

City of Apalachicola, Florida

Financial Statements

September 30, 2016



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City of Apalachicola, Florida
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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 (City) as of and for the year ended September 30, 2016, and the related notes to basic 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 City'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 City'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, as of September 30, 2016, and the respective changes in financial position and where applicable, cash flows thereof, and the respective budgetary comparison for the general fund 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, the schedule of funding progress for the retirees' health insurance other postemployment benefits plan on page 47, the schedule of employer contributions for the retirees' health insurance other postemployment benefits plan on page 47, the schedule of the City's proportionate share of the net pension liability – Florida Retirement System on page 48, the schedule of the City's contributions – Florida Retirement System on page 49, the schedule of the City's proportionate share of the net pension liability – Health Insurance Subsidy Program on page 50, and the schedule of the City's contributions – Health Insurance Subsidy Program on page 51, as listed in the table of contents, 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 financial statements and the schedule of receipts and expenditures of funds related to the Deepwater Horizon oil spill are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining financial statements and the schedule of receipts and expenditures of funds related to the Deepwater Horizon oil spill 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 financial statements and the schedule of receipts and expenditures of funds related to the Deepwater Horizon oil spill 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 28, 2017, 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, 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
Panama City Beach, Florida
June 28, 2017

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

Financial Highlights

- Total assets and deferred outflows of resources of the City exceeded total liabilities and deferred inflows of resources by \$37,345,198 (net position). Of this amount, a deficit of \$687,357 is unrestricted net position for governmental activities, a deficit of \$387,134 is unrestricted net position for business-type activities, \$539,156 is restricted net position for governmental activities, and \$397,496 is restricted net position for business-type activities.
- Total net position decreased by \$1,203,006. Of this amount, a decrease of \$352,503 is attributable to governmental activities and a decrease of \$850,503 is attributable to business-type activities.
- As of September 30, 2016, the general fund's unassigned fund balance is \$28,315 or 1% of total general fund expenditures.
- Governmental activities' revenues decreased 33% to \$3,242,359, while governmental activities' expenses increased 2% to \$3,594,862. Business-type activities' revenues increased 8% to \$1,945,992, while business-type activities' expenses increased 5% to \$2,796,495.

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 basic 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 basic 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* presents increases or decreases in net position from year to year and serves 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, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the City at September 30, 2016 and 2015. The City is able to report positive balances in all categories of total net position except unrestricted which show a deficit balance.

Statements of Net Position

September 30,	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 2,492,634	\$ 2,007,301	\$ 263,148	\$ 232,413	\$ 2,755,782	\$ 2,239,714
Noncurrent assets	21,691,058	21,306,446	23,811,257	24,844,803	45,502,315	46,151,249
Total assets	24,183,692	23,313,747	24,074,405	25,077,216	48,258,097	48,390,963
Deferred outflows of resources	447,335	290,905	170,490	96,968	617,825	387,873
Current liabilities	1,526,306	362,424	1,001,734	781,267	2,528,040	1,143,691
Noncurrent liabilities	2,136,071	1,639,939	6,802,780	7,010,530	8,938,851	8,650,469
Total liabilities	3,662,377	2,002,363	7,804,514	7,791,797	11,466,891	9,794,160
Deferred inflows of resources	46,218	327,354	17,615	109,118	63,833	436,472
Net position						
Net investment in capital assets	21,070,633	20,637,767	16,412,404	16,976,262	37,483,037	37,614,029
Restricted	539,156	644,197	397,496	593,941	936,652	1,238,138
Unrestricted	(687,357)	(7,029)	(387,134)	(296,934)	(1,074,491)	(303,963)
Total net position	\$ 20,922,432	\$ 21,274,935	\$ 16,422,766	\$ 17,273,269	\$ 37,345,198	\$ 38,548,204

Statement of Activities

The following schedule provides a summary of the changes in net position for the years ended September 30, 2016 and 2015.

Statements of Activities

Years Ended September 30,	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues						
Charges for services	\$ 182,641	\$ 283,803	\$ 2,064,409	\$ 1,935,474	\$ 2,247,050	\$ 2,219,277
Operating grants/contributions	630,085	603,451	-	-	630,085	603,451
Capital grants/contributions	214,323	1,011,959	-	-	214,323	1,011,959
General revenues						
Property taxes	1,161,394	1,137,302	-	-	1,161,394	1,137,302
Local option gas tax	57,123	53,774	-	-	57,123	53,774
Franchise and utility tax	159,679	161,274	-	-	159,679	161,274
Local business tax	30,598	32,618	-	-	30,598	32,618
Shared revenues	277,875	267,635	-	-	277,875	267,635
Investment earnings	20,513	19,209	1,583	3,124	22,096	22,333
Miscellaneous	388,128	1,158,391	-	-	388,128	1,158,391
Transfers	120,000	133,500	(120,000)	(133,500)	-	-
Total revenues and transfers	3,242,359	4,862,916	1,945,992	1,805,098	5,188,351	6,668,014
Expenses						
General government	1,135,941	1,307,542	-	-	1,135,941	1,307,542
Public safety	796,679	706,564	-	-	796,679	706,564
Transportation	744,138	637,740	-	-	744,138	637,740
Economic environment	23,117	11,897	-	-	23,117	11,897
Culture and recreation	894,987	877,443	-	-	894,987	877,443
Water	-	-	595,518	515,889	595,518	515,889
Sewer	-	-	1,743,855	1,653,989	1,743,855	1,653,989
Garbage	-	-	370,029	370,710	370,029	370,710
Mooring	-	-	87,093	111,491	87,093	111,491
Total expenses	3,594,862	3,541,186	2,796,495	2,652,079	6,391,357	6,193,265
Change in net position	\$ (352,503)	\$ 1,321,730	\$ (850,503)	\$ (846,981)	\$ (1,203,006)	\$ 474,749

Financial Analysis of the City's Funds

Analysis of Government-wide Financial Statements

Substantially all 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. \$936,652 of the City's net position is subject to external restrictions on how it may be used. The balance of unrestricted net position may be used to help meet the City's ongoing obligations to citizens and creditors. As of fiscal year end, the balance in unrestricted net position is a deficit

of \$1,074,491. A significant portion of the deficit results from the recognized net pension liability and the related deferred inflows and deferred outflows of resources related to GASB 68.

Analysis of General Fund Budgetary Variations

For the year ended September 30, 2016, actual revenues including other financial sources were less than anticipated by \$1,317,193 and actual expenditures were less than anticipated by \$887,465. This was due in part to budgeting for a significant grant that was received in advance but not spent until subsequent to year end which resulted in under budget balances in both intergovernmental revenue and capital outlay.

Capital Assets and Long-Term Debt Activity

Capital Assets Activity

As of September 30, 2016, the City's total net investment in capital assets for its governmental activities is \$21,070,633 and for its business-type activities is \$16,412,404 for a total investment of \$37,483,037. 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, 2016, the City has a total long-term debt amount outstanding of \$9,699,800. Additional information on the City's long-term debt can be found in the notes to the financial statements.

Other Significant Matters

During the 2015-2016 fiscal year, the City property values showed a slight increase which resulted in a slight increase in ad valorem taxes. The Franklin County TDC has increased marketing efforts for this area, resulting in a slight increase in sales tax receipts. The City's receipts in other taxes, licenses, and services remains fairly consistent compared to previous years, showing a slight increase in some of those areas. The City Commission continues to make efforts to keep expenses down, while exploring potential revenue sources to improve our self-sustainability efforts.

The City of Apalachicola continues to focus efforts to improve citywide infrastructure through grants and other means while also striving to improve the recreational/cultural aspect of the City. Recreational/cultural additions and improvements are mostly funded through FRDAP grants. The City has been awarded two FRDAP grants to install a splash pad and playground at the Van W. Johnson, Sr., Service Complex. Construction will begin in FY 16/17 for these projects. The City is proud to have been awarded a DOT Beautification Grant that will highlight the east and west entrances into the City as well as other areas along Highway 98 corridor. The City is proud to have been awarded a grant through the State of Florida Division of Library and Information Services to build a new municipal library. With combined resources received from the grant, Key Estate funds, and fundraising efforts the library should be substantially completed by July 2017. Construction has been completed for the Water Quality/Stormwater Project. This project addressed Highway 98/16th Street, Prado, and Avenue I outfalls and was completed in March 2017. The CDBG Septic Tank Abatement, Bobby Cato Lift Station Upgrade, and Water System Improvements project offers qualified citizens the opportunity to connect into the City sewer system and also allows much needed upgrades for the Bobby Cato Lift Station. Construction was completed in April 2017. The City secured permitting for the installation of a Filtronics filtration unit and granular activated carbon vessels at our water treatment plant. Due to the high cost of maintenance of the carbon system, the City has opted to install a mixer and aerator

in the ground storage tank to address the Trihalomethan issue. The City will also be converting from chlorine to bulk sodium hypochlorite at the wastewater treatment plant. The City received BP funding which will be used for various projects approved by the City Commission.

The City continues its work on 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 Lee Mathes, City Administrator, City of Apalachicola, 1 Avenue E, Apalachicola, Florida 32320.

City of Apalachicola, Florida
Statement of Net Position

	Primary Government		
September 30, 2016	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,014,158	\$ 79,574	\$ 2,093,732
Investments	36,084	2,132	38,216
Receivables, net			
Accounts	56,183	145,407	201,590
Notes	375,532	-	375,532
Prepays	-	8,235	8,235
Due from other governmental units	10,677	27,800	38,477
Restricted assets			
Cash and cash equivalents	-	392,292	392,292
Investments	-	200,436	200,436
Capital assets			
Nondepreciable	10,800,936	390,857	11,191,793
Depreciable, net	10,890,122	22,827,672	33,717,794
Total assets	24,183,692	24,074,405	48,258,097
Deferred outflows of resources			
Deferred outflows - pension	447,335	170,490	617,825
Total deferred outflows of resources	447,335	170,490	617,825
Liabilities			
Accounts payable	237,671	101,487	339,158
Accrued payroll	9,180	1,310	10,490
Internal balances	(48,690)	48,690	-
Unearned revenue	1,035,334	-	1,035,334
Long-term liabilities			
Customer deposits	-	195,232	195,232
Due within one year			
Lines of credit	139,758	-	139,758
Accrued interest payable	-	47,119	47,119
Notes payable	95,328	510,164	605,492
Bonds payable	12,000	92,000	104,000
Compensated absences	45,725	5,732	51,457

(Continued)

See accompanying notes

City of Apalachicola, Florida
Statement of Net Position (Continued)

September 30, 2016	Primary Government		
	Governmental Activities	Business-type Activities	Total
Due in more than one year			
Compensated absences	\$ 91,450	\$ 11,465	\$ 102,915
Other postemployment benefits	278,818	109,917	388,735
Net pension liability	1,252,706	477,437	1,730,143
Notes payable	82,597	3,471,609	3,554,206
Bonds payable	430,500	2,732,352	3,162,852
Total liabilities	3,662,377	7,804,514	11,466,891
Deferred inflows of resources			
Deferred inflows - pension	46,218	17,615	63,833
Total deferred inflows of resources	46,218	17,615	63,833
Net position			
Net investment in capital assets	21,070,633	16,412,404	37,483,037
Restricted			
Debt service	20,261	201,507	221,768
Renewal and replacement	-	195,989	195,989
Other purposes	518,895	-	518,895
Unrestricted	(687,357)	(387,134)	(1,074,491)
Total net position	\$ 20,922,432	\$ 16,422,766	\$ 37,345,198

See accompanying notes

City of Apalachicola, Florida
Statement of Activities

Year Ended September 30, 2016	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Primary Government							
Governmental activities							
General government	\$ 1,135,941	\$ 179,538	\$ 79,833	\$ 214,323	\$ (662,247)	\$ -	\$ (662,247)
Public safety	796,679	3,103	38,197	-	(755,379)	-	(755,379)
Transportation	744,138	-	-	-	(744,138)	-	(744,138)
Economic environment	23,117	-	-	-	(23,117)	-	(23,117)
Culture and recreation	894,987	-	512,055	-	(382,932)	-	(382,932)
Total governmental activities	3,594,862	182,641	630,085	214,323	(2,567,813)	-	(2,567,813)
Business-type activities							
Water, sewer, garbage and mooring	2,796,495	2,064,409	-	-	-	(732,086)	(732,086)
Total primary government	\$ 6,391,357	\$ 2,247,050	\$ 630,085	\$ 214,323	(2,567,813)	(732,086)	(3,299,899)
General revenues							
Taxes							
Property taxes					1,161,394	-	1,161,394
Local option taxes					57,123	-	57,123
Franchise and utility service tax					159,679	-	159,679
Local business tax					30,598	-	30,598
Shared revenues					277,875	-	277,875
Miscellaneous					388,128	-	388,128
Investment earnings					20,513	1,583	22,096
Total general revenues					2,095,310	1,583	2,096,893
Transfers					120,000	(120,000)	-
Total general revenues and transfers					2,215,310	(118,417)	2,096,893
Change in net position					(352,503)	(850,503)	(1,203,006)
Net position - beginning of year					21,274,935	17,273,269	38,548,204
Net position - end of year					\$ 20,922,432	\$ 16,422,766	\$ 37,345,198

See accompanying notes

City of Apalachicola, Florida
Balance Sheet
Governmental Funds

September 30, 2016	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,599,270	\$ 414,888	\$ 2,014,158
Investments	-	36,084	36,084
Due from other funds	49,206	49,289	98,495
Due from other governmental units	10,677	-	10,677
Accounts receivable, net	56,183	-	56,183
Notes receivable	-	375,532	375,532
Total assets	\$ 1,715,336	\$ 875,793	2,591,129
Liabilities			
Accounts payable	\$ 237,671	\$ -	237,671
Accrued payroll	9,180	-	9,180
Due to other funds	49,289	516	49,805
Unearned revenue	1,035,334	375,533	1,410,867
Total liabilities	1,331,474	376,049	1,707,523
Fund balance			
Restricted			
Community redevelopment agency	10,337	-	10,337
Library trust	-	364,505	364,505
Raney house	8,814	-	8,814
Local option gas tax	-	40,045	40,045
HUD	-	95,194	95,194
Debt service	20,261	-	20,261
Assigned	316,135	-	316,135
Unassigned	28,315	-	28,315
Total fund balance	383,862	499,744	883,606
Total liabilities and fund balances	\$ 1,715,336	\$ 875,793	
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.			21,691,058
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.			(2,428,882)
Deferred outflows and inflows of resources are not financial resources or liabilities and therefore are not reported in the funds.			401,117
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.			375,533
Net position of governmental activities			\$ 20,922,432

See accompanying notes

City of Apalachicola, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year Ended September 30, 2016	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 1,352,209	\$ 56,585	\$ 1,408,794
Licenses and permits	161,208	-	161,208
Intergovernmental	1,121,383	-	1,121,383
Charges for services	18,330	-	18,330
Fines and forfeitures	3,103	-	3,103
Investment earnings and other	205,292	51,396	256,688
Total revenues	2,861,525	107,981	2,969,506
Expenditures			
Current operating			
General government	1,014,500	-	1,014,500
Public safety	651,189	-	651,189
Transportation	514,089	-	514,089
Economic environment	-	23,117	23,117
Culture and recreation	674,043	30,408	704,451
Capital outlay			
General government	545,887	-	545,887
Public safety	35,719	-	35,719
Transportation	105,162	-	105,162
Culture and recreation	2,463	56,867	59,330
Debt service	203,137	-	203,137
Total expenditures	3,746,189	110,392	3,856,581
Excess of expenditures over revenues	(884,664)	(2,411)	(887,075)
Other financing sources (uses)			
Transfers in	202,330	-	202,330
Transfers out	-	(82,330)	(82,330)
Debt issuance	119,982	-	119,982
Total other financing sources (uses)	322,312	(82,330)	239,982
Net change in fund balances	(562,352)	(84,741)	(647,093)
Fund balances - beginning	946,214	584,485	1,530,699
Fund balances - ending	\$ 383,862	\$ 499,744	\$ 883,606

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, 2016

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

Net change in fund balances - total governmental funds	\$ (647,093)
Capital outlay, reported as expenditures in governmental funds, are shown as capital assets in the statement of activities.	746,098
Depreciation expense on governmental capital assets is included in the governmental activities in the statement of activities.	(495,004)
The net effect of miscellaneous noncash transactions involving capital assets (i.e. sales, trade-ins, adjustments, and donations) is to increase net position.	133,518
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.	(119,982)
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.	170,677
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, other postemployment benefits, net pension liability, and the related deferred outflows and inflows of resources).	(131,570)
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.	(9,147)
Change in net position of governmental activities	\$ (352,503)

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, 2016	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,375,410	\$ 1,408,416	\$ 1,352,209	\$ (56,207)
Licenses and permits	163,500	160,709	161,208	499
Intergovernmental	287,150	2,291,492	1,121,383	(1,170,109)
Charges for services	-	407,903	18,330	(389,573)
Fines and forfeitures	4,000	3,102	3,103	1
Investment earnings and other	34,500	117,719	205,292	87,573
Total revenues	1,864,560	4,389,341	2,861,525	(1,527,816)
Expenditures				
Current operating				
General government	614,533	1,282,960	1,014,500	268,460
Public safety	624,165	642,736	651,189	(8,453)
Transportation	567,327	552,653	514,089	38,564
Culture and recreation	107,922	648,994	674,043	(25,049)
Capital outlay				
General government	3,000	1,398,969	545,887	853,082
Public safety	17,000	13,739	35,719	(21,980)
Transportation	4,000	3,065	105,162	(102,097)
Culture and recreation	2,000	2,463	2,463	-
Debt service	93,400	88,075	203,137	(115,062)
Total expenditures	2,033,347	4,633,654	3,746,189	887,465
Excess of expenditures over revenues	(168,787)	(244,313)	(884,664)	(640,351)
Other financing sources (uses)				
Transfers in	111,800	111,689	202,330	90,641
Debt issuance	-	-	119,982	119,982
Total other financing sources (uses)	111,800	111,689	322,312	210,623
Net change in fund balance	(56,987)	(132,624)	(562,352)	(429,728)
Fund balance - beginning	946,214	946,214	946,214	-
Fund balance - ending	\$ 889,227	\$ 813,590	\$ 383,862	\$ (429,728)

See accompanying notes

City of Apalachicola, Florida
Statement of Net Position
Proprietary Fund

	Business-type Activities
September 30, 2016	Enterprise Fund
Assets	
Current assets	
Cash and cash equivalents	\$ 79,574
Investments	2,132
Accounts receivable, net	145,407
Due from other governmental units	27,800
Prepays	8,235
Total current assets	263,148
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	
Revenue bonds	197,060
Customer deposits	195,232
Investments	
State revolving loan escrow	200,436
Total restricted assets	592,728
Capital assets	
Property, plant and equipment	36,814,642
Accumulated depreciation	(13,596,113)
Net capital assets	23,218,529
Total noncurrent assets	23,811,257
Total assets	24,074,405
Deferred outflows of resources	170,490

(Continued)

See accompanying notes

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

	Business-type Activities	
September 30, 2016	Enterprise Fund	
Liabilities		
Current liabilities		
Accounts payable	\$	101,487
Accrued payroll		1,310
Accrued interest		47,119
Due to other funds		48,690
Bonds payable - current		92,000
Notes payable - current		510,164
Compensated absences		5,732
Total current liabilities		806,502
Noncurrent liabilities		
Customer deposits		195,232
Bonds payable		2,732,352
Notes payable		3,471,609
Net pension liability		477,437
Other postemployment benefits		109,917
Compensated absences		11,465
Total noncurrent liabilities		6,998,012
Total liabilities		7,804,514
Deferred inflows of resources		17,615
Net position		
Net investment in capital assets		16,412,404
Restricted		
Debt service		201,507
Renewal and replacement		195,989
Unrestricted		(387,134)
Total net position	\$	16,422,766

See accompanying notes

City of Apalachicola, Florida
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund

	Business-type Activities
Year Ended September 30, 2016	Enterprise Fund
Operating revenues	
Utility billings	\$ 1,905,348
Tap fees	41,808
Mooring fees	109,651
Rental income	7,602
Total operating revenues	2,064,409
Operating expenses	
Personal services	614,351
Garbage collection services	370,029
Water and sewer operations contractual services	676
Supplies, gas and oil	186,661
Communications	11,947
Utilities	164,194
Repairs and maintenance	183,320
Insurance	88,146
Professional fees	12,375
Miscellaneous	47,833
Depreciation	882,956
Total operating expenses	2,562,488
Operating loss	(498,079)
Nonoperating revenues (expenses)	
Investment income	1,583
Interest expense/fees	(234,007)
Total nonoperating revenues (expenses)	(232,424)
Loss before transfers	(730,503)
Transfers	
Transfers out	(120,000)
Total transfers	(120,000)
Change in net position	(850,503)
Net position - beginning	17,273,269
Net position - ending	\$ 16,422,766

See accompanying notes

City of Apalachicola, Florida
Statement of Cash Flows
Proprietary Fund

	Business-type Activities
Year Ended September 30, 2016	Enterprise Fund
Operating activities	
Receipts from customers	\$ 2,047,162
Payments to suppliers and others	(1,007,980)
Payments to employees	(523,526)
Net cash provided by operating activities	515,656
Noncapital financing activities	
Increase in due to other funds	(6,153)
Transfers out	(120,000)
Net cash used by noncapital financing activities	(126,153)
Capital and related financing activities	
Acquisition of capital assets	(10,665)
Principal repayments of revenue bonds and notes payable	(308,433)
Interest paid on long-term debt	(234,007)
Net cash used by capital and related financing activities	(553,105)
Investing activities	
Proceeds from sales and maturities of investments	191,284
Interest received	2,585
Net cash provided by investing activities	193,869
Increase in cash and cash equivalents	30,267
Cash and cash equivalents - beginning	441,599
Cash and cash equivalents - ending	\$ 471,866
Classified as	
Current assets - cash and cash equivalents	\$ 79,574
Restricted assets - cash and cash equivalents	392,292
Cash and cash equivalents - ending	\$ 471,866

(Continued)

See accompanying notes

City of Apalachicola, Florida
Statement of Cash Flows (Continued)
Proprietary Fund

	Business-type Activities
Year Ended September 30, 2016	Enterprise Fund
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (498,079)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	882,956
(Increase) decrease in assets	
Accounts receivable, net	(21,580)
Prepays	20,938
(Increase) decrease in deferred outflows of resources	(73,522)
Increase (decrease) in liabilities	
Accounts payable	36,263
Accrued payroll	(3,847)
Compensated absences	(2,384)
Customer deposits	4,333
Other postemployment benefits	47,296
Net pension liability	214,785
Increase (decrease) in deferred inflows of resources	(91,503)
Net cash provided by operating activities	\$ 515,656
 Supplementary disclosure of noncash transactions	
Acquisition of capital assets under installment agreement	\$ 30,857

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 2,200 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 as well as docking facilities.

This report includes financial statements of the funds and activities 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.

The Apalachicola Community Redevelopment Agency (Agency) is operated by the City. The Agency was created on January 3, 1989, by City Ordinance 88-11 pursuant to Florida Statute 163.387. As of March 2017, the City's Commissioners serve as the board members of the Agency plus an additional two voting members and one nonvoting member which are determined by the City Commissions. The Agency is presented as a governmental fund type with fiscal year end of September 30 and is reported as a blended component unit with the general fund.

Apalachicola Main Street, Inc. (Organization) is operated by a separate nonprofit corporation. The Organization was approved in 2011 as a participant in the Florida Main Street program. The one City Commissioner and the City Administrator are on the Board but do not have a voting majority as they are two of eleven board members and the Organization is not fiscally dependent on the City. Furthermore, while the Organization is a tax exempt organization and the economic resources are almost entirely for the benefit of the City constituents, the City does not have the ability to otherwise access or control the resources received by the Organization. As such, the Organization is not considered a component unit of the City.

NOTE 1 – REPORTING ENTITY (CONTINUED)

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.

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

City of Apalachicola, Florida Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major proprietary fund:

- Enterprise 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Customer accounts receivable are recorded at their net realizable value, reduced by an allowance for doubtful accounts. The allowance for the enterprise fund at September 30, 2016, is \$169,897. Unbilled amounts are not recorded.

The allowance for doubtful accounts from the general fund as of September 30, 2016 is \$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 expended when purchased.

Restricted Assets

Certain proceeds of the City’s revenue bonds, 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.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Unearned Revenues

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

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, 2016, was 9.3543 mills.

The tax levy of the City is established by the City Commission prior to October 1 of each year based on the assessed value as of January 1 of the tax year, the lien date.

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

All taxes become payable on November 1, of each year, or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. All taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month

City of Apalachicola, Florida Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

GASB Statement 54 requires the use of the following terminology and classifications of 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, 2016.

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, 2016 of \$539,156 is restricted by creditors for repayment of debt issued, enabling legislation, and 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, 2016.

Assigned – This category includes resources that are intended to be used for specific purposes, but are neither restricted nor committed. These are resources that have been set aside for a specific purpose by an authorized government body or official. The balance as of September 30, 2016 is \$316,135 for funds received from a BP oil spill settlement that had not been spent as of year end.

Unassigned – This category is the residual classification for the City's fund balances. The balance as of September 30, 2016 is \$28,315.

Net position, deferred inflows of resources, and deferred outflows of resources

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 balance 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. As of September 30, 2016 \$936,652 is reported as restricted net position on the government-wide statement of net position. Of this amount, \$341,565 is restricted by enabling legislation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflow of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or resources or inflows or resources, certain items that were previously reported as assets and liabilities.

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Subsequent Events

Management of the City has evaluated subsequent events through June 28, 2017, 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 prorata 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.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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, 2016, the City did not hold any investments that were considered to be an interest rate risk.

Custodial Risks

At September 30, 2016, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentrations of Credit Risk

At September 30, 2016, the City did not hold any investments that were considered to be a concentration of credit risk.

At September 30, 2016, the City’s cash and investments consisted of the following:

	Credit Rating	Current	1-5 Years	Total Carrying Amount
Cash including money market fund	<i>(1)</i>	\$ 2,546,336	\$ -	\$ 2,546,336
U.S. Government agencies	AAA	129,787	-	129,787
Local Government Surplus Trust Fund Pool	AAAm	48,553	-	48,553
Total		\$ 2,724,676	\$ -	\$ 2,724,676

(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.

Local Government Surplus Trust Fund Pool

The Florida PRIME portion of the pool (\$48,553) is considered a SEC 2a7-like fund and the account balance is the fair value of the investment.

Credit quality disclosure – Florida PRIME is rated by Standard and Poor’s. The current rating is AAAM.

Interest rate risk disclosure –The weighted average maturity (WAM) of Florida PRIME at September 30, 2016 is 50 days. The next interest rate reset dates for floating rate securities are used in the calculation of the WAM. The weighted average life (WAL) of Florida PRIME at September 30, 2016 is 70 days.

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, 2015	Increases	Decreases	September 30, 2016
Capital assets, not being depreciated				
Land	\$ 10,039,410	\$ 162,000	\$ -	\$ 10,201,410
Construction in progress	359,142	268,866	(28,482)	599,526
Total capital assets not being depreciated	10,398,552	430,866	(28,482)	10,800,936
Capital assets being depreciated				
Buildings	1,709,253	-	-	1,709,253
Improvements other than buildings	5,115,178	68,625	-	5,183,803
Machinery and equipment	2,262,754	146,467	(48,998)	2,360,223
Infrastructure	6,530,990	262,140	-	6,793,130
Total capital assets being depreciated	15,618,175	477,232	(48,998)	16,046,409
Less accumulated depreciation				
Buildings	740,110	43,008	-	783,118
Improvements other than buildings	1,346,453	141,144	-	1,487,597
Machinery and equipment	1,972,182	133,531	(48,998)	2,056,715
Infrastructure	651,536	177,321	-	828,857
Total accumulated depreciation	4,710,281	495,004	(48,998)	5,156,287
Total depreciable assets, net of accumulated depreciation	10,907,894	(17,772)	-	10,890,122
Total governmental activities' capital assets, net of accumulated depreciation	\$ 21,306,446	\$ 413,094	\$ (28,482)	\$ 21,691,058

City of Apalachicola, Florida
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, 2015	Increases	Decreases	September 30, 2016
Capital assets not being depreciated				
Land	\$ 363,057	\$ -	\$ -	\$ 363,057
Construction in progress	27,800	-	-	27,800
Total capital assets not being depreciated	390,857	-	-	390,857
Capital assets being depreciated				
Buildings and utility systems	36,382,263	41,522	-	36,423,785
Less accumulated depreciation				
Buildings and utility systems	(12,713,157)	(882,956)	-	(13,596,113)
Total depreciable assets, net of accumulated depreciation	23,669,106	(841,434)	-	22,827,672
Total business-type activities' capital assets, net of accumulated depreciation	\$ 24,059,963	\$ (841,434)	\$ -	\$ 23,218,529

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

Governmental activities	
General government	\$ 50,755
Public safety	57,222
Transportation	188,374
Culture and recreation	198,653
Total depreciation expense - governmental activities	\$ 495,004
Business-type activities	
Water	\$ 121,400
Sewer	754,804
Mooring/boat basins	6,752
Total depreciation expense - business-type activities	\$ 882,956

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 5 – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES

Long-term liabilities of the governmental activities of the City at September 30, 2016 is as follows:

	Balance September 30, 2015	Additions	(Reductions)	Balance September 30, 2016	Due Within One Year
\$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).	\$ 454,500	\$ -	\$ (12,000)	\$ 442,500	\$ 12,000
Installment purchase agreement for a fire truck for \$222,950 payable in annual installments of \$29,564 with interest at 5.49%. Matures in October 2020.	126,006	-	(88,829)	37,177	27,493
Installment purchase agreement for a loader for \$103,535 payable in annual installments of \$22,173 including 2.3% interest, maturing August 2017.	42,929	-	(21,217)	21,712	21,712
Installment purchase agreement for a vehicle for \$24,731 payable in annual installments of \$8,920 including 8.4% interest, maturing February 2017.	15,811	-	(15,757)	54	54
Installment purchase agreement for a vehicle for \$24,103 payable in annual installments of \$8,560 including 6.7% interest, maturing June 2017.	15,543	-	(7,520)	8,023	8,023
Installment purchase agreement for a vehicle for \$21,539 payable in annual installments of \$7,649 including 6.7% interest, maturing June 2017.	13,890	-	(6,720)	7,170	7,170

City of Apalachicola, Florida
Notes to Basic Financial Statements

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

	Balance September 30, 2015	Additions	(Reductions)	Balance September 30, 2016	Due Within One Year
Installment purchase agreement for a vehicle for \$28,785 payable in annual installments of \$7,910 including 5.4% interest, maturing February 2019.	\$ -	\$ 28,785	\$ (7,397)	\$ 21,388	\$ 6,759
Installment purchase agreement for a vehicle for \$25,958 payable in annual installments of \$9,219 including 4.9% interest, maturing February 2018.	-	25,958	(8,796)	17,162	8,375
Installment purchase agreement for a tractor and rotary cutter for \$65,239 payable in annual installments of \$17,285 including 2.34% interest, maturing November 2019.	-	65,239	-	65,239	15,742
Liability for compensated absences	152,144	-	(14,969)	137,175	45,725
Liability for net pension	787,954	464,752	-	1,252,706	-
Liability for other postemployment benefits	159,465	119,353	-	278,818	-
Total governmental activities' long-term obligations	\$ 1,768,242	\$ 704,087	\$ (183,205)	\$ 2,289,124	\$ 153,053

- (a) The series 2010 general fund capital improvement revenue bonds are secured by alcoholic beverage income, fines and forfeiture income, and MSBU funds. Current year 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 \$683,840. Principal and interest paid for the current year and total pledged revenues were \$30,180 and \$44,939, 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 balance for the Series 2010 bond issue totals \$20,261 at September 30, 2016.

City of Apalachicola, Florida
Notes to Basic Financial Statements

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

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

Year Ending September 30,	Principal	Interest	Total
2017	\$ 107,328	\$ 24,792	\$ 132,120
2018	54,709	20,149	74,858
2019	37,002	17,894	54,896
2020	30,886	16,579	47,465
2021	14,000	15,620	29,620
2022 - 2026	80,000	69,140	149,140
2027 - 2031	97,000	51,820	148,820
2032 - 2036	120,000	30,700	150,700
2037 - 2039	79,500	6,260	85,760
Total	\$ 620,425	\$ 252,954	\$ 873,379

The City has two lines of credit which are secured by the City's certificates of deposit in the amount of \$322,157. The agreements require that the entire outstanding amount plus interest of 2.2% be paid by January 31, 2017. During the year, line of credit proceeds totaled \$0 and repayments totaled \$2,441. The balance outstanding at September 30, 2016 is \$139,758.

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

	Balance September 30, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
\$3,073,000 Water and Sewer Revenue Bonds – Series 2003. Due in annual installments of \$16,417 to \$592,000 with interest at 3%. Matures in 2043 (see (c) below).	\$ 2,538,274	\$ -	\$ (60,000)	\$ 2,478,274	\$ 61,000
\$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).	185,448	-	(16,000)	169,448	17,000
\$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).	189,630	-	(13,000)	176,630	14,000

City of Apalachicola, Florida
Notes to Basic Financial Statements

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

	Balance September 30, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
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% maturing June 2026 – (see (d) below).	\$ 4,170,349	\$ -	\$ (211,504)	\$ 3,958,845	\$ 502,918
Installment purchase agreement for a vehicle for \$30,857 payable in annual instalments of \$8,480 including 5.4% interest, maturing February 2019.	-	30,857	(7,929)	22,928	7,246
Liability for compensated absences	19,581	-	(2,384)	17,197	5,732
Liability for net pension	262,652	214,785	-	477,437	-
Liability for other postemployment benefits	62,621	47,296	-	109,917	-
Total business-type long-term obligations	\$ 7,428,555	\$ 292,938	\$ (310,817)	\$ 7,410,676	\$ 607,896

- (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. Current year principal and interest payments on the bonds are 26 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$209,124. Principal and interest paid for the current year and total pledged revenues were \$25,272 and \$97,102, respectively.
- (b) The series 1986 water and sewer revenue bonds are secured by a junior lien on the above-mentioned revenues. Current year principal and interest payments on the bonds are 25 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$239,290. Principal and interest paid for the current year and total pledged revenues were \$24,378 and \$97,102, respectively.
- (c) The series 2003 water and sewer revenue bonds were issued on parity with the 1983 and 1986 water and sewer revenue bonds. Current year principal and interest payments on the bonds are 147 percent of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$3,713,728. Principal and interest paid for the current year and total pledged revenues were \$142,494 and \$97,102, 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

City of Apalachicola, Florida
Notes to Basic Financial Statements

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

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. Current year principal and interest payments on the notes are 171 percent of pledged revenues. The total principal and interest remaining to be paid on the notes is \$4,611,379. Principal and interest paid for the current year and total pledged revenues were \$341,796 and \$200,436, respectively.

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

The sinking fund and reserve account balances relating to the Series 2003, 1983 and 1986 bond issues total \$197,060 at September 30, 2016.

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
2017	\$ 17,000	\$ 8,472	\$ 14,000	\$ 10,598
2018	18,000	7,622	15,000	9,758
2019	20,000	6,722	15,000	8,858
2020	21,000	5,672	16,000	7,958
2021	23,000	4,622	17,000	6,998
2022-2026	70,448	6,566	99,630	18,490
Total	\$ 169,448	\$ 39,676	\$ 176,630	\$ 62,660

Year Ending September 30,	Series 2003 Revenue Bonds		State Revolving Loan	
	Principal	Interest	Principal	Interest
2017	\$ 61,000	\$ 80,544	\$ 502,918	\$ 121,028
2018	63,000	78,561	425,400	106,397
2019	65,000	76,514	338,456	93,575
2020	67,000	74,401	349,288	82,743

City of Apalachicola, Florida
Notes to Basic Financial Statements

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

Year Ending September 30,	Series 2003 Revenue Bonds		State Revolving Loan	
	Principal	Interest	Principal	Interest
2021	\$ 71,000	\$ 72,224	\$ 360,466	\$ 71,565
2022-2026	386,000	325,336	1,982,317	177,226
2027-2031	455,000	258,353	-	-
2032-2036	537,000	179,086	-	-
2037-2041	632,000	85,844	-	-
2042	141,274	4,591	-	-
Total	\$ 2,478,274	\$ 1,235,454	\$ 3,958,845	\$ 652,534

Year Ending September 30,	Installment Purchase	
	Principal	Interest
2017	\$ 7,246	\$ 1,234
2018	7,636	844
2019	8,046	433
Total	\$ 22,928	\$ 2,511

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,	2016	2015
Second mortgage receivable – original loan of \$321,666; \$1,105 due monthly including 4% interest, the unpaid balance matures in November 2023.	\$ 80,695	\$ 90,514
Second mortgage receivable – original loan \$100,000, due in monthly payments of \$1,012 including interest at 4%. Balance includes past due interest of \$20,592 and matures in December 2026.	102,300	98,295

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 7 – NOTES RECEIVABLE (CONTINUED)

<u>September 30,</u>	<u>2016</u>	<u>2015</u>
Second mortgage receivable – original loan of \$59,184; \$576 due monthly including 4% interest. Balance includes past due interest of \$4,448 and matures in October 2022.	\$ 37,319	\$ 35,858
Second mortgage receivable – original loan of \$30,673; \$598 due monthly including 4% interest. Balance includes past due interest of \$10,888 and matures in October 2022.	38,929	37,405
Second mortgage receivable – original loan of \$10,000; \$101 due monthly including 4% interest, the unpaid balance matures December 2021.	5,813	6,376
Second mortgage receivable – original loan of \$45,000; \$456 due monthly including 4% interest. Balance includes past due interest of \$7,713 and matures October 2028. The borrower was determined to be in default and the City was able to seize ownership of the property purchased using the loaned funds. The property is in storage at year end and has not been sold. Once sold the proceeds will be used to pay off the loan.	52,243	50,198
Second mortgage receivable – original loan of \$25,000; \$253 due monthly including 4% interest. Balance includes past due interest of \$2,929 and matures in February 2027.	25,990	27,929
Second mortgage receivable – original loan of \$60,000; \$607 due monthly including 4% interest, the unpaid balance matures in July 2021.	32,243	38,105
Total	\$ 375,532	\$ 384,680

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, amounts uncollected are considered unearned revenue.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances	Due from other funds	Due to other funds
General fund	\$ 49,206	\$ 49,289
Local option gas tax fund	23,412	516
Enterprise fund	-	48,690
HUD revolving loans fund	25,877	-
Total	\$ 98,495	\$ 98,495

Interfund loans were for operations and to reclassify overdrawn balance on pooled investment.

Transfers Out	Transfers In	Amount	Purpose
Enterprise fund	General fund	\$ 120,000	Administrative services and cash advance
Library fund	General fund	4,800	Portion of miscellaneous library revenues
Local option gas tax fund	General fund	77,530	Road maintenance expense reimbursement, salary reimbursement and other operating activities

NOTE 9 – PENSION PLANS

Defined Benefit Plans

Plan Description

The City participates in two defined benefit pension plans that are administered by the State of Florida, Department of Management Services, Division of Retirement. The plans provide retirement, disability and death benefits to retirees or their designated beneficiaries. Chapter 121, Florida Statutes, establishes the authority for benefit provisions. Changes to the law can only occur through an act of the Florida Legislature. The State of Florida issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained by writing to the Division of Retirement, PO Box 9000, Tallahassee, Florida, 32315-9000 or by calling (844) 377-1888.

The Florida Retirement System (FRS) Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan with a Deferred Retirement Option Program (DROP) available for eligible employees. FRS was established and is administered in accordance with Chapter 121, Florida Statutes. Retirees receive a lifetime pension benefit with joint and survivor payment options. FRS membership is compulsory for employees filling regularly established positions in a state agency, county agency, state university, state college, or district school board, unless restricted from FRS membership under Sections 121.053 or 121.122, Florida Statutes, or allowed to participate in a defined contribution plan in lieu of FRS membership. Participation by cities, municipalities, special districts, charter schools and metropolitan planning organizations is optional.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 9 – PENSION PLANS (CONTINUED)

The Retirees’ Health Insurance Subsidy (HIS) Program is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. To be eligible to receive a HIS benefit, a retiree under a state administered retirement system must provide proof of eligible health insurance coverage, which can include Medicare.

Benefits Provided

Benefits under FRS are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years’ earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years’ earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement plan and/or class to which the member belonged when the service credit was earned.

Eligible retirees and beneficiaries receive a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to Section 112.363, Florida Statutes.

Contributions

The contribution requirements of plan members and the City are established and may be amended by the Florida Legislature. Employees are required to contribute 3.00% of their salary to FRS. The City’s contribution rates for the year ended September 30, 2016 were as follows:

	October 1, 2015 Through June 30, 2016		July 1, 2016 Through September 30, 2016	
	FRS	HIS	FRS	HIS
Regular class	5.60%	1.66%	5.86%	1.66%
Senior management	19.77%	1.66%	20.11%	1.66%
Special risk employee class	20.38%	1.66%	20.91%	1.66%
DROP plan participants	11.22%	1.66%	11.33%	1.66%

The City’s contributions for the year ended September 30, 2016, were \$116,610 to FRS and \$22,855 to HIS.

Pension Liabilities and Pension Expense

In its financial statements for the year ended September 30, 2016, the City reported a liability for its proportionate shares of the net pension liabilities. The net pension liabilities were measured as of June 30, 2016, and the total pension liabilities used to calculate the net pension liability were determined by an actuarial valuation dated July 1, 2016. The City’s proportions of the net pension liabilities were based on the City’s share of contributions to the pension plans relative to the contributions of all participating entities, actuarially determined.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 9 – PENSION PLANS (CONTINUED)

	FRS	HIS
Net pension liability	\$ 1,206,733	\$ 523,410
Proportion at:		
Current measurement date	0.004779126%	0.004491023%
Prior measurement date	0.004655537%	0.004405389%
Pension expense (benefit)	\$ 166,176	\$ 43,097

Deferred Outflows/Inflows of Resources Related to Pensions

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	FRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 92,397	\$ 11,236
Changes of assumptions	73,004	-
Net difference between projected and actual earnings on pension plan investments	311,926	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	14,689	51,405
Employer contributions subsequent to the measurement date	28,614	-
Total	\$ 520,630	\$ 62,641

	HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,192
Changes of assumptions	82,136	-
Net difference between projected and actual earnings on pension plan investments	265	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,299	-
Employer contributions subsequent to the measurement date	5,495	-
Total	\$ 97,195	\$ 1,192

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 9 – PENSION PLANS (CONTINUED)

Deferred outflows of resources related to employer contributions paid subsequent to the measurement date and prior to the employer’s fiscal year end will be recognized as a reduction of the net pension liability in the reporting period ending September 30, 2017. Other pension related amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Measurement period ending June 30,	FRS	HIS
2017	\$ 45,428	\$ 13,957
2018	45,428	13,957
2019	167,036	13,906
2020	122,673	13,882
2121	21,116	10,810
Thereafter	27,694	23,996
Total	\$ 429,375	\$ 90,508

Actuarial Assumptions

The total pension liability for each of the defined benefit plans, measured as of June 30, 2016, was determined by an actuarial valuation dated July 1, 2016, using the individual entry age normal actuarial cost method and the following significant actuarial assumptions:

	FRS	HIS
Inflation	2.60%	2.60%
Salary increases	3.25%	3.25%
Investment rate of return	7.60%	N/A
Discount rate	7.60%	2.85%

Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB.

For both plans, the actuarial assumptions used in the valuation dated July 1, 2016 were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The following changes in key actuarial assumptions occurred in 2016:

FRS: The long-term expected rate of return and the discount rate used to determine the total pension liability decreased from 7.65% to 7.60%.

HIS: The municipal bond index rate and the discount rate used to determine the total pension liability decreased from 3.80% to 2.85%.

The long-term expected investment rate of return was not based on historical returns, but instead was based on a forward looking capital market economic model. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. For FRS, the table below summarizes the target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 9 – PENSION PLANS (CONTINUED)

Asset Class	Target Allocation	Annual Arithmetic Return	Compound Annual (Geometric) Return
Cash	1%	3.0%	3.0%
Fixed income	18%	4.7%	4.6%
Global equity	53%	8.1%	6.8%
Real estate (property)	10%	6.4%	5.8%
Private equity	6%	11.5%	7.8%
Strategic investments	12%	6.1%	5.6%
	<u>100%</u>		

Discount Rate

The discount rate used to measure the total pension liability for FRS was 7.60%. FRS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Because HIS is essentially funded on a pay-as-you-go basis, a municipal bond rate of 2.85% was used to determine the total pension liability for the program. The Bond Buyer General Obligation Bond 20-Bond Municipal Bond Index was used as the applicable municipal bond index.

Sensitivity Analysis

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the City's proportionate share of the net pension liability if the discount rate was 1% higher or 1% lower than the current discount rate.

	FRS		
	Current		
	1% Decrease	Discount Rate	1% Increase
Employer's proportionate share of the net pension liability	\$ 2,221,677	\$ 1,206,733	\$ 361,926
	HIS		
	Current		
	1% Decrease	Discount Rate	1% Increase
Employer's proportionate share of the net pension liability	\$ 600,470	\$ 523,410	\$ 459,454

Pension Plans' Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the State's separately issued financial reports.

NOTE 9 – PENSION PLANS (CONTINUED)

Defined Contribution Plan

Pursuant to Chapter 121, Florida Statutes, the Florida Legislature created the Florida Retirement Investment Plan (FRS Investment Plan), a defined contribution pension plan qualified under Section 401(a) of the Internal Revenue Code. The FRS Investment Plan is an alternative available to members of the Florida Retirement System in lieu of the defined benefit plan. There is a uniform contribution rate covering both the defined benefit and defined contribution plans, depending on membership class. Required employer contributions made to the plan during the year ended September 30, 2016, totaled \$14,714.

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The City has established the Retirees' 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 32 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.

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 ranged from \$280 for coverage of a 23 year old person to \$974 for coverage a person 64 years of age or older between three plans. The retiree and their dependents are charged based on their particular age and plan chosen with a maximum of three dependent children being included in the calculation.

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

City of Apalachicola, Florida
Notes to Basic Financial Statements

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

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)	\$ 112,078
Amortization of unfunded actuarial accrued liability	55,329
Annual required contribution	167,407
Interest on net OPEB obligation	9,994
Adjustment to annual required contribution	(10,752)
Annual OPEB cost (expense)	166,649
Contribution toward the OPEB cost	-
Increase in net OPEB obligation	166,649
Net OPEB obligation, beginning of year	222,086
Net OPEB obligation, end of year	\$ 388,735

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, 2016 is as follows:

Year ended September 30,	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 23,573	0%	\$ 198,757
2015	23,329	0%	222,086
2016	166,649	0%	388,735

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 June 30, 2016. 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

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

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 4.5% 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 4.5% per year. The assumed retirement age used is 63, 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, 2016 is 30 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.

Required Supplementary Information

City of Apalachicola, Florida
Other Postemployment Benefit Plan Schedules
Year Ended September 30, 2016

Schedule of Funding Progress for the Retirees' 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
June 30, 2014	N/A	N/A	N/A	N/A	N/A	N/A
June 30, 2015	N/A	N/A	N/A	N/A	N/A	N/A
June 30, 2016	\$ 0	\$ 1,062,150	\$ 1,062,150	0.0%	\$ 1,258,118	84%

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

Year ended September 30,	Actual Contribution	Annual Required Contribution	Percentage Contributed
2014	\$ 0	\$ 25,064	0%
2015	0	25,318	0%
2016	0	167,407	0%

See independent auditor's report

City of Apalachicola, Florida
Schedule of the City's Proportionate Share of the Net Pension Liability
– Florida Retirement System
Last 10 Fiscal Years

June 30,	2016	2015	2014	2013 *	2012 *	2011 *	2010 *	2009 *	2008 *	2007 *
City's proportion of the net pension liability/(asset)	0.0047791%	0.0046555%	0.0046768%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
City's proportionate share of the net pension liability/(asset)	\$ 1,206,733	\$ 601,324	\$ 285,354	N/A	N/A	N/A	N/A	N/A	N/A	N/A
City's covered-employee payroll	1,256,246	1,279,173	1,135,956	N/A	N/A	N/A	N/A	N/A	N/A	N/A
City's proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	96.06%	47.01%	25.12%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* Disclosures for 2007 through 2013 are N/A because comparable information is not available at this time.

See independent auditor's report

City of Apalachicola, Florida
Schedule of the City's Contributions
– Florida Retirement System
Last 10 Fiscal Years

Year ended June 30,	2016	2015	2014	2013 *	2012 *	2011 *	2010 *	2009 *	2008 *	2007 *
Contractually required contribution	\$ 111,485	\$ 112,576	\$ 99,124	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions in relation to the contractually required contribution	(111,485)	(112,576)	(99,124)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A	N/A	N/A	N/A
City's covered-employee payroll	\$ 1,256,246	\$ 1,279,173	\$ 1,135,956							
Contributions as a percentage of covered-employee payroll	8.87%	8.80%	8.73%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* Disclosures for 2007 through 2013 are N/A because comparable information is not available at this time.

See independent auditor's report

City of Apalachicola, Florida
Schedule of the City's Proportionate Share of the Net Pension Liability
– Health Insurance Subsidy Program
Last 10 Fiscal Years

June 30,	2016	2015	2014	2013 *	2012 *	2011 *	2010 *	2009 *	2008 *	2007 *
City's proportion of the net pension liability/(asset)	0.0044910%	0.0044054%	0.0043844%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
City's proportionate share of the net pension liability/(asset)	\$ 523,410	\$ 449,282	\$ 409,950	N/A	N/A	N/A	N/A	N/A	N/A	N/A
City's covered-employee payroll	1,256,246	1,279,173	1,135,956	N/A	N/A	N/A	N/A	N/A	N/A	N/A
City's proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	41.66%	35.12%	36.09%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* Disclosures for 2007 through 2013 are N/A because comparable information is not available at this time.

See independent auditor's report

City of Apalachicola, Florida
Schedule of the City's Contributions
– Health Insurance Subsidy Program
Last 10 Fiscal Years

Year ended June 30,	2016	2015	2014	2013 *	2012 *	2011 *	2010 *	2009 *	2008 *	2007 *
Contractually required contribution	\$ 20,854	\$ 17,376	\$ 13,793	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions in relation to the contractually required contribution	(20,854)	(17,376)	(13,793)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A	N/A	N/A	N/A
City's covered-employee payroll	\$ 1,256,246	\$ 1,279,173	\$ 1,135,956							
Contributions as a percentage of covered-employee payroll	1.66%	1.36%	1.21%	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* Disclosures for 2007 through 2013 are N/A because comparable information is not available at this time.

See independent auditor's report

Combining Financial Statements

City of Apalachicola, Florida
Combining Balance Sheet
Nonmajor Governmental Funds

September 30, 2016	Library	Local Option Gas Tax	HUD Revolving Loans	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 364,505	\$ -	\$ 50,383	\$ 414,888
Investments	-	17,149	18,935	36,084
Due from other funds	-	23,412	25,877	49,289
Notes receivable	-	-	375,532	375,532
Total assets	\$ 364,505	\$ 40,561	\$ 470,727	\$ 875,793
Liabilities and fund equity				
Due to other funds	\$ -	\$ 516	\$ -	\$ 516
Unearned revenue	-	-	375,533	375,533
Total liabilities	-	516	375,533	376,049
Fund balance				
Restricted				
Library trust	364,505	-	-	364,505
Local option gas tax	-	40,045	-	40,045
HUD	-	-	95,194	95,194
Total fund balance	364,505	40,045	95,194	499,744
Total liabilities and fund balance	\$ 364,505	\$ 40,561	\$ 470,727	\$ 875,793

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, 2016	Library	Local Option Gas Tax	HUD Revolving Loans	Total Nonmajor Governmental Funds
Revenues				
Taxes	\$ -	\$ 56,585	\$ -	\$ 56,585
Investment earnings and other	26,371	283	24,742	51,396
Total revenues	26,371	56,868	24,742	107,981
Expenditures				
Current operating				
Economic environment	-	-	23,117	23,117
Culture and recreation	30,408	-	-	30,408
Capital outlay				
Culture and recreation	56,867	-	-	56,867
Total expenditures	87,275	-	23,117	110,392
Excess (deficit) of revenues over (under) expenditures	(60,904)	56,868	1,625	(2,411)
Other financing sources (uses)				
Transfers out	(4,800)	(77,530)	-	(82,330)
Total other financing sources (uses)	(4,800)	(77,530)	-	(82,330)
Net change in fund balances	(65,704)	(20,662)	1,625	(84,741)
Fund balances - beginning	430,209	60,707	93,569	584,485
Fund balances - ending	\$ 364,505	\$ 40,045	\$ 95,194	\$ 499,744

See independent auditor's report

Compliance Section

INDEPENDENT AUDITOR’S MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the financial statements of the City of Apalachicola, Florida (City), as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated June 28, 2017.

Auditor’s Responsibility

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 Chapter 10.550, Rules of the Auditor General.

Other Reports and Schedule

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 Financial Statements Performed in Accordance with *Government Auditing Standards*; Schedule of Findings and Responses; and Independent Accountant’s Reports on an examinations conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated June 28, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

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 address findings and recommendations made in the preceding annual financial audit report except as noted below under the heading Prior Year Findings and Recommendations.

Prior Year Findings and Recommendations

Tabulation of Uncorrected Audit Findings		
Current Year Finding #	2014-15 FY Finding #	2013-14 FY Finding #
2016-001	2015-001	14-01
2016-002	2015-002	14-02

Official Title and Legal Authority

Section 10.554(1)(i)4., 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. The City included the following component unit:

The Apalachicola Community Redevelopment Agency is operated by the City. The Agency was created on January 3, 1989, by City Ordinance 88-11 pursuant to Florida Statute 163.387.

Financial Condition

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the City 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 did meet condition 218.503(1)(a), Florida Statutes. This condition was met, in part, as a result of deteriorating financial conditions as defined by Rule 10.554(1)(f), Rules of the Auditor General.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), 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. The City's financial condition is deteriorating. See finding 2016-003 for a description of the deteriorating financial conditions.

Annual Financial Report

Sections 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2016, 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, 2016. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., 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 except as recommended in the 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*.

Section 10.554(1)(i)3., 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.

Purpose of this Letter

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

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

Certified Public Accountants
Panama City Beach, Florida
June 28, 2017



**INDEPENDENT ACCOUNTANT’S REPORT ON COMPLIANCE WITH SECTION 218.415,
FLORIDA STATUTES**

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

We have examined the City of Apalachicola, Florida’s (City) compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2016. Management is responsible for the City’s compliance with those requirements. Our responsibility is to express an opinion on the City’s compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City’s compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.

This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

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

Certified Public Accountants
Panama City Beach, Florida
June 28, 2017

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 (City) as of and for the year ended September 30, 2016, and the related notes to basic financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 28, 2017.

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 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weakness, 2016-001 through 2016-003.

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's Responses to Findings

Management's response to the findings identified in our audit are included in the accompanying schedule of findings and responses. The responses were not subjected to the auditing procedures applied in the audit of the financial statements 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Certified Public Accountants
Panama City Beach, Florida
June 28, 2017

City of Apalachicola, Florida
Schedule of Findings and Responses
Year Ended September 30, 2016

2016-001 Segregation of Duties (prior years 2015-001 and 14-01) (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 administrator 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.

2016-002 Significant Adjustments to the Financial Records (prior years 2015-002 and 14-02) (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.

2016-003 Deteriorating Financial Condition

Condition: As part of our financial condition assessment, we determined that the City was experiencing a deteriorating financial condition. This included consistent operating losses from year to year, decreases in cash balances, and decreases in fund balance and net position.

Criteria: Conditions that may cause a financial emergency, as defined in 218.503(1), are considered deteriorating financial conditions.

Effect: The conditions described above resulted in the City determining that they were unable to pay the full amount due on one of their notes payable. As a result of that determination, the City did not pay the full amount due for the year according to the amortization schedule.



City of Apalachicola, Florida
Schedule of Findings and Responses (Continued)
Year Ended September 30, 2016

Recommendation: We recommend that the City continue to improve procedures to increase revenues and decrease expenses to improve cash balances and operating results. This will allow for bills to be paid timely and improve the financial condition of the City.

Management's response: The City is currently working with their creditor to develop a plan that can be mutually agreed upon to make the payments more affordable for the City. The City will also continue to look for ways to increase revenues and reduce costs.

**INDEPENDENT ACCOUNTANT’S REPORT ON COMPLIANCE WITH SECTION 288.8018,
FLORIDA STATUTES**

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

We have examined the City of Apalachicola, Florida’s (City) compliance with the requirements of Section 288.8018, Florida Statutes, *Gulf Coast Audits*, during the year ended September 30, 2016. Management is responsible for the City’s compliance with those requirements. Our responsibility is to express an opinion on the City’s compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City’s compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.

This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

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

Certified Public Accountants
Panama City Beach, Florida
June 28, 2017

City of Apalachicola, Florida
Schedule of Receipts and Expenditures of Funds Related to the
Deepwater Horizon Oil Spill
Year Ended September 30, 2016

Source	Amount Received in the 2015-2016 Fiscal Year	Amount Expended in the 2015-2016 Fiscal Year
British Petroleum:		
Agreement Settlement	\$ -	\$ 418,347

Note: This does not include funds related to the Deepwater Horizon oil spill that are considered federal awards or state financial assistance. No such funds were received in the 2015-2016 year.