

City of Apalachicola, Florida

Financial Statements

September 30, 2013

City of Apalachicola, Florida  
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September 30, 2013

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Apalachicola, Florida, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the Schedule of Funding Progress for the Retiree's Health Insurance Other Postemployment Benefits Plan and Schedule of Employer Contributions for the Retiree's Health Insurance Other Postemployment Benefits Plan on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards 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 is also not a required part of the basic financial statements.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Certified Public Accountants  
June 17, 2014

## 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 \$37,687,736 (net position). Of this amount, \$754,854 is unrestricted net position for governmental activities and \$258,248 is unrestricted net position for business-type activities, \$700,646 is restricted net position for governmental activities, \$1,168,107 is restricted net position for business-type activities.
- Total net position decreased by \$393,300. Of this amount, an increase of \$480,986 is attributable to governmental activities and a decrease of \$874,286 is attributable to business-type activities.
- As of September 30, 2013, the general fund's unassigned fund balance was \$788,443 or 21% of total general fund expenditures.
- Governmental activities revenues increased to \$3,685,798 or 10%, while governmental activities expenses increased 4% to \$3,204,812. Business-type activities revenues decreased to \$1,757,585 or 29%, while business-type activities expenses increased 12% to \$2,631,871.

### 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 position* and *statement of activities*, providing both long-term and short-term information about the City's overall financial condition. The *Statement of Net Position* present increases or decreases in net position over time and serve as a useful indicator of the City's improving or declining financial position. Information on how the City's net position 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 Position

The following schedule provides a summary of the assets, liabilities and net position of the City at September 30, 2013 and 2012. The City is able to report positive balances in all three categories of total net position.

#### Statements of Net Position

September 30,	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 2,238,198	\$ 2,100,246	\$ 388,889	\$ 385,740	\$ 2,627,087	\$ 2,485,986
Noncurrent assets	18,421,331	17,820,719	26,328,495	27,586,524	44,749,826	45,407,243
Other assets	-	-	81,803	98,733	81,803	98,733
<b>Total assets</b>	<b>20,659,529</b>	<b>19,920,965</b>	<b>26,799,187</b>	<b>28,070,997</b>	<b>47,458,716</b>	<b>47,991,962</b>
Current liabilities	628,810	424,960	691,550	715,423	1,320,360	1,140,383
Noncurrent liabilities	907,629	853,901	7,542,991	7,916,642	8,450,620	8,770,543
<b>Total liabilities</b>	<b>1,536,439</b>	<b>1,278,861</b>	<b>8,234,541</b>	<b>8,632,065</b>	<b>9,770,980</b>	<b>9,910,926</b>
Net position – net investment in capital assets	17,667,590	17,123,002	17,138,291	17,635,203	34,805,881	34,758,205
Net position – restricted	700,646	657,193	1,168,107	1,554,137	1,868,753	2,211,330
Net position – unrestricted	754,854	861,909	258,248	249,592	1,013,102	1,111,501
<b>Total net position</b>	<b>\$ 19,123,090</b>	<b>\$ 18,642,104</b>	<b>\$ 18,564,646</b>	<b>\$ 19,438,932</b>	<b>\$ 37,687,736</b>	<b>\$ 38,081,036</b>

## Statement of Activities

The following schedule provides a summary of the changes in net position for the years ended September 30, 2013 and 2012.

### Statements of Activities

Years Ended September 30,	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Program revenues</b>						
Charges for services	\$ 262,946	\$ 154,899	\$ 1,816,826	\$ 1,779,181	\$ 2,079,772	\$ 1,934,080
Operating						
grants/contributions	669,345	633,238	-	-	669,345	633,238
Capital						
grants/contributions	809,687	513,486	36	776,392	809,723	1,289,878
<b>General revenues</b>						
Property taxes	1,123,467	1,165,315	-	-	1,123,467	1,165,315
Local option gas tax	50,448	55,322	-	-	50,448	55,322
Franchise and utility tax	161,539	170,048	-	-	161,539	170,048
Local business tax	31,224	23,966	-	-	31,224	23,966
Sales tax and other						
shared revenues	240,833	236,585	-	-	240,833	236,585
Investment earnings	21,803	86,922	3,723	-	25,526	86,922
Miscellaneous	251,506	236,492	-	-	251,506	236,492
Transfers	63,000	62,565	(63,000)	(62,565)	-	-
<b>Total revenues and transfers</b>	<b>3,685,798</b>	<b>3,338,838</b>	<b>1,757,585</b>	<b>2,493,008</b>	<b>5,443,383</b>	<b>5,831,846</b>
<b>Expenses</b>						
General government	1,025,646	893,984	-	-	1,025,646	893,984
Public safety	727,625	739,929	-	-	727,625	739,929
Transportation	666,717	676,272	-	-	666,717	676,272
Economic environment	-	70,031	-	-	-	70,031
Culture and recreation	784,824	704,220	-	-	784,824	704,220
Water	-	-	446,556	431,510	446,556	431,510
Sewer	-	-	1,758,574	1,482,726	1,758,574	1,482,726
Garbage	-	-	367,281	377,806	367,281	377,806
Mooring	-	-	59,460	62,844	59,460	62,844
<b>Total expenses</b>	<b>3,204,812</b>	<b>3,084,436</b>	<b>2,631,871</b>	<b>2,354,886</b>	<b>5,836,683</b>	<b>5,439,322</b>
<b>Change in net position</b>	<b>\$ 480,986</b>	<b>\$ 254,402</b>	<b>\$ (874,286)</b>	<b>\$ 138,122</b>	<b>\$ (393,300)</b>	<b>\$ 392,524</b>

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

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

Approximately ninety-two percent (92%) of the City's net position 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. \$1,868,753 of the City's net position is subject to external restrictions on how they may be used. The balance of unrestricted net position, \$1,013,102 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, 2013, the general fund expenditures exceeded the budgeted amount by \$1,889,653. 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 2012-2013 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, 2013, the City's total investment in capital assets net of related debt for its governmental activities was \$17,667,590 and for its business-type activities was \$17,138,291 for a total investment of \$34,805,881. 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, 2013, the City has a total long-term debt amount outstanding of \$8,958,548. Additional information on the City's long-term debt can be found in the notes to the financial statements.

#### **Other Significant Matters**

During the 2012-2013 year, the City continues to feel the impact of 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. Another financial impact felt by the City in 2012 was the closure of the Florida Department of Corrections local work camp. With this closure the City has experienced a shortfall of about \$10 to \$12 thousand in revenue per month. We are currently exploring the need to update our revenue enhancement program and its subsequent implementation in the near future as part of our five-year strategic planning process to improve our self-sustainability efforts.

The City of Apalachicola continues to focus its energy toward citywide infrastructure improvement projects, continuation of public waterfront access and recreational/cultural grant related projects. At this time the City is finalizing the funded projects that consist of a new public restroom in the downtown area and Phase II of the Downtown Streetscape Project. We have also secured funding for renovation of the city owned mooring basin which houses our commercial fishing fleet, as well as a major surface water quality/stormwater project and improvements to our wastewater treatment plant effluent retention/wet weather holding pond. The City's major wastewater effluent reuse project was completed in the prior year, this project continues to afford 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 second phase of this project will offer reuse water to our customers for irrigation purposes on their private property.

The City continues its work on an updated sustainable capital improvement plan that will become incorporated into our five-year strategic plan, the initial process for this plan is underway with our continued objective to focus on the City's long-range goal of addressing future improvements and self-sustainability 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 Position  
September 30, 2013

<b>Primary Government</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,039,655	\$ 192,429	\$ 1,232,084
Investments	190,105	2,120	192,225
Receivables, net			
Accounts	90,173	137,012	227,185
Notes	409,148	-	409,148
Prepays	-	52,322	52,322
Due from other governmental units	509,117	-	509,117
Restricted assets			
Cash and cash equivalents	-	391,888	391,888
Investments	-	932,753	932,753
Interest receivable	-	5,006	5,006
Capital assets			
Nondepreciable	10,421,247	363,057	10,784,304
Depreciable, net	8,000,084	24,640,797	32,640,881
Other assets			
Deposits	-	5,620	5,620
Loan costs	-	76,183	76,183
<b>Total assets</b>	<b>20,659,529</b>	<b>26,799,187</b>	<b>47,458,716</b>
<b>Liabilities</b>			
Accounts payable	337,290	78,030	415,320
Internal balances	2,671	(2,671)	-
Long-term liabilities			
Customer deposits	-	171,090	171,090
Due within one year			
Short-term loans	172,510	-	172,510
Accrued interest payable	-	53,512	53,512
Notes payable	56,922	303,320	360,242
Bonds payable	11,000	82,000	93,000
Compensated absences	48,417	6,269	54,686
Due in more than one year			
Compensated absences	96,835	12,539	109,374
Other postemployment benefits	124,975	50,209	175,184
Notes payable	220,319	4,482,891	4,703,210
Bonds payable	465,500	2,997,352	3,462,852
<b>Total liabilities</b>	<b>1,536,439</b>	<b>8,234,541</b>	<b>9,770,980</b>
<b>Net position</b>			
Net investment in capital assets	17,667,590	17,138,291	34,805,881
Restricted			
Debt service	581	954,357	954,938
Renewal and replacement	-	213,750	213,750
Other purposes	700,065	-	700,065
Unrestricted	754,854	258,248	1,013,102
<b>Total net position</b>	<b>\$ 19,123,090</b>	<b>\$ 18,564,646</b>	<b>\$ 37,687,736</b>

See accompanying notes

City of Apalachicola, Florida  
Statement of Activities  
Year Ended September 30, 2013

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Functions/Programs</b>							
<b>Primary Government</b>							
Governmental activities							
General government	\$ 1,025,646	\$ 255,991	\$ 175,412	\$ 809,687	\$ 215,444	\$ -	\$ 215,444
Public safety	727,625	6,955	37,525	-	(683,145)	-	(683,145)
Transportation	666,717	-	-	-	(666,717)	-	(666,717)
Culture and recreation	784,824	-	456,408	-	(328,416)	-	(328,416)
Total governmental activities	3,204,812	262,946	669,345	809,687	(1,462,834)	-	(1,462,834)
Business-type activities							
Water, sewer, garbage and mooring	2,631,871	1,816,826	-	36	-	(815,009)	(815,009)
Total primary government	\$ 5,836,683	\$ 2,079,772	\$ 669,345	\$ 809,723	(1,462,834)	(815,009)	(2,277,843)
General revenues							
Taxes							
Property taxes					1,123,467	-	1,123,467
Local option taxes					50,448	-	50,448
Franchise and utility service tax					161,539	-	161,539
Local business tax					31,224	-	31,224
Sales tax and other shared revenues					240,833	-	240,833
Miscellaneous					251,506	-	251,506
Investment earnings					21,803	3,723	25,526
Total general revenues					1,880,820	3,723	1,884,543
Transfers					63,000	(63,000)	-
Total general revenues and transfers					1,943,820	(59,277)	1,884,543
Change in net position					480,986	(874,286)	(393,300)
Net position - beginning of year					18,642,104	19,438,932	38,081,036
Net position - end of year					\$ 19,123,090	\$ 18,564,646	\$ 37,687,736

See accompanying notes

City of Apalachicola, Florida  
Balance Sheet  
Governmental Funds  
September 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 554,200	\$ 485,455	\$ 1,039,655
Investments	8,781	181,324	190,105
Due from other funds	64,441	15,704	80,145
Due from other governmental units	509,117	-	509,117
Accounts receivable, net	86,383	3,790	90,173
Notes receivable	-	409,148	409,148
<b>Total assets</b>	<b>\$ 1,222,922</b>	<b>\$ 1,095,421</b>	<b>2,318,343</b>
<b>Liabilities and fund equity</b>			
Liabilities			
Accounts payable	\$ 336,050	\$ 1,240	337,290
Due to other funds	18,375	64,441	82,816
Deferred revenue	-	409,148	409,148
<b>Total liabilities</b>	<b>354,425</b>	<b>474,829</b>	<b>829,254</b>
Fund equity			
Fund balances			
Restricted			
Library trust	-	443,602	443,602
Raney house	8,781	-	8,781
Ballfield for reuse project	69,822	-	69,822
Local option gas tax	-	41,897	41,897
HUD	-	135,093	135,093
Fire department	870	-	870
Debt service	581	-	581
Unassigned	788,443	-	788,443
<b>Total fund equity</b>	<b>868,497</b>	<b>620,592</b>	<b>1,489,089</b>
<b>Total liabilities and fund equity</b>	<b>\$ 1,222,922</b>	<b>\$ 1,095,421</b>	
Amounts reported for governmental activities in the statement of net position are different because			
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.			18,421,331
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.			(1,196,478)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.			409,148
<b>Net position of governmental activities</b>			<b>\$ 19,123,090</b>

See accompanying notes

City of Apalachicola, Florida  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 1,316,230	\$ 50,448	\$ 1,366,678
Licenses and permits	149,495	-	149,495
Intergovernmental	1,708,945	-	1,708,945
Charges for services	106,496	-	106,496
Fines and forfeitures	6,955	-	6,955
Investment earnings and other	207,840	62,704	270,544
<b>Total revenues</b>	<b>3,495,961</b>	<b>113,152</b>	<b>3,609,113</b>
<b>Expenditures</b>			
Current operating			
General government	964,339	-	964,339
Public safety	591,553	-	591,553
Transportation	571,692	-	571,692
Culture and recreation	545,145	44,783	589,928
Capital outlay			
General government	825,823	-	825,823
Public safety	39,519	-	39,519
Transportation	117,077	-	117,077
Culture and recreation	5,823	3,602	9,425
Debt service	138,171	-	138,171
<b>Total expenditures</b>	<b>3,799,142</b>	<b>48,385</b>	<b>3,847,527</b>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<b>(303,181)</b>	<b>64,767</b>	<b>(238,414)</b>
<b>Other financing sources (uses)</b>			
Transfers in	110,994	29,710	140,704
Transfers out	(29,710)	(47,994)	(77,704)
Debt issuance	131,435	-	131,435
<b>Total other financing sources (uses)</b>	<b>212,719</b>	<b>(18,284)</b>	<b>194,435</b>
<b>Net change in fund balances</b>	<b>(90,462)</b>	<b>46,483</b>	<b>(43,979)</b>
<b>Fund balances - beginning</b>	<b>958,959</b>	<b>574,109</b>	<b>1,533,068</b>
<b>Fund balances - ending</b>	<b>\$ 868,497</b>	<b>\$ 620,592</b>	<b>\$ 1,489,089</b>

See accompanying notes



City of Apalachicola, Florida

Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
Year Ended September 30, 2013

<u>Differences in amounts reported for governmental activities in the statement of activities</u>	
Net change in fund balances - total governmental funds	\$ (43,979)
Capital outlay, reported as expenditures in governmental funds, are shown as capital assets in the statement of activities.	991,844
Depreciation expense on governmental capital assets is included in the governmental activities in the statement of activities.	(425,197)
The net effect of miscellaneous noncash transactions involving capital assets (i.e. sales, trade-ins, adjustments, and donations) is to increase net position.	33,965
Proceeds from debt is reported as revenue in the governmental funds but as an increase in long-term liabilities in the statement of net position.	(131,435)
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 position.	97,026
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).	(20,958)
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 position.	(20,280)
<u>Change in net position of governmental activities</u>	<u>\$ 480,986</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, 2013

	<u>Budgeted Amounts</u>		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,341,375	\$ 1,341,375	\$ 1,316,230	\$ (25,145)
Licenses and permits	160,500	160,500	149,495	(11,005)
Intergovernmental	269,950	269,950	1,708,945	1,438,995
Charges for services	-	-	106,496	106,496
Fines and forfeitures	2,400	2,400	6,955	4,555
Investment earnings and other	43,000	43,000	207,840	164,840
<b>Total revenues</b>	<b>1,817,225</b>	<b>1,817,225</b>	<b>3,495,961</b>	<b>1,678,736</b>
<b>Expenditures</b>				
Current operating				
General government	543,801	543,801	964,339	(420,538)
Public safety	598,632	598,632	591,553	7,079
Transportation	567,006	567,006	571,692	(4,686)
Culture and recreation	47,050	47,050	545,145	(498,095)
Capital outlay				
General government	6,000	6,000	825,823	(819,823)
Public safety	22,000	22,000	39,519	(17,519)
Transportation	15,000	15,000	117,077	(102,077)
Culture and recreation	3,000	3,000	5,823	(2,823)
Debt service	107,000	107,000	138,171	(31,171)
<b>Total expenditures</b>	<b>1,909,489</b>	<b>1,909,489</b>	<b>3,799,142</b>	<b>(1,889,653)</b>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<b>(92,264)</b>	<b>(92,264)</b>	<b>(303,181)</b>	<b>(210,917)</b>
<b>Other financing sources (uses)</b>				
Transfers in	91,500	91,500	110,994	19,494
Transfers out	(29,710)	(29,710)	(29,710)	-
Debt issuance	-	-	131,435	131,435
<b>Total other financing sources (uses)</b>	<b>61,790</b>	<b>61,790</b>	<b>212,719</b>	<b>150,929</b>
<b>Net change in fund balance</b>	<b>(30,474)</b>	<b>(30,474)</b>	<b>(90,462)</b>	<b>(59,988)</b>
<b>Fund balance - beginning</b>	<b>958,959</b>	<b>958,959</b>	<b>958,959</b>	<b>-</b>
<b>Fund balance - ending</b>	<b>\$ 928,485</b>	<b>\$ 928,485</b>	<b>\$ 868,497</b>	<b>\$ (59,988)</b>

See accompanying notes

City of Apalachicola, Florida  
Statement of Net Position  
Proprietary Fund  
September 30, 2013

**Business-type Activities**

	<b>Water and Sewer Fund</b>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 192,429
Investments	2,120
Accounts receivable, net	137,012
Due from other funds	2,671
Prepaid expenses	52,322
Total current assets	386,554
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	
Revenue bonds	230,348
Customer deposits	161,540
Interest receivable	5,006
Investments	
State revolving loan escrow	932,753
Total restricted assets	1,329,647
Property, plant and equipment	
Property, plant and equipment	35,928,037
Accumulated depreciation	(10,924,183)
Net property, plant and equipment	25,003,854
Other assets	
Deposits	5,620
Loan costs	76,183
Total other assets	81,803
Total noncurrent assets	26,415,304
Total assets	26,801,858

(Continued)

See accompanying notes

City of Apalachicola, Florida  
Statement of Net Position (Continued)  
Proprietary Fund  
September 30, 2013

	<b>Business-type Activities</b>
	<b>Water and Sewer Fund</b>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	\$ 78,030
Accrued interest	53,512
Bonds payable - current	82,000
Notes payable - current	303,320
Compensated absences	6,269
Total current liabilities	523,131
Noncurrent liabilities	
Customer deposits	171,090
Bonds payable	2,997,352
Notes payable	4,482,891
Other postemployment benefits	50,209
Compensated absences	12,539
Total noncurrent liabilities	7,714,081
Total liabilities	8,237,212
<b>Net position</b>	
Net investment in capital assets	17,138,291
Restricted	
Debt service	954,357
Renewal and replacement	213,750
Unrestricted	258,248
Total net position	\$ 18,564,646

See accompanying notes

City of Apalachicola, Florida  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Fund  
Year Ended September 30, 2013

	<b>Business-type Activities</b>
	<b>Water and Sewer Fund</b>
<b>Operating revenue</b>	
Utility billings	\$ 1,714,413
Tap fees	9,640
Mooring fees	72,334
Rental income	20,439
<hr/>	
Total operating revenue	1,816,826
<hr/>	
<b>Operating expenses</b>	
Personal services	431,367
Garbage collection services	367,281
Supplies, gas and oil	220,606
Communications	8,980
Utilities	169,634
Repairs and maintenance	132,308
Insurance	63,349
Professional fees	16,714
Miscellaneous	47,540
Depreciation	888,700
<hr/>	
Total operating expenses	2,346,479
<hr/>	
Operating loss	(529,653)
<hr/>	
<b>Nonoperating revenues (expenses)</b>	
Investment income	3,723
Interest expense/fees	(285,392)
<hr/>	
Total nonoperating revenues (expenses)	(281,669)
<hr/>	
Loss before contributions and transfers	(811,322)
<hr/>	
<b>Contributions and transfers</b>	
Capital contributions - grants	36
Transfers out	(63,000)
<hr/>	
Total contributions and transfers	(62,964)
<hr/>	
Change in net position	(874,286)
<hr/>	
Net position - beginning	19,438,932
<hr/>	
Net position - ending	\$ 18,564,646
<hr/>	

See accompanying notes

City of Apalachicola, Florida  
Statement of Cash Flows  
Proprietary Fund  
Year Ended September 30, 2013

<b>Business-type Activities</b>	
<b>Operating activities</b>	
Receipts from customers	\$ 1,889,876
Payments to suppliers and others	(1,052,981)
Payments to employees	(417,719)
Interest paid on long-term debt	(288,342)
Interest received	5,121
<b>Net cash provided by operating activities</b>	
	135,955
<b>Noncapital financing activities</b>	
Increase in due from other funds	(2,671)
Transfers out	(63,000)
<b>Net cash used by noncapital financing activities</b>	
	(65,671)
<b>Capital and related financing activities</b>	
Capital contributions - grants	36
Acquisition of capital assets	(15,303)
Principal repayments of revenue bonds and notes payable	(376,485)
<b>Net cash used by capital and related financing activities</b>	
	(391,752)
<b>Investing activities</b>	
Proceeds from sales and maturities of investments	391,525
<b>Net cash provided by investing activities</b>	
	391,525
<b>Increase in cash and cash equivalents</b>	
	70,057
<b>Cash and cash equivalents - beginning</b>	
	514,260
<b>Cash and cash equivalents - ending</b>	
	\$ 584,317
Classified as	
Current assets - cash and cash equivalents	\$ 192,429
Restricted assets - cash and cash equivalents	391,888
<b>Cash and cash equivalents - ending</b>	
	\$ 584,317

(Continued)

City of Apalachicola, Florida  
Statement of Cash Flows (Continued)  
Proprietary Fund  
Year Ended September 30, 2013

**Business-type Activities**

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**Reconciliation of loss before contributions and transfers  
to net cash provided by operating activities**

Loss before contributions and transfers	\$	(811,322)
Adjustments to reconcile loss before contributions and transfers to net cash provided by operating activities		
Depreciation		888,700
Amortization		16,930
(Increase) decrease in assets		
Accounts receivable, net		22,263
Prepaid expenses		(4,883)
Due from other governmental units		41,237
Interest receivable		1,398
Increase (decrease) in liabilities		
Accounts payable		(38,616)
Accrued interest		(2,950)
Compensated absences		7,225
Customer deposits		9,550
Other postemployment benefits		6,423
<hr/>		
Net cash provided by operating activities	\$	135,955
<hr/>		

See accompanying notes

## 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.

This report includes financial statements of the funds of the City. The reporting entity for the City consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. A legally separate tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities are, in substance, part of the government's operations and are reported with similar funds of the primary government (see note below for description). Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. The City has two component units as defined by GASB Statement 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34* or in publications cited in the State of Florida, Office of the Auditor General Rules, Rule 10.553, which are required to be included in these financial statements.

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.



Notes to Basic 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.

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

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

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, 2013, was \$128,769. Unbilled amounts are not recorded.

The allowance for the general fund as of September 30, 2013 was \$12,000.

***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 position 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.

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, 2013, 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. There are no nonspendable funds as of September 30, 2013.

**Restricted** – This category includes resources restricted by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. The balance as of September 30, 2013 of \$700,646 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, 2013.

**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, 2013.

**Unassigned** – This category is the residual classification for the City's fund balances. The balance as of September 30, 2013 was \$788,443.

***Net position***

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

Notes to Basic Financial Statements

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

***Net position (Continued)***

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

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

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

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

***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.

***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 position.

***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.

Notes to Basic Financial Statements

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

***Subsequent Events***

Management of the City has evaluated subsequent events through June 17, 2014, 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.

***Investments***

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

- The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in Section 163.01.
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- Interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02.
- Direct obligations of the U.S. Treasury.

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

Notes to Basic Financial Statements

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

***Custodial Risks***

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

***Concentration of Credit Risk***

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

At September 30, 2013, 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)	\$ 1,897,621	\$ -	\$ 1,897,621
U.S. Treasury notes	(2)	200,640	102,238	302,878
U.S. Government agencies	AAA	150,914	205,312	356,226
Local Government Surplus Trust Fund Pool	(1)	192,225	-	192,225
<b>Total</b>		<b>\$ 2,441,400</b>	<b>\$ 307,550</b>	<b>\$ 2,748,950</b>

(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 (\$188,962) is considered a SEC 2a7-like fund and the account balance is the fair value of the investment.

The Fund B portion (\$3,263) 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, 2013 was 44 days. The weighted average life of Fund B (based on expected future cash flows) at September 30, 2013 is estimated at 4.04 years. However because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the weighted average life.



City of Apalachicola, Florida

Notes to Basic Financial Statements

**NOTE 4 – CAPITAL ASSETS**

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

	September 30, 2012	Increases	Decreases	September 30, 2013
Capital assets, not being depreciated				
Land	\$ 10,039,410	\$ -	\$ -	\$ 10,039,410
Construction in progress	352,965	347,205	(318,333)	381,837
<hr/>				
Total capital assets not being depreciated	10,392,375	347,205	(318,333)	10,421,247
<hr/>				
Capital assets being depreciated				
Buildings	1,709,253	-	-	1,709,253
Improvements other than buildings	4,294,800	783,516	-	5,078,316
Machinery and equipment	2,026,402	213,421	(41,381)	2,198,442
Infrastructure	2,896,156	-	-	2,896,156
<hr/>				
Total capital assets being depreciated	10,926,611	996,937	(41,381)	11,882,167
<hr/>				
Less accumulated depreciation				
Buildings	611,086	43,008	-	654,094
Improvements other than buildings	946,903	122,345	-	1,069,248
Machinery and equipment	1,574,301	174,379	(41,381)	1,707,299
Infrastructure	365,977	85,465	-	451,442
<hr/>				
Total accumulated depreciation	3,498,267	425,197	(41,381)	3,882,083
<hr/>				
Total depreciable assets, net of accumulated depreciation	7,428,344	571,740	-	8,000,084
<hr/>				
Total governmental activities' capital assets, net of accumulated depreciation	\$ 17,820,719	\$ 918,945	\$ (318,333)	\$ 18,421,331

Notes to Basic Financial Statements

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

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

	September 30, 2012	Increases	Decreases	September 30, 2013
<b>Capital assets not being depreciated</b>				
Land	\$ 363,057	\$ -	\$ -	\$ 363,057
Total capital assets not being depreciated	363,057	-	-	363,057
<b>Capital assets being depreciated</b>				
Buildings and utility systems	35,549,677	15,303	-	35,564,980
Less accumulated depreciation				
Buildings and utility systems	(10,035,483)	(888,700)	-	(10,924,183)
Total depreciable assets, net of accumulated depreciation	25,514,194	(873,397)	-	24,640,797
Total business-type activities' capital assets, net of accumulated depreciation	\$ 25,877,251	\$ (873,397)	\$ -	\$ 25,003,854

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

<b>Governmental activities</b>	
General government	\$ 46,401
Public safety	95,711
Transportation	89,200
Culture and recreation	193,885
Total depreciation expense - governmental activities	\$ 425,197
<b>Business-type activities</b>	
Water	\$ 125,804
Sewer	755,266
Mooring/boat basins	7,630
Total depreciation expense - business-type activities	\$ 888,700

Notes to Basic Financial Statements

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

Long-term debt of the governmental activities of the City at September 30, 2013 is as follows:

	Original Issue	Balance September 30, 2012	Additions (Reductions)	Balance September 30, 2013	Due Within One Year
Installment purchase agreement for one vehicle payable in 60 monthly installments of \$329 including 7.095% interest, maturing November 2013.	\$ 16,602	\$ 4,415	\$ (3,761)	\$ 654	\$ 654
Installment purchase agreement for one vehicle payable in annual installments of \$7,349 including 5.4% interest, maturing December 2013.	20,919	13,570	(6,603)	6,967	6,967
\$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	486,500	(10,000)	476,500	11,000
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	186,755	(19,162)	167,593	20,230
Installment purchase agreement for one vehicle payable in annual installments of \$6,786 including 4.693% interest, maturing November 2012.	19,442	6,477	(6,477)	-	-
Installment purchase agreement for one loader payable in annual installments of \$22,173 including 2.3% interest, maturing August 2017.	103,535	-	83,929	83,929	20,264

Notes to Basic Financial Statements

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

	Original Issue	Balance September 30, 2012	Additions (Reductions)	Balance September 30, 2013	Due Within One Year
Installment purchase agreement for one vehicle payable in annual installments of \$9,802 including 5.496% interest, maturing November 2014.	\$ 27,900	\$ -	\$ 18,098	\$ 18,098	\$ 8,807
Liability for compensated absences		141,249	4,003	145,252	48,417
Liability for other postemployment benefits		108,020	16,955	124,975	-
<b>Total governmental activities long-term obligations</b>		<b>\$ 946,986</b>	<b>\$ 76,982</b>	<b>\$ 1,023,968</b>	<b>\$ 116,339</b>

- (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 67 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$773,700. Principal and interest paid for the current year and total pledged revenues were \$29,460 and \$43,782, 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 \$581 and \$10,994 respectively, at September 30, 2013.

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

Year Ending September 30,	Principal	Interest	Total
2014	\$ 67,922	\$ 31,687	\$ 99,609
2015	62,384	28,776	91,160
2016	55,763	26,154	81,917
2017	57,514	23,923	81,437
2018	38,127	21,657	59,784
2019 - 2023	125,531	82,617	208,148
2024 - 2028	87,000	62,620	149,620

City of Apalachicola, Florida

Notes to Basic Financial Statements

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

<b>Year Ending September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2029 - 2033	\$ 105,000	\$ 43,900	\$ 148,900
2034 - 2038	130,000	20,900	150,900
2039	24,500	980	25,480
<b>Total</b>	<b>\$ 753,741</b>	<b>\$ 343,214</b>	<b>\$ 1,096,955</b>

The City has two lines of credit which are secured by the City's certificates of deposit in the amount of \$320,173. All agreements require that the entire outstanding amount plus interest of 2.5% be paid by January 31, 2014. During the year, line of credit proceeds totaled \$0 and repayments totaled \$21,615. The balance outstanding at September 30, 2013 was \$172,510.

The portion of compensated absences liability estimated to be paid during the next year (current portion) is \$48,417.

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

	<b>Balance September 30, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance September 30, 2013</b>	<b>Due Within One Year</b>
\$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 (see (c) below).	\$ 2,705,274	\$ -	\$ (54,000)	\$ 2,651,274	\$ 56,000
\$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).	227,448	-	(13,000)	214,448	14,000
\$361,630 Water and Sewer Revenue Bonds – Series 1986, due in annual installments of \$3,000 to \$21,630 from September 1, 1989 to September 1, 2026, with interest at 6% (see (b) below).	224,630	-	(11,000)	213,630	12,000
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 (d) below).	5,079,320	-	(293,539)	4,785,781	302,890

Notes to Basic Financial Statements

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

	Balance September 30,			Balance	Due
	2012	Additions	Deductions	September 30, 2013	Within One Year
Installment purchase agreement for trucks payable in monthly installments of \$431 at 7% interest, maturing November 2013.	\$ 5,376	\$ -	\$ (4,946)	\$ 430	\$ 430
Liability for compensated absences	11,583	7,225	-	18,808	6,269
Liability for other post employment benefits	43,786	6,423	-	50,209	-
<b>Total business-type long-term obligations</b>	<b>\$ 8,297,417</b>	<b>\$ 13,648</b>	<b>\$ (376,485)</b>	<b>\$ 7,934,580</b>	<b>\$ 391,589</b>

- (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 \$284,140. Principal and interest paid for the current year and total pledged revenues were \$24,372 and \$266,272, 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 \$312,584. Principal and interest paid for the current year and total pledged revenues were \$24,478 and \$266,272, respectively.
- (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 53 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$4,139,734. Principal and interest paid for the current year and total pledged revenues were \$141,921 and \$266,272, 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 notes are 48 percent of pledged revenues. The total principal and interest remaining to be paid on the notes is \$5,873,498. Principal and interest paid for the current year and total pledged revenues were \$451,797 and \$932,753, respectively.

Notes to Basic Financial Statements

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

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 \$16,598 and \$213,750 respectively, at September 30, 2013.

**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
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	18,000	7,622	15,000	9,758
2019-2023	116,000	22,710	85,000	34,690
2024-2026	18,448	872	62,630	7,614
Total	\$ 214,448	\$ 69,692	\$ 213,630	\$ 98,954

Year Ending September 30,	Series 2003 Revenue Bonds		State Revolving Loan	
	Principal	Interest	Principal	Interest
2014	\$ 56,000	\$ 86,166	\$ 302,890	\$ 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	63,000	78,561	343,375	108,421
2019-2023	350,000	360,631	1,888,113	370,869
2024-2028	411,000	299,856	1,283,591	71,944
2029-2033	488,000	228,226	-	-
2034-2038	573,000	143,596	-	-
2039-2042	532,274	44,040	-	-
Total	\$ 2,651,274	\$ 1,488,460	\$ 4,785,781	\$ 1,087,717

Notes to Basic Financial Statements

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

Year Ending September 30,	Installment Purchase Trucks	
	Principal	Interest
2014	\$ 430	\$ 2
Total	\$ 430	\$ 2

**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,	2013	2012
Second mortgage receivable – original loan of \$321,666; \$1,105 due monthly including 4% interest, the unpaid balance matures in November 2023.	\$108,957	\$118,435
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.	11,081	16,695
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 September 2022.	91,735	95,263
Second mortgage receivable – original loan of \$59,184; \$576 due monthly including 4% interest. Balance includes past due interest of \$234 and matures in December 2018.	33,105	32,871
Second mortgage receivable – original loan of \$30,673; \$306 due monthly including 4% interest. Balance includes past due interest of \$6,493 and matures in January 2019.	34,534	33,182
Second mortgage receivable – original loan of \$10,000; \$101 due monthly including 4% interest, the unpaid balance matures July 2021.	8,209	9,070



Notes to Basic Financial Statements

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

<b>September 30,</b>	<b>2013</b>	<b>2012</b>
Second mortgage receivable – original loan of \$45,000; \$456 due monthly including 4% interest. Balance includes past due interest of \$1,814 and matures January 2024.	\$ 46,345	\$ 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. However interest of 4% for the year has been accrued for a total of \$1,019.	26,019	25,000
Second mortgage receivable – original loan of \$60,000; \$607 due monthly including 4% interest, the unpaid balance matures in July 2021.	49,163	54,381
<b>Total</b>	<b>\$ 409,148</b>	<b>\$ 429,428</b>

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

**NOTE 8 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

<b>Interfund balances</b>	<b>Due from other funds</b>	<b>Due to other funds</b>
General fund	\$ 64,441	\$ -
Local option gas tax fund	-	64,441
General fund	-	155
Library fund	155	-
General fund	-	2,671
Water and sewer fund	2,671	-
General fund	-	15,549
Local option gas tax fund	15,549	-
<b>Total</b>	<b>\$ 82,816</b>	<b>\$ 82,816</b>

Interfund loans were for operations.

Notes to Basic Financial Statements

**NOTE 8 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)**

<b>Transfers Out</b>	<b>Transfers In</b>	<b>Amount</b>	<b>Purpose</b>
Water and sewer fund	General fund	\$ 63,000	Administrative services and cash advance
General fund	Library fund	29,710	Transfer of general revenues for library activities
Local option gas tax fund	General fund	47,994	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. 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.

Notes to Basic Financial Statements

**NOTE 9 – RETIREMENT BENEFITS (CONTINUED)**

***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:

	<b>October 1, 2012 Through June 30, 2013</b>	<b>July 1, 2013 Through September 30, 2013</b>
Regular class	5.18%	6.95%
Senior management	6.30%	18.31%
Special risk employee class	14.90%	19.06%
DROP plan participants	5.44%	12.84%

For the year ended September 30, 2013, the total covered payroll for all employees was \$1,284,666 and the retirement contributions for all employees covered by the System for the years ended September 30, 2013, 2012, and 2011 were \$103,975, \$85,235, and \$151,391, respectively, which equaled the required contributions. Current year contributions represented 8% 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 35 total active and retired employees eligible to receive these benefits. No stand alone report is issued for the plan.

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.

Notes to Basic Financial Statements

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

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		
	Plan A	Plan B	Plan C
Retiree	\$ 465	\$ N/A	\$ 623
Retiree with Spouse	N/A	971	1,484
Retiree with Children	N/A	767	1,172
Retiree and Family	N/A	1,295	1,979

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)	\$ 16,163
Amortization of unfunded actuarial accrued liability	8,019
Annual required contribution	24,182
Interest on net OPEB obligation	6,072
Adjustment to annual required contribution	(6,876)
Annual OPEB cost (expense)	23,378
Contribution toward the OPEB cost	-
Increase in net OPEB obligation	23,378
Net OPEB obligation, beginning of year	151,806
Net OPEB obligation, end of year	\$ 175,184

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, 2013 was as follows:

Year ending September 30,	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 50,602	0%	\$ 101,204
2012	\$ 50,602	0%	\$ 151,806
2013	\$ 23,378	0%	\$ 175,184

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, 2013. 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 is assumed constant at an estimated increase of 4% per year. 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, 2013 is 26 years.

**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, 2013. 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, 2013

**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
September 1, 2011	N/A	N/A	N/A	N/A	N/A	N/A
September 1, 2012	N/A	N/A	N/A	N/A	N/A	N/A
September 1, 2013	\$ 0	\$163,607	\$ 163,607	0.0%	\$1,119,246	14.62%

**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
2011	\$ 0	\$ 50,602	0%
2012	\$ 0	\$ 50,602	0%
2013	\$ 0	\$ 23,378	0%



## Combining Financial Statements

City of Apalachicola, Florida  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2013

	Library	Local Option Gas Tax	HUD Revolving Loans Fund	Total Nonmajor Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 444,687	\$ -	\$ 40,768	\$ 485,455
Investments	-	86,999	94,325	181,324
Due from other funds	155	15,549	-	15,704
Accounts receivable, net	-	3,790	-	3,790
Notes receivable	-	-	409,148	409,148
<b>Total assets</b>	<b>\$ 444,842</b>	<b>\$ 106,338</b>	<b>\$ 544,241</b>	<b>\$ 1,095,421</b>
<b>Liabilities and fund equity</b>				
Accounts payable	\$ 1,240	\$ -	\$ -	\$ 1,240
Due to other funds	-	64,441	-	64,441
Deferred revenue	-	-	409,148	409,148
<b>Total liabilities</b>	<b>1,240</b>	<b>64,441</b>	<b>409,148</b>	<b>474,829</b>
<b>Fund equity</b>				
Fund balances				
Restricted				
Library trust	443,602	-	-	443,602
Local option gas tax	-	41,897	-	41,897
HUD	-	-	135,093	135,093
<b>Total fund equity</b>	<b>443,602</b>	<b>41,897</b>	<b>135,093</b>	<b>620,592</b>
<b>Total liabilities and fund equity</b>	<b>\$ 444,842</b>	<b>\$ 106,338</b>	<b>\$ 544,241</b>	<b>\$ 1,095,421</b>

See independent auditor's report

City of Apalachicola, Florida  
Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended September 30, 2013

	Library	Local Option Gas Tax	HUD Revolving Loans Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>				
Taxes	\$ -	\$ 50,448	\$ -	\$ 50,448
Investment earnings and other	24,693	168	37,843	62,704
<b>Total revenues</b>	<b>24,693</b>	<b>50,616</b>	<b>37,843</b>	<b>113,152</b>
<b>Expenditures</b>				
Current operating				
Culture and recreation	44,783	-	-	44,783
Capital outlay				
Culture and recreation	3,602	-	-	3,602
<b>Total expenditures</b>	<b>48,385</b>	<b>-</b>	<b>-</b>	<b>48,385</b>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<b>(23,692)</b>	<b>50,616</b>	<b>37,843</b>	<b>64,767</b>
<b>Other financing sources (uses)</b>				
Transfers out	-	(47,994)	-	(47,994)
Transfers in	29,710	-	-	29,710
<b>Total other financing sources (uses)</b>	<b>29,710</b>	<b>(47,994)</b>	<b>-</b>	<b>(18,284)</b>
<b>Net change in fund balances</b>	<b>6,018</b>	<b>2,622</b>	<b>37,843</b>	<b>46,483</b>
<b>Fund balances - beginning</b>	<b>437,584</b>	<b>39,275</b>	<b>97,250</b>	<b>574,109</b>
<b>Fund balances - ending</b>	<b>\$ 443,602</b>	<b>\$ 41,897</b>	<b>\$ 135,093</b>	<b>\$ 620,592</b>

See independent auditor's report

## Compliance Section

## INDEPENDENT AUDITOR'S MANAGEMENT LETTER

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

We have audited the financial statements of the City of Apalachicola, Florida, as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated June 17, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated June 17, 2014, should be considered in conjunction with this management letter.

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

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

- Findings reported the two previous years include 13-01, 13-02, and 13-03.

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

Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of Apalachicola, Florida was established by Chapter 37-18432, Laws of Florida. There were no component units of the City.

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

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

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

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

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

June 17, 2014

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Apalachicola, Florida (the City) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 17, 2014.

### **Internal Control over Financial Reporting**

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

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 13-01 listed on the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

#### **Compliance and Other Matters**

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

#### **City of Apalachicola, Florida's Responses to Findings**

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

#### **Purpose of this Report**

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

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

June 17, 2014



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

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

### **Report on Compliance for Each Major Federal Program**

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* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2013. The City of Apalachicola, Florida's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

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

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

### **Opinion on Each Major Federal Program**

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

## Report on Internal Control over Compliance

Management of the City of Apalachicola, Florida is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Apalachicola, Florida's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of 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 on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

June 17, 2014

City of Apalachicola, Florida  
Schedule of Expenditures of Federal Awards

Year Ended September 30, 2013

Federal Agency Pass through entity	CFDA No.	Contract/Grant No.	Expenditures
<b>Federal Awards</b>			
<b>U.S. Department of Housing and Urban Planning</b>			
Passed through the Florida Department of Community Affairs			
Community Development Block Grants	14.228	11DB-4N-02-29-02-E12	\$ 14,107
Community Development Block Grants	14.228	11DB-C5-02-29-02-C05	324,746
Total U.S. Department of Housing and Urban Planning			338,853
<b>U.S. Department of Education</b>			
Passed through the Florida Department of Education			
Twenty-First Century Community Learning Centers	84.287	19A-2443A-3CCC1	351,679
Twenty-First Century Community Learning Centers	84.287	19A-2443A-4CCC1	50,949
Total U.S. Department of Education			402,628
<b>U.S. Department of Homeland Security</b>			
Passed through the Florida Department of Community Affairs			
Disaster Grant - Public Assistance	97.036	PW 417	9,499
Disaster Grant - Public Assistance	97.036	PW 594	119,827
Total U.S. Department of Homeland Security			129,326
Total expenditures of federal awards			\$ 870,807

Note:

- (1) Basis of Presentation: The schedule of expenditures of federal awards represents amounts expended from federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the schedule have been reconciled to and are in material agreement with amounts recorded in the City's accounting records from which the basic financial statements have been reported.

City of Apalachicola, Florida  
Schedule of Findings and Questioned Costs

Year Ended September 30, 2013

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

Financial Statements

Type of auditor's report issued	Unmodified	
Internal control over financial reporting		
Material weakness(es) identified?	<u>  X  </u> yes	<u>    </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>  X  </u> yes	<u>    </u> none reported
Noncompliance material to financial statements noted?	<u>    </u> yes	<u>  X  </u> no

Federal Awards and State Financial Assistance

Internal control over major programs		
Material weakness(es) identified?	<u>    </u> yes	<u>  X  </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>    </u> yes	<u>  X  </u> none reported
Type of auditor's report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>    </u> yes	<u>  X  </u> no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Award</u>
14.228	Community Development Block Grants
97.036	Disaster Grant - Public Assistance

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

Auditee qualified as low risk auditee for federal awards testing?      yes   X   no

(Continued)

City of Apalachicola, Florida  
Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2013

**SECTION II – FINANCIAL STATEMENT FINDINGS**

13-01 Need to comply with Budgetary Requirements (prior year 12-01 and 11-01) (Initially reported in 2005)

Condition: General fund expenditures exceeded budgeted amounts. The main source of the excess is due to grants received during the year which were not budgeted for.

Effect: By not updating the budget, the City is not in compliance with Florida Statutes.

Recommendation: We recommend that the City amend their budget in future years to be in accordance with Florida Statutes.

Management's response – The City will review the budget and amend as needed during the upcoming year in accordance with the City's current policy and Florida Statutes.

13-02 Segregation of Duties (prior year 12-02 and 11-02) (Initially reported in 2004)

Condition: Due to the small number of staff, the City doesn't have proper segregation of duties in many areas. Due to the lack of segregation of duties and limited internal controls the city clerk 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.

Effect: This situation provides opportunity for errors and unauthorized transactions to not be detected in a timely manner.

Recommendation: We recommend that the City segregate duties as much as possible and implement mitigating controls where segregation of duties is not possible due to the size of the City.

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.

13-03 Significant Adjustments to the Financial Records (prior year 12-03 and 11-03) (Initially reported in 2007)

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

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

Recommendation: While we realize no adjustments required may not be possible, we recommend that the accounting staff continue to strive toward minimizing the proposed audit adjustments that have been required.

Management's response: While we have determined that it is not economically feasible for the City to invest in the substantial resources that would be required to produce financial statements that require no audit adjustments, we will strive to minimize the number of proposed adjustments.

City of Apalachicola, Florida  
Schedule of Findings and Questioned Costs (Continued)

Year Ended September 30, 2013

**SECTION III – FINDINGS AND QUESTIONED COSTS - FEDERAL AWARD PROGRAMS**

There were no findings.

**SECTION IV – OTHER ISSUES**

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