

City of Apalachicola, Florida

Financial Statements

September 30, 2008

City of Apalachicola, Florida
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September 30, 2008

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Commission
City of Apalachicola, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Apalachicola, Florida as of and for the year ended September 30, 2008, 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, and the aggregate remaining fund information of the City of Apalachicola, Florida as of September 30, 2008, 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 March 31, 2009, 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 important for assessing the results of our audit.

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 schedule of expenditures of federal awards and state financial assistance, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and Chapter 10.550, *Rules of the Auditor General* of the State of Florida, and the combining nonmajor fund financial statements and schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cam, Riggs & Ingram, LLC

March 31, 2009

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 \$27,410,678 (net assets). Of this amount, \$946,178 is unrestricted net assets for governmental activities and \$215,881 is unrestricted net assets for business-type activities, \$3,116,095 is restricted net assets for business-type activities.
- Total net assets increased by \$2,328,623. Of this amount, an increase of \$2,336,679 is attributable to governmental activities and a decrease of \$8,056 is attributable to business-type activities.
- As of September 30, 2008, the general fund's unreserved fund balance was \$979,321 or 10% of total general fund expenditures.
- Governmental activities revenues decreased to \$7,351,296 or 13%, while governmental activities expenses increased 49% to \$5,014,617. Business-type activities revenues decreased to \$2,449,314 or 5%, while business-type activities expenses decreased 6% to \$2,457,370.

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, 2008 and 2007. The City is able to report positive balances in all three categories of total net assets.

September 30,	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 3,249,785	\$ 3,337,017	\$ 260,567	\$ 245,214	\$ 3,510,352	\$ 3,582,231
Noncurrent assets	13,776,702	10,904,849	22,315,864	22,877,431	36,092,566	33,782,280
Other assets	-	-	166,453	183,383	166,453	183,383
Total assets	17,026,487	14,241,866	22,742,884	23,306,028	39,769,371	37,547,894
Current liabilities	2,304,842	1,767,188	764,858	866,073	3,069,700	2,633,261
Noncurrent liabilities	121,888	211,600	9,167,105	9,620,978	9,288,993	9,832,578
Total liabilities	2,426,730	1,978,788	9,931,963	10,487,051	12,358,693	12,465,839
Net assets invested in capital assets, net of related debt	13,653,579	10,684,132	9,478,945	9,076,695	23,132,524	19,760,827
Net assets – restricted	-	-	3,116,095	3,635,464	3,116,095	3,635,464
Net assets – unrestricted	946,178	1,578,946	215,881	106,818	1,162,059	1,685,764
Total net assets	\$ 14,599,757	\$ 12,263,078	\$ 12,810,921	\$ 12,818,977	\$ 27,410,678	\$ 25,082,055

Statement of Activities

The following schedule provides a summary of the changes in net assets for the years ended September 30, 2008 and 2007.

Statement of Activities

	Governmental Activities		Business-type Activities		Total	
<i>Years Ended September 30,</i>	2008	2007	2008	2007	2008	2007
Program revenues						
Charges for services	\$ 49,810	\$ 62,443	\$ 2,283,304	\$ 2,258,086	\$ 2,333,114	\$ 2,320,529
Operating grants/contributions	2,656,007	671,198	-	-	2,656,007	671,198
Capital grants/contributions	2,544,922	5,402,258	-	44,250	2,544,922	5,446,508
General revenues						
Property taxes	1,257,280	1,395,894	-	-	1,257,280	1,395,894
Local option gas tax	60,867	56,412	-	-	60,867	56,412
Franchise and utility tax	341,369	351,791	-	-	341,369	351,791
Sales tax and other shared revenues	247,054	245,397	-	-	247,054	245,397
Investment earnings	87,418	92,933	146,010	314,876	233,428	407,809
Miscellaneous	126,569	92,657	-	-	126,569	92,657
Transfers	(20,000)	52,000	20,000	(52,000)	-	-
Total revenues	7,351,296	8,422,983	2,449,314	2,565,212	9,800,610	10,988,195
Expenses						
General government	3,426,961	1,565,125	-	-	3,426,961	1,565,125
Public safety	751,908	908,672	-	-	751,908	908,672
Transportation	689,153	784,064	-	-	689,153	784,064
Culture and recreation	146,595	118,289	-	-	146,595	118,289
Water	-	-	544,435	560,698	544,435	560,698
Sewer	-	-	1,420,503	1,534,319	1,420,503	1,534,319
Garbage	-	-	391,787	416,883	391,787	416,883
Mooring	-	-	100,645	103,322	100,645	103,322
Total expenses	5,014,617	3,376,150	2,457,370	2,615,222	7,471,987	5,991,372
Change in net assets	\$2,336,679	\$5,046,833	\$ (8,056)	\$ (50,010)	\$ 2,328,623	\$ 4,996,823

Financial Analysis of the City's Funds

Analysis of Government-wide Financial Statements

Approximately eighty-four percent (84%) 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. \$3,116,095 of the City's net assets are subject to external restrictions on how they may be used. The balance of unrestricted net assets, \$1,162,059 may be used to meet the City's ongoing obligations to citizens and creditors.

Analysis of General Fund Budgetary Variations

For the year ended September 30, 2008, the general fund expenditures exceeded the budgeted amount by \$7,645,047. This variation is due in the most part to unanticipated revenues received that were spent during the year. The City received funding from grant awards for improvement projects during the 2007-2008 budget year. The original budget adopted for this year did not have these unanticipated activities projected, affecting both revenue and expense activity. Please see *Other Significant Matters* heading that follows for further grant award project details.

Capital Assets and Long-Term Debt Activity

Capital Assets Activity

As of September 30, 2008, the City's total investment in capital assets net of related debt for its governmental activities was \$13,653,579 and for its business-type activities was \$9,478,945 for a total investment of \$23,132,524. 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. Additional information on the City's capital assets can be found in the notes to the financial statements.

Long-Term Debt Activity

As of September 30, 2008, the City has a total long-term debt amount outstanding of \$10,990,960. Additional information on the City's long-term debt can be found in the notes to the financial statements.

Other Significant Matters

The City continues to feel the impact of the ad valorem tax cuts and with the ongoing construction industry slump, a virtual standstill has been experienced in building department revenues. However, the tourism industry in the City continued to flourish and the City's gross receipts in other taxes, licenses, and services remains fairly consistent compared to previous years. In the previous audit year, the City experienced budget constraints due to ongoing lawsuits filed against the City. These suits have now been settled and these obligations have been fulfilled.

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 a major wastewater effluent reuse system, continuation public waterfront access and open space property purchases, and recreational/cultural grant related projects.

In recent years, with funding assistance from the Florida Communities Trust, the City has acquired approximately 600 acres to be used as recreational areas in conjunction with the City's wastewater

reuse project, and several parcels along the Apalachicola River and Bay systems for public access to our natural water resources. Funding has been secured from the Florida Department of Environmental Protection SRF program to fund the reuse project that will ultimately take the City's wastewater effluent from surface water discharge. During the 2007-2008 year, work began on the renovation and reconstruction of several piers along the Apalachicola waterfront, including Lafayette Park, Battery Park, Riverfront Park and Gorrie Bridge Pier. Funding for these projects was supplied by the Federal Emergency Management Agency (FEMA), Florida Recreational Development Assistance Program (FRDAP) and Florida Fish and Wildlife Commission (FWC). FWC also provided funds for the renovation of the City's recreational and commercial boat basins located at Scipio Creek and Battery Park.

Funding for the following projects were secured during the 2007-2008 fiscal year and construction will begin in 2008-2009: A stormwater retrofit project at Avenue G and Water Street (Northwest Florida Water Management District), renovation and addition to the Historic Holy Family building (Florida Department of Elder Affairs) and a new fire and police station (USDA Rural Development and Community Development Block Grant through Florida Department of Community Affairs).

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, 2008

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,185,848	\$ 65,618	\$ 1,251,466
Investments	238,338	9,796	248,134
Receivables, net			
Accounts	141,834	141,739	283,573
Notes receivable	397,967	-	397,967
Prepaid expenses	-	43,414	43,414
Due from other governmental units	1,285,798	-	1,285,798
Restricted assets			
Cash and cash equivalents	-	265,077	265,077
Investments	-	2,942,333	2,942,333
Interest receivable	-	28,521	28,521
Capital assets			
Nondepreciable	8,803,018	1,346,138	10,149,156
Depreciable, net	4,973,684	17,733,795	22,707,479
Other assets			
Deposits	-	5,620	5,620
Loan costs	-	160,833	160,833
Total assets	17,026,487	22,742,884	39,769,371
Liabilities			
Bank overdraft	44,336	31,577	75,913
Accounts payable	949,491	54,368	1,003,859
Internal balances	(7,225)	7,225	-
Long-term liabilities			
Customer deposits	-	138,234	138,234
Due within one year			
Short term loans	1,169,818	-	1,169,818
Accrued interest payable	29,497	67,534	97,031
Notes payable	79,695	390,241	469,936
Bonds payable	-	65,000	65,000
Compensated absences	39,230	10,679	49,909
Due in more than one year			
Compensated absences	78,460	21,358	99,818
Notes payable	43,428	5,775,395	5,818,823
Bonds payable	-	3,370,352	3,370,352
Total liabilities	2,426,730	9,931,963	12,358,693
Net assets			
Invested in capital assets, net of related debt	13,653,579	9,478,945	23,132,524
Restricted			
Debt service	-	2,972,185	2,972,185
Renewal and replacement	-	143,910	143,910
Unrestricted	946,178	215,881	1,162,059
Total net assets	\$ 14,599,757	\$ 12,810,921	\$ 27,410,678

See accompanying notes

City of Apalachicola, Florida
Statement of Activities
Year Ended September 30, 2008

		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	\$ 3,426,961	\$ 41,231	\$ 2,576,007	\$ 1,484,439	\$ 674,716	\$ 674,716
Public safety	751,908	8,579	-	1,000	(742,329)	(742,329)
Transportation	689,153	-	80,000	303,525	(305,628)	(305,628)
Physical environment	-	-	-	42,550	42,550	42,550
Culture and recreation	146,595	-	-	713,408	566,813	566,813
Total governmental activities	5,014,617	49,810	2,656,007	2,544,922	236,122	236,122
Business-type activities						
Water, sewer, garbage and mooring	2,457,370	2,283,304	-	-	-	(174,066)
Total primary government	\$ 7,471,987	\$ 2,333,114	\$ 2,656,007	\$ 2,544,922	236,122	(174,066)
General revenues						
Taxes						
Property taxes					1,257,280	1,257,280
Local option taxes					60,867	60,867
Franchise and utility service tax					341,369	341,369
Sales tax and other shared revenues					247,054	247,054
Investment earnings					87,418	233,428
Miscellaneous					126,569	126,569
Transfers					(20,000)	-
Total general revenues					2,100,557	2,266,567
Change in net assets					2,336,679	(8,056)
Net assets - beginning of year					12,263,078	12,818,977
Net assets - end of year					\$ 14,599,757	\$ 12,810,921
						\$ 27,410,678

City of Apalachicola, Florida
Balance Sheet
Governmental Funds
September 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 578,039	\$ 607,809	\$ 1,185,848
Investments	2,290	236,048	238,338
Due from other funds	9,425	40,800	50,225
Due from other governmental units	1,285,798	-	1,285,798
Accounts receivable, net	138,116	3,718	141,834
Notes receivable	-	397,967	397,967
Total assets	\$ 2,013,668	\$ 1,286,342	3,300,010
Liabilities and fund equity			
Liabilities			
Bank overdraft	\$ 44,336	\$ -	44,336
Accounts payable	949,211	280	949,491
Due to other funds	40,800	2,200	43,000
Deferred revenue	-	397,967	397,967
Total liabilities	1,034,347	400,447	1,434,794
Fund equity			
Fund balances			
Reserved	-	885,463	885,463
Unreserved	979,321	432	979,753
Total fund equity	979,321	885,895	1,865,216
Total liabilities and fund equity	\$ 2,013,668	\$ 1,286,342	

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.	13,776,702
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.	(1,410,631)
Accrued interest payable is not due in the current period and therefore, is not reported in the funds.	(29,497)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.	397,967

Net assets of governmental activities	\$ 14,599,757
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City of Apalachicola, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 1,598,649	\$ 60,867	\$ 1,659,516
Licenses and permits	41,231	-	41,231
Intergovernmental	5,298,826	-	5,298,826
Fines and forfeitures	8,579	-	8,579
Investment earnings and other	316,527	64,202	380,729
Total revenues	7,263,812	125,069	7,388,881
Expenditures			
Current operating			
General government	3,388,354	-	3,388,354
Public safety	659,147	-	659,147
Transportation	632,436	-	632,436
Culture and recreation	14,276	56,691	70,967
Capital outlay	3,080,814	30,757	3,111,571
Debt service	1,835,420	-	1,835,420
Total expenditures	9,610,447	87,448	9,697,895
Excess (deficit) of revenues over (under) expenditures	(2,346,635)	37,621	(2,309,014)
Other financing sources (uses)			
Transfers in	302,359	49,773	352,132
Transfers out	(324,773)	(47,359)	(372,132)
Debt issuance	2,255,570	-	2,255,570
Total other financing sources (uses)	2,233,156	2,414	2,235,570
Net change in fund balances	(113,479)	40,035	(73,444)
Fund balances - beginning	1,092,800	845,860	1,938,660
Fund balances - ending	\$ 979,321	\$ 885,895	\$ 1,865,216

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, 2008

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

Net change in fund balances - total governmental funds	\$ (73,444)
Capital outlay, reported as expenditures in governmental funds, are shown as capital assets in the statement of activities.	3,111,571
Depreciation expense on governmental capital assets included in the governmental activities in the statement of activities.	(239,718)
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.	(2,255,570)
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.	1,783,346
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.	28,078
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.	(17,584)
<u>Change in net assets of governmental activities</u>	<u>\$ 2,336,679</u>

City of Apalachicola, Florida
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended September 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$ 1,664,000	\$ 1,664,000	\$ 1,598,649	\$ (65,351)
Licenses and permits	57,500	57,500	41,231	(16,269)
Intergovernmental	302,250	302,250	5,298,826	4,996,576
Fines and forfeitures	6,000	6,000	8,579	2,579
Investment earnings and other	99,000	99,000	316,527	217,527
Total revenues	2,128,750	2,128,750	7,263,812	5,135,062
Expenditures				
Current operating				
General government	577,070	577,070	3,388,354	(2,811,284)
Public safety	718,330	718,330	659,147	59,183
Transportation	528,000	528,000	632,436	(104,436)
Culture and recreation	14,300	14,300	14,276	24
Capital outlay	22,000	22,000	3,080,814	(3,058,814)
Debt service	105,700	105,700	1,835,420	(1,729,720)
Total expenditures	1,965,400	1,965,400	9,610,447	(7,645,047)
Excess (deficit) of revenues over (under) expenditures	163,350	163,350	(2,346,635)	(2,509,985)
Other financing sources (uses)				
Transfers in	-	-	302,359	302,359
Transfers out	(46,800)	(46,800)	(324,773)	(277,973)
Debt issuance	-	-	2,255,570	2,255,570
Total other financing sources (uses)	(46,800)	(46,800)	2,233,156	2,279,956
Net change in fund balance	116,550	116,550	(113,479)	(230,029)
Fund balance - beginning	1,092,800	1,092,800	1,092,800	-
Fund balance - ending	\$ 1,209,350	\$ 1,209,350	\$ 979,321	\$ (230,029)

See accompanying notes

City of Apalachicola, Florida
Statement of Net Assets
Proprietary Fund
September 30, 2008

Business-type Activities

Assets

Current assets

Cash and cash equivalents	\$ 65,618
Investments	9,796
Accounts receivable, net	141,739
Prepaid expenses	43,414

Total current assets	260,567
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Noncurrent assets

Restricted assets

Cash and cash equivalents	145,241
Revenue bonds	119,836
Customer deposits	28,521
Interest receivable	
Investments	
State revolving loan escrow	2,942,333

Total restricted assets	3,235,931
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Property, plant and equipment

Property, plant and equipment	26,586,707
Accumulated depreciation	(7,506,774)

Net property, plant and equipment	19,079,933
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Other assets

Deposits	5,620
Loan costs	160,833

Total other assets	166,453
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Total noncurrent assets	22,482,317
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Total assets	\$ 22,742,884
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(Continued)

City of Apalachicola, Florida
Statement of Net Assets (Continued)
Proprietary Fund
September 30, 2008

Business-type Activities

Liabilities

Current liabilities

Bank overdraft	\$ 31,577
Accounts payable	54,368
Accrued interest	67,534
Due from other funds	7,225
Bonds payable - current	65,000
Notes payable - current	390,241
Compensated absences	10,679

Total current liabilities	626,624
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Noncurrent liabilities

Customer deposits	138,234
Bonds payable	3,370,352
Notes payable	5,775,395
Compensated absences	21,358

Total noncurrent liabilities	9,305,339
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Total liabilities	9,931,963
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Net assets

Invested in capital assets, net of related debt	9,478,945
Restricted	
Debt service	2,972,185
Renewal and replacement	143,910
Unrestricted	215,881

Total net assets	\$ 12,810,921
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City of Apalachicola, Florida
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
Year Ended September 30, 2008

Business-type Activities	
<hr/>	
Operating revenue	
Utility billings	\$ 1,612,165
Tap fees	34,810
Mooring fees	80,161
Rental income	556,168
<hr/>	
Total operating revenue	2,283,304
<hr/>	
Operating expenses	
Personal services	205,452
Garbage collection services	391,787
Water and sewer operations contractual services	551,400
Supplies, gas and oil	101,190
Communications	2,948
Utilities	141,179
Repairs and maintenance	31,867
Insurance	96,836
Professional fees	15,422
Miscellaneous	21,873
Depreciation	612,359
<hr/>	
Total operating expenses	2,172,313
<hr/>	
Operating income	110,991
<hr/>	
Nonoperating revenues (expenses)	
Investment income	146,010
Interest expense/fees	(285,057)
<hr/>	
Total nonoperating revenues (expenses)	(139,047)
<hr/>	
Income (loss) before contributions and transfers	(28,056)
<hr/>	
Contributions and transfers	
Transfers out	(255,000)
Transfers in	275,000
<hr/>	
Total contributions and transfers	20,000
<hr/>	
Change in net assets	(8,056)
<hr/>	
Net assets - beginning	12,818,977
<hr/>	
Net assets - ending	\$ 12,810,921
<hr/>	

See accompanying notes

City of Apalachicola, Florida
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2008

	Business-type Activities
Operating activities	
Receipts from customers	\$ 2,283,155
Payments to suppliers	(1,384,504)
Payments to employees	(203,385)
Net cash provided by operating activities	695,266
Noncapital financing activities	
Transfers in	275,000
Transfers out	(255,000)
Net cash provided by noncapital and related financing activities	20,000
Capital and related financing activities	
Acquisition of capital assets	(570,161)
Repayment of revenue bonds and notes payable	(444,448)
Interest paid on long-term debt	(354,956)
Net cash used by capital and related financing activities	(1,369,565)
Investing activities	
Proceeds from sales and maturities of investments	215,376
Interest received	160,373
Net cash provided by investing activities	375,749
Increase (decrease) in cash and cash equivalents	(278,550)
Cash and cash equivalents - beginning	609,245
Cash and cash equivalents - ending	\$ 330,695
Classified as	
Current assets - cash and cash equivalents	\$ 65,618
Restricted assets - cash and cash equivalents	265,077
Cash and cash equivalents - ending	\$ 330,695

(Continued)

City of Apalachicola, Florida
Statement of Cash Flows
Proprietary Fund (Continued)
Year Ended September 30, 2008

Business-type Activities

**Reconciliation of operating income to net
cash provided by operating activities**

Operating income	\$ 110,991
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	612,359
Amortization	16,930
(Increase) decrease in assets	
Accounts receivable, net	(18,547)
Prepaid expenses	14,274
Increase (decrease) in liabilities	
Accounts payable	(68,431)
Compensated absences	2,067
Customer deposits	18,398
Due to (from) other funds	7,225

Net cash provided by operating activities	\$ 695,266
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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, transportation 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 are 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 U.S. generally accepted accounting principles (GAAP) as applied to government entities. The Governmental Accounting Standards Board (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 other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The majority of current operating expenditures of the City other than proprietary fund activities are financed through revenues received by the general fund.

The City reports the following major proprietary 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 with 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.

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

For the purpose of the statement of cash flows the City considers bank deposits, nonnegotiable certificates of deposit and all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables

Customer accounts receivable are recorded in the enterprise funds at their net realizable value, reduced by an allowance for uncollectible accounts. The allowance at September 30, 2008, was \$137,000. 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 typically uses restricted assets before using unrestricted assets, 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, 2008, was 5.78 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 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 is 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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ 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 a 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's investments are not evidenced by specific, identifiable investment securities.

Interest Rate Risks

At September 30, 2008, 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, 2008, the City did not hold any deposits or investments that were considered to be a custodial risk. See note 17 for further information on custodial risks.

Concentration of Credit Risk

At September 30, 2008, the City did not hold any investments that were considered to be a concentration of credit risk.

At September 30, 2008, 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)	\$ 1,869,474	\$ -	\$ -	\$ 1,869,474
U.S. Treasury notes	(2)	409,050	106,239	-	515,289
U.S. Government agencies	AAA	601,408	1,406,016	-	2,007,424
Local Govt Surplus Trust Fund Pool	(1)	343,344	-	-	343,344
Total		\$ 3,223,276	\$ 1,512,255	\$ -	\$ 4,735,531

(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.

Local Government Surplus Trust Fund Pool

The LGIP portion of the pool (\$326,288) is considered a SEC 2a7-like fund and the account balance is the fair value of the investment.

The Fund B portion (\$17,055) is accounted for as a fluctuating NAV pool.

Credit quality disclosure – LGIP is rated by Standard and Poors. The current rating is AAAM. Fund B is not rated by any nationally recognized statistical rating agency.

Interest rate risk – The weighted average days to maturity of the LGIP at September 30, 2008 was 8.5 days. The weighted average life of Fund B at September 30, 2008 was 9.36 years.

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, 2007	Increases	Decreases	September 30, 2008
Capital assets, not being depreciated				
Land	\$ 6,536,224	\$ 1,860,437	\$ -	\$ 8,396,661
Construction in progress	1,646,720	1,101,023	(2,341,386)	406,357
Total capital assets not being depreciated	8,182,944	2,961,460	(2,341,386)	8,803,018
Capital assets being depreciated				
Buildings	1,018,645	690,608	-	1,709,253
Improvements other than buildings	1,462,980	-	-	1,462,980
Machinery and equipment	1,329,102	26,036	-	1,355,138
Infrastructure	777,757	1,774,853	-	2,552,610
Total capital assets being depreciated	4,588,484	2,491,497	-	7,079,981
Less accumulated depreciation				
Buildings	417,851	21,089	-	438,940
Improvements other than buildings	630,478	34,330	-	664,809
Machinery and equipment	802,126	157,165	-	959,290
Infrastructure	16,124	27,134	-	43,258
Total accumulated depreciation	1,866,579	239,718	-	2,106,297
Total depreciable assets, net of accumulated depreciation	2,721,905	2,251,779	-	4,973,684
Total governmental activities' capital assets, net of accumulated depreciation	\$ 10,904,849	\$ 5,213,239	\$(2,341,386)	\$ 13,776,702

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, 2007	Increases	Decreases	September 30, 2008
Capital assets not being depreciated				
Land	\$ 363,057	\$ -	\$ -	\$ 363,057
Construction in progress	429,416	553,665	-	983,081
Total capital assets not being depreciated	792,473	553,665	-	1,346,138
Capital assets being depreciated				
Buildings and utility systems	25,224,072	16,498	-	25,240,570
Less accumulated depreciation				
Buildings and utility systems	(6,894,414)	(612,361)	-	(7,506,775)
Total depreciable assets, net of accumulated depreciation	18,329,658	(595,863)	-	17,733,795
Total business-type activities' capital assets, net of accumulated depreciation	\$ 19,122,131	\$ (42,198)	\$ -	\$ 19,079,933

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

Governmental activities	
General government	\$ 4,232
Public safety	94,650
Transportation	65,207
Culture and recreation	75,629
Total depreciation expense - governmental activities	\$ 239,718

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

Business-type activities	
Water	\$ 116,386
Sewer	486,036
Mooring/boat basins	9,939
Total depreciation expense - business-type activities	\$ 612,361

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, 2008 is as follows:

	Original Issue	Balance September 30, 2007	Additions (Reductions)	Balance September 30, 2008	Due Within One Year
Installment purchase agreement for fire truck, payable in annual installments of \$13,984, including interest at 4.85%	\$ 108,770	\$ 26,057	\$ (12,720)	\$ 13,337	\$ 13,337
Installment purchase agreement for 7 computers payable in 36 monthly installments of \$273 at 10% interest, maturing June 2009	8,744	5,214	(2,862)	2,352	2,352
Installment purchase agreement for 3 vehicles payable in 3 annual installments of \$22,280 including 6.25% interest, matured July 2008	62,985	21,043	(21,043)	-	-
Installment purchase agreement for 4 vehicles payable in 4 annual installments of \$32,875 Including 4.6% interest, maturing November 2008	123,080	61,478	(30,048)	31,430	31,430
Installment purchase agreement for backhoe/loader payable in 5 annual installments at 5.75% maturing June 2010	71,000	42,507	(13,364)	29,143	14,153
Installment purchase agreement for one truck payable in monthly installments of \$456 including 4.817% interest, maturing January 2011	19,794	16,820	(4,766)	12,054	5,001
Installment purchase agreement for 2 trucks payable in monthly installments of \$1,234 including 4.828% interest, maturing March 2011	53,553	47,598	(12,791)	34,807	13,422
Total installment purchase obligations		220,717	(97,594)	123,123	79,695
Liability for compensated absences		132,716	(15,026)	117,690	39,230
Total governmental activities long-term obligations		\$ 353,433	\$ (112,620)	\$ 240,813	\$ 118,925

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,	Principal
2009	\$ 79,695
2010	34,320
2011	9,108
Total	\$ 123,123

The City's has four lines of credit totaling \$1,602,194 as of September 30, 2008. Of this amount \$215,434 is secured by the City's certificates of deposit in the amount of \$402,579. The remaining balance is secured by Federal Emergency Management Agency and Florida Fish and Wildlife Conservation grant revenues. All agreements require that the entire outstanding amount plus interest of up to 6% be paid by during the 2009 fiscal year. During the year, line of credit proceeds totaled \$2,255,570 and repayments totaled \$1,685,752. The amount outstanding at September 30, 2008 was \$1,169,818.

The portion of compensated absences liability estimated to be paid during the next year (current portion) is \$39,230.

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

	Balance September 30, 2007	Additions	Deductions	Balance September 30, 2008	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	\$ 2,946,274	\$ -	\$ (45,000)	\$ 2,901,274	\$ 46,000
\$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)	280,448	-	(9,000)	271,448	10,000
\$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)	270,630	-	(8,000)	262,630	9,000

City of Apalachicola, Florida
Notes to Basic Financial Statements

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

	Balance September 30, 2007	Additions	Deductions	Balance September 30, 2008	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 13) for a period of twenty years – see (c), (d) and (e) below	\$ 6,543,829	\$ -	\$ (378,193)	\$ 6,165,636	\$ 390,241
Installment purchase agreement for truck payable in 3 annual installments of \$4,548 at 6.9% interest, maturing June 2008	4,255	-	(4,255)	-	-
Liability for compensated absences	29,970	2,067	-	32,037	10,679
Total business-type long-term obligations	\$ 10,075,406	\$ 2,067	\$ (444,448)	\$ 9,633,025	\$ 465,920

- (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 \$291,029 including interest payable commencing December 15, 2007.

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 \$1,331 and \$143,910 respectively, at September 30, 2008.

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
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	12,000	11,972	10,000	14,078
2013	13,000	11,372	11,000	13,478
2014-2018	80,000	46,110	66,000	56,650
2019-2023	116,000	22,710	85,000	34,690
2024-2026	18,448	872	62,630	7,614
Total	\$ 271,448	\$ 132,202	\$ 262,630	\$ 172,164

Year Ending September 30,	Series 2003 Revenue Bonds		State Revolving Loan	
	Principal	Interest	Principal	Interest
2009	\$ 46,000	\$ 94,291	\$ 390,241	\$ 191,816
2010	48,000	92,796	402,673	179,385
2011	50,000	91,236	415,501	166,557
2012	52,000	89,611	428,737	153,320
2013	54,000	87,921	442,395	139,662
2014-2018	297,000	412,111	2,432,570	477,718
2019-2023	350,000	360,631	1,653,519	92,654
2024-2028	411,000	299,856	-	-
2029-2033	488,000	228,226	-	-
2034-2038	573,000	143,596	-	-
2039-2043	532,274	44,040	-	-
Total	\$ 2,901,274	\$ 1,944,315	\$ 6,165,636	\$ 1,401,112

Notes to Basic Financial Statements

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:

September 30	2008	2007
Second mortgage receivable – original loan of \$321,666; \$1,105 due monthly including 4% interest, the unpaid balance matures in August 2008	\$ 151,822	\$ 158,856
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	36,850	41,273
Second mortgage receivable – original loan \$100,000, payable in 120 monthly payments of \$1,012 including interest at 4%	92,481	91,838
Other notes receivable – advances on loan agreements	116,814	123,582
Total	\$ 397,967	\$ 415,549

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 note 6). No net assets are restricted by enabling legislation at September 30, 2008.

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:

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 8 – EQUITY (CONTINUED)

Funds	Purpose	Amount
Governmental funds		
Local option gas tax	Specific transportation expenditures	\$ 82,272
Library	Specific library expenditures	455,337
HUD revolving loans fund	Revolving loan program (note 6)	332,251
Raney house trust	Raney House building restoration and Preservation	15,603
Total fund balances reserved		\$ 885,463
Enterprise funds	Restricted for renewal and replacement	\$ 143,910
	Restricted for debt service	2,972,185
Total net assets restricted		\$ 3,087,574

NOTE 9 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Transfers Out	Transfers In	Amount	Purpose
Water and sewer fund	General fund	\$ 255,000	Administrative services and cash advance
General fund	Water and sewer fund	275,000	Repayment of advance
	Nonmajor		Transfer of general revenues for
General fund	governmental funds	49,773	library and recreation activities
Nonmajor			Road maintenance expense
governmental funds	General fund	47,359	reimbursement

NOTE 10 – INTEREST COSTS

The City follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use in business-type funds. During the year ended September 30, 2008, construction was complete on projects with outstanding debt and no interest was capitalized.

Notes to Basic Financial Statements

NOTE 11 – OTHER DISCLOSURES

The City's contract with ESG for operations, maintenance and management services for the City's water treatment and distribution facilities and the wastewater collection and treatment facilities ended in July 2008. The City has taken over maintenance and management services for the City's water treatment and distribution facilities and the wastewater collection and treatment facilities.

NOTE 12 – 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, 2007 Through June 30, 2008	July 1, 2008 Through September 30, 2008
Regular class	9.85%	9.85%
Special risk employee class	20.92%	20.92%
DROP plan participants	10.91%	10.91%

Notes to Basic Financial Statements

NOTE 12 – RETIREMENT BENEFITS (CONTINUED)

During the year ended September 30, 2008, total covered payroll for all participants was \$1,078,188. The City's contributions for the years ended September 30, 2008, 2007 and 2006 were \$139,367, \$132,538 and \$105,441, respectively which equaled the required contributions. For the year ended September 30, 2008, retirement contributions represented 13% of covered payroll.

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.

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.

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. During 2007, the City agreed to perform additional improvements estimated to cost a minimum of \$250,500 for permit violations that occurred from March 2004 to November 2006, in lieu of civil penalties. As of September 30, 2008, the agreed upon improvements for Avenue G are in process.

NOTE 14 – BUDGETARY DATA

The City had actual expenditures in excess of budgeted amounts in the general fund for the year ended September 30, 2008. The primary cause of this excess was the receipt and expenditure of unanticipated revenues without a corresponding budget amendment.

Combining Financial Statements

City of Apalachicola, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2008

	Library	Local Option Gas Tax	Recreation	HUD Revolving Loans Fund	Raney House Trust	Total Nonmajor Governmental Funds
Assets						
Cash and cash equivalents	\$ 458,163	\$ -	\$ 86	\$ 149,560	\$ -	\$ 607,809
Investments	-	78,554	-	141,891	15,603	236,048
Due from other funds	-	-	-	40,800	-	40,800
Accounts receivable, net	-	3,718	-	-	-	3,718
Notes receivable	-	-	-	397,967	-	397,967
Total assets	\$ 458,163	\$ 82,272	\$ 86	\$ 730,218	\$ 15,603	\$ 1,286,342
Liabilities and fund equity						
Accounts payable	\$ 280	\$ -	\$ -	\$ -	\$ -	\$ 280
Due to other funds	2,200	-	-	-	-	2,200
Deferred revenue	-	-	-	397,967	-	397,967
Total liabilities	2,480	-	-	397,967	-	400,447
Fund equity						
Fund balances						
Reserved	455,337	82,272	-	332,251	15,603	885,463
Unreserved	346	-	86	-	-	432
Total fund equity	455,683	82,272	86	332,251	15,603	885,895
Total liabilities and fund equity	\$ 458,163	\$ 82,272	\$ 86	\$ 730,218	\$ 15,603	\$ 1,286,342

City of Apalachicola, Florida
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2008

	Library	Local Option Gas Tax	Recreation	HUD Revolving Loans Fund	Raney House Trust	Total Nonmajor Governmental Funds
Revenues						
Taxes	\$ -	\$ 60,867	\$ -	\$ -	\$ -	\$ 60,867
Investment earnings and other	16,264	1,557	364	45,504	513	64,202
Total revenues	16,264	62,424	364	45,504	513	125,069
Expenditures						
Current operating						
Culture and recreation	21,281	-	35,410	-	-	56,691
Capital outlay	1,682	-	29,075	-	-	30,757
Total expenditures	22,963	-	64,485	-	-	87,448
Excess (deficit) of revenues over (under) expenditures	(6,699)	62,424	(64,121)	45,504	513	37,621
Other financing sources (uses)						
Transfers out	-	(47,359)	-	-	-	(47,359)
Transfers in	18,800	-	30,973	-	-	49,773
Total other financing sources (uses)	18,800	(47,359)	30,973	-	-	2,414
Net change in fund balances	12,101	15,065	(33,148)	45,504	513	40,035
Fund balances - beginning	443,582	67,207	33,234	286,747	15,090	845,860
Fund balances - ending	\$ 455,683	\$ 82,272	\$ 86	\$ 332,251	\$ 15,603	\$ 885,895

See independent auditor's report

Compliance Section

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Honorable Mayor and
Members of the City Commission
City of Apalachicola, Florida

We have audited the financial statements of the City of Apalachicola, Florida, as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated March 31, 2009.

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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and State Project and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule which are dated March 31, 2009, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General which govern the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. See the Schedule of Findings and Questioned Costs for further information on prior year findings.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Apalachicola, Florida complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. See the Schedule of Findings and Questioned Costs for further information on current year findings.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, or instances of fraud discovered by, or that came to the attention of, the auditor. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The City of Apalachicola, Florida, was established by Chapter 37-18432, Laws of Florida. There were no component units of the City.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Apalachicola, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determined whether the annual financial report for the City of Apalachicola, Florida for the fiscal year ended September 30, 2008, filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2008. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the 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 the same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the City of Apalachicola, Florida's management, the City Commission, certain regulatory agencies, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

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

March 31, 2009

**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 Commission
City of Apalachicola, Florida

We have audited the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Apalachicola, Florida (the City) as of and for the year ended September 30, 2008, which collectively comprise the City of Apalachicola, Florida's basic financial statements and have issued our report thereon dated March 31, 2009. 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. Accordingly we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Apalachicola, Florida's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider findings 08-1 through 08-5 listed on the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Apalachicola, Florida's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

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*.

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

This report is intended solely for the information and use of the Mayor, City Commission, 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.

March 31, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
FEDERAL PROGRAM/STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND CHAPTER 10.550, RULES OF THE
AUDITOR GENERAL**

Honorable Mayor and
Members of the City Commission
City of Apalachicola, Florida

Compliance

We have audited the compliance of the City of Apalachicola, Florida with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the Executive Office of the Governor's State Projects Compliance Supplement that are applicable to each of its major federal programs and state projects for the year ended September 30, 2008. The City of Apalachicola, Florida's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of the City of Apalachicola, Florida's management. Our responsibility is to express an opinion on the City of Apalachicola, Florida'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, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, *Rules of the Auditor General*. Those standards, OMB Circular A-133 and 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 a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the City of Apalachicola, Florida'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 of the City of Apalachicola, Florida's compliance with those requirements.

In our opinion, the City of Apalachicola, Florida, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state projects for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the City of Apalachicola, Florida is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City of Apalachicola, Florida's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Apalachicola, Florida's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a major federal program or state project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a major federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a major federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a major federal program or state project will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

March 31, 2009

City of Apalachicola, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance
Year Ended September 30, 2008

Federal/State Agency Pass through entity State Project	CFDA/CSFA No.	Contract/Grant No.	Expenditures
Federal Awards			
U.S. Department of Housing and Urban Development			
Passed through the Florida Department of Community Affairs Community Development Block Grants			
Streetscape program	14.228	05DB-2Q-02-29-02-C02	\$ 76,572
U.S. Department of Transportation			
Highway Planning and Construction Grant			
Prado Intersection	20.205	418210-1-58-01	194,400
Prado Intersection	20.205	AOE66	1,869
Total U.S. Department of Transportation			196,269
U.S. Department of Homeland Security			
Passed through the Florida Department of Community Affairs Public Assistance Grant	97.036	037-01625-00	2,499,492
Total expenditures of federal awards			\$ 2,772,333
State Financial Assistance			
Florida Department of Environmental Protection			
Florida Recreation Development Assistance Program			
Franklin Square	37.017	F06093	\$ 17,955
Veteran's Park	37.017	F7048	123,097
Statewide Surface Water Restoration and Wastewater Projects			
AWT Improvements	37.039	LP6810	16,044
Clean Water State Revolving Loan Fund	37.039	SG427120	537,621
Total Department of Environmental Protection			694,717
Florida Department of State Division of Historical Resources			
Apalachicola City Hall Project Grant	45.032	SC309	10,179
Florida Department of Community Affairs			
Passed through the Florida Communities Trust Area of Critical State Concern - Land Acquisition Grant	52.002	07-CT-97-06-F6-A1-048	1,345,298
Passed through the Northwest Florida Water Management District			
Florida Forever Grant	52.002	08-059	42,550
Local Update of Census Addresses	52.038	08-DD-J3-02-29-0033	1,357
Total Department of Community Affairs			1,389,205
Total state financial assistance			\$ 2,094,101

City of Apalachicola, Florida
Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards and State Financial Assistance

Internal control over major programs		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Type of auditor's report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) or Chapter 10.557, Rules of the Auditor General State of Florida	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Identification of major programs:

<u>CFDA/CSFA Number</u>	<u>Name of Federal Award/State Financial Assistance Project</u>
37.039	Statewide Surface Water Restoration and Wastewater Projects
52.002	Florida Communities Trust Area of Critical State Concern - Land Acquisition Grant
97.036	U.S. Department of Homeland Security Public Assistance Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low risk auditee?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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(Continued)

City of Apalachicola, Florida
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

08-01 Need to comply with Budgetary Requirements (prior year 07-01)

Expenditures should not exceed budgeted amounts.

08-02 Segregation of Duties (prior year 07-02)

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

08-03 Cash Needs to be Managed to Eliminate Negative Bank Balances (prior year 07-04)

As of September 30, 2008, the City's bank accounts were overdrawn by \$75,913.

08-04 Significant Adjustments to the Financial Records (prior year 07-05)

Adjustments were needed in order for the financial statements to conform with U.S. generally accepted accounting principles.

08-05 Inadequate Design of Internal Control Over Preparation of Financial Statements (prior year 07-06)

Inadequate design of internal control over the preparation of the financial statements being audited gives rise to a significant deficiency in internal control.

SECTION III - FINDINGS AND QUESTIONED COSTS - FEDERAL AWARD PROGRAMS

There were no findings.

SECTION IV - FINDINGS AND QUESTIONED COSTS - STATE FINANCIAL ASSISTANCE PROJECTS

There were no findings.

City of Apalachicola, Florida
Summary Schedule of
Prior Year Audit Findings
September 30, 2008

07- 07 – Requesting Reimbursement Prior to Disbursing Payments

Status: This finding is corrected.