

City of Apalachicola, Florida

Financial Statements

September 30, 2005

City of Apalachicola, Florida  
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September 30, 2005

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**INDEPENDENT AUDITORS' REPORT**

Honorable Mayor, Member of the  
City Council and City Manager  
City of Apalachicola, Florida

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 Apalachicola, Florida as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Apalachicola, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Apalachicola, Florida as of September 30, 2005, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Major Special Revenue Funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006, on our consideration of the City of Apalachicola, Florida'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Alabama Society of  
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Florida Institute of  
Certified Public Accountants

Georgia Society of  
Certified Public Accountants

Mississippi Society of  
Certified Public Accountants

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Company Audit Firms

Management's discussion and analysis on pages 3 through 6, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Apalachicola, Florida's basic financial statements. The accompanying schedule of state financial assistance is presented for purposes of additional analysis as required by Chapter 10.550, *Rules of the Auditor General* of the State of Florida, and is also not a required part of the basic financial statements of City of Apalachicola, Florida. The combining nonmajor fund financial statements and the schedule of state financial assistance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Cam, Riggs & Ingram, L.L.C.*

Panama City, Florida  
August 10, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

# Management's Discussion and Analysis

Management's discussion and analysis provides an easily readable analysis of the City of Apalachicola's "City" financial activities. The analysis provides summary financial information for the City and should be read in conjunction with the City's financial statements.

## 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 the 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 financial statements* provide additional information concerning the City's finances that are not otherwise disclosed in the government-wide statements or fund financial statements.

## Government-wide Financial Statements

The *government-wide financial statements* include the *statement of assets* and *statement of activities*, providing both long-term and short-term information about the City's overall financial condition. The *Statement of Assets* present increases or decreases in net assets over time and serve as a useful indicator of the City's improving or declining financial position. Information on how the City's net assets changed during this reporting period is presented in the *statement of activities*.

## Fund Financial Statements

The *fund financial statements* provide financial information for the City's major funds and more detailed information about the City's activities. Individual funds have been established by the City for the purpose of grouping related accounts to maintain control over resources that have been segregated for specific purposes or objectives 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.

## Notes to Basic Financial Statements

The *notes to basic financial statements* provide additional detail concerning the financial activities and financial balances of the City. Additional information is also included that is essential to a full understanding of the data provided in the financial statements.

## Financial Analysis of the City

### Statement of Net Assets

The following schedule provides a summary of the assets, liabilities and net assets of the City at September 30, 2005. The City is able to report positive balances in all three categories of total net assets.

**City of Apalachicola, Florida  
Net Assets**

*September 30, 2005*

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Current and other assets	\$ 2,016,428	\$ 351,841	\$ 2,368,269
Noncurrent assets	4,925,989	23,922,697	28,848,686
Other assets	-	211,623	211,623
<b>Total assets</b>	<b>6,942,417</b>	<b>24,486,161</b>	<b>31,428,578</b>
Current liabilities	596,657	872,986	1,469,643
Noncurrent liabilities	186,757	10,632,005	10,818,762
<b>Total liabilities</b>	<b>783,414</b>	<b>11,504,991</b>	<b>12,288,405</b>
Net assets invested in capital assets, net of related debt	4,508,942	7,974,997	12,483,939
Net assets-restricted	-	4,691,709	4,691,709
Net assets-unrestricted	1,650,061	314,464	1,943,300
<b>Total net assets</b>	<b>\$ 6,159,003</b>	<b>\$ 12,981,170</b>	<b>\$ 19,140,173</b>

**Statement of Activities**

The following schedule provides a summary of the changes in net assets for the year ended September 30, 2005.

**City of Apalachicola, Florida  
Changes in Net Assets**

*Year Ended September 30, 2005*

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Program revenues</b>			
Charges for services	\$ 250,063	\$ 1,669,701	\$ 1,919,764
Operating grants/contributions	109,912	-	109,912
Capital grants/contributions	810,647	348,731	1,159,378
<b>General revenues</b>			
Property taxes	897,811	-	897,811
Local option taxes	269,530	-	269,530
Franchise and utility service tax	301,214	-	301,214
Sales tax and other shared rev	244,683	-	244,683
Investment earnings	36,952	205,095	242,047
Miscellaneous	95,276	-	95,276
<b>Total revenues</b>	<b>3,016,088</b>	<b>2,223,527</b>	<b>5,239,615</b>

(Continued)



**City of Apalachicola, Florida**  
**Changes in Net Assets (Continued)**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Expenses</b>			
General government	\$ 949,487	\$ -	\$ 949,487
Public safety	816,702	-	816,702
Transportation	447,056	-	447,056
Economic environment	740	-	740
Physical environment	38,518	-	38,518
Culture and recreation	107,824	-	107,824
Water	-	509,059	509,059
Sewer	-	1,474,039	1,474,039
Garbage	-	396,009	396,009
Mooring	-	177,534	177,534
<b>Total expenses</b>	<b>2,360,327</b>	<b>2,556,641</b>	<b>4,916,968</b>
<b>Increase (decrease) in net assets</b>	<b>655,761</b>	<b>(333,114)</b>	<b>322,647</b>
<b>Net assets beginning of year</b>	<b>5,503,242</b>	<b>13,314,284</b>	<b>18,817,526</b>
<b>Net assets end of year</b>	<b>\$ 6,159,003</b>	<b>\$ 12,981,170</b>	<b>\$ 19,140,173</b>

## **Financial Analysis of the City's Funds**

### **Analysis of Government-wide Financial Statements**

Approximately seventy-three percent (65%) of the City's net assets reflects its investment in capital assets (e.g. land, buildings, improvements, infrastructure, vehicles and equipment) less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. \$4,691,709 of the City's net assets are subject to external restrictions on how they may be used. The balance of unrestricted net assets, \$1,964,525, may be used to meet the City's ongoing obligations to citizens and creditors.

### **Analysis of General Fund Budgetary Variations**

As of September 30, 2005, the net actual budgetary activity exceeds the budgeted amount by \$589,332. This variation is in the most part due to additional revenues received that were spent during the year. Additionally, legal fees were a continuing budgeting factor during the 2004-2005 budget year.

## **Capital Assets and Long-Term Debt Activity**

### **Capital Assets Activity**

As of September 30, 2005, the City's total investment in capital assets net of related debt for its governmental activity was \$4,508,942 and its business-type activity was \$7,974,997 for a total investment of \$12,483,939. This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress and infrastructure.

## **Capital Assets Activity (Continued)**

Additional information on the City's capital assets can be found in the notes to the related financial statements.

## **Long-Term Debt Activity**

As of September 30, 2005, the City has a total long-term debt amount outstanding of \$11,844,212. Additional information on the City's long-term debt can be found in the notes to the related financial statements.

## **Other Significant Matters**

As of September 30, 2005, the City of Apalachicola continued to experience a substantial increase in its property values, which in turn significantly increases its ad valorem tax proceeds. The tourism industry in our City continues to flourish and the City's gross receipts in taxes, licenses, and services are reaping the benefits. However, the City continued to experience budget constraints during the 2004-2005 budget year due to the ongoing legal obligation of suits filed against the City. These suits have now been settled and this obligation will be virtually fulfilled in the 2005-2006 budget year.

Over the past several years, the City of Apalachicola has worked diligently toward the completion of two capital improvement projects to retrofit and upgrade the City's water and sewer systems. These projects were successfully completed with funding assistance from USDA Rural Development, State Revolving Loan Program and legislative appropriations. The City is now focusing its efforts toward public waterfront access, open space and recreational grant related projects. With funding assistance from the Florida Communities Trust, the City has acquired approximately 600 acres of property to be used as recreational areas in conjunction with the City's future wastewater reuse program, and several parcels along the Apalachicola River and Bay systems for public access to our natural water resources. One of these waterfront sites is the future home of a new 400 foot public dock that can be utilized for boating access, fishing or just daydreaming while enjoying the water view of the Apalachicola River. The Florida Recreational Development Assistance Program (FRDAP) has awarded funding that will allow redevelopment of one of our historic parks located in the City. The City of Apalachicola is committed to continuing its efforts toward the betterment of our community.

This report was prepared by City Administration. Questions concerning this report or requests for additional information should be addressed to Betty Webb, City Administrator, City of Apalachicola, 1 Avenue E, Apalachicola, Florida 32320.

City of Apalachicola, Florida  
Statement of Net Assets  
September 30, 2005

Primary Government			
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 753,085	\$ 183,055	\$ 936,140
Investments	351,069	47,032	398,101
Receivables (net)			
Accounts	177,162	121,754	298,916
Notes receivable	469,984	-	469,984
Due from other governmental units	265,128	-	265,128
<b>Total current assets</b>	<b>2,016,428</b>	<b>351,841</b>	<b>2,368,269</b>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	-	538,684	538,684
Restricted investments	-	4,247,914	4,247,914
<b>Capital assets</b>			
Land	2,391,584	363,057	2,754,641
Buildings, improvements, and utility systems	2,481,625	24,580,855	27,062,480
Machinery and equipment	1,113,333	-	1,113,333
Infrastructure	193,124	-	193,124
Construction in progress	315,604	-	315,604
Less allowance for depreciation	(1,569,281)	(5,807,813)	(7,377,094)
<b>Total noncurrent assets</b>	<b>4,925,989</b>	<b>23,922,697</b>	<b>28,848,686</b>
<b>Other assets</b>			
Unamortized loan finance cost	-	211,623	211,623
<b>Total assets</b>	<b>\$ 6,942,417</b>	<b>\$ 24,486,161</b>	<b>\$ 31,428,578</b>

(Continued)

City of Apalachicola, Florida  
Statement of Net Assets (Continued)  
September 30, 2005

Primary Government			
	Governmental Activities	Business-type Activities	Total
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 47,293	\$ 67,196	\$ 114,489
Internal balances	100,000	(100,000)	-
Customer deposits	-	94,889	94,889
Litigation cost liability	61,355	165,708	227,063
Accrued interest payable	4,042	84,761	88,803
Notes payable	345,741	492,987	838,728
Bonds payable	-	57,000	57,000
Compensated absences	38,226	10,445	48,671
<b>Total current liabilities</b>	<b>596,657</b>	<b>872,986</b>	<b>1,469,643</b>
Noncurrent liabilities			
Compensated absences	76,451	20,890	97,341
Notes payable	71,306	7,052,763	7,124,069
Bonds payable	-	3,558,352	3,558,352
Litigation settlement payable	39,000	-	39,000
<b>Total noncurrent liabilities</b>	<b>186,757</b>	<b>10,632,005</b>	<b>10,818,762</b>
<b>Total liabilities</b>	<b>783,414</b>	<b>11,504,991</b>	<b>12,288,405</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	4,508,942	7,974,997	12,483,939
Restricted:			
Debt service	-	4,556,643	4,556,643
Renewal and replacement	-	135,066	135,066
Unrestricted (deficit)	1,650,061	314,464	1,964,525
<b>Total net assets</b>	<b>\$ 6,159,003</b>	<b>\$ 12,981,170</b>	<b>\$ 19,140,173</b>

See accompanying notes

City of Apalachicola, Florida  
Statement of Activities  
Year Ended September 30, 2005

Program Revenues					Net (Expenses) Revenues and Changes in Net Assets		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
Governmental activities							
General government	\$ 949,487	\$ 175,679	\$ 10,000	\$ 10,000	\$ (753,808)	\$ -	\$ (753,808)
Public safety	816,702	13,376	99,912	-	(703,414)	-	(703,414)
Transportation	447,056	9,711	-	-	(437,345)	-	(437,345)
Economic environment	740	-	-	-	(740)	-	(740)
Physical environment	38,518	44,177	-	548,539	554,198	-	554,198
Culture and recreation	107,824	7,120	-	252,108	151,404	-	151,404
<b>Total governmental activities</b>	<b>2,360,327</b>	<b>250,063</b>	<b>109,912</b>	<b>810,647</b>	<b>(1,189,705)</b>	<b>-</b>	<b>(1,189,705)</b>
Business-type activities							
Water, Sewer, Garbage and Mooring	2,556,641	1,669,701	-	348,731	-	(538,209)	(538,209)
<b>Total primary government</b>	<b>\$ 4,916,968</b>	<b>\$ 1,919,764</b>	<b>\$ 109,912</b>	<b>\$ 1,159,378</b>	<b>(1,189,705)</b>	<b>(538,209)</b>	<b>(1,727,914)</b>
<b>General revenues</b>							
Taxes							
Property taxes					897,811	-	897,811
Local option taxes					269,530	-	269,530
Franchise and utility service tax					301,214	-	301,214
Sales tax and other shared revenues					244,683	-	244,683
Investment earnings					36,952	205,095	242,047
Miscellaneous					95,276	-	95,276
<b>Total general revenues</b>					<b>1,845,466</b>	<b>205,095</b>	<b>2,050,561</b>
<b>Change in net assets</b>					<b>655,761</b>	<b>(333,114)</b>	<b>322,647</b>
<b>Net assets, beginning of year</b>					<b>5,503,242</b>	<b>13,314,284</b>	<b>18,817,526</b>
<b>Net assets, end of year</b>					<b>\$ 6,159,003</b>	<b>\$ 12,981,170</b>	<b>\$ 19,140,173</b>

See accompanying notes

City of Apalachicola, Florida  
Balance Sheet  
Governmental Funds  
September 30, 2005

	General Fund	Land Acquisition Grant	Library	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 118,498	\$ 749	\$ 434,513	\$ 199,325	\$ 753,085
Investments	11,662	-	-	339,407	351,069
Due from other governmental units	265,128	-	-	-	265,128
Accounts receivable, net	177,162	-	-	-	177,162
Notes receivable	-	-	-	469,984	469,984
<b>Total assets</b>	<b>\$ 572,450</b>	<b>\$ 749</b>	<b>\$ 434,513</b>	<b>\$ 1,008,716</b>	<b>\$ 2,016,428</b>
<b>Liabilities and fund equity</b>					
<b>Liabilities</b>					
Accounts payable	\$ 47,293	\$ -	\$ -	\$ -	\$ 47,293
Due to other funds	100,000	-	-	-	100,000
Litigation cost liability	100,355	-	-	-	100,355
Deferred revenue	-	-	-	469,984	469,984
<b>Total liabilities</b>	<b>247,648</b>	<b>-</b>	<b>-</b>	<b>469,984</b>	<b>717,632</b>
<b>Fund equity</b>					
<b>Fund balances:</b>					
Reserved	-	749	414,195	459,123	874,067
Unreserved	324,802	-	20,318	79,609	424,729
<b>Total fund equity</b>	<b>324,802</b>	<b>749</b>	<b>434,513</b>	<b>538,732</b>	<b>1,298,796</b>
<b>Total liabilities and fund equity</b>	<b>\$ 572,450</b>	<b>\$ 749</b>	<b>\$ 434,513</b>	<b>\$ 1,008,716</b>	

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	4,925,989
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(531,724)
Accrued interest payable is not due in the current period and, therefore, is not reported in the funds.	(4,042)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.	469,984
<b>Net assets of governmental activities</b>	<b>\$ 6,159,003</b>

City of Apalachicola, Florida  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2005

	General Fund	Land Acquisition Grant	Library	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 1,229,547	\$ -	\$ -	\$ 239,008	\$ 1,468,555
Licenses and permits	54,559	-	-	1,120	55,679
Intergovernmental	961,423	203,819	-	-	1,165,242
Charges for services	120,000	-	-	61,993	181,993
Fines and forfeitures	12,391	-	-	-	12,391
Investment earnings and other	95,578	2,058	11,116	31,231	139,983
<b>Total revenues</b>	<b>2,473,498</b>	<b>205,877</b>	<b>11,116</b>	<b>333,352</b>	<b>3,023,843</b>
<b>Expenditures</b>					
Current operating:					
General government	953,037	-	-	-	953,037
Public safety	673,011	-	-	-	673,011
Transportation	416,065	-	-	-	416,065
Economic environment	-	-	-	98,870	98,870
Physical environment	9,000	29,518	-	-	38,518
Culture and recreation	6,051	-	18,903	28,502	53,456
Capital outlay	257,149	195,179	-	225,000	677,328
Debt service	13,984	-	-	-	13,984
<b>Total expenditures</b>	<b>2,328,297</b>	<b>224,697</b>	<b>18,903</b>	<b>352,372</b>	<b>2,924,269</b>
<b>Excess of revenues over (under) expenditures</b>	<b>145,201</b>	<b>(18,820)</b>	<b>(7,787)</b>	<b>(19,020)</b>	<b>99,574</b>
<b>Other financing sources (uses)</b>					
Operating transfers in	-	-	12,000	30,500	42,500
Loan proceeds	301,054	-	-	-	301,054
Operating transfers out	(42,500)	-	-	-	(42,500)
<b>Total other financing sources</b>	<b>258,554</b>	<b>-</b>	<b>12,000</b>	<b>30,500</b>	<b>301,054</b>
<b>Excess of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>403,755</b>	<b>(18,820)</b>	<b>4,213</b>	<b>11,480</b>	<b>400,628</b>
<b>Fund balances (deficit), beginning of year</b>	<b>(78,953)</b>	<b>19,569</b>	<b>430,300</b>	<b>527,252</b>	<b>898,168</b>
<b>Fund balances, end of year</b>	<b>\$ 324,802</b>	<b>\$ 749</b>	<b>\$ 434,513</b>	<b>\$ 538,732</b>	<b>\$ 1,298,796</b>

See accompanying notes

City of Apalachicola, Florida  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
Year Ended September 30, 2005

Differences in amounts reported for governmental activities in the statement of activities.

Net change in fund balances - total governmental funds	\$ 400,628
Capital outlay, reported as expenditures in governmental funds, are shown as capital assets in the statement of activities.	677,327
Depreciation expense on governmental capital assets included in the governmental activities in the statement of activities.	(162,885)
Proceeds from debt is reported as revenue in the governmental funds but as an increase in long-term liabilities in the statement of net assets.	(367,288)
Repayment of long-term debt is reported as an expenditure in governmental funds but as a reduction of long-term liabilities in the statement of net assets.	11,035
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	6,569
Expenditures for revolving loans issued and revenue for loan repayments are reported in the governmental funds, and recorded through notes receivable activity in the statement of net assets.	90,375
<u>Change in net assets of governmental activities</u>	<u>\$ 655,761</u>



City of Apalachicola, Florida  
Statement of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual - General Fund  
Year Ended September 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Taxes	\$ 1,183,000	\$ 1,183,000	\$ 1,229,547	\$ 46,547
Licenses and permits	95,000	95,000	54,559	(40,441)
Intergovernmental	234,200	234,200	961,423	727,223
Charges for services	120,000	120,000	120,000	-
Fines and forfeitures	20,000	20,000	12,391	(7,609)
Investment earnings and other	52,500	52,500	95,578	43,078
<b>Total revenues</b>	<b>1,704,700</b>	<b>1,704,700</b>	<b>2,473,498</b>	<b>768,798</b>
<b>Expenditures</b>				
Current operating:				
General government	638,913	638,913	953,037	(314,124)
Public safety	616,969	616,969	673,011	(56,042)
Transportation	395,583	395,583	416,065	(20,482)
Physical environment	-	-	9,000	(9,000)
Culture and recreation	6,500	6,500	6,051	449
Capital outlay	81,000	81,000	257,149	(176,149)
Debt service	-	-	13,984	(13,984)
<b>Total expenditures</b>	<b>1,738,965</b>	<b>1,738,965</b>	<b>2,328,297</b>	<b>(589,332)</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(34,265)</b>	<b>(34,265)</b>	<b>145,201</b>	<b>179,466</b>
<b>Other financing sources (uses)</b>				
Loan proceeds	-	-	301,054	301,054
Operating transfers out	(42,500)	(42,500)	(42,500)	-
<b>Total other financing sources</b>	<b>(42,500)</b>	<b>(42,500)</b>	<b>258,554</b>	<b>301,054</b>
<b>Excess of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(76,765)</b>	<b>(76,765)</b>	<b>403,755</b>	<b>480,520</b>
<b>Fund balance (deficit), beginning of year</b>	<b>(78,953)</b>	<b>(78,953)</b>	<b>(78,953)</b>	<b>-</b>
<b>Fund balance (deficit), end of year</b>	<b>\$ (155,718)</b>	<b>\$ (155,718)</b>	<b>\$ 324,802</b>	<b>\$ 480,520</b>

See accompanying notes

City of Apalachicola, Florida  
Statement of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual - Land Acquisition Grant  
Year Ended September 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Intergovernmental	\$ -	\$ -	\$ 203,819	\$ 203,819
Investment earnings and other	-	-	2,058	2,058
<b>Total revenues</b>	-	-	205,877	205,877
<b>Expenditures</b>				
Current operating:				
Physical environment	-	-	29,518	(29,518)
Capital outlay	-	-	195,179	(195,179)
<b>Total expenditures</b>	-	-	224,697	(224,697)
<b>Excess of revenues over (under) expenditures</b>	-	-	(18,820)	(18,820)
<b>Fund balance, beginning of year</b>	19,569	19,569	19,569	-
<b>Fund balance, end of year</b>	\$ 19,569	\$ 19,569	\$ 749	\$ (18,820)

See accompanying notes

City of Apalachicola, Florida  
Statement of Revenues, Expenditures and Changes in Fund Balances -  
Budget and Actual - Library Fund  
Year Ended September 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Investment earnings and other	\$ -	\$ -	\$ 11,116	\$ 11,116
<b>Total revenues</b>	-	-	11,116	11,116
<b>Expenditures</b>				
Current operating:				
Culture and recreation	-	-	18,903	(18,903)
Capital outlay	-	-	-	-
<b>Total expenditures</b>	-	-	18,903	(18,903)
<b>Excess of revenues over (under) expenditures</b>	-	-	(7,787)	(7,787)
<b>Other financing sources</b>				
Operating transfers in	-	-	12,000	12,000
<b>Total other financing sources</b>	-	-	12,000	12,000
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	-	-	4,213	4,213
<b>Fund balance, beginning of year</b>	430,300	430,300	430,300	-
<b>Fund balance, end of year</b>	\$ 430,300	\$ 430,300	\$ 434,513	\$ 4,213

See accompanying notes

City of Apalachicola, Florida  
Statement of Net Assets  
Proprietary Funds  
September 30, 2005

**Business-type Activities**

**Assets**

Current assets

Cash and cash equivalents	\$ 183,055
Investments	47,032
Accounts receivable, net	121,754
Due from other funds	100,000

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Total current assets	451,841
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Noncurrent assets

Restricted assets

Cash and cash equivalents	
Revenue bonds	167,144
Customer Deposits	94,889
State revolving loan escrow	223,040
Interest receivable	53,611
Investments	
State revolving loan escrow	4,247,914

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Total restricted assets	4,786,598
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Property, plant and equipment

Property, plant and equipment	24,943,912
Accumulated depreciation	(5,807,813)

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Net property, plant and equipment	19,136,099
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Other assets

Unamortized loan finance cost	211,623
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Total noncurrent assets	24,134,320
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Total assets	\$ 24,586,161
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(Continued)

City of Apalachicola, Florida  
Statement of Net Assets (Continued)  
Proprietary Funds  
September 30, 2005

**Business-type Activities**

**Liabilities**

Current liabilities payable from current assets	
Accounts payable	\$ 67,196
Litigation settlement payable	165,708
Compensated absences	10,445
Total current liabilities payable from current assets	243,349
Current liabilities payable from restricted assets	
Accrued interest	84,761
Bonds payable	57,000
Notes payable	492,987
Customer deposits	94,889
Total current liabilities payable from restricted assets	729,637
Total current liabilities	972,986
Noncurrent liabilities	
Bonds payable - due after one year	3,558,352
Note payable - due after one year	7,052,763
Compensated absences	20,890
Total noncurrent liabilities	10,632,005
Total liabilities	11,604,991
<b>Net assets</b>	
Invested in capital assets, net of related debt	7,974,997
Restricted	
Debt service	4,556,643
Renewal and replacement	135,066
Unrestricted	314,464
Total net assets	\$ 12,981,170

See accompanying notes

City of Apalachicola, Florida  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
Year Ended September 30, 2005

<b>Business-type Activities</b>	
<hr/>	
<b>Operating revenue</b>	
Utility billings	\$ 1,490,858
Mooring fees	97,500
Rental income	81,343
<hr/>	
Total operating revenue	1,669,701
<hr/>	
<b>Operating expenses</b>	
Personal services	141,707
Garbage collection services	396,009
Water and sewer operations contractual services	646,002
Administrative fees	120,000
Supplies, gas and oil	18,883
Communications	2,395
Utilities	23,942
Repairs and maintenance	45,053
Insurance	110,400
Professional fees	176,859
Miscellaneous	18,940
Depreciation	552,772
<hr/>	
Total operating expenses	2,252,962
<hr/>	
Operating income (loss)	(583,261)
<hr/>	
<b>Nonoperating revenues (expenses)</b>	
Investment income	205,095
Interest expense/fees	(300,074)
Operating grant expense	(3,605)
<hr/>	
Total nonoperating revenues (expenses)	(98,584)
<hr/>	
Income before contributions and transfers	(681,845)
<hr/>	
Capital contributions - grants	189,751
Capital contributions - tap fees	158,980
<hr/>	
<b>Change in net assets</b>	(333,114)
<hr/>	
<b>Net assets, beginning of year</b>	13,314,284
<hr/>	
<b>Net assets, end of year</b>	\$ 12,981,170
<hr/>	

See accompanying notes

City of Apalachicola, Florida  
Statement of Cash Flows  
Proprietary Funds  
Year Ended September 30, 2005

	<b>Business-type</b>
<b>Operating activities</b>	
Receipts from customers	\$ 1,693,275
Payments to suppliers	(1,789,220)
Payments to employees	(141,274)
<b>Net cash (used in) operating activities</b>	<b>(237,219)</b>
<b>Noncapital financing activities</b>	
Capital contributions - grants	189,751
Capital contributions - tap fees	158,980
<b>Net cash provided by noncapital and related financing activities</b>	<b>348,731</b>
<b>Capital and related financing activities</b>	
Operating grant expense	(3,605)
Acquisition of capital assets	(379,729)
Repayment of revenue bonds and notes payable	(533,416)
Interest paid on long-term debt	(299,943)
<b>Net cash (used in) capital and related financing activities</b>	<b>(1,216,693)</b>
<b>Investing activities</b>	
Proceeds for sales and maturities of investments	913,289
Investment Income	205,095
<b>Net cash provided by investing activities</b>	<b>1,118,384</b>
<b>Increase in cash and cash equivalents</b>	<b>13,203</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>708,536</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 721,739</b>
<b>Classified as</b>	
Current assets - cash and cash equivalents	\$ 183,055
Restricted assets - cash and cash equivalents	538,684
<b>Cash and cash equivalents, end of year</b>	<b>\$ 721,739</b>

(Continued)

City of Apalachicola, Florida  
Statement of Cash Flows  
Proprietary Funds (Continued)  
Year Ended September 30, 2005

	<b>Business-type</b>
<b>Reconciliation of operating income (loss) to net cash (used in) operating activities</b>	
Operating income (loss)	\$ (583,261)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	552,772
Amortization	16,930
Realized loss on sale of investments	(5,729)
Changes in assets and liabilities:	
Receivables, net	8,263
Accounts payable	(42,429)
Litigation settlement payable	(188,308)
Compensated absences	433
Customer deposits	4,110
<b>Net cash (used in) operating activities</b>	<b>\$ (237,219)</b>



# City of Apalachicola, Florida

## Notes to Basic Financial Statements

### NOTE 1 – REPORTING ENTITY

The City of Apalachicola, Florida (City) is located in northwest Florida along the Apalachicola Bay and River. The City operates under an elected Mayor-Commissioner and a four-member Board of Commissioners (Board) and serves approximately 3,000 residents. The City provides a full range of municipal services, including fire and police protection, public works activities, parks and recreation and general administrative services. In addition, the City operates a water, sewer, and garbage collection utility.

As outlined in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*, the financial reporting entity consists of the primary government, and its component units, for which the primary government is considered to be financially accountable. Also included are other entities whose exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Each potential component unit is individually evaluated using specific criteria outlined in GASB Statement No. 14 to determine whether the entity is: (a) part of the primary government; (b) a component unit which should be included in the reporting entity (blended or discretely presented); (c) an organization which should be excluded from the reporting entity entirely.

The principal criteria for classifying a potential component unit include the legal separateness of the organization, the financial accountability of the primary government for the potential component unit resulting from either the primary government's ability to impose its will on the potential component unit, or the potential component unit's fiscal dependency on the primary government. In applying the above criteria, management has determined that the Apalachicola Public Library and the Apalachicola Recreation Board are considered component units and are blended in the financial statements of the City.

The City appoints the governing Board for the Apalachicola Housing Authority (Authority), which makes the Authority a related organization. However, the Authority is not considered a component unit since it is not financially accountable to or fiscally dependent on the Board.

The Apalachicola Community Redevelopment Agency is an advisory committee appointed by the Board and conducts no financial transactions and is not considered a component unit.

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.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant City accounting policies are described below.

Notes to Basic Financial Statements

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Government-wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally 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 certain 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 funds:

- **General Fund** - The general fund is the City's primary operating fund. It accounts for all resources traditionally associated with governments except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The majority of current operating expenditures of the City other than proprietary fund activities are financed through revenues received by the General Fund.
- **Land Acquisition Grant** – This fund accounts for the land acquisition grant activity funded by the Florida Communities Trust.
- **Library Fund** – This fund accounts for activity relating to the library.

The City reports the following major proprietary fund:

- **Water and Sewer Fund** - used to account for the operations of the City's water, sewer, and garbage system, and Scipio Creek and Battery Park docking facilities, which are financed in a manner similar to private business enterprises, where the costs, including depreciation, of providing services to the general public on a continuing basis are financed or recovered primarily through user charges.

Notes to Basic Financial Statements

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

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

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

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

***Enterprise Activities***

For enterprise activities, the City applies all applicable GASB pronouncements. Additionally, the City applies pronouncements issued on or before November 30, 1989, by the Financial Accounting Standards Board (FASB) and its predecessor bodies, unless those pronouncements conflict with or contradict GASB pronouncements. Pursuant to GASB Statement No. 20, the City has elected not to apply all FASB statements and interpretations issued after November 30, 1989.

***Budgets and Budgetary Accounting***

General governmental revenue and expenditures accounted for in budgetary funds are controlled by a budgetary accounting system in accordance with various legal requirements which govern the City's operations. Budgets are monitored at varying levels of classification detail; however, expenditures cannot legally exceed total appropriations at the individual fund level. All budget changes that affect the total of a fund's budget must be approved by the City Commission.

The budgetary information presented for the general fund and the major special revenue funds is prepared on the modified accrual basis. Encumbrances are not recorded. Unexpended items at year-end must be reappropriated in the subsequent year.

City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Cash and Cash Equivalents***

The City considers cash and investments with an original maturity of three months or less when purchased to be cash equivalents. Such investments include the State Investment Pool of Florida and short-term certificates of deposit.

***Receivables***

Customer accounts receivable are recorded in the enterprise funds at their net realizable value, reduced by an allowance for uncollectible accounts, where applicable. The allowance at September 30, 2005, was \$113,000. 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.

***Restricted Assets***

Certain proceeds of the City's revenue bonds (enterprise funds), as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants or other legal agreements. The revenue bond sinking funds are used to report resources set aside to pay debt service if the sources of the pledged revenues do not generate sufficient funds to satisfy the debt service requirements. The renewal and replacement funds are used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. The City would typically use restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition. Restricted cash is also used to report resources set aside to refund customer deposits.

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, right of ways, stormwater system, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Property, plant and equipment with initial, individual costs that exceed \$750 and an estimated useful lives of over one year are recorded as capital assets. Buildings, 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 purchased or constructed. 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.

City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Capital Assets (Continued)***

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	30-50 years
Improvements other than buildings	10-50 years
Machinery and equipment	5-15 years
Infrastructure	30-50 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. For assets constructed with governmental fund resources, interest during construction is not capitalized.

***Deferred Revenues***

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

***Compensated Absences***

The City maintains a policy that permits employees to accumulate earned but unused vacation and sick pay benefits that will be paid to employees upon separation from City service if certain criteria are met. These benefits, plus their related tax and retirement costs are classified as compensated absences. Employees may be paid for unused vacation hours accrued up to a maximum amount. Payment of unused sick leave, upon termination, is also provided for up to varying amounts.

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 No. 16, *Accounting for Compensated Absences*.

***Property Taxes***

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the Property Appraiser and Tax Collector. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. 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, 2005, was 7.75 mills.

The tax levy of the City is established by the City Commission prior to October 1 of each year.

City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Property Taxes (Continued)***

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

All taxes become payable on November 1, of each year, or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. All taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. Taxes paid in March are without discount.

Property taxes are collected by the Franklin 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.

***Reserves and Designations of Fund Equity***

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

***Use of Estimates***

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

***Use of Restricted Assets***

It is generally the practice of the City to utilize restricted net assets before unrestricted net assets when possible.

***Encumbrances***

Encumbrances represent commitments in the form of purchase orders which are chargeable to an appropriation and for which a part of the appropriation is reserved. Encumbrances do not represent expenditures or liabilities. The City does not record encumbrances outstanding at year end.

***Long-term Obligations***

In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Prepaid Expenses***

General fund expenditures for insurance and similar services extended over more than one accounting year are accounted for as expenditures in the period of acquisition.

***Amortization***

Loan finance costs are being amortized over the lives of the respective loans using the straight-line method.

**NOTE 3 – CASH AND INVESTMENTS**

***Deposits***

All cash resources of the City are placed in banks that qualify as public depositories, as required by law (Florida Security for Public Deposits Act). Every qualified public depository is required by this law to deposit with the State Treasurer eligible collateral equal to, or in excess of, an amount to be determined by the State Treasurer. The State Treasurer is required by this law to ensure that the City's funds are entirely collateralized throughout the fiscal year.

In the event of failure by a qualified public depository, losses, in excess of federal depository insurance and proceeds from the sale of the securities pledged by the defaulting depository, are assessed against the other qualified public depositories of the same type as the depository in default. When other qualified public depositories are assessed additional amounts, they are assessed on a pro-rata basis.

***Investments***

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

The Local Government Surplus Funds Trust Fund; negotiable direct obligations, the principal and interest of which are unconditionally guaranteed by the United States Government at the then prevailing market price for such securities; interest-bearing time deposits or savings accounts in banks organized under the laws of Florida, in national banks organized under the laws of the United States and doing business and situated in Florida, in savings and loan associations which are under the State of Florida supervision, or in federal savings and loan associations located in Florida and organized under federal law and federal supervision, provided that any such deposits are secured by collateral as may be prescribed by law;

***Credit Risks***

The credit risk of certain investments, such as investment pools managed by other outside parties, cannot be categorized as to credit risk because the City investments are not evidenced by specific, identifiable investment securities.

***Interest Rate Risks***

At September 30, 2005, the City did not hold any investments that were considered to be an interest rate risk.

City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 3 – CASH AND INVESTMENTS (CONTINUED)**

***Custodial Risks***

At September 30, 2005, the City did not hold any deposits or investments that were considered to be a custodial risk.

***Concentration of Credit Risk***

At September 30, 2005, the City did not hold any investments that were considered to be a concentration of credit risk.

At September 30, 2005, the City's cash and investments consisted of the following:

	Credit Rating	Current	0-5 Years	5-10 Years	Total Carrying Amount
Cash including money market fund	(1)	\$ 1,474,824	\$ -	\$ -	\$ 1,474,824
U.S. Treasury notes	(2)	805,385	1,555,064	-	2,360,449
U.S. Government agencies	AAA	426,313	1,308,978	-	1,735,291
Local Govt Surplus Trust Fund Pool	(1)	398,101	-	-	398,101
Mutual funds	(1)	152,174	-	-	152,174
Totals		\$3,256,797	\$ 2,864,042	\$ -	\$ 6,120,839

(1) These funds are not rated. Investments in these funds are restricted to cash, short term obligations of the U.S. government and government backed securities.

(2) Ratings are not applicable to government issued securities and obligations.



City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 4 – CAPITAL ASSETS**

Changes in capital assets of the governmental activities funds are summarized as follows:

	September 30, 2004	Increases	Decreases	September 30, 2005
Capital assets, not being depreciated				
Land	\$ 2,196,405	\$ 195,179	\$ -	\$ 2,391,584
Historical buildings	206,307	-	(206,307)	-
Construction in progress	53,104	262,500	-	315,604
Total capital assets not being depreciated	2,455,816	457,679	(206,307)	2,707,188
Capital assets being depreciated				
Buildings	812,338	206,307	-	1,018,645
Improvements other than buildings	1,462,980	-	-	1,462,980
Machinery and equipment	893,685	219,648	-	1,113,333
Infrastructure	193,124	-	-	193,124
Total capital assets being depreciated	3,362,127	425,955	-	3,788,082
Less accumulated depreciation				
Buildings	354,584	21,089	-	375,673
Improvements other than buildings	526,551	35,267	-	561,818
Machinery and equipment	525,261	101,701	-	626,962
Infrastructure	-	4,828	-	4,828
Total accumulated depreciation	1,406,396	162,885	-	1,569,281
Total depreciable assets net of depreciation	1,955,731	263,070	-	2,218,801
Total governmental activities' capital assets (net of accumulated depreciation)	\$ 4,411,547	\$ 720,749	\$ (206,307)	\$ 4,925,989

City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

Changes in capital assets of the business-type activities funds are summarized as follows:

	September 30, 2004	Increases	Decreases	September 30, 2005
Capital assets not being depreciated				
Land	\$ 363,057	\$ -	\$ -	\$ 363,057
Construction in progress	4,541,184	301,961	-	4,843,145
Total capital assets not being depreciated	4,904,241	301,961	-	5,206,202
Capital assets being depreciated				
Buildings and utility systems	19,659,942	77,768	-	19,737,710
Less accumulated depreciation				
Buildings and utility systems	(5,255,041)	(552,772)	-	(5,807,813)
Total depreciable assets net of depreciation	14,404,901	(475,004)	-	13,929,897
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 19,309,142	\$ (173,043)	\$ -	\$ 19,136,099

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

Governmental activities	
General government	\$ 1,276
Public safety	77,640
Transportation	29,602
Culture and recreation	54,367
Total depreciation expense - governmental activities	\$ 162,885

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

Business-type activities	
Water	\$ 49,694
Sewer	483,470
Mooring/boat basins	19,608
Total depreciation expense - business-type activities	\$ 552,772

City of Apalachicola, Florida

Notes to Basic Financial Statements

**NOTE 5 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES**

Long-term debt of the City at September 30, 2005 is as follows:

	Original Issue	Balance 10/01/04	Additions (Reductions)	Balance 9/30/05
Installment purchase obligation				
Installment purchase agreement for fire truck, payable in annual installments of \$13,984, including interest at 4.85%	\$ 108,770	\$ 60,794	\$ (11,035)	\$ 49,759
Installment purchase agreement for fire truck, payable in annual installments of \$34,746, including interest at 4.92%	66,234	-	66,234	66,234
Total installment purchase obligations	175,004	60,794	55,199	115,993
Line of Credit				
Line of credit agreement for Historic Preservation, payable in full on 2/3/2006 including interest at 7.25%	301,054	-	301,054	301,054
Claims and judgments		-	39,000	39,000
Liability for compensated absences		123,788	(9,111)	114,677
Total governmental activities long-term obligations		\$ 184,582	\$ 386,142	\$ 570,724

Future debt service requirements for the City's installment purchase obligations are summarized below:

Year Ending September 30,	Amount
2006	\$ 44,687
2007	45,249
2008	12,720
2009	13,337
Total	\$ 115,993

The City's line of credit agreement requires that the entire outstanding amount be paid by February 3, 2006.

Records kept for compensated absences relate only to hours earned, used, and available. Accordingly, only the net change in compensated absences payable is presented.

The portion of compensated absences liability estimated to be paid during the next year (current portion) is \$38,226.

City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 6 – LONG-TERM DEBT – BUSINESS TYPE ACTIVITIES**

	Balance September 30, 2004	Additions	Deductions	Balance September 30, 2005	Due Within One Year
\$3,073,000 Water and Sewer Revenue Bonds – Series 2003, interest only payable on September 1, 2004. Thereafter, annual installments of principal and interest over remaining 38 years with final payment in year 2043.	\$ 3,073,000	\$ -	\$ (40,726)	\$ 3,032,274	\$ 42,000
\$390,000 Water and Sewer Revenue Bonds – Series 1983, due in annual installments of \$2,000 to \$29,000 from September 1, 1987 to September 1, 2024, with interest at 5.0% (see (a) below)	305,448	-	(8,000)	297,448	8,000
\$361,630 Water and Sewer Revenue Bonds – Series 1986, due in annual installments of \$3,000 to \$21,630 from September 1, 1989 to September 1, 2026, with interest at 6.0% (see (b) below)	292,630	-	(7,000)	285,630	7,000
Note payable to the State of Florida Revolving Loan Trust Fund for sewer system construction costs. Semiannual payments of \$363,766 including interest on the loan increments at 3.07% to 3.57% commenced on December 15, 2001, and semiannually thereafter (see note 12) for a period of twenty years – see (c), (d) below	8,023,440	-	(477,690)	7,545,750	492,987
Liability for compensated absences	30,902	433	-	31,335	10,445
Total business-type long-term obligations	\$ 11,725,420	\$ 433	\$ (533,416)	\$ 11,192,437	\$ 560,432

- (a) The Series 1983 Water and Sewer Revenue Bonds are secured by a first lien on the gross revenues of the water and sewer system and a first lien on the City's public service taxes and guaranteed entitlement revenues.
- (b) The Series 1986 Water and Sewer Revenue Bonds are secured by a junior lien on the above-mentioned revenues.
- (c) The Series 2003 Water and Sewer Revenue Bonds were issued on a parity basis with the 1983 and 1986 water and sewer revenue bonds.

## Notes to Basic Financial Statements

**NOTE 6 – LONG-TERM DEBT – BUSINESS TYPE ACTIVITIES (CONTINUED)**

- (d) The FDEP has a lien on the funds and earnings in the Capital City Trust Company escrow account, which is the source of funds for repayment of the State of Florida Revolving Loan Trust Fund loan. In addition, there exists a supplemental pledge of net water and sewer system revenues which is subordinate to payment of the 1983 and 1986 water and sewer bonds. The FDEP loan is also subordinate to the Series 2003 water and sewer revenue bonds issued in connection with the 2002-2003 water system improvements.
- (e) Semiannual payments of \$363,766 including interest are payable commencing December 15, 2001. This amount will be adjusted upon completion of loan disbursements.

There are a number of limitations and restrictions contained in the bond indentures, including the establishment of specific debt service sinking fund and reserve accounts.

The sinking fund and reserve account balances relating to the Series 2003, 1983 and 1986 bond issues are \$32,078 and \$135,066, respectively, at September 30, 2005.

***Annual Debt Maturities***

Following is a summary of the remaining principal and interest maturities required on bonds and notes payable of enterprise fund:

Year Ending September 30,	Series 1983 Revenue Bonds		Series 1986 Revenue Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 8,000	\$ 14,872	\$ 7,000	\$ 17,138
2007	9,000	14,472	8,000	16,718
2008	9,000	14,022	8,000	16,238
2009	10,000	13,572	9,000	15,758
2010	11,000	13,072	9,000	15,218
2011-2015	65,000	56,610	55,000	67,150
2016-2020	92,000	37,760	73,000	48,550
2021-2025	93,448	11,188	95,000	24,190
2026-2030	-	-	21,630	1,298
<b>Total</b>	<b>\$ 297,448</b>	<b>\$ 175,568</b>	<b>\$ 285,630</b>	<b>\$ 222,258</b>

City of Apalachicola, Florida

Notes to Basic Financial Statements

**NOTE 6 – LONG-TERM DEBT – BUSINESS TYPE ACTIVITIES (CONTINUED)**

Year Ending September 30,	Series 2003 Revenue Bonds		State Revolving Loan	
	Principal	Interest	Principal	Interest
2006	\$ 42,000	\$ 98,549	\$ 492,987	\$ 234,545
2007	44,000	97,184	508,686	218,845
2008	45,000	95,754	524,886	202,647
2009	46,000	94,291	541,600	185,932
2010	48,000	92,796	558,847	168,685
2011-2015	269,000	439,280	3,072,788	564,872
2016-2020	316,000	392,514	1,845,956	93,990
2021-2025	374,000	337,491	-	-
2026-2030	441,000	272,686	-	-
2031-2035	520,000	195,986	-	-
2036-2040	612,000	105,734	-	-
2041-2043	275,274	13,537	-	-
<b>Total</b>	<b>\$ 3,032,274</b>	<b>\$ 2,235,802</b>	<b>\$ 7,545,750</b>	<b>\$ 1,669,516</b>

**NOTE 7 – NOTES RECEIVABLE**

The following long-term notes receivable are recorded in the governmental funds and result from U.S. Department of Housing and Urban Development grants to the City, of which the proceeds were loaned to qualified applicants through a revolving loan program. Notes receivable balances consist of the following at September 30:

	2005	2004
Second mortgage receivable – original loan of \$321,666; \$1,105 due monthly including 4% interest, the unpaid balance matures in August 2008.	\$ 167,426	\$ 174,120
Second mortgage receivable - original loan of \$50,000, payable in 120 monthly installments of \$532 including interest at 5% beginning August 1999. Balance includes past due interest of \$8,500.	48,275	52,179

## Notes to Basic Financial Statements

**NOTE 7 – NOTES RECEIVABLE (CONTINUED)**

	2005	2004
Second mortgage receivable – original loan \$100,000, payable in 120 monthly payments of \$1,012 including interest at 4%.	\$ 98,270	\$ 100,000
Other notes receivable – advances on loan agreements	156,013	53,310
<b>Total</b>	<b>\$ 469,984</b>	<b>\$ 379,609</b>

All note payments to be received by the City from the above loans are considered "program income" under the terms of the original grants to the City. The terms of these grants provide that all such program income received by the City is restricted for the purpose of making additional revolving loans to qualified applicants. In addition, since the receivables are measurable, but not available, the amounts uncollected are carried in deferred revenue.

**NOTE 8 –EQUITY*****Restricted Net Assets***

The City's restricted investments in the water and sewer fund are being used to repay a loan obtained for the replacement of the City's sewer system (see notes 5).

***Reserved Fund Balances***

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

<b>Funds</b>	<b>Purpose</b>	<b>Amount</b>
<b>Governmental funds</b>		
Land acquisition grant	Project costs	\$ 749
Local option gas tax	Specific transportation expenditures	252,890
Library	Specific library expenditures	414,195
HUD revolving loans fund	Revolving loan program (note 6)	177,369
Raney house trust	Raney House building restoration and preservation	28,864
<b>Total fund balances reserved</b>		<b>\$ 874,067</b>
<b>Enterprise funds</b>		
	Restricted for renewal and replacement	\$ 135,066
	Restricted for debt service	4,556,643
<b>Total net assets restricted</b>		<b>\$ 4,691,709</b>

City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 9 – INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS**

<b>Receivable Entity</b>	<b>Payable Entity</b>	<b>Amount</b>
Water and sewer fund	General fund	\$ 100,000

All interfund balances are due to timing differences and expected to be repaid during the fiscal year ending September 30, 2006.

<b>Transfers Out</b>	<b>Transfers In</b>	<b>Amount</b>	<b>Purpose</b>
Nonmajor governmental funds	General fund	\$ 42,500	Transfer of general revenues for library and recreation activities

**NOTE 10 – OTHER DISCLOSURES**

The City contracted with U.S. Filter Operating Services, Inc. in July 2002 for operations, maintenance and management services for the City's water treatment and distribution facilities and the wastewater collection and treatment facilities.

**NOTE 11 – RETIREMENT BENEFITS**

***Plan Description***

The City participates in the Florida State Retirement System (FRS) a cost-sharing, multiple employer defined benefit retirement plan administered by the State of Florida Department of Administration, Division of Retirement, to provide retirement and survivor benefits to participating public employees. Chapter 121, Florida Statutes, establishes the authority for participant eligibility, contribution requirements, vesting eligibility and benefit provisions. FRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by contacting the State of Florida Department of Management Services, Division of Retirement, 2639 North Monroe Street, Building C, Tallahassee, Florida 32399-1560.

The System provides vesting of benefits after six years of creditable service. Members are eligible for normal retirement after six years of service and attaining age 62, or 30 years of service regardless of age. Early retirement may be taken any time after completing six years of service; however, there is a 5% benefit reduction for each year prior to normal retirement.

FRS also provides death and disability benefits and cost-of-living adjustments. Generally, membership is compulsory for all full-time and part-time employees. Retirement coverage is employee noncontributory. The employer pays all contributions.



City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 11 – RETIREMENT BENEFITS (CONTINUED)**

***Funding Policy***

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts provide that employees pay all contributions at rates determined each year by the legislature.

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

	October 1, 2004 Through June 30, 2005	July 1, 2005 Through September 30, 2005
Regular class	7.39%	7.83%
Special risk employee class	18.53%	18.53%
DROP plan participants	9.11%	9.32%

During the year ended September 30, 2005, total payroll for all employees was \$791,731 and the retirement contributions for all employees covered by FRS were \$89,632. These contributions represented 11.3% of covered payroll.

**NOTE 12 – REPLACEMENT OF WATER SYSTEM AND RELATED FINANCING**

The City is in the process of replacing and upgrading its water system and has secured long-term financing and a grant for the cost of the replacement, which is estimated to approximate \$4,800,000. Costs incurred through September 30, 2005, amount to \$4,618,775 for the water system replacement and are carried in the Water and Sewer fund under the account property, plant and equipment. Depreciation will commence in the next fiscal year upon completion of the project.

Water and sewer system revenue bonds in the amount of \$3,073,000 have been issued to fund approximately 70% of the cost of the replacement project. A U.S.D.A. Rural Development grant of \$1,605,000 is being used to fund approximately 30% of the project's cost.

Notes to Basic Financial Statements

**NOTE 13 – COMMITMENTS, CONTINGENCIES AND RISK MANAGEMENT**

***Litigation***

A settlement agreement was reached in September 2002 between the City and an individual who had contended his property had been damaged from the alleged negligent operation of the City's wastewater treatment plant. Under the settlement agreement, the plaintiff received the sum of \$75,000, which included interest. The City had recorded a provision for this settlement in the general fund of its September 30, 2002, financial statements. Payment of the settlement was made in November 2002. In July 2003, the Circuit Court awarded the sum of approximately \$409,000 for the plaintiff's attorney fees. However, this award was appealed by the plaintiff. In May 2004, the Court ordered the City to pay approximately \$409,000 for the plaintiff's attorney fees. The liability, with accrued interest, is being paid over three years with the first payment paid June 2004. The remaining portion of this liability including interest, \$266,063, is recorded in the City's proprietary fund.

The City is defendant in various other litigation which has been turned over to the City's insurance carrier for defense. Settlements, if any, are not anticipated to exceed the policy amounts of insurance carried by the City.

***Environmental Matters***

The City's wastewater treatment facility and operations are subject to extensive federal and state environmental laws and regulations. Since December 1998, the City has been subject to the requirements of a consent order from the FDEP relating to the City's wastewater treatment facility. The consent order requires the City to undertake a number of significant measures with regard to improving and replacing the present methods of collecting, processing and discharging waste effluent. In July 1999, a permit was issued by FDEP allowing the City to operate the facility and to undertake construction activities in connection therewith. The permit replaced a temporary operating permit.

The City intends to comply with its environmental responsibilities and believes replacing the sewer system, which was completed during the 2004-2005 fiscal year, and upgrading the water system as discussed in note 12 will allow the City to fulfill its environmental responsibilities.

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors or omissions; injuries to employees and/or the public; or damage to property of others. The City purchases commercial insurance to cover its risk of losses. The City carries comprehensive coverage on certain vehicles and equipment, as long as deemed economically justifiable. The City also carries liability insurance on the aforementioned vehicles and equipment.

City of Apalachicola, Florida  
Notes to Basic Financial Statements

**NOTE 14 – BUDGETARY DATA**

The City participates had actual expenditures that exceeded budgeted amounts in the general fund during the year. These amounts were offset by excess revenues earned, and the net result was and excess of revenues over expenditures.

# COMBINING FINANCIAL STATEMENTS

City of Apalachicola, Florida  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2005

	Local Option Gas Tax	Recreation	HUD Revolving Loans Fund	Raney House Trust	Capital Improvement Fund	Total Nonmajor Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 66,093	\$ 16,166	\$ 53,623	\$ -	\$ 63,443	\$ 199,325
Investments	186,797		123,746	28,864	-	339,407
Notes receivable	-	-	469,984	-	-	469,984
<b>Total assets</b>	<b>\$ 252,890</b>	<b>\$ 16,166</b>	<b>\$ 647,353</b>	<b>\$ 28,864</b>	<b>\$ 63,443</b>	<b>\$ 1,008,716</b>
<b>Liabilities and fund equity</b>						
Deferred revenue	\$ -	\$ -	\$ 469,984	\$ -	\$ -	\$ 469,984
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>469,984</b>	<b>-</b>	<b>-</b>	<b>469,984</b>
<b>Fund equity</b>						
Fund balances						
Reserved	252,890	-	177,369	28,864	-	459,123
Unreserved	-	16,166	-	-	63,443	79,609
<b>Total fund equity</b>	<b>252,890</b>	<b>16,166</b>	<b>177,369</b>	<b>28,864</b>	<b>63,443</b>	<b>538,732</b>
<b>Total liabilities and fund equity</b>	<b>\$ 252,890</b>	<b>\$ 16,166</b>	<b>\$ 647,353</b>	<b>\$ 28,864</b>	<b>\$ 63,443</b>	<b>\$ 1,008,716</b>

See accompanying notes

City of Apalachicola, Florida  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended September 30, 2005

	Local Option Gas Tax	Recreation	HUD Revolving Loans Fund	Raney House Trust	Capital Improvement Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>						
Taxes	\$ 239,008	\$ -	\$ -	\$ -	\$ -	\$ 239,008
Licenses and permits	-	-	-	-	1,120	1,120
Charges for services	-	-	-	-	61,993	61,993
Investment earnings and other	3,532	483	26,160	726	330	31,231
<b>Total revenues</b>	<b>242,540</b>	<b>483</b>	<b>26,160</b>	<b>726</b>	<b>63,443</b>	<b>333,352</b>
<b>Expenditures</b>						
Current operating						
Economic environment	-	-	98,870	-	-	98,870
Culture and recreation	-	28,502	-	-	-	28,502
Capital outlay	225,000	-	-	-	-	225,000
<b>Total expenditures</b>	<b>225,000</b>	<b>28,502</b>	<b>98,870</b>	<b>-</b>	<b>-</b>	<b>352,372</b>
<b>Excess of revenues over (under) expenditures</b>	<b>17,540</b>	<b>(28,019)</b>	<b>(72,710)</b>	<b>726</b>	<b>63,443</b>	<b>(19,020)</b>
<b>Other financing sources</b>						
Operating transfers in	-	30,500	-	-	-	30,500
<b>Excess of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>17,540</b>	<b>2,481</b>	<b>(72,710)</b>	<b>726</b>	<b>63,443</b>	<b>11,480</b>
<b>Fund balances, beginning of year</b>	<b>235,350</b>	<b>13,685</b>	<b>250,079</b>	<b>28,138</b>	<b>-</b>	<b>527,252</b>
<b>Fund balances, end of year</b>	<b>\$ 252,890</b>	<b>\$ 16,166</b>	<b>\$ 177,369</b>	<b>\$ 28,864</b>	<b>\$ 63,443</b>	<b>\$ 538,732</b>

See accompanying notes

# COMPLIANCE SECTION

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## INDEPENDENT AUDITORS' MANAGEMENT LETTER

Honorable Mayor, Member of the  
City Council and City Manager  
City of Apalachicola, Florida

We have audited the financial statements of the City of Apalachicola, Florida (the City) as of and for the fiscal year ended September 30, 2005, and have issued our report thereon dated August 10, 2006.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Report on Compliance with Requirements Applicable to each Major Federal Program and State Project and on Internal Control over Compliance in Accordance with Chapter 10.550, Rules of the Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports dated August 10, 2006, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the state of Florida and require that certain items be addressed in this letter.

The *Rules of the Auditor General* [Section 10.554(1)(h)1.] require that we address in the management letter, if not already addressed in the auditors' reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial audit report have been satisfactorily addressed by the City, except as noted below under the heading "Prior Year Audit Findings and Recommendations."

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)2.], the scope of our audit included 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 Apalachicola complied with Section 218.415, Florida Statutes.

The *Rules of the Auditor General* [Sections 10.554(1)(h)(3.)] require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit we did not have any such findings.

American Institute of  
Certified Public Accountants

Alabama Society of  
Certified Public Accountants

Florida Institute of  
Certified Public Accountants

Georgia Society of  
Certified Public Accountants

Mississippi Society of  
Certified Public Accountants

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The *Rules of the Auditor General* [Sections 10.554(1)(h)(4.)] require disclosure in the management letter of the following matters if not already addressed in the auditors' report on compliance and internal controls or schedule of findings and questioned costs and are not clearly inconsequential: (1) violations of laws, rules, regulations and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations or instances of fraud discovered by, or that came to the attention of, the auditor. Our audit report disclosed the following matter required to be disclosed:

## **Current Year Audit Recommendations**

### **05-01 Need to Comply with Budgetary Requirements**

Because revenues were received in excess of anticipated amounts, additional expenses were incurred during the year resulting in expenses exceeding budgeted amounts. Budgets should be reviewed and amended as needed throughout the year in order to maintain compliance with state regulations.

### **05-02 Need for Separation of Duties**

Separation of certain accounting and administrative duties among employees, which is recommended as an effective internal control procedure, was not considered feasible by the City because of its size and the limited number of employees. The City recognizes that the cost of its internal control structure should not exceed the benefits expected to be derived. The City also recognizes the inherent limitations of an internal control structure. Mistakes and irregularities may occur in any event with or without an adequate internal control structure. Furthermore, adequate segregation of duties can be circumvented by collusion among persons. Nevertheless, internal control is strengthened when incompatible duties are separated and review procedures are established and adhered to.

## **Prior Year Audit Findings and Recommendations**

### **05-03 Need to Create Position of City Manager (Prior Year 4)**

Over the past few years, the City has experienced substantial growth and future growth in the City appears to be even more pronounced. This presents the City with many great opportunities, while at the same time confronting the City with many complex issues.

In the past, the Mayor and City Commission could adequately oversee the City's operation with the City Administrator overseeing much of the City's day to day operations at the direction of the City Commission. However, because of the City's more recent significant issues' relating to growth, environmental, legal, and regulatory matters the City regularly encounters now, in our judgment, the City should create and fill a City Manager position. The City manager position should be filled with someone with adequate experience in municipal administration. Most all the surrounding communities the size of Apalachicola already have a City Manager position staffed. We recommend the City adopt this measure in the near future.

The *Rules of the Auditor General* [Section 10.554(1)(h)5.] require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed. The City was established by Chapter 37-18432, Laws of Florida.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)6.(a)], a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the City did not meet any of the conditions described by Section 218.503(1), Florida Statutes.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)6.(b)], we determined that the annual financial report for the City for the fiscal year ended September 30, 2005, was filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, and is in agreement with the annual financial audit report for the fiscal year ended September 30, 2005.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)6.(c) and 10.556(7)], we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information of the Mayor, City Commission and management of the City, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*Carly Riggs & Ingram, L.L.C.*

Panama City, Florida  
August 10, 2006

**CARR, RIGGS & INGRAM, LLC**

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

 Honorable Mayor, Member of the  
 City Council and City Manager  
 City of Apalachicola, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Apalachicola, Florida (the City) as of and for the year ended September 30, 2005, which collectively comprise the City of Apalachicola, Florida's basic financial statements and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we considered the reportable condition described in the accompanying schedule of findings and questioned costs as item 05-02 to be a material weakness.

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 Florida Institute of  
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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management in a separate letter dated August 10, 2006.

This report is intended solely for the information and use of the Mayor, City Commission and management of the City of Apalachicola, Florida, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Cam, Riggs & Ingram, L.L.C.*

Panama City, Florida  
August 10, 2006

CARR, RIGGS & INGRAM, LLC

2232 West 24th Street  
 Panama City, FL 32405

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## REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR STATE FINANCIAL ASSISTANCE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH CHAPTER 10.550, RULES OF THE AUDITOR GENERAL

Honorable Mayor, Member of the  
 City Council and City Manager  
 City of Apalachicola, Florida

### Compliance

We have audited the compliance of the City of Apalachicola, Florida (the City) with the types of compliance requirements described in the *Executive Office of the Governor's State Projects Compliance Supplement*, that are applicable to its major state projects for the year ended September 30, 2005. The City's major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major state projects are the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.550, *Rules of the Auditor General*. Those standards, Chapter 10.550, *Rules of the Auditor General*, 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 the state project 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. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major state projects for the year ended September 30, 2005.

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## Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to state projects. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major state project to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Chapter 10.550, *Rules of the Auditor General*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a state project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, City Commission and management, specific legislative or regulatory bodies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Carly Riggs & Ingram, L.L.C.*

Panama City, Florida  
August 10, 2006

City of Apalachicola, Florida  
Schedule of Expenditures of State Financial Assistance  
Year Ended September 30, 2005

State Agency Pass through entity State Project	CSFA No.	Contract/Grant No.	Expenditures
<u>State Financial Assistance</u>			
Florida Communities Trust			
Area of Critical State Concern - Land Acquisition Grant	52.003	01-CT-2B-00-6S-A1-001	\$ 276,763
Florida Department of Environmental Protection			
Florida Legislature Special Appropriations for Sewer System Replacement	37.039	SP-493(4)	37,730
Florida Disadvantaged Small Community Program	37.039	SG427120	9,560
Florida Department of State Division of Historical Resources			
Apalachicola City Hall Project Grant	45.032	SC205	262,500
Florida Legislature Special Appropriations			
Passed through Northwest Florida Water Management District			
Stormwater Quality Improvements - Drainage Improvement	N/A	-----	146,376
<u>Total state financial assistance</u>			<u>\$ 732,929</u>

City of Apalachicola, Florida  
Notes to Schedule of Expenditures of State Financial Assistance  
Year Ended September 30, 2005

**NOTE 1 BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of state financial assistance projects includes the grant activity of the City. State expenditures are presented on the modified accrual basis of accounting and receipts are presented on the cash basis of accounting.

**NOTE 2 SUBRECIPIENTS**

The City had no subrecipients for its federal or state financial assistance projects.

**NOTE 3 GRANT EXPENDITURES**

It is the City's policy to record grant expenditures only after approval for payment is received from the grantor. The City also records expenditures under the State of Florida Revolving Loan note payable after the lender approves an invoice or billing for payment. Consequently, there is a delay of approximately 45 to 60 days from the date of contractor's billings for work performed until the related payables are recorded in the City's financial statements.



City of Apalachicola, Florida  
Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditor's report issued	Unqualified	
Internal control over financial reporting		
Material weakness(es) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
Reportable condition(s) identified not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

State Financial Assistance

Internal control over major programs		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Reportable condition(s) identified not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported

Type of auditors' report issued on compliance for major programs	Unqualified
--	-------------

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.557, Rules of the General Auditor of the State of Florida	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
---	------------------------------	--

Identification of major state projects:

<u>CSFA Number</u>	<u>Name of State Project</u>
45.032	Florida Department of State - Division of Historical Resources Apalachicola City Hall Project Grant
52.003	Florida Communities Trust Area of Critical State Concern - Land Acquisition Grant

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

**SECTION II - FINANCIAL STATEMENT FINDINGS**

05-02 Segregation of Duties

This condition is the results of limited accounting staff and the responsibility of the finance director.

**SECTION III - STATE FINANCIAL ASSISTANCE FINDINGS**

There were no findings.

# CITY OF APALACHICOLA

BOYD W. HOWZE, JR.  
Mayor

Commissioners:  
JAMES L. ELLIOTT  
JOHN M. BARTLEY, SR.  
VAN W. JOHNSON, SR.  
VALENTINA R. WEBB



BETTY TAYLOR-WEBB  
City Administrator

J. PATRICK FLOYD  
City Attorney

September 27, 2006

Auditor General  
P.O. Box 1735  
Tallahassee, FL 32302-1735

The City of Apalachicola is in receipt of the findings identified in the annual Financial Statements for the fiscal year ended September 30, 2005 submitted by Carr Riggs and Ingram, LLC, based on the preliminary draft received. On behalf of the City the following responses have been developed and are hereby submitted:

## **MANAGEMENT LETTER**

### **Current Year Recommendations**

#### 05-01 Budgetary Requirements

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

#### 05-02 Separation of Duties

As stated in the prior audit reports, this issue results from the limited number of employees in the City Office. The duties of city office personnel are continually being reviewed by City Administration in an effort to provide internal control and in an effort to work toward a more effective and efficient overall operational structure.

### **Status of Prior Year Audit Recommendations**

#### 05-03 Need to Create Position of City Manager (Prior Year 4)

The City is fully aware of the growth it faces and the continued demands and complex issues are mounting causing added stress to our small governmental makeup. Your recommendation to create a City Manager position is not a new discussion topic for our Commission and is hereby noted for action in the near future.