

City of Apalachicola, Florida

Financial Statements

September 30, 2006

City of Apalachicola, Florida
Table of Contents
September 30, 2006

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	8
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds	11
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	14
Statement of Net Assets – Proprietary Funds	15
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	17
Statement of Cash Flows – Proprietary Funds	18
Notes to Basic Financial Statements	20
Combining Financial Statements	
Combining Balance Sheet – Nonmajor Governmental Funds	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	39
Compliance Section	
Independent Auditors' Management Letter	40
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43
Management's Response	45



CARR, RIGGS & INGRAM, LLC

2232 West 24th Street
Panama City, FL 32405

P | 850 784 6733

F | 850 784 4866

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
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, 2006, 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, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2007, 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, 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.

American Institute of
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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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Company Audit Firms

Management's discussion and analysis on pages 3 through 7, 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 combining nonmajor fund financial statements 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.

Carri Riggs & Ingram, L.L.C.

Panama City, Florida
May 31, 2007

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 financial activities. The analysis provides summary financial information for the City and should be read in conjunction with the City's financial statements.

Financial Highlights

- Total assets of the City exceeded total liabilities by \$19,972,107 (net assets). Of this amount, \$1,840,430 is unrestricted net assets for governmental activities and \$377,663 is unrestricted net assets for business-type activities, \$4,100,084 is restricted net assets for business-type activities.
- Total net assets increased by \$831,934. Of this amount, an increase of \$944,117 is attributable to governmental activities and a decrease of (\$112,183) is attributable to business-type activities.
- As of September 30, 2006, the general fund's unreserved fund balance was \$463,923 or 14% of total general fund expenditures.
- Governmental activities revenues increased to \$3,686,336 or 20%, while governmental activities expenditures increased 25% to \$3,722,678. Business-type activities revenues increased to \$2,286,630 or 3%, while business-type activities expenditures decreased 6% to \$2,398,813.

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, 2006. The City is able to report positive balances in all three categories of total net assets.

City of Apalachicola, Florida Statement of Net Assets

September 30, 2006

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 2,292,261	\$ 350,375	\$ 2,642,636
Noncurrent assets	5,562,017	23,221,480	28,783,497
Other assets	-	200,313	200,313
Total assets	7,854,278	23,772,168	31,626,446
Current liabilities	523,850	832,356	1,356,206
Noncurrent liabilities	227,308	10,070,825	10,298,133
Total liabilities	751,158	10,903,181	11,654,339
Net assets invested in capital assets, net of related debt	5,262,690	8,391,240	13,653,930
Net assets-restricted	-	4,100,084	4,100,084
Net assets-unrestricted	1,840,430	377,663	2,218,093
Total net assets	\$ 7,103,120	\$ 12,868,987	\$ 19,972,107

Statement of Activities

The following schedule provides a summary of the changes in net assets for the year ended September 30, 2006.

City of Apalachicola, Florida Statement of Activities

Year Ended September 30, 2006

	Governmental Activities	Business-type Activities	Total
Program revenues			
Charges for services	\$ 127,636	\$ 1,732,268	\$ 1,859,904
Operating grants/contributions	148,205	-	148,205
Capital grants/contributions	333,316	260,229	593,545
General revenues			
Property taxes	1,210,771	-	1,210,771
Local option taxes	56,345	-	56,345
Franchise and utility service tax	342,025	-	342,025
Sales tax and other shared rev	250,207	-	250,207
Investment earnings	79,089	128,425	207,514
Miscellaneous	860,529	-	860,529
Transfers	(145,708)	145,708	-
Total revenues	3,262,415	2,266,630	5,529,045
Expenses			
General government	694,802	-	694,802
Public safety	846,807	-	846,807
Transportation	678,589	-	678,589
Economic environment	646	-	646
Physical environment	1,200	-	1,200
Culture and recreation	96,254	-	96,254
Water	-	405,754	405,754
Sewer	-	1,462,283	1,462,283
Garbage	-	338,520	338,520
Mooring	-	172,256	172,256
Total expenses	2,318,298	2,378,813	4,697,111
Increase (decrease) in net assets	944,117	(112,183)	831,934
Net assets beginning of year	6,159,003	12,981,170	19,140,173
Net assets end of year	\$ 7,103,120	\$ 12,868,987	\$ 19,972,107

Financial Analysis of the City's Funds

Analysis of Government-wide Financial Statements

Approximately sixty-eight percent (68%) 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. \$4,100,084 of the City's net assets are subject to external restrictions on how they may be used. The balance of unrestricted net assets, \$2,218,093 may be used to meet the City's ongoing obligations to citizens and creditors.

Analysis of General Fund Budgetary Variations

As of September 30, 2006, the net actual budgetary activity exceeds the budgeted amount by \$1,286,844. This variation is due in the most part to unanticipated revenues received that were spent during the year.

Capital Assets and Long-Term Debt Activity

Capital Assets Activity

As of September 30, 2006, the City's total investment in capital assets net of related debt for its governmental activity was \$5,262,690 and its business-type activity was \$8,391,240 for a total investment of \$13,653,930. This investment in capital assets includes the cost of land, buildings, improvements, machinery and equipment, construction in progress and infrastructure less accumulated depreciation and associated debt.

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, 2006, the City has a total long-term debt amount outstanding of \$11,060,656. 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, 2006, the City of Apalachicola continued to experience a substantial increase in its property values, which in turn significantly increased its ad valorem tax proceeds. The tourism industry in the 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 2005-2006 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 2006-2007 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, 2006

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,292,626	\$ 173,897	\$ 1,466,523
Investments	347,582	48,944	396,526
Receivables (net)			
Accounts	91,613	127,534	219,147
Notes receivable	435,412	-	435,412
Due from other governmental units	125,028	-	125,028
Total current assets	2,292,261	350,375	2,642,636
Noncurrent assets			
Restricted cash and cash equivalents	-	557,325	557,325
Restricted investments	-	3,653,448	3,653,448
Capital assets			
Land	2,391,584	363,057	2,754,641
Buildings, improvements, and utility systems	2,481,625	19,779,082	22,260,707
Machinery and equipment	1,475,403	-	1,475,403
Infrastructure	193,124	-	193,124
Construction in progress	805,910	5,201,800	6,007,710
Less allowance for depreciation	(1,785,629)	(6,333,232)	(8,118,861)
Total noncurrent assets	5,562,017	23,221,480	28,783,497
Other assets			
Deposits	-	5,620	5,620
Unamortized loan finance cost	-	194,693	194,693
Total other assets	-	200,313	200,313
Total assets	\$ 7,854,278	\$ 23,772,168	\$ 31,626,446

(Continued)

See accompanying notes

City of Apalachicola, Florida
Statement of Net Assets (Continued)
September 30, 2006

Primary Government			
	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 151,439	\$ 61,738	\$ 213,177
Internal balances	38,940	(38,940)	-
Customer deposits	-	110,689	110,689
Deferred revenue	138,207	-	138,207
Litigation cost liability	-	38,244	38,244
Accrued interest payable	16,732	76,634	93,366
Notes payable	143,028	511,208	654,236
Bonds payable	-	61,000	61,000
Compensated absences	35,504	11,783	47,287
Total current liabilities	523,850	832,356	1,356,206
Noncurrent liabilities			
Compensated absences	71,009	23,566	94,575
Notes payable	156,299	6,549,907	6,706,206
Bonds payable	-	3,497,352	3,497,352
Total noncurrent liabilities	227,308	10,070,825	10,298,133
Total liabilities	751,158	10,903,181	11,654,339
Net assets			
Invested in capital assets, net of related debt	5,262,690	8,391,240	13,653,930
Restricted			
Debt service	-	3,944,756	3,944,756
Renewal and replacement	-	155,328	155,328
Unrestricted	1,840,430	377,663	2,218,093
Total net assets	\$ 7,103,120	\$ 12,868,987	\$ 19,972,107

See accompanying notes

City of Apalachicola, Florida
Statement of Activities
Year Ended September 30, 2006

		Net (Expenses) Revenues and Changes in Net Assets			
		Program Revenues		Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
				Governmental Activities	Business-type Activities
					Total
Primary Government					
Governmental activities					
General government	\$ 694,802	\$ 71,972	\$ 76,077	\$ 86,280	\$ (460,473) \$ (460,473)
Public safety	846,807	8,284	69,128	-	(769,395) (769,395)
Transportation	678,589	15,686	-	-	(662,903) (662,903)
Economic environment	646	-	-	-	(646) (646)
Physical environment	1,200	23,513	-	36,687	59,000 59,000
Culture and recreation	96,254	8,181	3,000	210,349	125,276 125,276
Total governmental activities	2,318,298	127,636	148,205	333,316	(1,709,141) (1,709,141)
Business-type activities					
Water, sewer, garbage and mooring	2,378,813	1,732,268	-	260,229	(386,316) (386,316)
Total primary government	\$ 4,697,111	\$ 1,859,904	\$ 148,205	\$ 593,545	(386,316) (2,095,457)
General revenues					
Taxes					
Property taxes				1,210,771	1,210,771
Local option taxes				56,345	56,345
Franchise and utility service tax				342,025	342,025
Sales tax and other shared revenues				250,207	250,207
Investment earnings				79,089	128,425 207,514
Miscellaneous				860,529	860,529
Transfers				(145,708)	145,708 -
Total general revenues				2,653,258	274,133 2,927,391
Change in net assets				944,117	(112,183) 831,934
Net assets, beginning of year				6,159,003	12,981,170 19,140,173
Net assets, end of year				\$ 7,103,120	\$ 12,868,987 \$ 19,972,107

City of Apalachicola, Florida
Balance Sheet
Governmental Funds
September 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 591,304	\$ 701,322	\$ 1,292,626
Investments	3,697	343,885	347,582
Due from other funds	-	11,581	11,581
Due from other governmental units	125,028	1,000	126,028
Accounts receivable, net	85,062	6,552	91,614
Notes receivable	-	435,412	435,412
Total assets	\$ 805,091	\$ 1,499,752	\$ 2,304,843
Liabilities and fund equity			
Liabilities			
Accounts payable	\$ 151,440	\$ -	\$ 151,440
Due to other funds	51,521	-	51,521
Deferred revenue	138,207	435,412	573,619
Total liabilities	341,168	435,412	776,580
Fund equity			
Fund balances			
Reserved	-	895,039	895,039
Unreserved	463,923	169,301	633,224
Total fund equity	463,923	1,064,340	1,528,263
Total liabilities and fund equity	\$ 805,091	\$ 1,499,752	
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.			5,562,017
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			(405,840)
Accrued interest payable is not due in the current period and, therefore, is not reported in the funds.			(16,732)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.			435,412
Net assets of governmental activities			\$ 7,103,120

See accompanying notes

City of Apalachicola, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 1,552,796	\$ 56,345	\$ 1,609,141
Licenses and permits	70,499	1,473	71,972
Intergovernmental	658,786	442	659,228
Charges for services	-	49,139	49,139
Fines and forfeitures	6,525	-	6,525
Investment earnings and other	954,234	92,455	1,046,689
Total revenues	3,242,840	199,854	3,442,694
Expenditures			
Current operating:			
General government	674,426	-	674,426
Public safety	734,468	-	734,468
Transportation	630,607	-	630,607
Economic environment	-	646	646
Physical environment	-	1,200	1,200
Culture and recreation	11,999	30,064	42,063
Capital outlay	852,376	-	852,376
Debt service	397,542	-	397,542
Total expenditures	3,301,418	31,910	3,333,328
Excess of revenues over (under) expenditures	(58,578)	167,944	109,366
Other financing sources (uses)			
Operating transfers in	170,620	73,022	243,642
Loan proceeds	265,809	-	265,809
Operating transfers out	(238,730)	(150,620)	(389,350)
Total other financing sources (uses)	197,699	(77,598)	120,101
Excess of revenues and other financing sources over (under) expenditures and other financing uses	139,121	90,346	229,467
Fund balances, beginning of year	324,802	973,994	1,298,796
Fund balances, end of year	\$ 463,923	\$ 1,064,340	\$ 1,528,263

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, 2006

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

Net change in fund balances - total governmental funds	\$ 229,467
Capital outlay, reported as expenditures in governmental funds, are shown as capital assets in the statement of activities.	852,376
Depreciation expense on governmental capital assets included in the governmental activities in the statement of activities.	(216,349)
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.	(265,809)
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.	383,529
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(4,525)
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.	(34,572)
<u>Change in net assets of governmental activities</u>	<u>\$ 944,117</u>

See accompanying notes

City of Apalachicola, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended September 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 1,453,500	\$ 1,504,000	\$ 1,552,796	\$ 48,796
Licenses and permits	107,500	63,000	70,499	7,499
Intergovernmental	289,500	250,000	658,786	408,786
Charges for services	120,000	20,000	-	(20,000)
Fines and forfeitures	15,000	7,500	6,525	(975)
Investment earnings and other	138,500	121,000	954,234	833,234
Total revenues	2,124,000	1,965,500	3,242,840	1,277,340
Expenditures				
Current operating				
General government	726,118	661,574	674,426	(12,852)
Public safety	645,948	677,100	734,468	(57,368)
Transportation	433,739	529,800	630,607	(100,807)
Culture and recreation	10,200	27,200	11,999	15,201
Capital outlay	92,900	118,900	852,376	(733,476)
Debt service	-	-	397,542	(397,542)
Total expenditures	1,908,905	2,014,574	3,301,418	(1,286,844)
Excess of revenues over (under) expenditures	215,095	(49,074)	(58,578)	(9,504)
Other financing sources (uses)				
Operating transfers in	-	-	170,620	170,620
Loan proceeds	-	-	265,809	265,809
Operating transfers out	(42,500)	(42,500)	(238,730)	(196,230)
Total other financing sources	(42,500)	(42,500)	197,699	240,199
Excess of revenues and other financing sources over (under) expenditures and other financing uses	172,595	(91,574)	139,121	230,695
Fund balance, beginning of year	324,802	324,802	324,802	-
Fund balance, end of year	\$ 497,397	\$ 233,228	\$ 463,923	\$ 230,695

See accompanying notes

City of Apalachicola, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2006

Business-type Activities

Assets

Current assets

Cash and cash equivalents	\$ 173,897
Investments	48,944
Accounts receivable, net	127,534
Due from other funds	38,940

Total current assets	389,315
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Noncurrent assets

Restricted assets

Cash and cash equivalents	
Revenue bonds	205,349
Customer Deposits	110,689
State revolving loan escrow	241,287
Investments	
State revolving loan escrow	3,653,448

Total restricted assets	4,210,773
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Property, plant and equipment

Property, plant and equipment	25,343,939
Accumulated depreciation	(6,333,232)

Net property, plant and equipment	19,010,707
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Other assets

Deposits	5,620
Unamortized loan finance cost	194,693
Total other assets	200,313

Total noncurrent assets	23,421,793
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Total assets	\$ 23,811,108
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(Continued)

City of Apalachicola, Florida
Statement of Net Assets (Continued)
Proprietary Funds
September 30, 2006

Business-type Activities	
Liabilities	
Current liabilities payable from current assets	
Accounts payable	\$ 61,738
Litigation settlement payable	38,244
Compensated absences	11,783
Total current liabilities payable from current assets	111,765
Current liabilities payable from restricted assets	
Accrued interest	76,634
Bonds payable	61,000
Notes payable	511,208
Customer deposits	110,689
Total current liabilities payable from restricted assets	759,531
Total current liabilities	871,296
Noncurrent liabilities	
Bonds payable	3,497,352
Notes payable	6,549,907
Compensated absences	23,566
Total noncurrent liabilities	10,070,825
Total liabilities	10,942,121
Net assets	
Invested in capital assets, net of related debt	8,391,240
Restricted	
Debt service	3,944,756
Renewal and replacement	155,328
Unrestricted	377,663
Total net assets	\$ 12,868,987

See accompanying notes

City of Apalachicola, Florida
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2006

Business-type Activities	
Operating revenue	
Utility billings	\$ 1,503,913
Tap fees	40,612
Mooring fees	91,064
Rental income	96,679
Total operating revenue	1,732,268
Operating expenses	
Personal services	140,616
Garbage collection services	338,519
Water and sewer operations contractual services	713,514
Supplies, gas and oil	22,035
Communications	1,308
Utilities	27,058
Repairs and maintenance	31,794
Insurance	112,522
Professional fees	133,739
Miscellaneous	51,382
Depreciation	525,419
Total operating expenses	2,097,906
Operating income (loss)	(365,638)
Nonoperating revenues (expenses)	
Investment income	128,425
Interest expense/fees	(275,810)
Operating grant expense	(5,097)
Total nonoperating revenues (expenses)	(152,482)
Income before contributions and transfers	(518,120)
Contributions and transfers	
Capital contributions - grants	260,229
Transfers out	(20,000)
Transfers in	165,708
Total contributions and transfers	405,937
Change in net assets	(112,183)
Net assets, beginning of year	12,981,170
Net assets, end of year	\$ 12,868,987

See accompanying notes

City of Apalachicola, Florida
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2006

	Business-type
Operating activities	
Receipts from customers	\$ 1,781,928
Payments to suppliers	(1,553,106)
Payments to employees	(140,616)
Net cash provided by operating activities	88,206
Noncapital financing activities	
Capital contributions - grants	260,229
Capital and related financing activities	
Operating grant expense	(5,097)
Acquisition of capital assets	(400,027)
Proceeds from notes payable	12,783
Repayment of revenue bonds and notes payable	(554,418)
Interest paid on long-term debt	(275,810)
Net cash (used in) capital and related financing activities	(1,222,569)
Investing activities	
Proceeds for sales and maturities of investments	755,192
Investment Income	128,425
Net cash provided by investing activities	883,617
Increase in cash and cash equivalents	9,483
Cash and cash equivalents, beginning of year	721,739
Cash and cash equivalents, end of year	\$ 731,222
Classified as	
Current assets - cash and cash equivalents	\$ 173,897
Restricted assets - cash and cash equivalents	557,325
Cash and cash equivalents, end of year	\$ 731,222

(Continued)

City of Apalachicola, Florida
Statement of Cash Flows
Proprietary Funds (Continued)
Year Ended September 30, 2006

	<u>Business-type</u>
Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating income (loss)	\$ (365,638)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	525,419
Changes in assets and liabilities	
Accounts receivable, net	55,280
Deposits	(5,620)
Accounts payable	(13,585)
Litigation settlement payable	(127,464)
Compensated absences	4,014
Customer deposits	15,800
Net cash provided by operating activities	\$ 88,206

See accompanying notes

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 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.

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 Governmental Accounting Standards Board (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 entities. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies applicable to the City 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 fund:

- **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.

The City reports the following major proprietary fund:

- **Water and Sewer Fund** - This fund is 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.

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, 2006, 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, rights of way, 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 estimated useful lives of over one year are recorded as capital assets. Infrastructure, such as 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 original cost is unknown. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Depreciation is provided on the straight-line basis generally 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 are 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.

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, 2006, was 7.75 mills.

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

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 delinquent taxes collected after September 30 are not 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 because the City investments are not evidenced by specific, identifiable investment securities.

Interest Rate Risks

At September 30, 2006, the City did not hold any investments that were considered to be an interest rate risk.

Notes to Basic Financial Statements

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

At September 30, 2006, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

At September 30, 2006, the City did not hold any investments that were considered to be a concentration of credit risk.

At September 30, 2006, 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)	\$ 2,023,848	\$ -	\$ -	\$ 2,023,848
U.S. Treasury notes	(2)	651,508	1,055,200	-	1,706,708
U.S. Government agencies	AAA	523,538	1,423,202	-	1,946,740
Local Govt Surplus Trust Fund Pool	(1)	396,526	-	-	396,526
Total		\$3,595,420	\$ 2,478,402	\$ -	\$ 6,073,822

(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, 2005	Increases	Decreases	September 30, 2006
Capital assets, not being depreciated				
Land	\$ 2,391,584	\$ -	\$ -	\$ 2,391,584
Construction in progress	315,604	490,306	-	805,910
Total capital assets not being depreciated	2,707,188	490,306	-	3,197,494
Capital assets being depreciated				
Buildings	1,018,645	-	-	1,018,645
Improvements other than buildings	1,462,980	-	-	1,462,980
Machinery and equipment	1,113,333	362,070	-	1,475,403
Infrastructure	193,124	-	-	193,124
Total capital assets being depreciated	3,788,082	362,070	-	4,150,152
Less accumulated depreciation				
Buildings	375,673	21,089	-	396,762
Improvements other than buildings	561,818	34,330	-	596,148
Machinery and equipment	626,962	156,101	-	783,063
Infrastructure	4,828	4,828	-	9,656
Total accumulated depreciation	1,569,281	216,348	-	1,785,629
Total depreciable assets net of depreciation	2,218,801	145,722	-	2,364,523
Total governmental activities' capital assets (net of accumulated depreciation)	\$ 4,925,989	\$ 636,028	\$ -	\$ 5,562,017

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, 2005	Increases	Decreases	September 30, 2006
Capital assets not being depreciated				
Land	\$ 363,057	\$ -	\$ -	\$ 363,057
Construction in progress	4,843,145	358,655	-	5,201,800
Total capital assets not being depreciated	5,206,202	358,655	-	5,564,857
Capital assets being depreciated				
Buildings and utility systems	19,737,710	41,372	-	19,779,082
Less accumulated depreciation				
Buildings and utility systems	(5,807,813)	(525,419)	-	(6,333,232)
Total depreciable assets net of depreciation	13,929,897	(484,047)	-	13,445,850
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 19,136,099	\$ (125,392)	\$ -	\$ 19,010,707

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

Governmental activities	
General government	\$ 2,103
Public safety	110,903
Transportation	49,152
Culture and recreation	54,190
Total depreciation expense - governmental activities	\$ 216,348

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

Business-type activities	
Water	\$ 27,037
Sewer	483,257
Mooring/boat basins	15,125
Total depreciation expense - business-type activities	\$ 525,419

City of Apalachicola, Florida

Notes to Basic Financial Statements

NOTE 5 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

Long-term debt of the governmental activities of the City at September 30, 2006 is as follows:

	Original Issue	Balance 9/30/05	Additions (Reductions)	Balance 9/30/06
Installment purchase agreement for fire truck, payable in annual installments of \$13,984, including interest at 4.85%	\$ 108,770	\$ 49,759	\$ (11,570)	\$ 38,189
Installment purchase agreement for dump truck, payable in annual installments of \$34,746, including interest at 4.92%	66,234	66,234	(33,117)	33,117
Installment purchase agreement for 7 computers payable in 36 monthly installments of \$273 at 10% interest, maturing June 2009	8,744	-	7,996	7,996
Installment purchase agreement for 3 vehicles payable in 3 annual installments of \$22,280 including 6.25% interest, maturing July 2008	62,985	-	40,705	40,705
Installment purchase agreement for 4 vehicles Payable in 3 annual installments of \$32,875 Including 4.6% interest, maturing November 2007	123,080	-	90,204	90,204
Installment purchase agreement for backhoe/loader payable in 5 annual installments at 5.75% maturing June 2010	71,000	-	55,126	55,126
Total installment purchase obligations	440,813	115,993	149,344	265,337
Line of Credit				
Line of credit agreement for Historic Preservation, payable in full on 11/23/2006 including interest at 8.25%	301,054	301,054	(267,064)	33,990
Liability for compensated absences		114,677	(8,164)	106,513
Total governmental activities long-term obligations		\$ 531,724	\$ (125,884)	\$ 405,840

City of Apalachicola, Florida

Notes to Basic Financial Statements

NOTE 5 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (CONTINUED)

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

Year Ending September 30,	Amount
2007	\$ 143,028
2008	80,037
2009	61,272
2010	14,990
Total	\$ 299,327

The City's line of credit agreement requires that the entire outstanding amount be paid by November 23, 2007.

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 \$35,504.

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

	Balance September 30, 2005	Additions	Deductions	Balance September 30, 2006	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	\$ 3,032,274	\$ -	\$ (42,000)	\$ 2,990,274	\$ 44,000
\$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)	297,448	-	(8,000)	289,448	9,000
\$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)	285,630	-	(7,000)	278,630	8,000

City of Apalachicola, Florida

Notes to Basic Financial Statements

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

	Balance September 30, 2005	Additions	Deductions	Balance September 30, 2006	Due Within One Year
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) and (e) below	\$ 7,545,750	\$ -	\$ (492,870)	\$ 7,052,880	\$ 507,228
Installment purchase agreement for truck payable in 3 annual installments of \$4,548 at 6.9% interest, maturing June 2008	-	12,783	(4,548)	8,235	3,980
Liability for compensated absences	31,335	4,014	-	35,349	11,783
Total business-type long-term obligations	\$ 11,192,437	\$ 16,797	\$ (554,418)	\$ 10,654,816	\$ 583,991

- (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 parity with the 1983 and 1986 Water and Sewer Revenue Bonds.
- (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 \$50,021 and \$155,328 respectively, at September 30, 2006.

City of Apalachicola, Florida

Notes to Basic Financial Statements

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

Annual Debt Maturities

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

Year Ending September 30,	Series 1983 Revenue Bonds		Series 1986 Revenue Bonds	
	Principal	Interest	Principal	Interest
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	11,000	12,522	10,000	14,678
2012-2016	70,000	53,360	58,000	63,850
2017-2021	99,000	33,110	77,000	44,170
2022-2026	70,448	6,566	99,630	18,490
Total	\$ 289,448	\$ 160,696	\$ 278,630	\$ 205,120

Year Ending September 30,	Series 2003 Revenue Bonds		State Revolving Loan	
	Principal	Interest	Principal	Interest
2007	\$ 44,000	\$ 97,184	\$ 507,228	\$ 220,304
2008	45,000	95,754	523,488	204,044
2009	46,000	94,291	540,269	187,263
2010	48,000	92,796	557,588	169,944
2011	50,000	91,236	575,462	152,070
2012-2016	279,000	430,538	3,166,132	471,528
2017-2021	327,000	382,244	1,182,713	41,965
2022-2026	386,000	325,336	-	-
2027-2031	455,000	258,353	-	-
2032-2036	537,000	179,086	-	-
2037-2041	632,000	85,844	-	-
2042-2046	141,274	4,591	-	-
Total	\$ 2,990,274	\$ 2,137,253	\$ 7,052,880	\$ 1,447,118

City of Apalachicola, Florida

Notes to Basic Financial Statements

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

Year Ending September 30,	Installment Purchase Agreement	
	Principal	Interest
2007	\$ 3,980	\$ 568
2008	4,255	294
Total	\$ 8,235	\$ 862

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:

	2006	2005
Second mortgage receivable – original loan of \$321,666; \$1,105 due monthly including 4% interest, the unpaid balance matures in August 2008.	\$ 165,616	\$ 167,426
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.	45,481	48,275
Second mortgage receivable – original loan \$100,000, payable in 120 monthly payments of \$1,012 including interest at 4%.	96,820	98,270
Other notes receivable – advances on loan agreements	127,495	156,013
Total	\$ 435,412	\$ 469,984

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.

City of Apalachicola, Florida

Notes to Basic Financial Statements

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:

Funds	Purpose	Amount
Governmental funds		
Local option gas tax	Specific transportation expenditures	\$ 200,395
Library	Specific library expenditures	428,678
HUD revolving loans fund	Revolving loan program (note 6)	235,877
Raney house trust	Raney House building restoration and preservation	30,089
Total fund balances reserved		\$ 895,039
Enterprise funds	Restricted for renewal and replacement	\$ 155,328
	Restricted for debt service	3,944,756
Total net assets restricted		\$ 4,100,084

NOTE 9 – INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

Receivable Entity	Payable Entity	Amount
Water and sewer fund	General fund	\$ 38,940

All interfund balances are due to timing differences and expected to be repaid during the fiscal year ending September 30, 2007.

Transfers Out	Transfers In	Amount	Purpose
Water and sewer fund	General fund	\$ 20,000	Administrative services
General fund	Water and sewer fund	165,708	Litigation settlement
	Nonmajor governmental funds	73,022	Transfer of general revenues for library and recreation activities
General fund			
Nonmajor governmental funds	General fund	150,620	Equipment purchases

Notes to Basic Financial Statements

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.

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, 2005 Through June 30, 2006	July 1, 2006 Through September 30, 2006
Regular class	7.83%	9.85%
Special risk employee class	18.53%	20.92%
DROP plan participants	9.33%	10.91%

During the year ended September 30, 2006, total payroll for all employees was \$892,356 and the retirement contributions for all employees covered by FRS were \$105,441. These contributions represented 11.8% of covered payroll.

Notes to Basic Financial Statements

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, of approximately \$5,000,000. Costs incurred through September 30, 2006, amount to \$5,103,373 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.

NOTE 13 – COMMITMENTS, CONTINGENCIES AND RISK MANAGEMENT

Litigation

The City is defendant in various 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 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 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.

NOTE 14 – BUDGETARY DATA

The City had actual expenditures in excess of budgeted amounts in the general fund during the year. These amounts were offset by revenues earned in excess of anticipated amounts. The net result was an excess of revenues over expenditures.

Combining Financial Statements

City of Apalachicola, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2006

	Land Acquisition Grant	Library	Local Option Gas Tax	Recreation	HUD		Raney House Trust	Capital Improvement Fund	Total	
					Revolving Loans Fund				Nonmajor	Governmental Funds
Assets										
Cash and cash equivalents	\$ -	\$ 438,797	\$ -	\$ 38,384	\$ 106,885	\$ -	\$ -	117,256	\$	701,322
Investments	-	-	184,804	-	128,992	-	30,089	-	-	343,885
Due from other governmental units	-	1,000	-	-	-	-	-	-	-	1,000
Due from other funds	-	-	9,039	2,542	-	-	-	-	-	11,581
Accounts receivable, net	-	-	6,552	-	-	-	-	-	-	6,552
Notes receivable	-	-	-	-	435,412	-	-	-	-	435,412
Total assets	\$ -	\$ 439,797	\$ 200,395	\$ 40,926	\$ 671,289	\$ 30,089	\$ -	117,256	\$	1,499,752
Liabilities and fund equity										
Deferred revenue	\$ -	\$ -	\$ -	\$ -	\$ 435,412	\$ -	\$ -	-	\$	435,412
Total liabilities	-	-	-	-	435,412	-	-	-	-	435,412
Fund equity										
Fund balances										
Reserved	-	428,678	200,395	-	235,877	30,089	-	-	-	895,039
Unreserved	-	11,119	-	40,926	-	-	117,256	-	-	169,301
Total fund equity	-	439,797	200,395	40,926	235,877	30,089	117,256	-	-	1,064,340
Total liabilities and fund equity	\$ -	\$ 439,797	\$ 200,395	\$ 40,926	\$ 671,289	\$ 30,089	\$ 117,256	\$ -	\$	1,499,752

City of Apalachicola, Florida
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2006

	Land Acquisition Grant	Library	Local Option Gas Tax	Recreation	HUD			Total	
					Revolving Loans Fund	Raney House Trust	Capital Improvement Fund	Nonmajor	Governmental Funds
Revenues									
Taxes	\$ -	\$ -	\$ 56,345	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,345
Licenses and permits	-	-	-	-	-	-	1,473	-	1,473
Intergovernmental	442	-	-	-	-	-	-	-	442
Charges for services	-	-	-	-	-	-	49,139	-	49,139
Investment earnings and other	9	16,647	11,258	961	59,154	1,225	3,201	-	92,455
Total revenues	451	16,647	67,603	961	59,154	1,225	53,813		199,854
Expenditures									
Current operating	-	-	-	-	646	-	-	-	646
Economic environment	1,200	-	-	-	-	-	-	-	1,200
Physical environment	-	23,363	-	6,701	-	-	-	-	30,064
Culture and recreation	-	-	-	-	-	-	-	-	-
Total expenditures	1,200	23,363	-	6,701	646	-	-		31,910
Excess of revenues over (under) expenditures	(749)	(6,716)	67,603	(5,740)	58,508	1,225	53,813		167,944
Other financing sources (uses)									
Operating transfers out	-	-	(150,620)	-	-	-	-	-	(150,620)
Operating transfers in	-	12,000	30,522	30,500	-	-	-	-	73,022
Total other financing sources (uses)	-	12,000	(120,098)	30,500	-	-	-		(77,598)
Excess of revenues and other financing sources over (under) expenditures and other financing uses									
	(749)	5,284	(52,495)	24,760	58,508	1,225	53,813		90,346
Fund balances, beginning of year	749	434,513	252,890	16,166	177,369	28,864	63,443		973,994
Fund balances, end of year	\$ -	\$ 439,797	\$ 200,395	\$ 40,926	\$ 235,877	\$ 30,089	\$ 117,256	\$	1,064,340

Compliance Section



CARR, RIGGS & INGRAM, LLC

2232 West 24th Street
Panama City, FL 32405

P | 850 784 6733

F | 850 784 4866
www.cricpa.com

INDEPENDENT AUDITORS' MANAGEMENT LETTER

Honorable Mayor and
Members of the City Council
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, 2006, and have issued our report thereon dated May 31, 2007.

We conducted our audit in accordance with United States generally accepted auditing standards, and Government Auditing Standards, issued by the Comptroller General of the United States. We have also issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Disclosures in that report, which is dated May 31, 2007, 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.

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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:

Prior Year Audit Findings and Recommendations

06-01 Need to Comply with Budgetary Requirements (prior year 05-01)

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.

06-02 Need for Separation of Duties (prior year 05-02)

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. Nevertheless, internal control is strengthened when incompatible duties are separated and review procedures are established and adhered to.

06-03 Need to Create Position of City Manager (prior year 05-03)

Over the past few years, the City has experienced substantial growth and this growth is expected to continue. 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.

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, 2006, 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, 2006.

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 Council 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.

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

Panama City, Florida
May 31, 2007

CARR, RIGGS & INGRAM, LLC

 2232 West 24th Street
 Panama City, FL 32405

P | 850 784 6733

F | 850 784 4866

www.cricpa.com

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

 Honorable Mayor and
 Members of the City Council
 City of 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, 2006, which collectively comprise the City of Apalachicola, Florida's basic financial statements and have issued our report thereon dated May 31, 2007. 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 Independent Auditors' Management Letter as items 06-01 through 06-03.

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 item 06-02 to be a material weakness.

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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 May 31, 2007.

This report is intended solely for the information and use of the Mayor, City Council and management of the City of Apalachicola, Florida, 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.

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

Panama City, Florida
May 31, 2007

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

May 31, 2007

State of Florida Office
Of the 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, 2006 submitted by Carr Riggs and Ingram, LLC. On behalf of the City the following responses have been developed and are hereby submitted:

MANAGEMENT LETTER

Status of Prior Year Audit Recommendations

06-01 Budgetary Requirements (prior year 05-01)

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

06-02 Separation of Duties (prior year 05-02)

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.

06-03 Need to Create Position of City Manager (prior year 05-03)

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.

Auditor General – Page 2
May 31, 2007

REPORT ON COMPLIANCE

No incidents of noncompliance identified.
Please contact the City at 850/653-9319 if further information is required.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Betty Webb", written over a circular stamp or seal.

Betty Webb, CMC
City Administrator