,042,900	\$ 1,027,427
New installations	2,450	2,303
Impact fees	10,625	9,990
Other utility income	15,055	71,970
Total operating revenues	1,071,030	1,111,690
Operating expenses		
Personal services	108,831	101,725
Professional services	14,048	15,446
Office supplies	619	1,856
Utilities	17,583	17,969
Insurance	17,840	19,462
Repairs and maintenance	29,072	50,732
Operating supplies	32,913	36,064
Communication services	3,089	2,485
Public utility services	361,846	343,581
Printing and binding	-	1,270
Miscellaneous	598	27,290
Amortization	6,107	23,313
Depreciation	199,894	202,907
Total operating expenses	792,440	844,100
Operating income	278,590	267,590
Nonoperating revenues (expenses)		
Interest income	15,268	23,461
Interest expense	(149,300)	(202,957)
Transfers out	-	(81,888)
Total nonoperating revenues (expenses)	(134,032)	(261,384)
Net income	144,558	6,206
Net assets - beginning	2,399,574	2,393,368
Net assets - ending	\$ 2,544,132	\$ 2,399,574

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

Year Ended September 30,	2010	2009
Operating revenues		
Charges for services	\$ 411,608	\$ 396,599
Other utility income	73,989	73,399
Total operating revenues	485,597	469,998
Operating expenses		
Personal services	245,997	278,043
Professional services	9,315	9,000
Insurance	8,732	9,526
Repairs and maintenance	17,360	11,161
Operating supplies	40,206	34,260
Communication services	1,879	2,100
Tipping fees	89,957	84,071
Miscellaneous	6,402	13,595
Depreciation	34,017	31,651
Total operating expenses	453,865	473,407
Operating income (loss)	31,732	(3,409)
Nonoperating revenues (expenses)		
Interest income	1,229	1,302
Total nonoperating revenues (expenses)	1,229	1,302
Net income (loss)	32,961	(2,107)
Net assets - beginning	203,153	205,260
Net assets - ending	\$ 236,114	\$ 203,153

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

Year Ended September 30,	2010	2009
Operating activities		
Receipts from customers and users	\$ 958,836	\$ 1,176,309
Payments to suppliers and others	(305,387)	(337,700)
Payments for personal services	(82,569)	(143,461)
Net cash provided by operating activities	570,880	695,148
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)
Principal paid on notes and leases	(118,136)	(114,580)
Proceeds from revenue bonds	(128,376)	1,559,998
Interest paid on bonds, notes, and leases	(98,021)	(99,379)
Purchase of capital assets	(152,938)	(284,038)
Net cash used in capital and related financing activities	(497,471)	(696,453)
Investing activities		
Proceeds from sale of fixed assets	-	235,000
Interest received	19,543	28,043
Net cash provided by investing activities	19,543	263,043
Net increase in cash and cash equivalents	92,952	195,412
Cash and cash equivalents, beginning	1,542,764	1,347,352
Cash and cash equivalents, ending	\$ 1,635,716	\$ 1,542,764
Classified as cash		
Current assets - cash and cash equivalents	\$ 686,246	\$ 605,207
Restricted assets - cash and cash equivalents	949,470	937,557
Cash and cash equivalents, ending	\$ 1,635,716	\$ 1,542,764
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	\$ 385,686	\$ 465,418
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	1,300	-
Depreciation	170,714	166,536
(Increase) decrease in assets		
Accounts receivable, net	23,026	(17,165)
Due from other funds	2,753	65,177
Increase (decrease) in liabilities		
Accounts payable	(7,808)	(4,518)
Accrued expenses	689	(3,569)
Deferred revenue	12,761	12,198
Accrued compensated absences	41	(2,864)
Due to other funds	(18,282)	13,935
Total adjustments	185,194	229,730
Net cash provided by operating activities	\$ 570,880	\$ 695,148

See accompanying notes

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

Year Ended September 30,	2010	2009
Operating activities		
Receipts from customers and users	\$ 1,060,168	\$ 1,115,335
Payments to suppliers and others	(510,237)	(654,340)
Payments for personal services	(108,831)	(101,725)
Net cash provided by operating activities	441,100	359,270
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	(176,838)	(57,851)
Principal paid on notes and leases	-	(2,038,559)
Proceeds from bond refinanced	-	1,760,003
Interest paid on bonds, notes, and leases	(149,300)	(194,822)
Purchase of capital assets	(945)	-
Net cash used in capital and related financing activities	(327,083)	(531,229)
Investing activities		
Interest received	15,268	23,461
Net cash provided by investing activities	15,268	23,461
Net increase (decrease) in cash and cash equivalents	129,285	(230,386)
Cash and cash equivalents, beginning	1,035,514	1,265,900
Cash and cash equivalents, ending	\$ 1,164,799	\$ 1,035,514
Classified as cash		
Current assets - cash and cash equivalents	\$ 320,009	\$ 795,814
Restricted assets - cash and cash equivalents	844,790	239,700
Cash and cash equivalents, ending	\$ 1,164,799	\$ 1,035,514
Reconciliation of net operating income to net cash provided by operating activities		
Net operating income	\$ 278,590	\$ 267,590
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	6,107	23,313
Depreciation	199,894	202,907
(Increase) decrease in assets		
Accounts receivable, net	(12,281)	4,524
Due from other funds	1,419	(879)
Increase (decrease) in liabilities		
Accounts payable	(11,307)	(5,735)
Accrued expenses	1,051	667
Accrued compensated absences	(259)	(410)
Due to other funds	(22,114)	(132,707)
Total adjustments	162,510	91,680
Net cash provided by operating activities	\$ 441,100	\$ 359,270

See accompanying notes

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

Year Ended September 30,	2010	2009
Operating activities		
Receipts from customers and users	\$ 495,682	\$ 454,049
Payments to suppliers and others	(167,873)	(182,097)
Payments for personal services	(245,997)	(278,043)
Net cash provided by (used in) operating activities	81,812	(6,091)
Capital and related financing activities		
Purchase of capital assets	(29,392)	-
Net cash used in capital and related financing activities	(29,392)	-
Investing activities		
Interest received	1,229	1,302
Net cash provided by investing activities	1,229	1,302
Net increase (decrease) in cash and cash equivalents	53,649	(4,789)
Cash and cash equivalents, beginning	47,278	52,067
Cash and cash equivalents, ending	\$ 100,927	\$ 47,278
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 31,732	\$ (3,409)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	34,017	31,651
(Increase) decrease in assets		
Accounts receivable, net	(6,546)	1,641
Due from other funds	16,631	(17,590)
Increase (decrease) in liabilities		
Accounts payable	923	(6,305)
Accrued expenses	(115)	1,221
Accrued compensated absences	(1,413)	(2,353)
Due to other funds	6,583	(10,947)
Total adjustments	50,080	(2,682)
Net cash provided by (used in) operating activities	\$ 81,812	\$ (6,091)

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, 2010, and have issued our report thereon dated February 2, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our independent auditor's report on internal control over financial reporting and on compliance and other matters. Disclosures in this report, which is dated February 2, 2011, 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 occurred, or are likely to have occurred, 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) deficiencies in internal control 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, 2010, 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, 2010. 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 Council, certain regulatory agencies, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

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

February 2, 2011



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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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described below to be material weaknesses.

10-01 (Prior year 09-01) 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.

10-02 (Prior year 09-02) 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.

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.

Carly Riggs & Ingram, L.L.C.

February 2, 2011