

City of Apalachicola, Florida

Financial Statements

September 30, 2012

City of Apalachicola, Florida
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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, each major fund, and the aggregate remaining fund information of the City of Apalachicola, Florida as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Apalachicola, Florida as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2013 on our consideration of the City of Apalachicola's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 7 and the Schedule of Funding Progress for the Retiree's Health Insurance Other Post-employment Benefits Plan and Schedule of Employer Contributions for the Retiree's Health Insurance Other Postemployment Benefits Plan on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required

supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Apalachicola, Florida's financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, *State of Florida Rules of the Auditor General*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Caru, Riggs & Ingram, L.L.C.

Certified Public Accountants
June 24, 2013

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 \$38,081,036 (net assets). Of this amount, \$861,909 is unrestricted net assets for governmental activities and \$249,592 is unrestricted net assets for business-type activities, \$657,193 is restricted net assets for governmental activities, \$1,554,137 is restricted net assets for business-type activities.
- Total net assets increased by \$392,524. Of this amount, an increase of \$254,402 is attributable to governmental activities and an increase of \$138,122 is attributable to business-type activities.
- As of September 30, 2012, the general fund's unassigned fund balance was \$874,980 or 27% of total general fund expenditures.
- Governmental activities revenues decreased to \$3,338,838 or 23%, while governmental activities expenses increased 1% to \$3,084,436. Business-type activities revenues decreased to \$2,493,008 or 64%, while business-type activities expenses decreased 2% to \$2,354,886.

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 net assets* and *statement of activities*, providing both long-term and short-term information about the City's overall financial condition. The *Statement of Net 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, 2012 and 2011. The City is able to report positive balances in all three categories of total net assets.

Statements of Net Assets

	Governmental Activities		Business-type Activities		Total	
September 30,	2012	2011	2012	2011	2012	2011
Current and other						
assets	\$ 2,100,246	\$ 2,545,727	\$ 385,740	\$ 1,048,698	\$ 2,485,986	\$ 3,594,425
Noncurrent assets	17,820,719	17,518,262	27,586,524	27,846,152	45,407,243	45,364,414
Other assets	-	-	98,733	115,663	98,733	115,663
Total assets	19,920,965	20,063,989	28,070,997	29,010,513	47,991,962	49,074,502
Current liabilities	424,960	830,241	714,568	1,430,159	1,139,528	2,260,400
Noncurrent liabilities	853,901	846,046	7,917,497	8,279,544	8,771,398	9,125,590
Total liabilities	1,278,861	1,676,287	8,632,065	9,709,703	9,910,926	11,385,990
Net assets invested in capital assets, net of related debt	17,123,002	16,796,280	17,635,203	17,129,827	34,758,205	33,926,107
Net assets – restricted	657,193	807,513	1,554,137	1,966,858	2,211,330	2,774,371
Net assets – unrestricted	861,909	783,909	249,592	204,125	1,111,501	988,034
Total net assets	\$ 18,642,104	\$ 18,387,702	\$ 19,438,932	\$ 19,300,810	\$ 38,081,036	\$ 37,688,512

Statement of Activities

The following schedule provides a summary of the changes in net assets for the years ended September 30, 2012 and 2011.

Statements of Activities

	Governmental Activities		Business-type Activities		Total	
<i>Years Ended September 30,</i>	2012	2011	2012	2011	2012	2011
Program revenues						
Charges for services	\$ 154,899	\$ 190,151	\$ 1,779,181	\$ 1,796,820	\$ 1,934,080	\$ 1,986,971
Operating						
grants/contributions	633,238	686,273	-	-	633,238	686,273
Capital						
grants/contributions	513,486	1,196,250	776,392	5,251,571	1,289,878	6,447,821
General revenues						
Property taxes	1,165,315	1,229,294	-	-	1,165,315	1,229,294
Local option gas tax	55,322	55,568	-	-	55,322	55,568
Franchise and utility tax	170,048	174,962	-	-	170,048	174,962
Local business tax	23,966	43,031	-	-	23,966	43,031
Sales tax and other						
shared revenues	236,585	232,560	-	-	236,585	232,560
Investment earnings	86,922	38,085	-	78,634	86,922	116,719
Miscellaneous	236,492	320,362	-	-	236,492	320,362
Transfers	62,565	168,965	(62,565)	(168,965)	-	-
Total revenues	3,338,838	4,335,501	2,493,008	6,958,060	5,831,846	11,293,561
Expenses						
General government	893,984	862,450	-	-	893,984	862,450
Public safety	739,929	722,103	-	-	739,929	722,103
Transportation	676,272	672,940	-	-	676,272	672,940
Economic environment	70,031	10,000	-	-	70,031	10,000
Culture and recreation	704,220	793,376	-	-	704,220	793,376
Water	-	-	431,510	464,758	431,510	464,758
Sewer	-	-	1,482,726	1,478,700	1,482,726	1,478,700
Garbage	-	-	377,806	379,815	377,806	379,815
Mooring	-	-	62,844	73,500	62,844	73,500
Total expenses	3,084,436	3,060,869	2,354,886	2,396,773	5,439,322	5,457,642
Change in net assets	\$ 254,402	\$ 1,274,632	\$ 138,122	\$ 4,561,287	\$ 392,524	\$ 5,835,919

Financial Analysis of the City's Funds

Analysis of Government-wide Financial Statements

Approximately ninety-one percent (91%) 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. \$2,211,330 of the City's net assets are subject to external restrictions on how they may be used. The balance of unrestricted net assets, \$1,111,501 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, 2012, the general fund expenditures exceeded the budgeted amount by \$1,411,816. 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 2011-2012 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, 2012, the City's total investment in capital assets net of related debt for its governmental activities was \$17,123,002 and for its business-type activities was \$17,635,203 for a total investment of \$34,758,205. 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, 2012, the City has a total long-term debt amount outstanding of \$9,494,990. Additional information on the City's long-term debt can be found in the notes to the financial statements.

Other Significant Matters

During the 2011-2012 year, the City continues to feel the impact of the ad valorem tax cuts and the reduction in sales tax. However, the tourism industry in the City continues to improve and the City's gross receipts in other taxes, licenses, and services remains fairly consistent compared to previous years, perhaps showing a slight increase. Due to the decline in the construction industry, the City Commission made the decision to contract with Franklin County to provide building inspection services, omitting this service from city operations, along with its generated revenue.

The City of Apalachicola continues to focus its efforts toward citywide improvement projects, continuation of public waterfront access and recreational/cultural grant related projects. At this time the City has secured funding for a new public restroom in the downtown area, Phase II of the Downtown Streetscape Project and renovation of the city owned mooring basin which houses our commercial fishing fleet. The City's major wastewater effluent reuse project was completed during this fiscal year. This project affords the City the opportunity to take the City's wastewater effluent

from the adjacent surface water discharge, while providing irrigation for publicly owned parks, ballfields, and cemeteries located within and around the City.

The City continues its work on the creation of an updated sustainable capital improvement plan to address future improvements for the betterment of our community.

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

City of Apalachicola, Florida
Statement of Net Assets
September 30, 2012

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 909,431	\$ 129,269	\$ 1,038,700
Investments	189,700	2,116	191,816
Receivables, net			
Accounts	194,739	159,275	354,014
Notes	429,428	-	429,428
Prepays	895	47,439	48,334
Due from other governmental units	376,053	41,237	417,290
Restricted assets			
Cash and cash equivalents	-	384,991	384,991
Investments	-	1,324,282	1,324,282
Interest receivable	-	6,404	6,404
Capital assets			
Nondepreciable	10,392,375	363,057	10,755,432
Depreciable, net	7,428,344	25,514,194	32,942,538
Other assets			
Deposits	-	5,620	5,620
Loan costs	-	93,113	93,113
Total assets	19,920,965	28,070,997	47,991,962
Liabilities			
Accounts payable	137,750	116,646	254,396
Long-term liabilities			
Customer deposits	-	161,540	161,540
Due within one year			
Short-term loans	194,125	-	194,125
Accrued interest payable	-	56,462	56,462
Notes payable	36,002	298,059	334,061
Bonds payable	10,000	78,000	88,000
Compensated absences	47,083	3,861	50,944
Due in more than one year			
Compensated absences	94,166	7,722	101,888
Other postemployment benefits	108,020	43,786	151,806
Notes payable	175,215	4,786,637	4,961,852
Bonds payable	476,500	3,079,352	3,555,852
Total liabilities	1,278,861	8,632,065	9,910,926
Net assets			
Invested in capital assets, net of related debt	17,123,002	17,635,203	34,758,205
Restricted			
Debt service	788	1,343,432	1,344,220
Renewal and replacement	-	210,705	210,705
Other purposes	656,405	-	656,405
Unrestricted	861,909	249,592	1,111,501
Total net assets	\$ 18,642,104	\$ 19,438,932	\$ 38,081,036

See accompanying notes

City of Apalachicola, Florida
Statement of Activities
Year Ended September 30, 2012

				Net (Expenses) Revenues and Changes in Net Assets			
				Primary Government			
				Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary Government							
Governmental activities							
General government	\$ 893,984	\$ 152,170	\$ 220,926	\$ 475,602	\$ (45,286)	\$ -	\$ (45,286)
Public safety	739,929	2,662	1,250	-	(736,017)	-	(736,017)
Transportation	676,272	-	-	948	(675,324)	-	(675,324)
Economic environment	70,031	-	-	-	(70,031)	-	(70,031)
Culture and recreation	704,220	67	411,062	36,936	(256,155)	-	(256,155)
Total governmental activities	3,084,436	154,899	633,238	513,486	(1,782,813)	-	(1,782,813)
Business-type activities							
Water, sewer, garbage and mooring	2,354,886	1,779,181	-	776,392	-	200,687	200,687
Total primary government	\$ 5,439,322	\$ 1,934,080	\$ 633,238	\$ 1,289,878	(1,782,813)	200,687	(1,582,126)
General revenues							
Taxes							
Property taxes					1,165,315	-	1,165,315
Local option taxes					55,322	-	55,322
Franchise and utility service tax					170,048	-	170,048
Local business tax					23,966	-	23,966
Sales tax and other shared revenues					236,585	-	236,585
Investment earnings					86,922	-	86,922
Miscellaneous					236,492	-	236,492
Transfers					62,565	(62,565)	-
Total general revenues					2,037,215	(62,565)	1,974,650
Change in net assets					254,402	138,122	392,524
Net assets - beginning of year					18,387,702	19,300,810	37,688,512
Net assets - end of year				\$	18,642,104	\$ 19,438,932	\$ 38,081,036

City of Apalachicola, Florida
Balance Sheet
Governmental Funds
September 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 467,323	\$ 442,108	\$ 909,431
Investments	8,769	180,931	189,700
Due from other funds	64,441	11,603	76,044
Due from other governmental units	376,053	-	376,053
Accounts receivable, net	189,454	5,285	194,739
Prepays	895	-	895
Notes receivable	-	429,428	429,428
Total assets	\$ 1,106,935	\$ 1,069,355	2,176,290
Liabilities and fund equity			
Liabilities			
Accounts payable	\$ 136,373	\$ 1,377	137,750
Due to other funds	11,603	64,441	76,044
Deferred revenue	-	429,428	429,428
Total liabilities	147,976	495,246	643,222
Fund equity			
Fund balances			
Nonspendable			
Prepays	895	-	895
Restricted			
Library trust	-	437,584	437,584
Raney house	8,769	-	8,769
Ballfield for reuse project	69,822	-	69,822
Local option gas tax	-	39,275	39,275
HUD	-	97,250	97,250
Fire department	3,705	-	3,705
Debt service	788	-	788
Unassigned	874,980	-	874,980
Total fund equity	958,959	574,109	1,533,068
Total liabilities and fund equity	\$ 1,106,935	\$ 1,069,355	
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.			17,820,719
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.			(1,141,111)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.			429,428
Net assets of governmental activities			\$ 18,642,104

See accompanying notes

City of Apalachicola, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 1,357,258	\$ 55,322	\$ 1,412,580
Licenses and permits	154,241	-	154,241
Intergovernmental	1,309,747	-	1,309,747
Fines and forfeitures	2,662	-	2,662
Investment earnings and other	296,606	58,607	355,213
Total revenues	3,120,514	113,929	3,234,443
Expenditures			
Current operating			
General government	833,931	-	833,931
Public safety	594,278	-	594,278
Transportation	574,986	28,048	603,034
Economic environment	-	70,030	70,030
Culture and recreation	495,532	40,220	535,752
Capital outlay	596,662	74,643	671,305
Debt service	167,528	-	167,528
Total expenditures	3,262,917	212,941	3,475,858
Deficit of revenues under expenditures	(142,403)	(99,012)	(241,415)
Other financing sources (uses)			
Transfers in	129,878	20,000	149,878
Transfers out	(20,000)	(67,313)	(87,313)
Debt issuance	20,919	-	20,919
Total other financing sources (uses)	130,797	(47,313)	83,484
Net change in fund balances	(11,606)	(146,325)	(157,931)
Fund balances - beginning	970,565	720,434	1,690,999
Fund balances - ending	\$ 958,959	\$ 574,109	\$ 1,533,068

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, 2012

<u>Differences in amounts reported for governmental activities in the statement of activities</u>	
Net change in fund balances - total governmental funds	\$ (157,931)
Capital outlay, reported as expenditures in governmental funds, are shown as capital assets in the statement of activities.	671,305
Depreciation expense on governmental capital assets is included in the governmental activities in the statement of activities.	(368,848)
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.	(20,919)
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.	131,056
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 (i.e. compensated absences, accrued interest, and other postemployment benefits).	(42,091)
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.	41,830
<u>Change in net assets of governmental activities</u>	<u>\$ 254,402</u>

See accompanying notes

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 1,406,796	\$ 1,406,796	\$ 1,357,258	\$ (49,538)
Licenses and permits	178,000	178,000	154,241	(23,759)
Intergovernmental	252,150	252,150	1,309,747	1,057,597
Fines and forfeitures	2,400	2,400	2,662	262
Investment earnings and other	43,000	43,000	296,606	253,606
Total revenues	1,882,346	1,882,346	3,120,514	1,238,168
Expenditures				
Current operating				
General government	539,711	539,711	833,931	(294,220)
Public safety	586,614	586,614	594,278	(7,664)
Transportation	536,611	536,611	574,986	(38,375)
Culture and recreation	43,600	43,600	495,532	(451,932)
Capital outlay	40,000	40,000	596,662	(556,662)
Debt service	104,565	104,565	167,528	(62,963)
Total expenditures	1,851,101	1,851,101	3,262,917	(1,411,816)
Excess (deficit) of revenues over (under) expenditures	31,245	31,245	(142,403)	(173,648)
Other financing sources (uses)				
Transfers in	93,700	93,700	129,878	36,178
Transfers out	(20,000)	(20,000)	(20,000)	-
Debt issuance	-	-	20,919	20,919
Total other financing sources (uses)	73,700	73,700	130,797	57,097
Net change in fund balance	104,945	104,945	(11,606)	(116,551)
Fund balance - beginning	970,565	970,565	970,565	-
Fund balance - ending	\$ 1,075,510	\$ 1,075,510	\$ 958,959	\$ (116,551)

See accompanying notes

City of Apalachicola, Florida
Statement of Net Assets
Proprietary Fund
September 30, 2012

Business-type Activities	
	Water and Sewer Fund
Assets	
Current assets	
Cash and cash equivalents	\$ 129,269
Investments	2,116
Accounts receivable, net	159,275
Prepaid expenses	47,439
Due from other governmental units	41,237
Total current assets	379,336
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	
Revenue bonds	223,451
Customer deposits	161,540
Interest receivable	6,404
Investments	
State revolving loan escrow	1,324,282
Total restricted assets	1,715,677
Property, plant and equipment	
Property, plant and equipment	35,912,734
Accumulated depreciation	(10,035,483)
Net property, plant and equipment	25,877,251
Other assets	
Deposits	5,620
Loan costs	93,113
Total other assets	98,733
Total noncurrent assets	27,691,661
Total assets	28,070,997

(Continued)

See accompanying notes

City of Apalachicola, Florida
Statement of Net Assets (Continued)
Proprietary Fund
September 30, 2012

	Business-type Activities
	Water and Sewer Fund
Liabilities	
Current liabilities	
Accounts payable	\$ 116,646
Accrued interest	56,462
Bonds payable - current	78,000
Notes payable - current	298,059
Compensated absences	3,861
Total current liabilities	553,028
Noncurrent liabilities	
Customer deposits	161,540
Bonds payable	3,079,352
Notes payable	4,786,637
Other postemployment benefits	43,786
Compensated absences	7,722
Total noncurrent liabilities	8,079,037
Total liabilities	8,632,065
Net assets	
Invested in capital assets, net of related debt	17,635,203
Restricted	
Debt service	1,343,432
Renewal and replacement	210,705
Unrestricted	249,592
Total net assets	\$ 19,438,932

See accompanying notes

City of Apalachicola, Florida
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
Year Ended September 30, 2012

	Business-type Activities
	Water and Sewer Fund
Operating revenue	
Utility billings	\$ 1,677,524
Mooring fees	82,811
Rental income	18,846
Total operating revenue	1,779,181
Operating expenses	
Personal services	429,872
Garbage collection services	377,806
Supplies, gas and oil	208,715
Communications	9,727
Utilities	178,052
Repairs and maintenance	111,583
Insurance	72,799
Professional fees	20,090
Miscellaneous	13,743
Depreciation	644,666
Total operating expenses	2,067,053
Operating loss	(287,872)
Nonoperating revenues (expenses)	
Interest expense/fees	(287,833)
Total nonoperating revenues (expenses)	(287,833)
Loss before contributions and transfers	(575,705)
Contributions and transfers	
Capital contributions - grants	776,392
Transfers out	(62,565)
Total contributions and transfers	713,827
Change in net assets	138,122
Net assets - beginning	19,300,810
Net assets - ending	\$ 19,438,932

See accompanying notes

City of Apalachicola, Florida
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2012

Business-type Activities	
Operating activities	
Receipts from customers	\$ 2,492,989
Payments to suppliers and others	(1,719,150)
Payments to employees	(415,222)
Net cash provided by operating activities	358,617
Noncapital financing activities	
Increase in due from other funds	6,465
Transfers out	(62,565)
Net cash used by noncapital financing activities	(56,100)
Capital and related financing activities	
Capital contributions - grants	776,392
Acquisition of capital assets	(786,959)
Principal repayments of revenue bonds and notes payable	(363,083)
Interest paid on long-term debt	(290,707)
Net cash used by capital and related financing activities	(664,357)
Investing activities	
Proceeds from sales and maturities of investments	436,937
Interest received	1,812
Net cash provided by investing activities	438,749
Increase in cash and cash equivalents	76,909
Cash and cash equivalents - beginning	437,351
Cash and cash equivalents - ending	\$ 514,260
Classified as	
Current assets - cash and cash equivalents	\$ 129,269
Restricted assets - cash and cash equivalents	384,991
Cash and cash equivalents - ending	\$ 514,260
	(Continued)

City of Apalachicola, Florida
Statement of Cash Flows
Proprietary Fund (Continued)
Year Ended September 30, 2012

	<u>Business-type Activities</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (287,872)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	644,666
Amortization	16,930
(Increase) decrease in assets	
Accounts receivable, net	(18,983)
Prepaid expenses	(5,134)
Due from other governmental units	727,156
Increase (decrease) in liabilities	
Accounts payable	(738,431)
Compensated absences	726
Customer deposits	5,635
Other postemployment benefits	13,924
Net cash provided by operating activities	\$ 358,617

City of Apalachicola, Florida

Notes to Basic Financial Statements

NOTE 1 – REPORTING ENTITY

The City of Apalachicola, Florida (City) is located in northwest Florida along the Apalachicola Bay and River. The City operates under an elected Mayor-Commissioner and four-member Board of Commissioners (Board) and serves approximately 4,000 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); or (c) an organization which should be excluded from the reporting entity entirely.

The principle 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.

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 (U.S. 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.

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

The City reports the following major proprietary 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 principle ongoing operations. The principle operating revenues of the City's enterprise funds are charges to customers for water, sewer and garbage services and Scipio Creek and Battery Park docking facilities. Operating expenses of the enterprise fund include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgets and Budgetary Accounting

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 is prepared on the modified accrual basis. Encumbrances are not recorded. Unexpended items at year-end must be reappropriated in the subsequent year.

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 to be cash and cash equivalents.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Customer accounts receivable are recorded at their net realizable value, reduced by an allowance for uncollectible accounts. The allowance for the enterprise funds at September 30, 2012, was \$92,000. Unbilled amounts are not recorded.

All receivables in the general fund are considered collectible; therefore, an allowance for doubtful accounts has not been 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, 2012, was 9.0090 mills.

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

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.

Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes (Continued)

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.

Fund balances

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

Nonspendable – This category includes the resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The balance as of September 30, 2012 of \$895 is from prepaids which are not in spendable form.

Restricted – This category includes resources restricted by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. The balance as of September 30, 2012 of \$657,193 is restricted by creditors for repayment of debt issued, enabling legislation, and/or donor restrictions.

Committed – This category includes resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority. Commitments may be established, modified, or rescinded only through ordinances approved by the City Commission. There are no committed funds as of September 30, 2012.

Assigned – This category includes resources that are intended to be used for specific purposes, but is neither restricted nor committed. These are resources that have been set aside for a specific purpose by an authorized government body or official. There are no assigned funds as of September 30, 2012.

Unassigned – This category is the residual classification for the City's fund balances. The balance as of September 30, 2012 was \$874,980.

Restricted Assets

Certain assets of the various funds are required by resolutions or ordinances to be set aside and used for specific purposes; thus, they are not available to be used for general operations. When both restricted and unrestricted resources are available for use, it is the government's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Prepays

Payments made to vendors for services that will benefit future periods, such as insurance, are recorded as prepaids in both the government-wide and fund financial statements.

Amortization

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

Subsequent Events

The City has evaluated subsequent events through, June 24, 2013, the date the financial statements were available to be issued.

NOTE 3 – CASH AND INVESTMENTS

Deposits

All cash resources of the City are placed in banks that are qualified 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.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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 principle and interest of which are unconditionally guaranteed by the United States Government at the 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, 2012, the City did not hold any investments that were considered to be an interest rate risk.

Custodial Risks

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

Concentration of Credit Risk

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

At September 30, 2012, the City's cash and investments consisted of the following:

	Credit Rating	Current	1-5 Years	Total Carrying Amount
Cash including money market fund	(1)	\$ 1,973,053	\$ -	\$ 1,973,053
U.S. Treasury notes	(2)	-	308,406	308,406
U.S. Government agencies	AAA	101,485	365,029	466,514
Local Government Surplus Trust Fund Pool	(1)	191,816	-	191,816
Total		\$ 2,266,354	\$ 673,435	\$ 2,939,789

Notes to Basic Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

(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 Florida PRIME portion of the pool (\$184,688) is considered a SEC 2a7-like fund and the account balance is the fair value of the investment.

The Fund B portion (\$7,128) is accounted for as a fluctuating NAV pool.

Credit quality disclosure – Florida PRIME is rated by Standard and Poor's. 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 Florida PRIME at September 30, 2012 was 39 days. The weighted average life of Fund B (based on expected future cash flows) at September 30, 2012 is estimated at 4.08 years. However because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the weighted average life.

NOTE 4 – CAPITAL ASSETS

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

	September 30, 2011	Increases	Decreases	September 30, 2012
Capital assets, not being depreciated				
Land	\$ 10,039,410	\$ -	\$ -	\$ 10,039,410
Construction in progress	1,737,786	39,091	(1,423,912)	352,965
Total capital assets not being depreciated	11,777,196	39,091	(1,423,912)	10,392,375
Capital assets being depreciated				
Buildings	1,709,253	-	-	1,709,253
Improvements other than buildings	2,366,213	1,928,587	-	4,294,800
Machinery and equipment	1,935,256	91,146	-	2,026,402
Infrastructure	2,859,763	36,393	-	2,896,156
Total capital assets being depreciated	8,870,485	2,056,126	-	10,926,611

Notes to Basic Financial Statements

NOTE 4 – CAPITAL ASSETS (CONTINUED)

	September 30, 2011	Increases	Decreases	September 30, 2012
Less accumulated depreciation				
Buildings	\$ 568,078	\$ 43,008	\$ -	\$ 611,086
Improvements other than buildings	858,314	88,589	-	946,903
Machinery and equipment	1,421,180	153,121	-	1,574,301
Infrastructure	281,847	84,130	-	365,977
Total accumulated depreciation	3,129,419	368,848	-	3,498,267
Total depreciable assets, net of accumulated depreciation	5,741,066	1,687,278	-	7,428,344
Total governmental activities' capital assets, net of accumulated depreciation	\$ 17,518,262	\$ 1,726,369	\$ (1,423,912)	\$ 17,820,719

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

	September 30, 2011	Increases	Decreases	September 30, 2012
Capital assets not being depreciated				
Land	\$ 363,057	\$ -	\$ -	\$ 363,057
Construction in progress	8,989,941	-	(8,989,941)	-
Total capital assets not being depreciated	9,352,998	-	(8,989,941)	363,057
Capital assets being depreciated				
Buildings and utility systems	25,772,777	9,776,900	-	35,549,677
Less accumulated depreciation				
Buildings and utility systems	(9,390,817)	(644,666)	-	(10,035,483)
Total depreciable assets, net of accumulated depreciation	16,381,960	9,132,234	-	25,514,194
Total business-type activities' capital assets, net of accumulated depreciation	\$ 25,734,958	\$ 9,132,234	\$ (8,989,941)	\$ 25,877,251

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 4 – CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 43,915
Public safety	97,223
Transportation	60,077
Culture and recreation	167,633
<hr/>	
Total depreciation expense - governmental activities	\$ 368,848
<hr/>	
Business-type activities	
Water	\$ 126,340
Sewer	510,696
Mooring/boat basins	7,630
<hr/>	
Total depreciation expense - business-type activities	\$ 644,666
<hr/>	

NOTE 5 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

Long-term debt of the governmental activities of the City at September 30, 2012 is as follows:

	Original Issue	Balance September 30, 2011	Additions (Reductions)	Balance September 30, 2012	Due Within One Year
<hr/>					
Installment purchase agreement for 1 vehicle payable in 60 monthly installments of \$329 including 7.095% interest, maturing November 2013.	\$ 16,602	\$ 7,919	\$ (3,504)	\$ 4,415	\$ 3,761
Installment purchase agreement for one vehicle payable in annual installments of \$7,349 including 5.4% interest, maturing December 2013.	20,919	-	13,570	13,570	6,603
\$506,500 Capital Improvement Revenue Bonds - Series 2010. Due in annual installments of \$25,480 to \$30,260 with interest at 4%. Matures in September 2039 (see (a) below).	506,500	496,500	(10,000)	486,500	10,000

City of Apalachicola, Florida
Notes to Basic Financial Statements

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

	Original Issue	Balance September 30, 2011	Additions (Reductions)	Balance September 30, 2012	Due Within One Year
Installment purchase agreement for one fire truck payable in annual installments of \$29,564 with interest at 5.49%. Matures in October 2020.	\$ 222,950	\$ 204,907	\$ (18,152)	\$ 186,755	\$ 19,161
Installment purchase agreement for one vehicle payable in annual installments of \$6,786 including 4.693% interest, maturing November 2012.	19,442	12,656	(6,179)	6,477	6,477
Liability for compensated absences		135,836	5,413	141,249	47,083
Liability for other postemployment benefit liability		71,342	36,678	108,020	-
Total governmental activities long-term obligations		\$ 929,160	\$ 17,826	\$ 946,986	\$ 93,085

- (a) The series 2010 general fund capital improvement revenue bonds are secured by alcoholic beverage income, fines and forfeiture income, and MSBU funds. Annual principal and interest payments on the bonds are 71 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$803,160. Principal and interest paid for the current year and total pledged revenues were \$29,860 and \$42,286, respectively.

There are 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 for the Series 2010 bond issues are \$788 and \$7,983 respectively, at September 30, 2012.

Notes to Basic Financial Statements

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

Future debt service requirements for the City's long-term debt obligations of the governmental activities are summarized below:

Year Ending September 30,	Principal
2013	\$ 46,002
2014	38,850
2015	32,359
2016	34,546
2017	35,802
2018 - 2022	148,658
2023 - 2027	83,000
2028 - 2032	101,000
2033 - 2037	125,000
2038 - 2039	52,500
Total	\$ 697,717

The City has two lines of credit which are secured by the City's certificates of deposit in the amount of \$319,106. All agreements require that the entire outstanding amount plus interest of 2.5% be paid by January 31, 2013. During the year, line of credit proceeds totaled \$0 and repayments totaled \$85,872. The balance outstanding at September 30, 2012 was \$194,125.

The portion of compensated absences liability estimated to be paid during the next year (current portion) is \$47,083.

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

	Balance September 30, 2011	Additions	Deductions	Balance September 30, 2012	Due Within One Year
\$3,073,000 Water and Sewer Revenue Bonds – Series 2003. Due in annual installments of \$16,417 to \$592,000 with interest at 3%. Matures in 2043.	\$ 2,757,274	\$ -	\$ (52,000)	\$ 2,705,274	\$ 54,000
\$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% (see (a) below).	239,448	-	(12,000)	227,448	13,000

City of Apalachicola, Florida
Notes to Basic Financial Statements

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

	Balance September 30, 2011	Additions	Deductions	Balance September 30, 2012	Due Within One Year
\$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% (see (b) below).	\$ 234,630	\$ -	\$ (10,000)	\$ 224,630	\$ 11,000
Note payable to the State of Florida Revolving Loan Trust Fund for sewer system construction costs. Semiannual payments of \$225,898 including interest on the loan increments at 3.% to 4% (see note 12) maturing June 2026 – (see (c), and (d) below).	5,363,795	-	(284,475)	5,079,320	293,539
Installment purchase agreement for trucks payable in monthly installments of \$431 at 7% interest, maturing November 2013.	9,984	-	(4,608)	5,376	4,520
Liability for compensated absences	10,857	726	-	11,583	3,861
Liability for other post employment benefits	29,862	13,924	-	43,786	-
Total business-type long-term obligations	\$ 8,645,850	\$ 14,650	\$ (363,083)	\$ 8,297,417	\$ 379,920

- (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. Annual principal and interest payments on the bonds are nine percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$308,512. Principal and interest paid for the current year and total pledged revenues were \$23,922 and \$255,125, respectively.
- (b) The series 1986 water and sewer revenue bonds are secured by a junior lien on the above-mentioned revenues. Annual principal and interest payments on the bonds are nine percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$337,062. Principal and interest paid for the current year and total pledged revenues were \$24,078 and \$255,125, respectively.

Notes to Basic Financial Statements

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

- (c) The series 2003 water and sewer revenue bonds were issued on parity with the 1983 and 1986 water and sewer revenue bonds. Annual principal and interest payments on the bonds are 55 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$4,281,655. Principal and interest paid for the current year and total pledged revenues were \$141,470 and \$255,125, respectively.
- (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. Annual principal and interest payments on the bonds are 34 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$6,325,296. Principal and interest paid for the current year and total pledged revenues were \$451,796 and \$1,324,282, respectively.

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 \$12,746 and \$210,705 respectively, at September 30, 2012.

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
2013	\$ 13,000	\$ 11,372	\$ 11,000	\$ 13,478
2014	14,000	10,722	12,000	12,818
2015	15,000	10,022	12,000	12,098
2016	16,000	9,272	13,000	11,378
2017	17,000	8,472	14,000	10,598
2018-2022	107,000	28,110	81,000	39,550
2023-2026	45,448	3,094	81,630	12,512
Total	\$ 227,448	\$ 81,064	\$ 224,630	\$ 112,432

Notes to Basic Financial Statements

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

Year Ending September 30,	Series 2003 Revenue Bonds		State Revolving Loan	
	Principal	Interest	Principal	Interest
2013	\$ 54,000	\$ 87,921	\$ 293,539	\$ 158,258
2014	56,000	86,166	302,891	148,906
2015	57,000	84,346	312,541	139,256
2016	60,000	82,494	322,498	129,298
2017	61,000	80,544	332,773	119,023
2018-2022	338,000	371,616	1,829,815	429,167
2023-2027	398,000	312,791	1,685,263	122,068
2028-2032	472,000	243,566	-	-
2033-2037	555,000	161,633	-	-
2038-2042	654,274	65,304	-	-
Total	\$2,705,274	\$1,576,381	\$5,079,320	\$1,245,976

Year Ending September 30,	Installment Purchase Trucks	
	Principal	Interest
2013	\$ 4,520	\$ 252
2014	856	724
Total	\$ 5,376	\$ 976

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	2012	2011
Second mortgage receivable – original loan of \$321,666; \$1,105 due monthly including 4% interest, the unpaid balance matures in January 2024.	\$118,435	\$126,777

Notes to Basic Financial Statements

NOTE 7 – NOTES RECEIVABLE (CONTINUED)

September 30	2012	2011
Second mortgage receivable - original loan of \$50,000, due in monthly installments of \$532 including interest at 5%. Balance includes past due interest of \$6,280 and matures in May 2015.	\$ 16,695	\$ 22,136
Second mortgage receivable – original loan \$100,000, due in monthly payments of \$1,012 including interest at 4%. Balance includes past due interest of \$10,027 and matures in February 2022.	95,263	101,866
Second mortgage receivable – original loan of \$59,184; \$576 due monthly including 4% interest, the unpaid balance matures in December 2017.	32,871	35,551
Second mortgage receivable – original loan of \$30,673; \$306 due monthly including 4% interest. Balance includes past due interest of \$5,141 and matures in October 2017.	33,182	31,883
Second mortgage receivable - original loan of \$10,000; \$101 due monthly including 4% interest, the unpaid balance matures July 2021.	9,070	10,000
Second mortgage receivable - original loan of \$45,000; \$456 due monthly including 4% interest, the unpaid balance matures July 2022.	44,531	-
Second mortgage receivable - original loan of \$25,000; 4% interest, the monthly payments and maturity date are not determine at this time as the borrower has not begun the renovations and the first payment on the loan is not due until six months after construction has been completed.	25,000	-
Second mortgage receivable – original loan of \$60,000; \$607 due monthly including 4% interest, the unpaid balance matures in July 2021.	54,381	59,383
Total	\$ 429,428	\$ 387,596

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 current portion of amounts uncollected is carried in deferred revenue.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances	Due from other funds	Due to other funds
General fund	\$ 64,441	\$ -
Local option gas tax fund	-	64,441
General fund	-	11,603
Local option gas tax fund	11,603	-
Total	\$ 76,044	\$ 76,044

Interfund loans were for operations.

Transfers Out	Transfers In	Amount	Purpose
Water and sewer fund	General fund	\$ 62,565	Administrative services and cash advance
General fund	Library fund	20,000	Transfer of general revenues for library activities
Local option gas tax fund	General fund	67,313	Road maintenance expense reimbursement and salary reimbursement and other operating activities

NOTE 9 – RETIREMENT BENEFITS

Plan Description

The City participates in the Florida Retirement System (FRS) administered by the State of Florida Department of Administration, Division of Retirement. Employees elect participation in either the defined benefit plan ("Pension Plan"), a multiple-employer cost-sharing defined benefit retirement plan, or the defined contribution plan ("Investment Plan") under the FRS. The FRS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries of 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. The report may be obtained by writing to the State of Florida Division of Retirement, 1317 Winewood Boulevard, Building 8, Tallahassee, Florida 32399-1560 or calling 850-414-6347.

Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. Prior to July 1, 2011, FRS 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. Effective July 1, 2011, FRS provides vesting of benefits after eight years of creditable service. Members are eligible for normal retirement after eight years of service and attaining the age of 65, or 33 years of service regardless of age. Early retirement may be taken any time after eight years of service; however, there is a 5% benefit reduction for each year prior to normal retirement.

Notes to Basic Financial Statements

NOTE 9 – RETIREMENT BENEFITS (CONTINUED)

For those employees who elect participation in the Investment Plan rather than the Pension Plan, vesting occurs after one year of service. These participants receive a contribution for self-direction in an investment product with a third party administrator selected by the State Board of Administration.

Generally, membership in FRS is compulsory for all full-time and part-time employees. Starting on July 1, 2011, employee contributions of 3% are required for all participants in both plans.

Funding Policy

The funding method and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts provide that employers and employees pay contributions at rates determined each year by the legislature. The rates, as a percentage of gross earnings, are as follows:

	October 1, 2011 Through June 30, 2012	July 1, 2012 Through September 30, 2012
Regular class	4.91%	5.18%
Senior management	6.27%	6.30%
Special risk employee class	14.10%	14.90%
DROP plan participants	4.45%	5.44%

For the year ended September 30, 2012, the total covered payroll for all employees was \$1,201,911 and the retirement contributions for all employees covered by the System for the years ended September 30, 2012, 2011, and 2010 were \$85,235, \$151,391, and \$174,706, respectively, which equaled the required contributions. Current year contributions represented 7% of covered payroll.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**Plan Description**

The City has established the Retiree's Health Insurance Other Postemployment Benefits Plan, a single employer plan. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the City and eligible dependents, may continue to participate in the group insurance plan. Retirees and their eligible dependents shall be offered the same health and hospitalization insurance coverage as is offered to active employees at a premium cost of no more than the premium cost applicable to active employees. The City subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The City currently has 36 total active and retired employees eligible to receive these benefits. No stand alone report is issued for the plan.

Notes to Basic Financial Statements

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)Eligibility

A participant is eligible to receive benefits from the plan upon retirement under the Florida Retirement System plan provisions. To be eligible for retiree benefits, the participant must be covered under the medical plan as an active participant immediately prior to retirement. Participants not eligible for retirement at the time of their termination are not eligible for immediate or future benefits from the plan.

Funding Policy

Although the contribution requirement is established by Statute, the contribution amount required by plan members and the government are established and may be amended by the City of Apalachicola's Council Members. Currently, members receiving benefits pay the full cost (total premium) for medical coverage.

The monthly contribution rates effective for eligible City plan members during the year are shown below:

Coverage	Annual Cost
Retiree	\$ 487
Retiree with upgrade	654
Retiree & Family	1,846
Retiree and Family with upgrade	2,012

The City has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. Rather, the funding is based on a pay-as-you-go basis. During the fiscal year, the City provided contributions of \$0 toward the annual OPEB cost. A Schedule of Employer Contributions can be found in required supplementary information immediately following the notes.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Description	
Normal cost (service cost for one year)	\$ 23,980
Amortization of unfunded actuarial accrued liability	26,622
Annual required contribution	50,602
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	50,602
Contribution toward the OPEB cost	-
Increase in net OPEB obligation	50,602
Net OPEB obligation, beginning of year	101,204
Net OPEB obligation, end of year	\$ 151,806

Notes to Basic Financial Statements

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2012 was as follows:

Year ending September 30,	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 50,602	0%	\$ 50,602
2011	\$ 50,602	0%	\$ 101,204
2012	\$ 50,602	0%	\$ 151,806

Funding Status and Funding Progress

The funding status and funding progress information can be found in the schedule of funding progress which is presented as required supplementary information immediately following the notes. This schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Actuarial Methods and Assumptions

The City prepared a valuation using the alternative method for the fiscal year ended September 30, 2010. Valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, in effect at the valuation date and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially determined accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The initial OPEB valuation method used for the City was the entry age normal actuarial cost method. This method is used to estimate the actuarial liabilities and costs. This method was selected because it produced the best estimate of the OPEB liability and annual cost for the City employees. The actuarial assumptions include a 4% discount rate. The actuarial assumptions also include an annual healthcare cost trend rate. For the City, this rate begins with an initial rate for 2009-10 fiscal year of 5%. It increases over the years reaching a future year's rate of 6.5%. The assumed retirement age used is 62, and the average salary increase estimate used is 2%. The unfunded actuarial accrued liability is being amortized with a level dollar method. The remaining open amortization period at September 30, 2012 is 27 years.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 11 – COMMITMENTS, CONTINGENCIES AND RISK MANAGEMENT

Litigation

The City is a 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.

NOTE 12 – BUDGETARY DATA

The City had actual expenditures in excess of budgeted amounts in the general fund for the year ended September 30, 2012. The primary cause of this excess was the receipt and expenditure of unanticipated revenues without a corresponding budget amendment.

Required Supplementary Information

City of Apalachicola, Florida
Required Supplementary Information
September 30, 2012

Schedule of Funding Progress for the Retiree's Health Insurance Other Postemployment Benefits Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
October 1, 2008	N/A	N/A	N/A	N/A	N/A	N/A
October 1, 2009	\$ 0	\$ 587,709	\$ 587,709	0.0%	\$ 918,900	63.96%
October 1, 2010	N/A	N/A	N/A	N/A	N/A	N/A

Schedule of Employer Contributions for the Retiree's Health Insurance Other Postemployment Benefits Plan:

Fiscal Year Ended September 30,	Actual Contribution	Annual Required Contribution	Percentage Contributed
2010	\$ 0	\$ 50,602	0%
2011	\$ 0	\$ 50,602	0%
2012	\$ 0	\$ 50,602	0%

Combining Financial Statements

City of Apalachicola, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2012

	Library	Local Option Gas Tax	HUD Revolving Loans Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 437,584	\$ -	\$ 4,524	\$ 442,108
Investments	-	86,828	94,103	180,931
Due from other funds	-	11,603	-	11,603
Accounts receivable, net	-	5,285	-	5,285
Notes receivable	-	-	429,428	429,428
Total assets	\$ 437,584	\$ 103,716	\$ 528,055	\$ 1,069,355
Liabilities and fund equity				
Accounts payable	\$ -	\$ -	\$ 1,377	\$ 1,377
Due to other funds	-	64,441	-	64,441
Deferred revenue	-	-	429,428	429,428
Total liabilities	-	64,441	430,805	495,246
Fund equity				
Fund balances				
Restricted				
Library trust	437,584	-	-	437,584
Local option gas tax	-	39,275	-	39,275
HUD	-	-	97,250	97,250
Total fund equity	437,584	39,275	97,250	574,109
Total liabilities and fund equity	\$ 437,584	\$ 103,716	\$ 528,055	\$ 1,069,355

City of Apalachicola, Florida
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2012

	Library	Local Option Gas Tax	HUD Revolving Loans Fund	Total Nonmajor Governmental Funds
Revenues				
Taxes	\$ -	\$ 55,322	\$ -	\$ 55,322
Investment earnings and other	14,257	291	44,059	58,607
Total revenues	14,257	55,613	44,059	113,929
Expenditures				
Current operating				
Transportation	-	28,048	-	28,048
Economic environment	-	-	70,030	70,030
Culture and recreation	40,220	-	-	40,220
Capital outlay	8,939	36,393	29,311	74,643
Total expenditures	49,159	64,441	99,341	212,941
Deficit of revenues under expenditures	(34,902)	(8,828)	(55,282)	(99,012)
Other financing sources (uses)				
Transfers out	-	(67,313)	-	(67,313)
Transfers in	20,000	-	-	20,000
Total other financing sources (uses)	20,000	(67,313)	-	(47,313)
Net change in fund balances	(14,902)	(76,141)	(55,282)	(146,325)
Fund balances - beginning	452,486	115,416	152,532	720,434
Fund balances - ending	\$ 437,584	\$ 39,275	\$ 97,250	\$ 574,109

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, 2012, and have issued our report thereon dated June 24, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated June 24, 2013, should be considered in conjunction with this management letter.

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

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to the extent considered necessary, other than for those comments repeated in the Report on Internal Control over financial reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

- Findings reported the two previous years include 12-01, 12-02, 12-03, and 12-04.

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. In connection with our audit, we did not have any such recommendations.

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

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 have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. 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 this 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 governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of 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 determine whether the annual financial report for the City of Apalachicola, Florida for the fiscal year ended September 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(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 City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

Carri Riggs E. Ingram, L.L.C.

June 24, 2013



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Apalachicola, Florida (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 24, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider findings 12-02, 12-03, and 12-04 listed on the accompanying schedule of findings and questioned costs to be material weaknesses in internal control over financial reporting.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. We consider findings 12-01 listed on the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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

Compliance and Other Matters

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

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

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

June 24, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM 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 City of Apalachicola, Florida's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the Florida Department of Financial Services' *State Projects Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs and state financial assistance projects for the year ended September 30, 2012. 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 programs 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, State of Florida 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 program occurred. An audit includes examining, on a test basis, evidence about the City of Apalachicola'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's compliance with those requirements.

In our opinion, the City of Apalachicola, Florida, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of the City of Apalachicola, Florida is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of City of Apalachicola, Florida's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on City of Apalachicola, Florida's compliance but not to provide an opinion on the effectiveness of City of Apalachicola, Florida's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Apalachicola, Florida's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Car, Riggs & Ingram, L.L.C.

June 24, 2013

City of Apalachicola, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance
Year Ended September 30, 2012

Federal/State Agency Pass through entity State Project	CFDA/ CSFA No.	Contract/Grant No.	Expenditures
<u>Federal Awards</u>			
U.S. Department of Housing and Urban Planning			
Passed through the Florida Department of Community Affairs			
Community Development Block Grants	14.228	11DB-4N-02-29-02-E12	\$ 27,936
Community Development Block Grants	14.228	11DB-C5-02-29-02-C05	6,000
Total U.S. Department of Housing and Urban Planning			33,936
U.S. Department of Justice			
Passed through the Florida Department of Law Enforcement			
Justice Assistance Grant	16.738	2012-JAGD-FRAN-2-C5-120	948
Total U.S. Department of Justice			948
U.S. Department of Environmental Protection			
Passed through the Florida Department of Environmental Protection			
ARRA - Capitalization Grants for			
Clean Water State Revolving Funds	66.458	95423009-0	717,570
Total U.S. Department of Environmental Protection			717,570
U.S. Department of Education			
Passed through the Florida Department of Education			
Twenty-First Century Community Learning Centers	84.287	19A-2442A-2CCC1	353,650
Twenty-First Century Community Learning Centers	84.287	19A-2443A-3CCC1	49,462
Total U.S. Department of Education			403,112
U.S. Department of Homeland Security			
Passed through the Florida Department of Community Affairs			
Disaster Grant - Public Assistance	97.036	PW 227	8,519
Disaster Grant - Public Assistance	97.036	PW 289	4,842
Disaster Grant - Public Assistance	97.036	PW 290	24,659
Disaster Grant - Public Assistance	97.036	PW 299	5,764
Disaster Grant - Public Assistance	97.036	PW 370	14,148
Disaster Grant - Public Assistance	97.036	PW 396	23,926
Disaster Grant - Public Assistance	97.036	PW 451	32,333
Total U.S. Department of Homeland Security			114,191
Total expenditures of federal awards			\$ 1,269,757
<u>State Financial Assistance</u>			
Florida Department of Environmental Protection			
Statewide Surface Water Restoration			
and Wastewater Projects			
Clean Water State Revolving Loan Fund	37.039	SG427120	\$ 60,772
Total Florida Department of Environmental Protection			60,772
Florida Department of Elder Affairs			
Senior Center - Holy Family	65.013	n/a	469,602
Total Florida Department of Elder Affairs			469,602
Total expenditures of state financial assistance			\$ 530,374

City of Apalachicola, Florida
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

12-01 Need to comply with Budgetary Requirements (prior year 11-01 and 10-01) (Initially reported in 2005)
Expenditures should not exceed budgeted amounts.

Management's response -

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

12-02 Segregation of Duties (prior year 11-02 and 10-02) (Initially reported in 2004)

This condition is the result of limited accounting staff. Due to the lack of segregation of duties and limited internal controls the finance director currently has the ability to issue and approve cash disbursements; reconcile the cash accounts; input, edit, approve accounting journal entries; and prepare the financial information.

Management's response -

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

12-03 Significant Adjustments to the Financial Records (prior year 11-03 and 10-04) (Initially reported in 2007)
Adjustments were needed in order for the financial statements to conform with U.S. generally accepted accounting principles.

Management's response -

We realize that ideally our internal control system should be designed in a manner that ensures the accuracy of the financial statements and that the auditors should not have to recommend journal entries to see that they conform to U.S. generally accepted accounting principles. We expect that in the future our internal control procedures will ensure our financial statements conform to U.S. generally accepted accounting principles.

12-04 Inadequate Design of Internal Control Over Preparation of Financial Statements (prior year 11-04 and 10-05) (Initially reported in 2007)

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

Management's response -

Our auditors assist us with the preparation of our financial statements. We don't feel that in the near future the benefits derived from investing in the resources necessary for us to prepare our own financial statements would outweigh the cost of those resources.

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.

SECTION V - OTHER ISSUES

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to federal programs or state financial assistance projects.

No Corrective Action Plan is required because there were no findings required to be reported under the Florida Audit Act.