

City of Mexico Beach, Florida

Annual Financial Statements

September 30, 2012

City of Mexico Beach, Florida
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September 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
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, 2012, 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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof 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 May 21, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the management's discussion and analysis 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 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 as listed in the table of contents 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 auditing 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.

Carri Riggs & Ingram, L.L.C.

Certified Public Accountants

May 21, 2013

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 \$13,685,162 (net assets). Of this amount, \$3,133,646 is unrestricted net assets for governmental activities and \$1,334,623 is unrestricted net assets for business-type activities, \$257,864 is restricted net assets for governmental activities and \$1,984,122 is restricted net assets for business-type activities.
- Total net assets increased by \$745,273. Of this amount, \$423,714 is attributable to governmental activities and \$321,559 is attributable to business-type activities.
- As of September 30, 2012, the general fund's unassigned fund balance was \$1,735,272 or 88% of total general fund expenditures.
- Governmental activities revenues decreased to \$2,412,707 or 14%, while governmental activities expenditures decreased 2% to \$1,988,993. Business-type activities revenues increased to \$2,613,151 or 3%, while business-type activities expenditures increased 4% to \$2,291,592.

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, physical environment, human services 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, 2012 and 2011. 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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<i>September 30,</i>						
Current and other assets	\$ 3,721,697	\$ 3,052,422	\$ 3,574,219	\$ 3,192,619	\$ 7,295,916	\$ 6,245,041
Capital assets	4,527,502	4,599,830	9,018,289	9,380,537	13,545,791	13,980,367
Total assets	8,249,199	7,652,252	12,592,508	12,573,156	20,841,707	20,225,408
Current liabilities	301,070	82,648	233,536	146,332	534,606	228,980
Noncurrent liabilities	587,447	632,636	6,034,492	6,423,903	6,621,939	7,056,539
Total liabilities	888,517	715,284	6,268,028	6,570,235	7,156,545	7,285,519
Net assets invested in capital assets, net of related debt	3,969,172	3,992,308	3,005,735	2,966,866	6,974,907	6,959,174
Net assets – restricted	257,864	229,815	1,984,122	1,820,782	2,241,986	2,050,597
Net assets – unrestricted	3,133,646	2,714,845	1,334,623	1,215,273	4,468,269	3,930,118
Total net assets	\$ 7,360,682	\$ 6,936,968	\$ 6,324,480	\$ 6,002,921	\$ 13,685,162	\$ 12,939,889

Investment in capital assets (e.g., land, buildings, and equipment), net of any related outstanding debt used to acquire those assets, represents the City's largest portion of net assets (51%). These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. It should be noted, that although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The *restricted net assets*, representing 16% 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* (\$4,468,269) 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, 2012 and 2011.

Changes in Net Assets

Year Ended September 30,	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues						
Charges for services	\$ 136,911	\$ 108,289	\$ 2,608,658	\$ 2,517,021	\$ 2,745,569	\$ 2,625,310
Operating						
grants/contributions	-	16,159	-	-	-	16,159
Capital						
grants/contributions	155,685	103,990	-	-	155,685	103,990
General revenues						
Gross receipts taxes	1,611,723	1,654,800	-	-	1,611,723	1,654,800
Utility taxes/franchise fees	430,837	486,673	-	-	430,837	486,673
Occupational and other taxes	15,443	15,556	-	-	15,443	15,556
Interest	4,744	9,250	4,493	9,932	9,237	19,182
Other	57,364	403,045	-	-	57,364	403,045
Total revenues	2,412,707	2,797,762	2,613,151	2,526,953	5,025,858	5,324,715
Expenses						
General government	487,770	508,738	-	-	487,770	508,738
Public safety	618,575	610,121	-	-	618,575	610,121
Highways and streets	347,542	323,219	-	-	347,542	323,219
Human services	93,802	88,660	-	-	93,802	88,660
Parks and recreation	162,798	247,433	-	-	162,798	247,433
Physical environment	253,528	219,277	-	-	253,528	219,277
Interest on long-term debt	24,978	27,097	-	-	24,978	27,097
Water	-	-	788,642	799,340	788,642	799,340
Sewer	-	-	1,035,768	992,993	1,035,768	992,993
Sanitation	-	-	467,182	407,677	467,182	407,677
Total expenses	1,988,993	2,024,545	2,291,592	2,200,010	4,280,585	4,224,555
Increase in net assets	\$ 423,714	\$ 773,217	\$ 321,559	\$ 326,943	\$ 745,273	\$ 1,100,160

Governmental activities revenues exceeded expenses by \$423,714 while business-type activities revenues exceeded expenses by \$321,559. Total revenues decreased \$298,857 from the previous year. Total expenses increased \$56,030 from the previous year.

67% of the revenues for governmental activities were generated by taxes, while most of the governmental resources were expended for general government (25%), public safety (31%), physical environment (13%), and highways and streets (17%).

Charges for services provided substantially 100% of the revenues for business-type activities while sewer costs made up the majority (45%) 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, 2012, total assets were \$3,721,697 and total liabilities were \$301,070. At the end of fiscal year 2012, unassigned fund balance of the general fund was \$1,735,272.

The general fund budget was amended during the year to reflect increases in expected revenues and the corresponding expected increases in expenditures resulting from insurance proceeds.

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	
	2012	2011
<i>September 30,</i>		
Water	\$ 653,429	\$ 660,800
Sewer	413,529	335,604
Sanitation	267,665	218,869
Total	\$ 1,334,623	\$ 1,215,273

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* is used to account 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, 2012, was \$13,545,791 (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	
	2012	2011	2012	2011	2012	2011
Land	\$ 237,111	\$ 237,111	\$ 288,191	\$ 288,191	\$ 525,302	\$ 525,302
Construction in progress	-	-	379,918	360,656	379,918	360,656
Buildings	794,425	814,905	-	-	794,425	814,905
Improvements	2,961,696	2,964,185	8,019,772	8,361,787	10,981,468	11,325,972
Machinery and equipment	534,270	583,629	330,408	369,903	864,678	953,532
Total	\$ 4,527,502	\$ 4,599,830	\$ 9,018,289	\$ 9,380,537	\$ 13,545,791	\$ 13,980,367

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, 2012 the City had total bond debt outstanding of \$5,038,151. 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	
	2012	2011	2012	2011	2012	2011
Revenue bonds	\$ 517,062	\$ 566,254	\$ 4,521,089	\$ 4,796,623	\$ 5,038,151	\$ 5,362,877

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: Chris Hubbard.

Basic Financial Statements

City of Mexico Beach, Florida
Statement of Net Assets
September 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 3,434,192	\$ 1,316,048	\$ 4,750,240
Accounts receivable, net	22,675	133,269	155,944
Prepaid expenses	144	-	144
Fuel inventory	6,822	-	6,822
Total current assets (unrestricted)	3,463,833	1,449,317	4,913,150
Restricted assets			
Cash and cash equivalents	257,864	2,001,747	2,259,611
Total current assets (restricted)	257,864	2,001,747	2,259,611
Total current assets	3,721,697	3,451,064	7,172,761
Noncurrent assets			
Deferred charges	-	68,968	68,968
Capacity rights	-	54,187	54,187
Capital assets			
Nondepreciable	237,111	668,109	905,220
Depreciable, net	4,290,391	8,350,180	12,640,571
Total noncurrent assets	4,527,502	9,141,444	13,668,946
Total assets	8,249,199	12,592,508	20,841,707
Liabilities			
Current liabilities			
Accounts payable	105,628	158,154	263,782
Payroll liabilities	32,303	12,242	44,545
Deferred revenue	163,139	45,515	208,654
Accrued interest	-	17,625	17,625
Total current liabilities	301,070	233,536	534,606
Noncurrent liabilities			
Due within one year			
Accrued compensated absences	5,823	4,388	10,210
Notes payable	19,898	129,481	149,379
Revenue bonds payable	51,375	287,329	338,704
Due in more than one year			
Accrued compensated absences	23,294	17,550	40,845
Notes payable	21,370	1,361,984	1,383,354
Revenue bonds payable	465,687	4,233,760	4,699,447
Total noncurrent liabilities	587,447	6,034,492	6,621,939
Total liabilities	888,517	6,268,028	7,156,545
Net assets			
Invested in capital assets (net of related debt)	3,969,172	3,005,735	6,974,907
Restricted for			
Bond retirement	-	354,427	354,427
Law enforcement	75	-	75
Impact fees	257,789	1,629,695	1,887,484
Unrestricted	3,133,646	1,334,623	4,468,269
Total net assets	\$ 7,360,682	\$ 6,324,480	\$ 13,685,162

See accompanying notes

City of Mexico Beach, Florida
Statement of Activities
Year Ended September 30, 2012

		Program Revenues				Primary Government			Net (Expenses) Revenues and Changes in Net Assets	
		Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total		
Functions/Programs										
Primary Government										
Governmental activities										
General government	\$	487,770	\$ 99,731	\$ -	\$ 130,380	\$ (257,659)	\$ -	\$ -	\$ (257,659)	
Public safety		618,575	16,250	-	25,305	(577,020)	-	-	(577,020)	
Highways and streets		347,542	20,930	-	-	(326,612)	-	-	(326,612)	
Human services		93,802	-	-	-	(93,802)	-	-	(93,802)	
Parks and recreation		162,798	-	-	-	(162,798)	-	-	(162,798)	
Physical environment		253,528	-	-	-	(253,528)	-	-	(253,528)	
Interest on long-term debt		24,978	-	-	-	(24,978)	-	-	(24,978)	
Total governmental activities		1,988,993	136,911	-	155,685	(1,696,397)	-	-	(1,696,397)	
Business-type activities										
Water		788,642	968,508	-	-	-	179,866	-	179,866	
Sewer		1,035,768	1,131,258	-	-	-	95,490	-	95,490	
Sanitation		467,182	508,892	-	-	-	41,710	-	41,710	
Total business-type activities		2,291,592	2,608,658	-	-	-	317,066	-	317,066	
Total primary government	\$	4,280,585	\$ 2,745,569	\$ -	\$ 155,685	(1,696,397)	317,066	-	(1,379,331)	
General revenues										
Taxes										
Ad valorem						1,611,723	-	-	1,611,723	
Utility						119,981	-	-	119,981	
Local option gas tax						45,844	-	-	45,844	
Occupational and other taxes						15,443	-	-	15,443	
Franchise fees						158,368	-	-	158,368	
Sales tax and other shared revenues						106,644	-	-	106,644	
Miscellaneous						44,017	-	-	44,017	
Sale of surplus property						13,347	-	-	13,347	
Interest earnings						4,744	4,493	-	9,237	
Total general revenues and interest						2,120,111	4,493	-	2,124,604	
Change in net assets						423,714	321,559	-	745,273	
Net assets - beginning						6,936,968	6,002,921	-	12,939,889	
Net assets - ending						\$ 7,360,682	\$ 6,324,480	\$ -	\$ 13,685,162	

City of Mexico Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2012

	General
<hr/>	
Assets	
Cash and cash equivalents	\$ 3,434,192
Accounts receivable, net	22,675
Fuel inventory	6,822
Prepays	144
Cash and cash equivalents - restricted	257,864
<hr/>	
Total assets	3,721,697
<hr/>	
Liabilities and fund balance	
Liabilities	
Accounts payable	105,628
Accrued expenses	32,303
Deferred revenue	163,139
<hr/>	
Total liabilities	301,070
<hr/>	
Fund balance	
Nonspendable	
Inventory	6,822
Prepays	144
Restricted	
Impact fees	257,789
Law enforcement	75
Committed	
Canal maintenance	461,840
Assigned	
Canal maintenance	150,000
Paving and maintenance	808,685
Unassigned	1,735,272
<hr/>	
Total fund balance	3,420,627
<hr/>	
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.	4,527,502
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(587,447)
<hr/>	
Net assets of governmental activities	\$ 7,360,682
<hr/>	

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended September 30, 2012

	General
Revenues	
Taxes	\$ 1,789,240
Franchise fees	158,368
Licenses and permits	41,482
Intergovernmental	266,080
Fines and forfeitures	1,982
Charges for services	68,422
Rental income	25,025
Miscellaneous revenues	62,108
<hr/>	
Total revenues	2,412,707
<hr/>	
Expenditures	
Current operating	
General government	461,435
Public safety	585,642
Highways and streets	301,311
Physical environment	193,200
Human services	93,442
Parks and recreation	133,724
Capital outlay	118,930
Debt service	74,170
<hr/>	
Total expenditures	1,961,854
<hr/>	
Excess of revenues over expenditures	450,853
<hr/>	
Fund balance - beginning	2,969,774
<hr/>	
Fund balance - ending	\$ 3,420,627

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, 2012

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

Net change in fund balance - total governmental funds (page 12)	\$ 450,853
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 depreciation exceeded capital outlays in the current period.	(72,328)
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.	(4,003)
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.	49,192
Change in net assets of governmental activities (page 10)	\$ 423,714

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,905,868	\$ 1,789,368	\$ 1,789,240	\$ (128)
Franchise fees	132,900	132,900	158,368	25,468
Licenses and permits	6,000	41,515	41,482	(33)
Intergovernmental	283,261	364,641	266,080	(98,561)
Fines and forfeitures	1,000	2,000	1,982	(18)
Charges for services	67,400	71,000	68,422	(2,578)
Rental income	15,500	25,500	25,025	(475)
Miscellaneous revenues	62,309	328,149	62,108	(266,041)
Total revenues	2,474,238	2,755,073	2,412,707	(342,366)
Expenditures				
Current				
General government	518,033	511,953	461,435	50,518
Public safety	539,105	603,197	585,642	17,555
Highways and streets	351,938	302,613	301,311	1,302
Physical environment	255,808	197,058	193,200	3,858
Human services	107,232	94,957	93,442	1,515
Culture and recreation	134,225	134,482	133,724	758
Capital outlay	303,900	385,680	118,930	266,750
Debt service	98,815	119,201	74,170	45,031
Total expenditures	2,309,056	2,349,141	1,961,854	387,287
Excess of revenues over expenditures	165,182	405,932	450,853	44,921
Other financing sources				
Transfers in	16,000	16,000	-	(16,000)
Transfers out	(346,077)	(586,827)	-	586,827
Installment loan proceeds	107,650	107,650	-	(107,650)
Total other financing sources	(222,427)	(463,177)	-	463,177
Net change in fund balance	(57,245)	(57,245)	450,853	508,098
Fund balance - beginning	2,969,774	2,969,774	2,969,774	-
Fund balance - ending	\$ 2,912,529	\$ 2,912,529	\$ 3,420,627	\$ 508,098

See accompanying notes

City of Mexico Beach, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2012

Business-type Activities/Enterprise Funds				
	Water	Sewer	Sanitation	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 544,248	\$ 502,392	\$ 269,408	\$ 1,316,048
Accounts receivable, net	55,312	51,538	26,419	133,269
Due from other funds	156,960	-	-	156,960
Total current assets	756,520	553,930	295,827	1,606,277
Restricted assets - cash				
Bond and interest sinking	170,075	201,977	-	372,052
Impact fees	897,540	732,155	-	1,629,695
Total restricted assets - cash	1,067,615	934,132	-	2,001,747
Noncurrent assets				
Deferred charges	11,700	57,268	-	68,968
Capacity rights	-	54,187	-	54,187
Property, plant, and equipment	6,711,374	7,148,971	582,757	14,443,102
Less accumulated depreciation	(2,532,918)	(2,411,576)	(480,319)	(5,424,813)
Total noncurrent assets	4,190,156	4,848,850	102,438	9,141,444
Total assets	6,014,291	6,336,912	398,265	12,749,468
Liabilities				
Current liabilities				
Accounts payable	61,610	84,334	12,210	158,154
Accrued expenses	3,148	3,546	5,548	12,242
Due to other funds	-	156,960	-	156,960
Deferred revenue	41,955	2,571	989	45,515
Notes payable, current portion	129,481	-	-	129,481
Revenue bonds payable, current portion	117,860	169,469	-	287,329
Total current liabilities	354,054	416,880	18,747	789,681
Current liabilities payable from restricted assets				
Accrued interest	9,611	8,014	-	17,625
Total current liabilities payable from restricted assets	9,611	8,014	-	17,625
Noncurrent liabilities				
Accrued compensated absences	8,078	4,445	9,415	21,938
Notes payable - due after one year	1,361,984	-	-	1,361,984
Revenue bonds payable - due after one year	1,068,345	3,165,415	-	4,233,760
Total noncurrent liabilities	2,438,407	3,169,860	9,415	5,617,682
Total liabilities	2,802,072	3,594,754	28,162	6,424,988
Net assets				
Invested in capital assets (net of related debt)	1,500,786	1,402,511	102,438	3,005,735
Restricted for				
Bond retirement	160,464	193,963	-	354,427
Impact fees	897,540	732,155	-	1,629,695
Unrestricted	653,429	413,529	267,665	1,334,623
Total net assets	\$ 3,212,219	\$ 2,742,158	\$ 370,103	\$ 6,324,480

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2012

Business-type Activities/Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating revenues				
Charges for services	\$ 919,882	\$ 1,084,238	\$ 430,568	\$ 2,434,688
New installations	6,135	980	-	7,115
Reconnections	11,405	-	-	11,405
Impact fees	20,214	35,479	-	55,693
Other utility income	10,872	10,561	78,324	99,757
Total operating revenues	968,508	1,131,258	508,892	2,608,658
Operating expenses				
Personal services	128,370	111,902	237,507	477,779
Professional services	13,952	13,951	9,315	37,218
Office supplies	1,725	1,396	-	3,121
Utilities	21,034	21,367	-	42,401
Insurance	23,870	16,152	7,241	47,263
Repairs and maintenance	40,793	55,776	23,934	120,503
Operating supplies	34,466	41,804	40,739	117,009
Communication services	13,132	1,201	824	15,157
Public utility services	213,735	399,284	-	613,019
Tipping fees	-	-	129,364	129,364
Transportation	-	299	-	299
Rentals	5,143	5,143	650	10,936
Printing and binding	1,560	377	-	1,937
Miscellaneous	6,306	1,081	1,797	9,184
Amortization	1,300	6,107	-	7,407
Depreciation	177,918	196,885	15,811	390,614
Total operating expenses	683,304	872,725	467,182	2,023,211
Operating income	285,204	258,533	41,710	585,447
Nonoperating revenues (expenses)				
Interest income	2,131	1,983	379	4,493
Interest expense	(105,338)	(163,043)	-	(268,381)
Total nonoperating revenues (expenses)	(103,207)	(161,060)	379	(263,888)
Changes in net assets	181,997	97,473	42,089	321,559
Net assets - beginning	3,030,222	2,644,685	328,014	6,002,921
Net assets - ending	\$ 3,212,219	\$ 2,742,158	\$ 370,103	\$ 6,324,480

See accompanying notes

City of Mexico Beach, Florida
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2012

Business-type Activities / Enterprise Funds				
	Water	Sewer	Sanitation	Total
Operating activities				
Receipts from customers and users	\$ 994,993	\$ 1,157,537	\$ 508,487	\$ 2,661,017
Payments to suppliers and others	(341,640)	(558,418)	(208,944)	(1,109,002)
Payments for personal services	(126,487)	(109,220)	(230,366)	(466,073)
Net cash provided by operating activities	526,866	489,899	69,177	1,085,942
Capital and related financing activities				
Principal paid on revenue bonds	(112,853)	(162,681)	-	(275,534)
Principal paid on notes and leases	(125,583)	-	-	(125,583)
Interest paid on bonds, notes and leases	(106,148)	(163,330)	-	(269,478)
Purchase of capital assets	(19,262)	-	(9,104)	(28,366)
Net cash used in capital and related financing activities	(363,846)	(326,011)	(9,104)	(698,961)
Investing activities				
Interest received	2,131	1,983	379	4,493
Net cash provided by investing activities	2,131	1,983	379	4,493
Net change in cash and cash equivalents	165,151	165,871	60,452	391,474
Cash and cash equivalents - beginning	1,446,712	1,270,653	208,956	2,926,321
Cash and cash equivalents - ending	\$ 1,611,863	\$ 1,436,524	\$ 269,408	\$ 3,317,795
Classified as cash				
Current assets - cash and cash equivalents	\$ 544,248	\$ 502,392	\$ 269,408	\$ 1,316,048
Restricted assets - cash and cash equivalents	1,067,615	934,132	-	2,001,747
Cash and cash equivalents - ending	\$ 1,611,863	\$ 1,436,524	\$ 269,408	\$ 3,317,795
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 285,204	\$ 258,533	\$ 41,710	\$ 585,447
Adjustments to reconcile operating income to net cash provided by operating activities				
Amortization	1,300	6,107	-	7,407
Depreciation	177,918	196,885	15,811	390,614
(Increase) decrease in assets				
Accounts receivable, net	2,544	328	(405)	2,467
Due from other funds	27,647	25,951	-	53,598
Increase (decrease) in liabilities				
Accounts payable	34,168	53,105	3,595	90,868
Accrued expenses	(92)	(94)	1,325	1,139
Due to other funds	-	(53,598)	-	(53,598)
Deferred revenue	(3,706)	-	-	(3,706)
Accrued compensated absences	1,883	2,682	7,141	11,706
Total adjustments	241,662	231,366	27,467	500,495
Net cash provided by operating activities	\$ 526,866	\$ 489,899	\$ 69,177	\$ 1,085,942

See accompanying notes

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

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

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

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

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

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

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements

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

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

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

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

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for water, sewer, and sanitation service. Operating expenses of the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 166, Florida Statutes, governs the manner in which the budget may be legally amended once it has been approved. Therefore, the fund level is the legal level of control for budget considerations according to Florida Statutes.

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

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

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Encumbrances

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

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

Cash and Temporary Cash Investments

The City considers 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 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 and the proprietary funds. Inventory in the governmental funds consists of fuel held for use by all departments and funds. Inventory is valued at the lower of cost using the first-in, first-out (FIFO) method or market.

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.

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 funds 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.

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

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012, was 4.6160 mills. The tax levy of the City is established by the City Council prior to October 1 of each year.

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.

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Fund balance

The City has implemented GASB Statement 54 employing the following terminology and classifications for fund balance.

Nonspendable – This category includes the resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The balance as of September 30, 2012 of \$6,966 is from prepaids and inventory which are not in spendable form.

Restricted – This category includes resources restricted by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. The balance as of September 30, 2012 of \$257,864 is restricted by enabling legislation.

Committed – This category includes resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority. Commitments may be established, modified, or rescinded only through ordinances approved by the City Council. The balance as of September 30, 2012 of \$461,840 is committed for canal maintenance.

Assigned – This category includes resources that are intended to be used for specific purposes, but is neither restricted nor committed. These are resources that have been set aside for a specific purpose by an authorized government body or official. Assigned funds as of September 30, 2012 consist of \$808,685 for paving and maintenance and \$150,000 for canal maintenance.

Unassigned – This category is the residual classification for the City's fund balance. The balance as of September 30, 2012 is 1,735,272.

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 externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 has evaluated subsequent events through, May 21, 2013, the date the financial statements were available to be issued.

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	\$	6,701,581
Less: accumulated depreciation		2,174,079
<hr/>		
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	\$	4,527,502
<hr/>		

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	\$	517,062
Notes payable		41,268
Compensated absences		29,117
<hr/>		
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	\$	587,447
<hr/>		

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

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	\$	118,930
Depreciation expense		(191,258)
<hr/>		
Net adjustment to decrease net change in fund balance – total governmental funds to arrive at change in net assets of governmental activities	\$	(72,328)
<hr/>		

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	\$	(4,003)
<hr/>		
Net adjustment to increase net change in fund balance – total governmental funds to arrive at change in net assets of governmental activities	\$	(4,003)
<hr/>		

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.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

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:

Principal repayments		
Principal payments - bonds	\$	49,192
<hr/>		
Net adjustment to increase net change in fund balance – total governmental funds to arrive at change in net assets of governmental activities	\$	49,192
<hr/>		

NOTE 3 – CASH AND INVESTMENTS

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

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.

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, 2012.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risks

At September 30, 2012, the City did not hold any investments that were considered to be an interest rate risk.

Credit Risks

At September 30, 2012, the City did not hold any investments that were considered to be a credit risk.

Custodial Risks

At September 30, 2012, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

As September 30, 2012, the City did not hold any deposits or investments that were considered to be a concentration of credit risk.

NOTE 4 – ACCOUNTS RECEIVABLE, NET

At September 30, 2012, accounts receivable in the governmental funds are summarized as follows:

Total accounts receivable	\$	22,675
Less: allowance for doubtful accounts		-
Net accounts receivable	\$	22,675

At September 30, 2012, accounts receivable in the proprietary funds are summarized as follows:

Accounts receivable	\$	133,269
Less: allowance for doubtful accounts		-
Net accounts receivable	\$	133,269

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of September 30, 2012 is as follows:

<i>September 30,</i>	Due from Other Funds	Due to Other Funds
Water fund	\$ 156,960	\$ -
Sewer fund	-	156,960
Total	\$ 156,960	\$ 156,960

The interfund loans were for the purpose of operating advances.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 was as follows:

Governmental activities

	September 30, 2011	Increases	Decreases	September 30, 2012
Capital assets, not being depreciated				
Land	\$ 237,111	\$ -	\$ -	\$ 237,111
Total capital assets, not being depreciated	237,111	-	-	237,111
Capital assets, being depreciated				
Buildings	904,509	-	-	904,509
Improvements	3,274,765	80,380	-	3,355,145
Machinery and equipment	2,215,391	38,550	(49,125)	2,204,816
Total capital assets, being depreciated	6,394,665	118,930	(49,125)	6,464,470
Less accumulated depreciation				
Buildings	(89,604)	(20,480)	-	(110,084)
Improvements	(310,580)	(82,869)	-	(393,449)
Machinery and equipment	(1,631,762)	(87,909)	49,125	(1,670,546)
Total accumulated depreciation	(2,031,946)	(191,258)	49,125	(2,174,079)
Capital assets, being depreciated (net of accumulated depreciation)	4,362,719	(72,328)	-	4,290,391
Total governmental activities' capital assets (net of accumulated depreciation)	\$ 4,599,830	\$ (72,328)	\$ -	\$ 4,527,502

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

Business-type activities

	September 30, 2011	Increases	Decreases	September 30, 2012
Capital assets, not being depreciated				
Land	\$ 288,191	\$ -	\$ -	\$ 288,191
Construction in progress	360,656	19,262	-	379,918
Total capital assets, not being depreciated	648,847	19,262	-	668,109
Capital assets, being depreciated				
Buildings	10,606	-	-	10,606
Improvements	12,606,181	-	-	12,606,181
Machinery and equipment	1,149,102	9,104	-	1,158,206
Total capital assets, being depreciated	13,765,889	9,104	-	13,774,993
Less accumulated depreciation				
Buildings	(10,606)	-	-	(10,606)
Improvements	(4,244,394)	(342,015)	-	(4,586,409)
Machinery and equipment	(779,199)	(48,599)	-	(827,798)
Total accumulated depreciation	(5,034,199)	(390,614)	-	(5,424,813)
Capital assets, being depreciated (net of accumulated depreciation)	8,731,690	(381,510)	-	8,350,180
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 9,380,537	\$ (362,248)	\$ -	\$ 9,018,289

	Sanitation Fund	Sewer Fund	Water Fund	Total
Land	\$ -	\$ 270,426	\$ 17,765	\$ 288,191
Construction in progress	-	-	379,918	379,918
Buildings	-	-	10,606	10,606
Improvements	-	6,817,054	5,789,127	12,606,181
Machinery and equipment	582,757	61,491	513,958	1,158,206
Total	582,757	7,148,971	6,711,374	14,443,102

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	Sanitation Fund	Sewer Fund	Water Fund	Total
Less accumulated depreciation				
Buildings	\$ -	\$ -	\$ (10,606)	\$ (10,606)
Improvements	-	(2,386,041)	(2,200,368)	(4,586,409)
Machinery and equipment	(480,319)	(25,535)	(321,944)	(827,798)
Total accumulated depreciation	(480,319)	(2,411,576)	(2,532,918)	(5,424,813)
Total business-type activities capital assets (net of accumulated depreciation)	\$ 102,438	\$ 4,737,395	\$4,178,456	\$9,018,289

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

Governmental activities	
General government	\$ 24,749
Public safety	32,076
Highways and streets	45,319
Physical environment	60,210
Parks and recreation	28,904
Total depreciation expense – governmental activities	\$ 191,258

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

Water	\$ 177,918
Sewer	196,885
Sanitation	15,811
Total depreciation expense – business-type activities	\$ 390,614

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 7 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2011	Increase	Reduction	Balance September 30, 2012	Due within one year
Notes Payable					
Note payable for the purchase of a backhoe, payable in annual installments of \$22,530, including 5.9% interest and maturing in August 2013.	\$ 41,268	\$ -	\$ -	\$ 41,268	\$ 19,898
Total notes payable	41,268	-	-	41,268	19,898
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. (See (B) in note 8).	424,691	-	(36,894)	387,797	38,531
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. (See (C) in note 8).	141,563	-	(12,298)	129,265	12,844
Total bonds payable	566,254	-	(49,192)	517,062	51,375
Liability for compensated absences	25,113	4,004	-	29,117	5,823
Total governmental activities long-term obligations	\$ 632,635	\$ 4,004	\$ (49,192)	\$ 587,447	\$ 77,096

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, 2012 are as follows:

Year ending September 30,	Principal	Interest	Total
2013	\$ 71,273	\$ 24,940	\$ 96,213
2014	75,044	21,128	96,172
2015	56,091	17,524	73,615
2016	58,648	14,969	73,617
2017	61,269	12,297	73,566
2018-2021	236,005	20,230	256,235
Compensated absences	29,117	-	29,117
Total	\$ 587,447	\$ 111,088	\$ 698,535

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

Bonds Payable	Original Issue	Balance September 30, 2011	Additions	Deductions	Balance September 30, 2012	Due Within One Year
2009 Utility System Refunding Bonds. (See (B) below).	\$ 2,490,000	\$2,073,857	\$ -	\$ (180,131)	\$ 1,893,726	\$ 188,122
2009 Capital Improvement Bonds. (See (C) below).	830,001	691,166	-	(60,403)	630,763	62,707
4.875% Sewer System Junior Lien Revenue Bonds, Series 2000, to improve sewer system. See (A) below.	2,303,100	2,031,600	-	(35,000)	1,996,600	36,500
Total bonds payable -- enterprise funds		\$4,796,623	\$ -	\$ (275,534)	\$ 4,521,089	\$ 287,329

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

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

- (A) Water and Sewer Revenue Bonds, Series 2000 - \$1,996,600 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 23 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$3,657,600. Principal and interest paid for the current year and total pledged revenues were \$134,500 and \$573,033, respectively.
- (B) 2009 Utility Refunding Bond, Series 2009 - \$2,281,523 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-advallorem 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 36 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$2,754,534. Principal and interest paid for the current year and total pledged revenues were \$325,330 and \$898,363, respectively.
- (C) 2009 Capital Improvements Bond, Series 2009 - \$760,028 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-advallorem 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 \$918,178. Principal and interest paid for the current year and total pledged revenues were \$108,443 and \$108,443, 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.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

Debt service requirements to maturity on revenue bonds payable at September 30, 2012 are as follows:

Year ending September 30,	Principal	Interest	Total
2013	\$ 287,329	\$ 206,419	\$ 493,748
2014	300,551	193,497	494,048
2015	313,857	179,560	493,417
2016	328,840	165,085	493,925
2017	343,139	150,041	493,180
2018-2022	1,408,773	513,760	1,922,533
2023-2027	324,500	346,500	671,000
2028-2032	412,000	259,500	671,500
2033-2037	522,500	148,500	671,000
2038-2039	279,600	22,000	301,600
Total	\$ 4,521,089	\$ 2,184,862	\$ 6,705,951

Notes Payable

	Balance September 30, 2011	Increase	Reduction	Balance September 30, 2012	Due within one year
Florida Department of Environmental Protection state revolving fund loan. Repayable over 20 years upon completion of water system improvements. (See (D) below).	\$1,617,048	\$ -	\$ (125,583)	\$ 1,491,465	\$ 129,481
Total notes payable – enterprise	\$1,617,048	\$ -	\$ (125,583)	\$ 1,491,465	\$ 129,481

A synopsis of significant enterprise fund notes payable follows:

- (D) The balance of \$1,491,465 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 14 percent of pledged revenues. The total principal and interest remaining to be paid on the note is \$1,744,288. Principal and interest paid for the current year and total pledged revenues were \$130,428 and \$919,882, respectively.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

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

Debt service requirements to maturity on notes payable at September 30, 2012 are as follows:

Year ending September 30,	Principal	Interest	Total
2013	\$ 129,481	\$ 44,948	\$ 174,429
2014	133,500	40,929	174,429
2015	137,643	36,786	174,429
2016	141,915	32,514	174,429
2017	146,320	28,108	174,428
2018-2022	802,606	69,538	872,144
Total	\$ 1,491,465	\$ 252,823	\$ 1,744,288

NOTE 9 – FUND EQUITY

Net Asset Restrictions

The government-wide statement of net assets governmental activities reports \$257,864 of restricted net assets, all of which is restricted by enabling legislation. Business-type activities reports \$1,984,122 of restricted net assets, of which, \$1,629,695 is restricted by enabling legislation.

Restricted 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	\$ 257,789
General fund	Law enforcement	75
Water fund	Debt service	160,464
Water fund	Impact fees	897,540
Sewer fund	Debt service	193,963
Sewer fund	Impact fees	732,155
Total restricted fund equity		\$ 2,241,986

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.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 minimal.

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 were used to make variable rate loans to those entities described above. Any loans issued for financing these projects are secured by a pledge of the revenue derived from the projects and security interests in such projects.

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

NOTE 11 – PENSION PLAN

Plan Description and Administration

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, 2012, 2011 and 2010 was \$1,206,583, \$1,128,361, and \$1,163,168, 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. As of July 1, 2011 the employees contribute 3%.

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 11 – PENSION PLAN (CONTINUED)

The rates, as a percentage of gross earnings, are as follows:

	October 1, 2011 through June 30, 2012	July 1, 2012 through September 30, 2012
Regular employees	4.91%	5.18%
Special risk employees	14.10%	14.90%
Deferred retirement option program	4.42%	5.44%

During the year ended September 30, 2012, the City contributed \$81,205 to the system. These contributions represented 7% of covered payroll.

Three Year Trend Information

Year Ended September 30,	Annual Pension Cost (APC)	Percent of APC Contribution	Net Pension Obligation
2012	\$ 81,205	100%	-
2011	135,509	100%	-
2010	149,039	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 postemployment 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, 2012.

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:

City of Mexico Beach, Florida

Notes to Basic Financial Statements

NOTE 13 – RISK MANAGEMENT (CONTINUED)

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

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

NOTE 14 – INTERLOCAL AGREEMENTS

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

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

Supplementary Information

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

September 30,	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 544,248	\$ 487,875
Accounts receivable, net	55,312	57,856
Due from other funds	156,960	184,607
Total current assets	756,520	730,338
Restricted assets - cash		
Bond and interest sinking	170,075	82,716
Impact fees	897,540	876,121
Total restricted assets - cash	1,067,615	958,837
Noncurrent assets		
Deferred charges	11,700	13,000
Property, plant, and equipment	6,711,374	6,692,112
Less accumulated depreciation	(2,532,918)	(2,355,000)
Total noncurrent assets	4,190,156	4,350,112
Total assets	6,014,291	6,039,287
Liabilities		
Current liabilities		
Accounts payable	61,610	27,442
Accrued expenses	3,148	3,240
Deferred revenue	41,955	45,661
Notes payable, current portion	129,481	125,583
Revenue bonds payable, current portion	117,860	112,853
Total current liabilities	354,054	314,779
Current liabilities payable from restricted assets		
Accrued interest	9,611	10,421
Total current liabilities payable from restricted assets	9,611	10,421
Noncurrent liabilities		
Accrued compensated absences	8,078	6,195
Notes payable - due after one year	1,361,984	1,491,465
Revenue bonds payable - due after one year	1,068,345	1,186,205
Total noncurrent liabilities	2,438,407	2,683,865
Total liabilities	2,802,072	3,009,065
Net assets		
Invested in capital assets (net of related debt)	1,500,786	1,421,006
Restricted for		
Bond retirement	160,464	72,295
Impact fees	897,540	876,121
Unrestricted	653,429	660,800
Total net assets	\$ 3,212,219	\$ 3,030,222

See accompanying notes

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

September 30,	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 502,392	\$ 389,986
Accounts receivable, net	51,538	51,866
Due from other funds	-	25,951
Total current assets	553,930	467,803
Restricted assets - cash		
Bond and interest sinking	201,977	184,965
Impact fees	732,155	695,702
Total restricted assets - cash	934,132	880,667
Noncurrent assets		
Deferred charges	57,268	63,375
Capacity rights	54,187	54,187
Property, plant, and equipment	7,148,971	7,148,971
Less accumulated depreciation	(2,411,576)	(2,214,691)
Total noncurrent assets	4,848,850	5,051,842
Total assets	6,336,912	6,400,312
Liabilities		
Current liabilities		
Accounts payable	84,334	31,229
Accrued expenses	3,546	3,640
Due to other funds	156,960	210,558
Deferred revenue	2,571	2,571
Revenue bonds payable, current portion	169,469	162,321
Total current liabilities	416,880	410,319
Current liabilities payable from restricted assets		
Accrued interest	8,014	8,301
Total current liabilities payable from restricted assets	8,014	8,301
Noncurrent liabilities		
Accrued compensated absences	4,445	1,763
Revenue bonds payable - due after one year	3,165,415	3,335,244
Total noncurrent liabilities	3,169,860	3,337,007
Total liabilities	3,594,754	3,755,627
Net assets		
Invested in capital assets (net of related debt)	1,402,511	1,436,715
Restricted for		
Bond retirement	193,963	176,664
Impact fees	732,155	695,702
Unrestricted	413,529	335,604
Total net assets	\$ 2,742,158	\$ 2,644,685

See accompanying notes

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

September 30,	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 269,408	\$ 208,956
Accounts receivable, net	26,419	26,014
Total current assets	295,827	234,970
Noncurrent assets		
Property, plant, and equipment	582,757	573,653
Less accumulated depreciation	(480,319)	(464,508)
Total noncurrent assets	102,438	109,145
Total assets	398,265	344,115
Liabilities		
Current liabilities		
Accounts payable	12,210	8,615
Accrued expenses	5,548	4,223
Deferred revenue	989	989
Total current liabilities	18,747	13,827
Noncurrent liabilities		
Accrued compensated absences	9,415	2,274
Total noncurrent liabilities	9,415	2,274
Total liabilities	28,162	16,101
Net assets		
Invested in capital assets (net of related debt)	102,438	109,145
Unrestricted	267,665	218,869
Total net assets	\$ 370,103	\$ 328,014

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

Year Ended September 30,	2012	2011
Operating revenues		
Charges for services	\$ 919,882	\$ 892,760
New installations	6,135	3,910
Reconnections	11,405	12,040
Impact fees	20,214	6,125
Other utility income	10,872	13,765
Total operating revenues	968,508	928,600
Operating expenses		
Personal services	128,370	125,940
Professional services	13,952	25,689
Office supplies	1,725	3,129
Utilities	21,034	20,755
Insurance	23,870	24,480
Repairs and maintenance	40,793	25,363
Operating supplies	34,466	24,684
Communication services	13,132	13,082
Public utility services	213,735	239,350
Rentals	5,143	3,033
Printing and binding	1,560	1,565
Miscellaneous	6,306	2,677
Amortization	1,300	1,300
Depreciation	177,918	174,289
Total operating expenses	683,304	685,336
Operating income	285,204	243,264
Nonoperating revenues (expenses)		
Interest income	2,131	5,230
Interest expense	(105,338)	(114,004)
Total nonoperating revenues (expenses)	(103,207)	(108,774)
Change in net assets	181,997	134,490
Net assets - beginning	3,030,222	2,895,732
Net assets - ending	\$ 3,212,219	\$ 3,030,222

See accompanying notes

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

Year Ended September 30,	2012	2011
Operating revenues		
Charges for services	\$ 1,084,238	\$ 1,058,283
New installations	980	3,675
Impact fees	35,479	15,930
Other utility income	10,561	11,474
Total operating revenues	1,131,258	1,089,362
Operating expenses		
Personal services	111,902	114,437
Professional services	13,951	14,554
Office supplies	1,396	603
Utilities	21,367	19,275
Insurance	16,152	16,770
Repairs and maintenance	55,776	39,643
Operating supplies	41,804	40,851
Communication services	1,201	1,361
Public utility services	399,284	384,359
Transportation	299	18
Rentals	5,143	3,033
Printing and binding	377	312
Miscellaneous	1,081	1,081
Amortization	6,107	6,107
Depreciation	196,885	198,971
Total operating expenses	872,725	841,375
Operating income	258,533	247,987
Nonoperating revenues (expenses)		
Interest income	1,983	4,184
Interest expense	(163,043)	(151,618)
Total nonoperating revenues (expenses)	(161,060)	(147,434)
Change in net assets	97,473	100,553
Net assets - beginning	2,644,685	2,544,132
Net assets - ending	\$ 2,742,158	\$ 2,644,685

City of Mexico Beach, Florida

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

Year Ended September 30,	2012	2011
Operating revenues		
Charges for services	\$ 430,568	\$ 421,035
Other utility income	78,324	78,024
Total operating revenues	508,892	499,059
Operating expenses		
Personal services	237,507	204,880
Professional services	9,315	7,508
Insurance	7,241	8,312
Repairs and maintenance	23,934	14,810
Operating supplies	40,739	47,449
Communication services	824	1,031
Tipping fees	129,364	101,782
Rentals	650	-
Miscellaneous	1,797	1,539
Depreciation	15,811	20,366
Total operating expenses	467,182	407,677
Operating income	41,710	91,382
Nonoperating revenues (expenses)		
Interest income	379	518
Total nonoperating revenues (expenses)	379	518
Change in net assets	42,089	91,900
Net assets - beginning	328,014	236,114
Net assets - ending	\$ 370,103	\$ 328,014

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

Year Ended September 30,	2012	2011
Operating activities		
Receipts from customers and users	\$ 994,993	\$ 957,208
Payments to suppliers and others	(341,640)	(380,815)
Payments for personal services	(126,487)	(125,940)
Net cash provided by operating activities	526,866	450,453
Capital and related financing activities		
Principal paid on revenue bonds	(112,853)	(107,879)
Principal paid on notes and leases	(125,583)	(121,803)
Interest paid on bonds, notes, and leases	(106,148)	(114,789)
Purchase of capital assets	(19,262)	(300,216)
Net cash used in capital and related financing activities	(363,846)	(644,687)
Investing activities		
Interest received	2,131	5,230
Net cash provided by investing activities	2,131	5,230
Net change in cash and cash equivalents	165,151	(189,004)
Cash and cash equivalents, beginning	1,446,712	1,635,716
Cash and cash equivalents, ending	\$ 1,611,863	\$ 1,446,712
Classified as cash		
Current assets - cash and cash equivalents	\$ 544,248	\$ 487,875
Restricted assets - cash and cash equivalents	1,067,615	958,837
Cash and cash equivalents, ending	\$ 1,611,863	\$ 1,446,712
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 285,204	\$ 243,264
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	1,300	1,300
Depreciation	177,918	174,289
(Increase) decrease in assets		
Accounts receivable, net	2,544	(1,860)
Due from other funds	27,647	27,826
Increase (decrease) in liabilities		
Accounts payable	34,168	2,702
Accrued expenses	(92)	145
Due to other funds	-	(1,354)
Deferred revenue	(3,706)	2,642
Accrued compensated absences	1,883	1,499
Total adjustments	241,662	207,189
Net cash provided by operating activities	\$ 526,866	\$ 450,453

See accompanying notes

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

Year Ended September 30,	2012	2011
Operating activities		
Receipts from customers and users	\$ 1,157,537	\$ 1,062,599
Payments to suppliers and others	(558,418)	(520,681)
Payments for personal services	(109,220)	(114,437)
Net cash provided by operating activities	489,899	427,481
Capital and related financing activities		
Principal paid on revenue bonds	(162,681)	(154,349)
Interest paid on bonds, notes, and leases	(163,330)	(171,142)
Purchase of capital assets	-	(320)
Net cash used in capital and related financing activities	(326,011)	(325,811)
Investing activities		
Interest received	1,983	4,184
Net cash provided by investing activities	1,983	4,184
Net increase in cash and cash equivalents	165,871	105,854
Cash and cash equivalents, beginning	1,270,653	1,164,799
Cash and cash equivalents, ending	\$ 1,436,524	\$ 1,270,653
Classified as cash		
Current assets - cash and cash equivalents	\$ 502,392	\$ 389,986
Restricted assets - cash and cash equivalents	934,132	880,667
Cash and cash equivalents, ending	\$ 1,436,524	\$ 1,270,653
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 258,533	\$ 247,987
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	6,107	6,107
Depreciation	196,885	198,971
(Increase) decrease in assets		
Accounts receivable, net	328	(812)
Due from other funds	25,951	(25,951)
Increase (decrease) in liabilities		
Accounts payable	53,105	1,650
Accrued expenses	(94)	18
Due to other funds	(53,598)	16
Accrued compensated absences	2,682	(505)
Total adjustments	231,366	179,494
Net cash provided by operating activities	\$ 489,899	\$ 427,481

See accompanying notes

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

Year Ended September 30,	2012	2011
Operating activities		
Receipts from customers and users	\$ 508,487	\$ 499,552
Payments to suppliers and others	(208,944)	(187,161)
Payments for personal services	(230,366)	(204,880)
Net cash provided by operating activities	69,177	107,511
Capital and related financing activities		
Purchase of capital assets	(9,104)	-
Net cash used in capital and related financing activities	(9,104)	-
Investing activities		
Interest received	379	518
Net cash provided by investing activities	379	518
Net increase in cash and cash equivalents	60,452	108,029
Cash and cash equivalents, beginning	208,956	100,927
Cash and cash equivalents, ending	\$ 269,408	\$ 208,956
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 41,710	\$ 91,382
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	15,811	20,366
(Increase) decrease in assets		
Accounts receivable, net	(405)	(533)
Due from other funds	-	1,026
Increase (decrease) in liabilities		
Accounts payable	3,595	1,404
Accrued expenses	1,325	38
Due to other funds	-	(6,583)
Accrued compensated absences	7,141	411
Total adjustments	27,467	16,129
Net cash provided by operating activities	\$ 69,177	\$ 107,511

See accompanying notes

Compliance Section

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Honorable Mayor and Members
of the City Council
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, 2012, and have issued our report thereon dated May 21, 2013.

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 Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in this report, which is dated May 21, 2013, 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 reports or schedule:

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*.

- Findings reported the two previous years include 12-01, 12-02.

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 or grant agreements, fraud, illegal acts, 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.

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

12-02 (Prior year 11-02 and 10-02) (Initially reported in 2007) Inadequate design of internal control over the preparation of the financial statements being audited gives rise to a material weakness in internal control.

Management's response - Management has considered the above material weaknesses 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, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

May 21, 2013