

City of Mexico Beach, Florida

Annual Financial Statements

September 30, 2013



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City of Mexico Beach, Florida
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September 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mexico Beach, Florida (the City), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The comparative schedules as listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The comparative schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, 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* in considering the City's internal control over financial reporting and compliance.

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

Certified Public Accountants

November 24, 2014

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 \$15,745,158 (net position). Of this amount, \$3,683,483 is unrestricted net position for governmental activities and \$1,380,475 is unrestricted net position for business-type activities, \$253,754 is restricted net position for governmental activities and \$1,155,934 is restricted net position for business-type activities.
- Total net position increased by \$2,059,996. Of this amount, \$453,820 is attributable to governmental activities and \$1,606,176 is attributable to business-type activities.
- As of September 30, 2013, the general fund's unassigned fund balance was \$2,003,706 or 106% of total general fund expenditures.
- Governmental activities revenues increased to \$2,435,347 or 1%, while governmental activities expenditures decreased minimally to \$1,981,527. Business-type activities revenues increased to \$4,179,868 or 60%, while business-type activities expenditures increased 12% to \$2,573,693.

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 position* 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 position of governmental activities and business-type activities, as well as the change in net position. Governmental activities are primarily supported by 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 position* presents information on all assets and liabilities of the City, with the difference between the two reported as *net position*. Assets, liabilities and net position are reported separately for governmental activities and business-type activities. Increases or decreases in net position 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 position for the fiscal year. All changes in net position 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 position*, a *statement of revenues, expenses, and changes in net position*, 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 position*, 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 position of the City at September 30, 2013 and 2012. The City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its governmental and business-type activities.

Net Position

September 30,	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 4,431,916	\$ 3,721,697	\$ 2,733,081	\$ 3,574,219	\$ 7,164,997	\$ 7,295,916
Capital assets	4,364,323	4,527,502	13,142,991	9,018,289	17,507,314	13,545,791
Total assets	8,796,239	8,249,199	15,876,072	12,592,508	24,672,311	20,841,707
Current liabilities	460,042	301,070	174,854	233,536	634,896	534,606
Noncurrent liabilities	521,695	587,447	7,770,562	6,034,492	8,292,257	6,621,939
Total liabilities	981,737	888,517	7,945,416	6,268,028	8,927,153	7,156,545
Net investment in capital assets	3,877,265	3,969,172	5,394,247	3,005,735	9,271,512	6,974,907
Net position – restricted	253,754	257,864	1,155,934	1,984,122	1,409,688	2,241,986
Net position – unrestricted	3,683,483	3,133,646	1,380,475	1,334,623	5,063,958	4,468,269
Total net position	\$ 7,814,502	\$ 7,360,682	\$ 7,930,656	\$ 6,324,480	\$ 15,745,158	\$ 13,685,162

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 position (59%). 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 position*, representing 9% of the City's net position, are subject to external restrictions, and thus are limited as to how they may be used. The remaining balance of *unrestricted net position* (\$5,063,958) 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 position for the years ended September 30, 2013 and 2012.

Changes in Net Position

<i>Year Ended</i> <i>September 30,</i>	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Program revenues						
Charges for services	\$ 118,290	\$ 136,911	\$ 2,702,135	\$ 2,608,658	\$ 2,820,425	\$ 2,745,569
Capital grants/contributions	103,600	155,685	1,462,225	-	1,565,825	155,685
General revenues						
Taxes	1,629,791	1,611,723	-	-	1,629,791	1,611,723
Utility taxes/franchise fees	467,263	430,837	-	-	467,263	430,837
Occupational and other taxes	15,063	15,443	-	-	15,063	15,443
Interest	4,771	4,744	3,509	4,493	8,280	9,237
Other	96,569	57,364	12,000	-	108,569	57,364
Total revenues	2,435,347	2,412,707	4,179,869	2,613,151	6,615,216	5,025,858
Expenses						
General government	560,455	487,770	-	-	560,455	487,770
Public safety	617,192	618,575	-	-	617,192	618,575
Highways and streets	326,377	347,542	-	-	326,377	347,542
Human services	92,854	93,802	-	-	92,854	93,802
Parks and recreation	164,683	162,798	-	-	164,683	162,798
Physical environment	194,701	253,528	-	-	194,701	253,528
Interest on long-term debt	25,265	24,978	-	-	25,265	24,978
Water	-	-	978,894	788,642	978,894	788,642
Sewer	-	-	1,083,024	1,035,768	1,083,024	1,035,768
Sanitation	-	-	511,775	467,182	511,775	467,182
Total expenses	1,981,527	1,988,993	2,573,693	2,291,592	4,555,220	4,280,585
Increase in net position	\$ 453,820	\$ 423,714	\$ 1,606,176	\$ 321,559	\$ 2,059,996	\$ 745,273

Governmental activities revenues exceeded expenses by \$453,820 while business-type activities revenues exceeded expenses by \$1,606,176. Total revenues increased \$1,589,357 from the previous year. Total expenses increased \$274,634 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 (28%), public safety (31%), physical environment (10%), and highways and streets (16%).

65% of the revenues for the business-type activities were generated from charges for services while sewer costs made up the majority (42%) 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, 2013, total assets were \$4,449,492 and total liabilities were \$477,618. At the end of fiscal year 2013, unassigned fund balance of the general fund was \$2,003,706.

The general fund budget was amended during the year to reflect decreases in expected revenues and the corresponding expected decreases in expenditures resulting from changes in capital outlay expenditure expectations.

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 position of proprietary funds at the end of the year are presented below:

Fund	Unrestricted Net Position	
	2013	2012
<i>September 30,</i>		
Water	\$ 741,668	\$ 653,429
Sewer	467,070	413,529
Sanitation	171,737	267,665
Total	\$ 1,380,475	\$ 1,334,623

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 *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, 2013, was \$17,507,314 (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		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Land	\$ 237,111	\$ 237,111	\$ 288,191	\$ 288,191	\$ 525,302	\$ 525,302
Construction in progress	8,110	-	4,824,927	379,918	4,833,037	379,918
Buildings	695,147	794,425	-	-	695,147	794,425
Improvements	2,956,938	2,961,696	7,618,281	8,019,772	10,575,219	10,981,468
Machinery and equipment	467,017	534,270	411,592	330,408	878,609	864,678
Total	\$ 4,364,323	\$ 4,527,502	\$ 13,142,991	\$ 9,018,289	\$ 17,507,314	\$ 13,545,791

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, 2013 the City had total bond debt outstanding of \$6,852,447. This debt represents bonds secured solely by specified revenue sources (i.e., revenue and capital improvement bonds).

Outstanding Bond Debt

<i>September 30,</i>	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Bonds	\$ 465,687	\$ 517,062	\$ 6,386,760	\$ 4,521,089	\$ 6,852,447	\$ 5,038,151

The Florida Constitution and the City of Mexico Beach set no legal debt limits for revenue and capital improvement 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: Adrian Welle.

Basic Financial Statements

City of Mexico Beach, Florida
Statement of Net Position

Primary Government

September 30, 2013	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 4,128,508	\$ 1,220,122	\$ 5,348,630
Accounts receivable, net	38,242	144,506	182,748
Internal balances	(4,341)	4,341	-
Due from other governmental units	-	70,830	70,830
Fuel inventory	15,753	-	15,753
Total current assets (unrestricted)	4,178,162	1,439,799	5,617,961
Restricted assets			
Cash and cash equivalents	253,754	1,177,535	1,431,289
Total current assets (restricted)	253,754	1,177,535	1,431,289
Total current assets	4,431,916	2,617,334	7,049,250
Noncurrent assets			
Deferred charges	-	61,560	61,560
Capacity rights	-	54,187	54,187
Capital assets			
Nondepreciable	245,221	5,113,118	5,358,339
Depreciable, net	4,119,102	8,029,873	12,148,975
Total noncurrent assets	4,364,323	13,258,738	17,623,061
Total assets	8,796,239	15,876,072	24,672,311
Liabilities			
Current liabilities			
Accounts payable	27,471	89,182	116,653
Payroll liabilities	31,807	14,907	46,714
Deferred revenue	400,764	49,164	449,928
Accrued interest	-	21,601	21,601
Total current liabilities	460,042	174,854	634,896
Noncurrent liabilities			
Due within one year			
Accrued compensated absences	6,927	4,364	11,290
Notes payable	21,371	133,500	154,871
Bonds payable	53,673	300,551	354,224
Due in more than one year			
Accrued compensated absences	27,710	17,454	45,165
Notes payable	-	1,228,484	1,228,484
Bonds payable	412,014	6,086,209	6,498,223
Total noncurrent liabilities	521,695	7,770,562	8,292,257
Total liabilities	981,737	7,945,416	8,927,153
Net position			
Net investment in capital assets	3,877,265	5,394,247	9,271,512
Restricted for			
Bond retirement	-	293,776	293,776
Law enforcement	323	-	323
Impact fees	253,431	862,158	1,115,589
Unrestricted	3,683,483	1,380,475	5,063,958
Total net position	\$ 7,814,502	\$ 7,930,656	\$ 15,745,158

See accompanying notes

City of Mexico Beach, Florida
Statement of Activities

Net (Expenses) Revenues and Changes in Net Position

Year Ended September 30, 2013 Functions/Programs	Program Revenues				Primary Government			Total
	Expenses	Operating		Capital	Governmental	Business-type	Activities	
		Charges for Services	Grants and Contributions					
Primary Government								
Governmental activities								
General government	\$ 560,455	\$ 79,713	\$ -	\$ 98,721	\$ (382,021)	\$ -	\$ -	\$ (382,021)
Public safety	617,192	13,750	-	4,879	(598,563)	-	-	(598,563)
Highways and streets	326,377	24,827	-	-	(301,550)	-	-	(301,550)
Human services	92,854	-	-	-	(92,854)	-	-	(92,854)
Parks and recreation	164,683	-	-	-	(164,683)	-	-	(164,683)
Physical environment	194,701	-	-	-	(194,701)	-	-	(194,701)
Interest on long-term debt	25,265	-	-	-	(25,265)	-	-	(25,265)
Total governmental activities	1,981,527	118,290	-	103,600	(1,759,637)	-	-	(1,759,637)
Business-type activities								
Water	978,894	1,035,632	-	1,462,225	-	1,518,963	-	1,518,963
Sewer	1,083,024	1,148,171	-	-	-	65,147	-	65,147
Sanitation	511,775	518,332	-	-	-	6,557	-	6,557
Total business-type activities	2,573,693	2,702,135	-	1,462,225	-	1,590,667	-	1,590,667
Total primary government	\$ 4,555,220	\$ 2,820,425	\$ -	\$ 1,565,825	(1,759,637)	1,590,667	-	(168,970)
General revenues								
Taxes								
Ad valorem					1,629,791			1,629,791
Utility					128,919			128,919
Local option gas tax					56,185			56,185
Occupational and other taxes					15,063			15,063
Franchise fees					170,665			170,665
Sales tax and other shared revenues					111,494			111,494
Miscellaneous					96,569			96,569
Sale of surplus property					-	12,000		12,000
Interest earnings					4,771	3,509		8,280
Total general revenues and interest					2,213,457	15,509		2,228,966
Change in net position					453,820	1,606,176		2,059,996
Net position - beginning					7,360,682	6,324,480		13,685,162
Net position - ending					\$ 7,814,502	\$ 7,930,656		\$ 15,745,158

See accompanying notes
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City of Mexico Beach, Florida
Balance Sheet –
Governmental Funds

September 30, 2013	General
Assets	
Cash and cash equivalents	\$ 4,128,508
Accounts receivable, net	38,242
Due from other funds	13,235
Fuel inventory	15,753
Cash and cash equivalents - restricted	253,754
Total assets	4,449,492
Liabilities and fund balance	
Liabilities	
Accounts payable	27,759
Accrued expenses	31,519
Due to other funds	17,576
Deferred revenue	400,764
Total liabilities	477,618
Fund balance	
Nonspendable	
Inventory	15,753
Restricted	
Impact fees	253,431
Law enforcement	323
Committed	
Canal maintenance	596,815
Assigned	
Canal maintenance	150,000
Paving and maintenance	951,846
Unassigned	2,003,706
Total fund balance	3,971,874
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,364,323
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(521,695)
Net position of governmental activities	\$ 7,814,502

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance –
Governmental Funds

Year Ended September 30, 2013	General
Revenues	
Taxes	\$ 1,826,017
Franchise fees	170,665
Licenses and permits	14,517
Intergovernmental	219,035
Fines and forfeitures	2,774
Charges for services	72,997
Rental income	28,002
Miscellaneous revenues	101,340
Total revenues	2,435,347
Expenditures	
Current operating	
General government	451,309
Public safety	589,423
Highways and streets	287,273
Physical environment	136,417
Human services	91,844
Parks and recreation	134,417
Capital outlay	96,880
Debt service	96,537
Total expenditures	1,884,100
Net change in fund balance	551,247
Fund balance - beginning	3,420,627
Fund balance - ending	\$ 3,971,874

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, 2013

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

Net change in fund balance - total governmental funds (page 13)	\$ 551,247
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. This is the amount by which depreciation exceeded capital outlays in the current period.	(79,296)
The net effect of miscellaneous noncash transactions involving capital assets (i.e. sales, trade-ins, adjustments , and donations) is to decrease net position.	(83,883)
Some expenses reported in the statement of activities do not require the current financial resources and, therefore, are not reported as expenditures in governmental funds.	(5,520)
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 position. 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.	71,272
Change in net position of governmental activities (page 11)	\$ 453,820

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – General Fund

Year Ended September 30, 2013	Original	Final	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues				
Taxes	\$ 1,869,163	\$ 1,823,163	\$ 1,826,017	\$ 2,854
Franchise fees	159,876	160,876	170,665	9,789
Licenses and permits	9,150	20,590	14,517	(6,073)
Intergovernmental	116,753	220,003	219,035	(968)
Fines and forfeitures	1,300	2,300	2,774	474
Charges for services	70,925	71,175	72,997	1,822
Rental income	15,500	25,500	28,002	2,502
Miscellaneous revenues	584,000	139,193	101,340	(37,853)
Total revenues	2,826,667	2,462,800	2,435,347	(27,453)
Expenditures				
Current				
General government	481,136	496,066	451,309	44,757
Public safety	622,101	632,585	589,423	43,162
Highways and streets	327,776	334,476	287,273	47,203
Physical environment	216,670	193,670	136,417	57,253
Human services	97,557	97,557	91,844	5,713
Culture and recreation	136,307	142,152	134,417	7,735
Capital outlay	1,019,500	144,155	96,880	47,275
Debt service	98,815	362,676	96,537	266,139
Total expenditures	2,999,862	2,403,337	1,884,100	519,237
Excess of revenues over expenditures	(173,195)	59,463	551,247	491,784
Other financing sources				
Transfers in	240,750	-	-	-
Transfers out	(517,555)	(428,183)	-	428,183
Installment loan proceeds	450,000	-	-	-
Total other financing sources	173,195	(428,183)	-	428,183
Net change in fund balance	-	(368,720)	551,247	919,967
Fund balance - beginning	3,420,627	3,420,627	3,420,627	-
Fund balance - ending	\$ 3,420,627	\$ 3,051,907	\$ 3,971,874	\$ 919,967

See accompanying notes

City of Mexico Beach, Florida
Statement of Net Position – Proprietary Funds
 Business-type Activities/Enterprise Funds

September 30, 2013	Water	Sewer	Sanitation	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 524,648	\$ 516,452	\$ 179,022	\$ 1,220,122
Accounts receivable, net	63,084	53,938	27,484	144,506
Due from other funds	178,723	2,500	-	181,223
Due from other governments	70,830	-	-	70,830
Total current assets	837,285	572,890	206,506	1,616,681
Restricted assets - cash				
Bond and interest sinking	96,195	219,182	-	315,377
Impact fees	106,803	755,355	-	862,158
Total restricted assets - cash	202,998	974,537	-	1,177,535
Noncurrent assets				
Deferred charges	10,400	51,160	-	61,560
Capacity rights	-	54,187	-	54,187
Property, plant, and equipment	10,982,880	7,148,971	395,996	18,527,847
Less accumulated depreciation	(2,597,929)	(2,608,108)	(178,819)	(5,384,856)
Total noncurrent assets	8,395,351	4,646,210	217,177	13,258,738
Total assets	9,435,634	6,193,637	423,683	16,052,954
Liabilities				
Current liabilities				
Accounts payable	43,058	36,562	9,562	89,182
Accrued expenses	2,927	3,993	7,987	14,907
Due to other funds	6,710	163,397	6,775	176,882
Deferred revenue	45,604	2,571	989	49,164
Notes payable, current portion	133,500	-	-	133,500
Bonds payable, current portion	123,132	177,419	-	300,551
Total current liabilities	354,931	383,942	25,313	764,186
Current liabilities payable from restricted assets				
Accrued interest	13,711	7,890	-	21,601
Total current liabilities payable from restricted assets	13,711	7,890	-	21,601
Noncurrent liabilities				
Accrued compensated absences	7,718	4,644	9,456	21,818
Notes payable - due after one year	1,228,484	-	-	1,228,484
Bonds payable - due after one year	3,098,213	2,987,996	-	6,086,209
Total noncurrent liabilities	4,334,415	2,992,640	9,456	7,336,511
Total liabilities	4,703,057	3,384,472	34,769	8,122,298
Net position				
Net investment in capital assets	3,801,622	1,375,448	217,177	5,394,247
Restricted for				
Bond retirement	82,484	211,292	-	293,776
Impact fees	106,803	755,355	-	862,158
Unrestricted	741,668	467,070	171,737	1,380,475
Total net position	\$ 4,732,577	\$ 2,809,165	\$ 388,914	\$ 7,930,656

See accompanying notes

City of Mexico Beach, Florida
Statement of Revenues, Expenses, and Changes in Net Position –
Proprietary Funds

Business-type Activities/Enterprise Funds

Year Ended September 30, 2013	Water	Sewer	Sanitation	Total
Operating revenues				
Charges for services	\$ 939,510	\$ 1,105,778	\$ 436,659	\$ 2,481,947
New installations	2,290	5,145	-	7,435
Reconnections	9,930	-	-	9,930
Impact fees	68,475	22,313	-	90,788
Other utility income	15,427	14,935	81,673	112,035
Total operating revenues	1,035,632	1,148,171	518,332	2,702,135
Operating expenses				
Personnel services	148,035	111,555	264,512	524,102
Professional services	12,625	12,625	11,624	36,874
Office supplies	1,650	590	171	2,411
Utilities	20,162	21,974	-	42,136
Insurance	29,619	21,001	10,566	61,186
Repairs and maintenance	32,956	74,013	19,470	126,439
Operating supplies	42,297	28,099	40,118	110,514
Communication services	12,279	1,122	663	14,064
Public utility services	244,148	440,459	-	684,607
Tipping fees	-	-	134,239	134,239
Transportation	-	397	-	397
Rentals	7,792	7,869	6,825	22,486
Printing and binding	3,299	2,281	-	5,580
Miscellaneous	15,564	2,607	2,115	20,286
Amortization	1,300	6,108	-	7,408
Depreciation	175,990	196,532	21,225	393,747
Total operating expenses	747,716	927,232	511,528	2,186,476
Operating income	287,916	220,939	6,804	515,659
Nonoperating revenues (expenses)				
Interest income	1,395	1,860	254	3,509
Interest expense	(166,553)	(155,792)	-	(322,345)
Grant revenue	1,462,225	-	-	1,462,225
Gain (loss) on sale of assets	(64,625)	-	11,753	(52,872)
Total nonoperating revenues (expenses)	1,232,442	(153,932)	12,007	1,090,517
Changes in net position	1,520,358	67,007	18,811	1,606,176
Net position - beginning	3,212,219	2,742,158	370,103	6,324,480
Net position - ending	\$ 4,732,577	\$ 2,809,165	\$ 388,914	\$ 7,930,656

See accompanying notes

City of Mexico Beach, Florida
Statement of Cash Flows
Proprietary Funds

Year Ended September 30, 2013	Business-type Activities / Enterprise Funds			
	Water	Sewer	Sanitation	Total
Operating activities				
Receipts from customers and users	\$ 938,916	\$ 1,143,271	\$ 517,267	\$ 2,599,454
Payments to suppliers and others	(434,454)	(653,925)	(219,225)	(1,307,604)
Payments for personnel services	(148,395)	(111,356)	(264,471)	(524,222)
Net cash provided by operating activities	356,067	377,990	33,571	767,628
Capital and related financing activities				
Capital contributions - grants	1,462,225	-	-	1,462,225
Proceeds from bonds	2,153,000	-	-	2,153,000
Principal paid on bonds	(117,860)	(169,470)	-	(287,330)
Principal paid on notes and leases	(129,481)	-	-	(129,481)
Interest paid on bonds, notes and leases	(162,453)	(155,915)	-	(318,368)
Purchase of capital assets	(4,447,110)	-	(136,211)	(4,583,321)
Net cash used in capital and related financing activities	(1,241,679)	(325,385)	(136,211)	(1,703,275)
Investing activities				
Proceeds from sale of fixed assets	-	-	12,000	12,000
Interest received	1,395	1,860	254	3,509
Net cash provided by investing activities	1,395	1,860	12,254	15,509
Net change in cash and cash equivalents	(884,217)	54,465	(90,386)	(920,138)
Cash and cash equivalents - beginning	1,611,863	1,436,524	269,408	3,317,795
Cash and cash equivalents - ending	\$ 727,646	\$ 1,490,989	\$ 179,022	\$ 2,397,657
Classified as cash				
Current assets - cash and cash equivalents	\$ 524,648	\$ 516,452	\$ 179,022	\$ 1,220,122
Restricted assets - cash and cash equivalents	202,998	974,537	-	1,177,535
Cash and cash equivalents - ending	\$ 727,646	\$ 1,490,989	\$ 179,022	\$ 2,397,657
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 287,916	\$ 220,939	\$ 6,804	\$ 515,659
Adjustments to reconcile operating income to net cash provided by operating activities				
Amortization	1,300	6,108	-	7,408
Depreciation	175,990	196,532	21,225	393,747
(Increase) decrease in assets				
Accounts receivable, net	(7,772)	(2,400)	(1,065)	(11,237)
Due from other funds	(21,763)	(2,500)	-	(24,263)
Due from other governments	(70,830)	-	-	(70,830)
Increase (decrease) in liabilities				
Accounts payable	(18,552)	(47,772)	(2,648)	(68,972)
Accrued expenses	(221)	447	2,439	2,665
Due to other funds	6,710	6,437	6,775	19,922
Deferred revenue	3,649	-	-	3,649
Accrued compensated absences	(360)	199	41	(120)
Total adjustments	68,151	157,051	26,767	251,969
Net cash provided by operating activities	\$ 356,067	\$ 377,990	\$ 33,571	\$ 767,628

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.

This report includes financial statements of the funds of the City. The reporting entity for the City consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. A legally separate tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; and, (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government (see note below for description). Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government.

The City has one component unit as defined by GASB Statement 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34* or in publications cited in the State of Florida, Office of the Auditor General Rules, Rule 10.553. 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.

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position 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 the revenues and costs of collection, treatment and distribution of water services.

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The sewer fund is used to account for the revenues and costs of providing wastewater and sanitary sewer services.
- The sanitation fund is used to account for the revenues and costs of providing sanitation services.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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.

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Encumbrances

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

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

Cash and Temporary Cash Investments

The City considers certificates of deposit and highly liquid debt instruments with an original maturity of three months or less 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.

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortization and Deferred Charges

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

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 position. 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 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 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.

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Compensated Absences

All full-time employees earn two weeks vacation per year (which cannot be taken until 6 months of probationary service are completed), 14 days after 5 years, 18 days after 11 years, and 20 days after 15 years. Annual leave may be accumulated at a maximum of 25 days per calendar year. Employees who have completed their probationary period are eligible for payment of accumulated annual leave not to exceed a maximum of 25 days upon their separation from the City. Employees with one year of service may request payment of their hourly rate times a maximum of 50 percent of the employee's annually accrued vacation time up to sixty hours per year.

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

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, 2013, was 5.0290 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

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deferred Revenues

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

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, 2013 of \$15,753 is from fuel inventory which is 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, 2013 of \$253,754 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, 2013 of \$596,815 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, 2013 consist of \$951,846 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, 2013 is \$2,003,706.

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)

Net position

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was implemented in the current year. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and this standard renames the components of net position which were previously considered net assets.

Net position is classified in three categories. The general meaning of each is as follows:

Net investment in capital assets - represents the cost of capital assets, less accumulated depreciation reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Restricted - This category includes resources restricted by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation.

Unrestricted - indicates that portion of net position that is available for future periods.

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

Management of the City has evaluated subsequent events through November 24, 2014, 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 position:

The governmental funds balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position of governmental activities* as reported in the government-wide statement of net position. 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:

City of Mexico Beach, Florida
Notes to Basic Financial Statements

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

Cost of capital assets	\$	6,420,052
Less: accumulated depreciation		2,055,729
<hr/>		
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	\$	4,364,323
<hr/> <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:

Bonds payable	\$	465,687
Notes payable		21,371
Compensated absences		34,637
<hr/>		
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	\$	521,695
<hr/> <hr/>		

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balance 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 *change in net position 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." The details of this difference are as follows:

Capital outlay	\$	96,880
Depreciation		(176,176)
<hr/>		
Net adjustment to decrease net change in fund balance – total governmental funds to arrive at change in net position of governmental activities	\$	(79,296)
<hr/> <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	\$	(5,520)
<hr/>		
Net adjustment to decrease net change in fund balance – total governmental funds to arrive at change in net position of governmental activities	\$	(5,520)
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City of Mexico Beach, Florida
Notes to Basic Financial Statements

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

Another element of that reconciliation states, "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 position. 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	
Bonds	\$ 71,272
Net adjustment to increase net change in fund balance – total governmental funds to arrive at change in net position of governmental activities	\$ 71,272

Another element of the reconciliation states that "the net effect of miscellaneous noncash transactions involving capital assets is to increase net position." The details of this \$83,883 difference are as follows:

Loss on disposal of assets	\$ (83,883)
Net adjustment to decrease net change in fund balance – total governmental funds to arrive at change in net position of governmental activities	\$ (83,883)

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 of 1969, as provided in Section 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 Section 280.02.
- Direct obligations of the U.S. Treasury.

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

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

The City had no investments at September 30, 2013.

Interest Rate Risks

At September 30, 2013, the City did not hold any investments that were considered to be an interest rate risk.

Credit Risks

At September 30, 2013, the City did not hold any investments that were considered to be a credit risk.

Custodial Risks

At September 30, 2013, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

As September 30, 2013, 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, 2013, accounts receivable in the governmental funds are summarized as follows:

Total accounts receivable	\$	38,242
Less: allowance for doubtful accounts		-
Net accounts receivable	\$	38,242

At September 30, 2013, accounts receivable in the proprietary funds are summarized as follows:

Accounts receivable	\$	144,506
Less: allowance for doubtful accounts		-
Net accounts receivable	\$	144,506

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, 2013 is as follows:

<i>September 30,</i>	Due from Other Funds	Due to Other Funds
General fund	\$ 13,235	\$ 17,576
Water fund	178,723	6,710
Sewer fund	2,500	163,397
Sanitation fund	-	6,775
Total	\$ 194,458	\$ 194,458

The interfund loans were for the purpose of operating advances.

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013 was as follows:

Governmental activities

	September 30, 2012	Increases	Decreases	September 30, 2013
Capital assets, not being depreciated				
Land	\$ 237,111	\$ -	\$ -	\$ 237,111
Construction in progress	-	8,110	-	8,110
Total capital assets, not being depreciated	237,111	8,110	-	245,221
Capital assets, being depreciated				
Buildings	904,509	-	(101,709)	802,800
Improvements	3,355,145	79,950	-	3,435,095
Machinery and equipment	2,204,816	8,820	(276,700)	1,936,936
Total capital assets, being depreciated	6,464,470	88,770	(378,409)	6,174,831
Less accumulated depreciation				
Buildings	(110,084)	(20,480)	22,911	(107,653)
Improvements	(393,449)	(84,708)	-	(478,157)
Machinery and equipment	(1,670,546)	(70,989)	271,616	(1,469,919)
Total accumulated depreciation	(2,174,079)	(176,177)	294,527	(2,055,729)

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 6: CAPITAL ASSETS (CONTINUED)

	September 30, 2012	Increases	Decreases	September 30, 2013
Capital assets, being depreciated (net of accumulated depreciation)	\$ 4,290,391	\$ (87,407)	\$ (83,882)	\$ 4,119,102
Total governmental activities' capital assets (net of accumulated depreciation)	\$ 4,527,502	\$ (79,297)	\$ (83,882)	\$ 4,364,323

Business-type activities

	September 30, 2012	Increases	Decreases	September 30, 2013
Capital assets, not being depreciated				
Land	\$ 288,191	\$ -	\$ -	\$ 288,191
Construction in progress	379,918	4,445,009	-	4,824,927
Total capital assets, not being depreciated	668,109	4,445,009	-	5,113,118
Capital assets, being depreciated				
Buildings	10,606	-	-	10,606
Improvements	12,606,181	-	(108,148)	12,498,033
Machinery and equipment	1,158,206	138,312	(390,428)	906,090
Total capital assets, being depreciated	13,774,993	138,312	(498,576)	13,414,729
Less accumulated depreciation				
Buildings	(10,606)	-	-	(10,606)
Improvements	(4,586,409)	(341,637)	48,294	(4,879,752)
Machinery and equipment	(827,798)	(52,110)	385,410	(494,498)
Total accumulated depreciation	(5,424,813)	(393,747)	433,704	(5,384,856)
Capital assets, being depreciated (net of accumulated depreciation)	8,350,180	(255,435)	(64,872)	8,029,873
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 9,018,289	\$ 4,189,574	\$ (64,872)	\$ 13,142,991

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 6: CAPITAL ASSETS (CONTINUED)

	Sanitation Fund	Sewer Fund	Water Fund	Total
Land	\$ -	\$ 270,426	\$ 17,765	\$ 288,191
Construction in progress	-	-	4,824,927	4,824,927
Buildings	-	-	10,606	10,606
Improvements	-	6,817,054	5,680,979	12,498,033
Machinery and equipment	395,996	61,491	448,603	906,090
Total	395,996	7,148,971	10,982,880	18,527,847
Less accumulated depreciation				
Buildings	-	-	(10,606)	(10,606)
Improvements	-	(2,580,615)	(2,299,137)	(4,879,752)
Machinery and equipment	(178,819)	(27,493)	(288,186)	(494,498)
Total accumulated depreciation	(178,819)	(2,608,108)	(2,597,929)	(5,384,856)
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 217,177	\$ 4,540,863	\$ 8,384,951	\$ 13,142,991

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

General government	\$ 23,208
Public safety	24,910
Highways and streets	39,323
Physical environment	57,994
Parks and recreation	30,742
Total depreciation expense – governmental activities	\$ 176,177

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

Water	\$ 175,990
Sewer	196,532
Sanitation	21,225
Total depreciation expense – business-type activities	\$ 393,747

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 7: LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2012	Increase	Reduction	Balance September 30, 2013	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 October 2013.	\$ 41,268	\$ -	\$ (19,897)	\$ 21,371	\$ 21,371
Total notes payable	41,268	-	(19,897)	21,371	21,371
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).	387,797 ✓	-	(38,531)	349,266	40,255
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).	129,265 ✓	-	(12,844)	116,421	13,418
Total bonds payable	517,062	-	(51,375)	465,687	53,673
Liability for compensated absences	29,117	5,520	-	34,637	6,927
Total governmental activities long-term obligations	\$ 587,447	\$ 5,520	\$ (71,272)	\$ 521,695	\$ 81,971

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, 2013 are as follows:

Year ending September 30,	Principal	Interest	Total
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	64,020	9,507	73,527
2019-2021	171,986	10,722	182,708
Compensated absences	34,637	-	34,637
Total	\$ 521,695	\$ 86,147	\$ 607,842

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

Bonds Payable	Original Issue	Balance September 30, 2012	Additions	Reduction	Balance September 30, 2013	Due Within One Year
2013 USDA Bonds. (See (D) below). ✓	\$ 2,153,000	\$ -	\$ 2,153,000	\$ -	\$ 2,153,000	\$ - ✓
2009 Utility System Refunding Bonds. (See (B) below). ✓	2,490,000	1,893,726	-	(188,122)	1,705,604	196,538 ✓
2009 Capital Improvement Bonds. (See (C) below). ✓	830,001	630,763	-	(62,707)	568,056	65,512 ✓
4.875% Sewer System Junior Lien Revenue Bonds, Series 2000, to improve sewer system. See (A) below. ✓	2,303,100	1,996,600	-	(36,500)	1,960,100	38,500 ✓
Total bonds payable – business-type activities		\$ 4,521,089	\$ 2,153,000	\$ (287,329)	\$ 6,386,760	\$ 300,550

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 - \$1,960,100 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 36 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$3,523,600. Principal and interest paid for the current year and total pledged revenues were \$134,000 and \$373,257, respectively.

- (B) 2009 Utility Refunding Bond, Series 2009 - \$2,054,870 balance. These bonds were issued to refund the Series 1979, 1980, 1982, and 1995 bonds and the note payable to City of Gulf Breeze, Florida. The bonds mature annually through April 1, 2021. Interest at 4.48% per annum is payable each July 1. The bonds are secured by pledged revenue consisting of net revenue of the water and sewer system, such amounts of non-advalorem revenues as shall be budgeted and appropriated for the payment of the 2009 Utility Note, and any proceeds from the 2009 Utility Note held in any of the funds and accounts created. Annual principal and interest payments on the bonds are 47 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$2,429,458. Principal and interest paid for the current year and total pledged revenues were \$325,071 and \$698,328, respectively.

- (C) 2009 Capital Improvements Bond, Series 2009 - \$684,477 balance. These bonds were issued to refund the Series 1979, 1980, 1982, and 1995 bonds and the note payable to City of Gulf Breeze, Florida. The bonds mature annually through April 1, 2021. Interest at 4.48% per annum is payable each July 1. The bonds are secured by pledged revenue consisting of such amounts of non-advalorem revenues as shall be budgeted and appropriated for the payment of the 2009 Capital Improvements Bond, and any proceeds from the 2009 Capital Improvements Bond held in any of the funds and accounts created. Annual principal and interest payments on the bonds are 100 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$809,818. Principal and interest paid for the current year and total pledged revenues were \$108,359 and \$108,359, respectively.

- (D) 2013 USDA Bond, Series 2013 - \$2,153,000 balance. These bonds were issued to construct a (water)(waste) system. The bonds mature annually through September 1, 2052. Interest at 2.75% per annum is payable each September 1. The bonds are secured by pledged revenue consisting of net revenue of the water and sewer system. Annual principal and interest payments on the bonds are 5 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$3,555,940. Principal and interest paid for the current year and total pledged revenues were \$17,991 and \$373,257, 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 and capital improvement bonds payable at September 30, 2013 are as follows:

Year ending September 30,	Principal	Interest	Total
2014	\$ 300,551	\$ 252,705	\$ 553,256
2015	345,857	238,768	584,625
2016	362,840	223,413	586,253
2017	378,139	207,434	585,573
2018	395,071	190,848	585,919
2019-2023	1,303,202	721,592	2,024,794
2024-2028	562,000	569,063	1,131,063
2029-2033	684,500	445,943	1,130,443
2034-2038	838,500	292,703	1,131,203
2039-2043	491,100	135,545	626,645
2044-2048	380,000	79,338	459,338
2049-2052	345,000	24,035	369,035
Total	\$ 6,386,760	\$ 3,381,387	\$ 9,768,147

Notes Payable

	Balance September 30, 2012	Increase	Reduction	Balance September 30, 2013	Due within one year
Florida Department of Environmental Protection state revolving fund loan. Repayable over 20 years upon completion of water system improvements. (See (A) below).	\$ 1,491,465	\$ -	\$ (129,481)	\$ 1,361,984	\$ 133,500
Total notes payable – enterprise	\$ 1,491,465	\$ -	\$ (129,481)	\$ 1,361,984	\$ 133,500

A synopsis of significant enterprise fund notes payable follows:

- (A) The 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 19 percent of pledged revenues. The total principal and interest remaining to be paid on the note is \$1,569,859. Principal and interest paid for the current year and total pledged revenues were \$174,429 and \$939,510, 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, 2013 are as follows:

Year ending September 30,	Principal	Interest	Total
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	150,861	23,568	174,429
2019-2022	651,745	45,970	697,715
Total	\$ 1,361,984	\$ 207,875	\$ 1,569,859

Compensated absences

	Balance September 30, 2012	Increase	Reduction	Balance September 30, 2013	Due within
Liability for compensated absences	\$ 21,938	\$ -	\$ (120)	\$ 21,818	\$ 4,364

NOTE 9: FUND EQUITY

Net Asset Restrictions

The government-wide statement of net position for governmental activities reports \$253,754 of restricted net position, all of which is restricted by enabling legislation. Business-type activities reports \$1,155,934 of restricted net position, of which, \$862,158 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	\$ 253,431
General fund	Law enforcement	323
Water fund	Debt service	82,484
Water fund	Impact fees	106,803
Sewer fund	Debt service	211,292
Sewer fund	Impact fees	755,355
Total restricted fund equity		\$ 1,409,688

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 10: COMMITMENTS AND CONTINGENCIES

Litigation

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

Contingent Liability

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

Defined Benefit Pension Plan

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, 2013, 2012 and 2011 was \$1,056,546, \$1,206,583, and \$1,128,361, 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.

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 11: PENSION PLAN (CONTINUED)

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. The employees contribute 3% to the plan.

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

	October 1, 2012 through June 30, 2013	July 1, 2013 through September 30, 2013
Regular employees	5.18%	6.95%
Special risk employees	14.90%	19.06%
Deferred retirement option program	5.44%	12.84%

During the year ended September 30, 2013, the City contributed \$75,164 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
2013	\$ 75,164	100%	-
2012	81,205	100%	-
2011	135,509	100%	-

Defined Contribution Plan

Pursuant to Chapter 121, Florida Statutes, the Florida Legislature created the Florida Retirement Investment Plan ("FRS Investment Plan"), a cost-sharing multiple-employer defined contribution pension plan qualified under Section 401(a) of the Internal Revenue Code. This FRS Investment Plan is an alternative available to members of the Florida Retirement System in lieu of the defined benefit plan. Changes to the law can only occur through an act of the Florida Legislature. The FRS Investment Plan is administered by the Florida State Board of Administration. Information about this plan can be obtained by writing to FRS Plan Administrator, P.O. Box 56290, Jacksonville, Florida 32241-6290 or by calling 866-377-2121.

FRS Investment Plan is funded through employee and employer contributions. The employees contribute 3% to the plan. The City's contributory rates for the year ended September 30, 2013 were as follows:

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 11: PENSION PLAN (CONTINUED)

	October 1, 2012 through June 30, 2013	July 1, 2013 through September 30, 2013
Regular employees	5.18%	6.95%
Special risk employees	14.90%	19.06%
Deferred retirement option program	5.44%	12.84%

Required employer and employee contributions made to the plan totaled \$10,348 and \$3,065, respectively.

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, 2013.

NOTE 13: RISK MANAGEMENT

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

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

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

City of Mexico Beach, Florida
Notes to Basic Financial Statements

NOTE 13: RISK MANAGEMENT (CONTINUED)

Prior to the issuance of the financial statements, a disputed claim for an unpaid invoice in the amount of \$42,825 was presented to the City for work done over the past three years. It is probable that the City will settle with the vendor and pay at least a portion of this invoice but no reasonable estimate of the amount to be paid is available at this time.

NOTE 14: RELATED PARTY TRANSACTIONS

During fiscal year 2013, the City had a contract with a related party vendor in relation to a construction project. The related party vendor was awarded the contract after the City followed their bidding procedures. During fiscal year 2013, the City paid the vendor \$106,800. As of September 30, 2013, no amounts were owed to or from this vendor other than the disputed claim mentioned in note 13.

NOTE 15: 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 Position – Water Fund – Proprietary Fund

September 30,	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 524,648	\$ 544,248
Accounts receivable, net	63,084	55,312
Due from other funds	178,723	156,960
Due from other governments	70,830	-
Total current assets	837,285	756,520
Restricted assets - cash		
Bond and interest sinking	96,195	170,075
Impact fees	106,803	897,540
Total restricted assets - cash	202,998	1,067,615
Noncurrent assets		
Deferred charges	10,400	11,700
Property, plant, and equipment	10,982,880	6,711,374
Less accumulated depreciation	(2,597,929)	(2,532,918)
Total noncurrent assets	8,395,351	4,190,156
Total assets	9,435,634	6,014,291
Liabilities		
Current liabilities		
Accounts payable	43,058	61,610
Accrued expenses	2,927	3,148
Due to other funds	6,710	-
Deferred revenue	45,604	41,955
Notes payable, current portion	133,500	129,481
Bonds payable, current portion	123,132	117,860
Total current liabilities	354,931	354,054
Current liabilities payable from restricted assets		
Accrued interest	13,711	9,611
Total current liabilities payable from restricted assets	13,711	9,611
Noncurrent liabilities		
Accrued compensated absences	7,718	8,078
Notes payable - due after one year	1,228,484	1,361,984
Bonds payable - due after one year	3,098,213	1,068,345
Total noncurrent liabilities	4,334,415	2,438,407
Total liabilities	4,703,057	2,802,072
Net position		
Net investment in capital assets	3,801,622	1,500,786
Restricted for		
Bond retirement	82,484	160,464
Impact fees	106,803	897,540
Unrestricted	741,668	653,429
Total net position	\$ 4,732,577	\$ 3,212,219

See accompanying notes

City of Mexico Beach, Florida

Comparative Schedule of Net Position – Sewer Fund – Proprietary Fund

September 30,	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 516,452	\$ 502,392
Accounts receivable, net	53,938	51,538
Due from other funds	2,500	-
Total current assets	572,890	553,930
Restricted assets - cash		
Bond and interest sinking	219,182	201,977
Impact fees	755,355	732,155
Total restricted assets - cash	974,537	934,132
Noncurrent assets		
Deferred charges	51,160	57,268
Capacity rights	54,187	54,187
Property, plant, and equipment	7,148,971	7,148,971
Less accumulated depreciation	(2,608,108)	(2,411,576)
Total noncurrent assets	4,646,210	4,848,850
Total assets	6,193,637	6,336,912
Liabilities		
Current liabilities		
Accounts payable	36,562	84,334
Accrued expenses	3,993	3,546
Due to other funds	163,397	156,960
Deferred revenue	2,571	2,571
Bonds payable, current portion	177,419	169,469
Total current liabilities	383,942	416,880
Current liabilities payable from restricted assets		
Accrued interest	7,890	8,014
Total current liabilities payable from restricted assets	7,890	8,014
Noncurrent liabilities		
Accrued compensated absences	4,644	4,445
Bonds payable - due after one year	2,987,996	3,165,415
Total noncurrent liabilities	2,992,640	3,169,860
Total liabilities	3,384,472	3,594,754
Net position		
Net investment in capital assets	1,375,448	1,402,511
Restricted for		
Bond retirement	211,292	193,963
Impact fees	755,355	732,155
Unrestricted	467,070	413,529
Total net position	\$ 2,809,165	\$ 2,742,158

See accompanying notes

City of Mexico Beach, Florida

Comparative Schedule of Net Position – Sanitation Fund – Proprietary Fund

September 30,	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 179,022	\$ 269,408
Accounts receivable, net	27,484	26,419
Total current assets	206,506	295,827
Noncurrent assets		
Property, plant, and equipment	395,996	582,757
Less accumulated depreciation	(178,819)	(480,319)
Total noncurrent assets	217,177	102,438
Total assets	423,683	398,265
Liabilities		
Current liabilities		
Accounts payable	9,562	12,210
Accrued expenses	7,987	5,548
Due to other funds	6,775	-
Deferred revenue	989	989
Total current liabilities	25,313	18,747
Noncurrent liabilities		
Accrued compensated absences	9,456	9,415
Total noncurrent liabilities	9,456	9,415
Total liabilities	34,769	28,162
Net position		
Net investment in capital assets	217,177	102,438
Unrestricted	171,737	267,665
Total net position	\$ 388,914	\$ 370,103

See accompanying notes

City of Mexico Beach, Florida
Comparative Schedule of Revenues, Expenses, and Changes in Net Position –
Water Fund – Proprietary Fund

Year Ended September 30,	2013	2012
Operating revenues		
Charges for services	\$ 939,510	\$ 919,882
New installations	2,290	6,135
Reconnections	9,930	11,405
Impact fees	68,475	20,214
Other utility income	15,427	10,872
Total operating revenues	1,035,632	968,508
Operating expenses		
Personnel services	148,035	128,370
Professional services	12,625	13,952
Office supplies	1,650	1,725
Utilities	20,162	21,034
Insurance	29,619	23,870
Repairs and maintenance	32,956	40,793
Operating supplies	42,297	34,466
Communication services	12,279	13,132
Public utility services	244,148	213,735
Rentals	7,792	5,143
Printing and binding	3,299	1,560
Miscellaneous	15,564	6,306
Amortization	1,300	1,300
Depreciation	175,990	177,918
Total operating expenses	747,716	683,304
Operating income	287,916	285,204
Nonoperating revenues (expenses)		
Interest income	1,395	2,131
Interest expense	(166,553)	(105,338)
Grant revenue	1,462,225	-
Gain (loss) on sale of assets	(64,625)	-
Total nonoperating revenues (expenses)	1,232,442	(103,207)
Change in net position	1,520,358	181,997
Net position - beginning	3,212,219	3,030,222
Net position - ending	\$ 4,732,577	\$ 3,212,219

See accompanying notes

City of Mexico Beach, Florida
Comparative Schedule of Revenues, Expenses, and Changes in Net Position –
Sewer Fund – Proprietary Fund

Year Ended September 30,	2013	2012
Operating revenues		
Charges for services	\$ 1,105,778	\$ 1,084,238
New installations	5,145	980
Impact fees	22,313	35,479
Other utility income	14,935	10,561
Total operating revenues	1,148,171	1,131,258
Operating expenses		
Personnel services	111,555	111,902
Professional services	12,625	13,951
Office supplies	590	1,396
Utilities	21,974	21,367
Insurance	21,001	16,152
Repairs and maintenance	74,013	55,776
Operating supplies	28,099	41,804
Communication services	1,122	1,201
Public utility services	440,459	399,284
Transportation	397	299
Rentals	7,869	5,143
Printing and binding	2,281	377
Miscellaneous	2,607	1,081
Amortization	6,108	6,107
Depreciation	196,532	196,885
Total operating expenses	927,232	872,725
Operating income	220,939	258,533
Nonoperating revenues (expenses)		
Interest income	1,860	1,983
Interest expense	(155,792)	(163,043)
Total nonoperating revenues (expenses)	(153,932)	(161,060)
Change in net position	67,007	97,473
Net position - beginning	2,742,158	2,644,685
Net position - ending	\$ 2,809,165	\$ 2,742,158

See accompanying notes

City of Mexico Beach, Florida
Comparative Schedule of Revenues, Expenses, and Changes in Net Position –
Sanitation Fund – Proprietary Fund

Year Ended September 30,	2013	2012
Operating revenues		
Charges for services	\$ 436,659	\$ 430,568
Other utility income	81,673	78,324
Total operating revenues	518,332	508,892
Operating expenses		
Personnel services	264,512	237,507
Professional services	11,624	9,315
Office supplies	171	-
Insurance	10,566	7,241
Repairs and maintenance	19,470	23,934
Operating supplies	40,118	40,739
Communication services	663	824
Tipping fees	134,239	129,364
Rentals	6,825	650
Miscellaneous	2,115	1,797
Depreciation	21,225	15,811
Total operating expenses	511,528	467,182
Operating income	6,804	41,710
Nonoperating revenues (expenses)		
Interest income	254	379
Gain (loss) on sale of assets	11,753	-
Total nonoperating revenues (expenses)	12,007	379
Change in net position	18,811	42,089
Net position - beginning	370,103	328,014
Net position - ending	\$ 388,914	\$ 370,103

See accompanying notes

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

Year Ended September 30,	2013	2012
Operating activities		
Receipts from customers and users	\$ 938,916	\$ 994,993
Payments to suppliers and others	(434,454)	(341,640)
Payments for personnel services	(148,395)	(126,487)
Net cash provided by operating activities	356,067	526,866
Capital and related financing activities		
Capital contributions - grants	1,462,225	-
Proceeds from bonds	2,153,000	-
Principal paid on bonds	(117,860)	(112,853)
Principal paid on notes and leases	(129,481)	(125,583)
Interest paid on bonds, notes, and leases	(162,453)	(106,148)
Purchase of capital assets	(4,447,110)	(19,262)
Net cash used in capital and related financing activities	(1,241,679)	(363,846)
Investing activities		
Interest received	1,395	2,131
Net cash provided by investing activities	1,395	2,131
Net change in cash and cash equivalents	(884,217)	165,151
Cash and cash equivalents, beginning	1,611,863	1,446,712
Cash and cash equivalents, ending	\$ 727,646	\$ 1,611,863
Classified as cash		
Current assets - cash and cash equivalents	\$ 524,648	\$ 544,248
Restricted assets - cash and cash equivalents	202,998	1,067,615
Cash and cash equivalents, ending	\$ 727,646	\$ 1,611,863
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 287,916	\$ 285,204
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	1,300	1,300
Depreciation	175,990	177,918
(Increase) decrease in assets		
Accounts receivable, net	(7,772)	2,544
Due from other funds	(21,763)	27,647
Due from other governments	(70,830)	-
Increase (decrease) in liabilities		
Accounts payable	(18,552)	34,168
Accrued expenses	(221)	(92)
Due to other funds	6,710	-
Deferred revenue	3,649	(3,706)
Accrued compensated absences	(360)	1,883
Total adjustments	68,151	241,662
Net cash provided by operating activities	\$ 356,067	\$ 526,866

See accompanying notes

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

Year Ended September 30,	2013	2012
Operating activities		
Receipts from customers and users	\$ 1,143,271	\$ 1,157,537
Payments to suppliers and others	(653,925)	(558,418)
Payments for personnel services	(111,356)	(109,220)
Net cash provided by operating activities	377,990	489,899
Capital and related financing activities		
Principal paid on bonds	(169,470)	(162,681)
Interest paid on bonds, notes, and leases	(155,915)	(163,330)
Net cash used in capital and related financing activities	(325,385)	(326,011)
Investing activities		
Interest received	1,860	1,983
Net cash provided by investing activities	1,860	1,983
Net increase in cash and cash equivalents	54,465	165,871
Cash and cash equivalents, beginning	1,436,524	1,270,653
Cash and cash equivalents, ending	\$ 1,490,989	\$ 1,436,524
Classified as cash		
Current assets - cash and cash equivalents	\$ 516,452	\$ 502,392
Restricted assets - cash and cash equivalents	974,537	934,132
Cash and cash equivalents, ending	\$ 1,490,989	\$ 1,436,524
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 220,939	\$ 258,533
Adjustments to reconcile operating income to net cash provided by operating activities		
Amortization	6,108	6,107
Depreciation	196,532	196,885
(Increase) decrease in assets		
Accounts receivable, net	(2,400)	328
Due from other funds	(2,500)	25,951
Increase (decrease) in liabilities		
Accounts payable	(47,772)	53,105
Accrued expenses	447	(94)
Due to other funds	6,437	(53,598)
Accrued compensated absences	199	2,682
Total adjustments	157,051	231,366
Net cash provided by operating activities	\$ 377,990	\$ 489,899

See accompanying notes

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

Year Ended September 30,	2013	2012
Operating activities		
Receipts from customers and users	\$ 517,267	\$ 508,487
Payments to suppliers and others	(219,225)	(208,944)
Payments for personnel services	(264,471)	(230,366)
Net cash provided by operating activities	33,571	69,177
Capital and related financing activities		
Purchase of capital assets	(136,211)	(9,104)
Net cash used in capital and related financing activities	(136,211)	(9,104)
Investing activities		
Proceeds from sale of fixed assets	12,000	-
Interest received	254	379
Net cash provided by investing activities	12,254	379
Net increase (decrease) in cash and cash equivalents	(90,386)	60,452
Cash and cash equivalents, beginning	269,408	208,956
Cash and cash equivalents, ending	\$ 179,022	\$ 269,408
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 6,804	\$ 41,710
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	21,225	15,811
(Increase) decrease in assets		
Accounts receivable, net	(1,065)	(405)
Increase (decrease) in liabilities		
Accounts payable	(2,648)	3,595
Accrued expenses	2,439	1,325
Due to other funds	6,775	-
Accrued compensated absences	41	7,141
Total adjustments	26,767	27,467
Net cash provided by operating activities	\$ 33,571	\$ 69,177

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, 2013, and have issued our report thereon dated November 24, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated November 24, 2014, 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 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*.

- Findings reported the two previous years include 13-01 and 13-02.

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 noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of Mexico Beach, Florida, was established in 1967, under a Charter in accordance with the laws of Florida 67-1717. As described in the notes to the financial statements, there is one component unit.

Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Mexico Beach, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Mexico Beach, Florida for the fiscal year ended September 30, 2013, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2013. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)6.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Carri Riggs & Ingram, L.L.C.

November 24, 2014



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*

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mexico Beach, Florida (the City) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 24, 2014.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider findings 13-01, 13-02, and 13-03 listed on the accompanying schedule of findings and questioned costs to be material weaknesses in internal control over financial reporting.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 13-04 and 13-05 listed on the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

Compliance and other matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

City of Mexico Beach, Florida's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

November 24, 2014



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Mayor and
Members of the City Commission
City of Mexico Beach, Florida

Report on Compliance for Each Major Federal Program

We have audited the City of Mexico Beach, Florida's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2013. The City of Mexico Beach, Florida's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Mexico Beach, Florida, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control over Compliance

Management of the City of Mexico Beach, Florida is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Mexico Beach, Florida's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Mexico Beach, Florida's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

November 24, 2014

**City of Mexico Beach, Florida
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013**

Federal Awards Programs	CFDA No.	Contract/ Grant Number	Expenditures
U.S. Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities - ARRA	10.760	N/A	\$ 2,153,000
Water and Waste Disposal Systems for Rural Communities - ARRA	10.760	N/A	1,462,225
U.S. Department of Justice Passed through the State of Florida Department of Law Enforcement			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-JAGD-BAY-5-C5-126	994
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-JAGC-BAY-7-D7-110	3,885
U.S. Department of Homeland Security - Federal Emergency Management Agency Passed through the State of Florida Executive Office of the Governor			
Disaster Relief Funding Agreement	97.036	13-IS-3S-01-13-01-530	16,046
Total expenditures of federal awards			\$ 3,636,150

Note:

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

City of Mexico Beach, Florida
Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified
 Internal control over financial reporting
 Material weakness(es) identified? yes ___ no
 Significant deficiency(ies) identified not
 considered to be material weaknesses? yes ___ none reported

Noncompliance material to financial statements noted? ___ yes no

Federal Awards

Internal control over major programs
 Material weakness(es) identified? ___ yes no
 Significant deficiency(ies) identified not
 considered to be material weaknesses? ___ yes none reported

Type of auditor's report issued on compliance
 for major programs Unmodified

Any audit findings disclosed that are required
 to be reported in accordance with Section .510(a)
 of Circular A-133? ___ yes no

Identification of major federal award programs

CFDA Number(s) Name of Federal Program

10.760 Water and Waste Disposal Systems for
 Rural Communities - ARRA

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

Auditee qualified as low-risk auditee? ___ yes no

(Continued)

**City of Mexico Beach, Florida
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2013**

Section II - Financial Statement Findings

13-01 Audit Adjusting Entries (Prior years 12-01 and 11-01) (Initially reported in 2007)

Condition: Significant adjustments to the financial records were made in order for the financial statements to conform to generally accepted accounting principles.

Criteria: The requirement is for the City to be able to provide materially correct financial information.

Effect: The auditor proposed a number of journal entries which the City reviewed and approved.

Recommendation: We don't recommend a change since we don't feel that the cost would be worth the benefit.

City's response: Management has considered the above material weakness in the City's internal control and, while we will strive to reduce the number of proposed audit adjustments, management believes the costs required to correct it would outweigh the benefits derived from implementing corrective action.

13-02 Financial Statements (Prior years 12-02 and 11-02) (Initially reported in 2007)

Condition: Inadequate design of internal control over the preparation of the financial statements being audited gives rise to a material weakness in internal control.

Criteria: The requirement is for the City to be able to prepare its own financial statements.

Effect: The auditor assists in the preparation while the City retains responsibility for them.

Recommendation: We don't recommend a change since we don't feel that the cost would be worth the benefit.

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

13-03 Segregation of Duties (Initially reported in 2013)

Condition: Due to the small number of staff, the City does not have proper segregation of duties in certain areas, but mainly in the City's backup procedures because employees are cross trained in various areas to be each other's backups.

Effect: The situation could provide opportunity for unauthorized or improper transactions to occur without being detected in a timely manner.

Recommendation: We recommend that the City segregate incompatible duties as much as possible.

(Continued)

City of Mexico Beach, Florida
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2013

City's response: Management has considered the above material weakness in the City's internal control and management believes the costs required to correct it would outweigh the benefits derived from implementing corrective action. However, the City will continue to evaluate segregation of duties and internal controls and implement new procedures as considered necessary.

13-04 Transaction Documentation (Initially reported in 2013)

Condition: The City was unable to provide certain documentation that was requested.

Criteria: Proper documentation for all transactions should be properly maintained and available upon request.

Effect: Lack of documentation makes it difficult, if not impossible, to provide support for transactions in the general ledger. It could also allow unauthorized or improper transactions to occur without being detected.

Recommendation: We recommend that adequate supporting documentation be kept for all transactions.

City's response: Management will do as you recommended.

13-05 Bond Cash Accounts (Initially reported in 2013)

Condition: The City has not set up a bond sinking fund as required per the bond documents.

Criteria: The City is required to follow the requirements of their bond documents.

Effect: Not following these requirements means they are not in compliance.

Recommendation: We recommend that the City set up the required bond sinking fund and fund it appropriately as required by the bond documents.

City's response: Management will do as you recommended.

Section III - Federal Awards Financial Assistance Findings

There were no findings.

Section IV - Other Issues

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