

City of Apalachicola, Florida

Financial Statements

September 30, 2007

City of Apalachicola, Florida
Table of Contents
September 30, 2007

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet – Governmental Funds	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	13
Statement of Net Assets – Proprietary Fund	14
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	16
Statement of Cash Flows – Proprietary Fund	17
Notes to Basic Financial Statements	19
Combining Financial Statements	
Combining Balance Sheet – Nonmajor Governmental Funds	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	39
Compliance Section	
Independent Auditor's Management Letter	40
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43

Report on Compliance with Requirements Applicable to Each Major Federal Program/State Project and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, <i>Rules of the Auditor General</i>	45
Schedule of Expenditures of Federal Awards and State Financial Assistance	47
Schedule of Findings and Questioned Costs	48
Management's Response to Audit Findings and Recommendations	50

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Apalachicola, Florida as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Apalachicola, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Apalachicola, Florida as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2008, on our consideration of the City of Apalachicola, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 7, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Panama City Beach, Florida
July 16, 2008

Management's Discussion and Analysis

Management's Discussion and Analysis

Management's discussion and analysis provides an easily readable analysis of the City of Apalachicola's financial activities. The analysis provides summary financial information for the City and should be read in conjunction with the City's financial statements.

Financial Highlights

- Total assets of the City exceeded total liabilities by \$25,082,055 (net assets). Of this amount, \$1,578,946 is unrestricted net assets for governmental activities and \$106,818 is unrestricted net assets for business-type activities, \$3,635,464 is restricted net assets for business-type activities.
- Total net assets increased by \$4,996,823. Of this amount, an increase of \$5,046,833 is attributable to governmental activities and a decrease of \$50,010 is attributable to business-type activities.
- As of September 30, 2007, the general fund's unreserved fund balance was \$1,092,800 or 24% of total general fund expenditures.
- Governmental activities revenues increased to \$8,422,983 or 158%, while governmental activities expenditures increased 46% to \$3,376,150. Business-type activities revenues increased to \$2,565,212 or 13%, while business-type activities expenditures increased 10% to \$2,615,222.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the financial statements*. The *government-wide financial statements* present an overall picture of the City's financial position and results of operations. The *fund financial statements* present financial information for the City's major funds. The *notes to financial statements* provide additional information concerning the City's finances that are not otherwise disclosed in the government-wide statements or fund financial statements.

Government-wide Financial Statements

The *government-wide financial statements* include the *statement of assets* and *statement of activities*, providing both long-term and short-term information about the City's overall financial condition. The *Statement of Assets* present increases or decreases in net assets over time and serve as a useful indicator of the City's improving or declining financial position. Information on how the City's net assets changed during this reporting period is presented in the *statement of activities*.

Fund Financial Statements

The *fund financial statements* provide financial information for the City's major funds and more detailed information about the City's activities. Individual funds have been established by the City for the purpose of grouping related accounts to maintain control over resources that have been segregated for specific purposes or objectives to account for revenues that are restricted to certain uses, or to comply with legal requirements. The two major categories of funds found in the City's *fund financial statements* include: governmental funds and proprietary funds.

Notes to Basic Financial Statements

The *notes to basic financial statements* provide additional detail concerning the financial activities and financial balances of the City. Additional information is also included that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the City

Statement of Net Assets

The following schedule provides a summary of the assets, liabilities and net assets of the City at September 30, 2007 and 2006. The City is able to report positive balances in all three categories of total net assets.

September 30,	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 3,337,017	\$ 2,292,261	\$ 245,214	\$ 350,375	\$ 3,582,231	\$ 2,642,636
Noncurrent assets	10,904,849	5,562,017	22,877,431	23,221,480	33,782,280	28,783,497
Other assets	-	-	183,383	200,313	183,383	200,313
Total assets	14,241,866	7,854,278	23,306,028	23,772,168	37,547,894	31,626,446
Current liabilities	1,767,188	523,850	866,073	832,356	2,633,261	1,356,206
Noncurrent liabilities	211,600	227,308	9,620,978	10,070,825	9,832,578	10,298,133
Total liabilities	1,978,788	751,158	10,487,051	10,903,181	12,465,839	11,654,339
Net assets invested in capital assets, net of related debt	10,684,132	5,262,690	9,076,695	8,391,240	19,760,827	13,653,930
Net assets – restricted	-	-	3,635,464	4,100,084	3,635,464	4,100,084
Net assets – unrestricted	1,578,946	1,840,430	106,818	377,663	1,685,764	2,218,093
Total net assets	\$ 12,263,078	\$ 7,103,120	\$12,818,977	\$ 12,868,987	\$ 25,082,055	\$ 19,972,107

Statement of Activities

The following schedule provides a summary of the changes in net assets for the years ended September 30, 2007 and 2006.

Statement of Activities

	Governmental Activities		Business-type Activities		Total	
Years Ended September 30,	2007	2006	2007	2006	2007	2006
Program revenues						
Charges for services	\$ 62,443	\$ 127,636	\$ 2,258,086	\$ 1,732,268	\$ 2,320,529	\$ 1,859,904
Operating grants/contributions	671,198	148,205	-	-	671,198	148,205
Capital grants/contributions	5,402,258	333,316	44,250	260,229	5,446,508	593,545
General revenues						
Property taxes	1,395,894	1,210,771	-	-	1,395,894	1,210,771
Local option gas tax	56,412	56,345	-	-	56,412	56,345
Franchise and utility tax	351,791	342,025	-	-	351,791	342,025
Sales tax and other shared revenues	245,397	250,207	-	-	245,397	250,207
Investment earnings	92,933	79,089	314,876	128,425	407,809	207,514
Miscellaneous	92,657	860,529	-	-	92,657	860,529
Transfers	52,000	(145,708)	(52,000)	145,708	-	-
Total revenues	8,422,983	3,262,415	2,565,212	2,266,630	10,988,195	5,529,045
Expenses						
General government	1,565,125	694,802	-	-	1,565,125	694,802
Public safety	908,672	846,807	-	-	908,672	846,807
Transportation	784,064	678,589	-	-	784,064	678,589
Economic environment	-	646	-	-	-	646
Physical environment	-	1,200	-	-	-	1,200
Culture and recreation	118,289	96,254	-	-	118,289	96,254
Water	-	-	560,698	405,754	560,698	405,754
Sewer	-	-	1,534,319	1,462,283	1,534,319	1,462,283
Garbage	-	-	416,883	338,520	416,883	338,520
Mooring	-	-	103,322	172,256	103,322	172,256
Total expenses	3,376,150	2,318,298	2,615,222	2,378,813	5,991,372	4,697,111
Change in net assets	\$5,046,833	\$ 944,117	\$ (50,010)	\$ (112,183)	\$ 4,996,823	\$ 831,934

Financial Analysis of the City's Funds

Analysis of Government-wide Financial Statements

Approximately seventy-nine percent (79%) of the City's net assets reflects its investment in capital assets (e.g. land, buildings, improvements, infrastructure, vehicles and equipment) less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. \$3,635,464 of the City's net assets are subject to external restrictions on how they may be used. The balance of unrestricted net assets, \$1,685,764 may be used to meet the City's ongoing obligations to citizens and creditors.

Analysis of General Fund Budgetary Variations

For the year ended September 30, 2007, the general fund expenditures exceeded the budgeted amount by \$2,426,150. This variation is due in the most part to unanticipated revenues received that were spent during the year. The City was very fortunate in receiving funding from grant awards for numerous improvement projects during the 2006-2007 budget year. The original budget adopted for this year did not have these unanticipated activities projected, affecting both revenue and expense activity. Please see *Other Significant Matters* heading that follows for further grant award project details.

Capital Assets and Long-Term Debt Activity

Capital Assets Activity

As of September 30, 2007, the City's total investment in capital assets net of related debt for its governmental activities was \$10,684,132 and for its business-type activities was \$9,076,695 for a total investment of \$19,760,827. 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, 2007, the City has a total long-term debt amount outstanding of \$11,046,135. Additional information on the City's long-term debt can be found in the notes to the financial statements.

Other Significant Matters

During the 2006-2007 budget year the City felt the impact of the State's mandatory 9% ad valorem tax cuts and with the construction industry slump, experienced a virtual standstill in building department revenues. However, the tourism industry in the City continued to flourish and the City's gross receipts in taxes, licenses, and services stayed fairly consistent when compared to previous years. In the previous audit year, the City experienced budget constraints due to ongoing laws suits filed against the City. These suits have now been settled and these obligations were fulfilled in the 2006-2007 budget year.

Over the past several years, the City of Apalachicola has worked diligently toward the completion of two capital improvement projects to retrofit and upgrade the City's water and sewer systems. These projects were successfully completed with funding assistance from USDA Rural Development, State Revolving Loan Program and legislative appropriations. The City is now focusing its efforts toward public waterfront access, open space and recreational grant related projects.

The following projects were started or during the 2006-2007 fiscal year: With funding assistance from the Florida Communities Trust, the City has acquired approximately 600 acres of property to be used as recreational areas in conjunction with the City's future wastewater reuse program, and several parcels along the Apalachicola River and Bay systems for public access to our natural water resources. One of these waterfront sites is the future home of a new 400 foot public dock that can be utilized for boating access, fishing or just daydreaming while enjoying the water view of the Apalachicola River. The Florida Recreational Development Assistance Program (FRDAP) has awarded funding that will allow redevelopment of one of our historic parks located in the City and the Florida Department of Transportation (FDOT) has assisted the City with the construction of a sidewalk that connects our two city owned boat basins that provides an approximate two mile walk or jog along the Apalachicola River.

Funding for the following projects were secured during the 2006-2007 fiscal year and construction will begin in the 2007-2008 fiscal year: The Federal Emergency Management Agency (FEMA) has provided funds for the reconstruction of four piers and docks damaged during previous year storms and the Florida Fish and Wildlife Commission has provided funds for the renovation of the City's recreational and commercial boat basins.

The Mayor, Commissioners, Administration and staff of the City of Apalachicola are committed to continuing their efforts toward the betterment of our community. As anyone can see, there is a lot of activity amidst in Apalachicola, One of Florida's Oldest Historic Seaports!

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

City of Apalachicola, Florida
Statement of Net Assets
September 30, 2007

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,301,356	\$ 54,743	\$ 1,356,099
Investments	246,007	9,591	255,598
Receivables (net)			
Accounts	90,407	123,192	213,599
Notes receivable	415,549	-	415,549
Prepaid expenses	-	57,688	57,688
Due from other governmental units	1,283,698	-	1,283,698
Restricted assets			
Cash and cash equivalents	-	554,502	554,502
Investments	-	3,157,914	3,157,914
Interest receivable	-	42,884	42,884
Capital assets			
Nondepreciable	8,182,944	792,473	8,975,417
Depreciable, net	2,721,905	18,329,658	21,051,563
Other assets			
Deposits	-	5,620	5,620
Loan costs	-	177,763	177,763
Total assets	14,241,866	23,306,028	37,547,894
Liabilities			
Bank overdraft	184,462	72,801	257,263
Accounts payable	788,166	81,575	869,741
Deferred revenue	10,178	-	10,178
Long-term liabilities			
Customer deposits	-	119,836	119,836
Due within one year			
Short term loans	600,000	-	600,000
Accrued interest payable	42,549	137,433	179,982
Notes payable	97,594	382,438	480,032
Bonds payable	-	62,000	62,000
Compensated absences	44,239	9,990	54,229
Due in more than one year			
Compensated absences	88,477	19,980	108,457
Notes payable	123,123	6,165,646	6,288,769
Bonds payable	-	3,435,352	3,435,352
Total liabilities	1,978,788	10,487,051	12,465,839
Net assets			
Invested in capital assets, net of related debt	10,684,132	9,076,695	19,760,827
Restricted			
Debt service	-	3,462,596	3,462,596
Renewal and replacement	-	172,868	172,868
Unrestricted	1,578,946	106,818	1,685,764
Total net assets	\$ 12,263,078	\$ 12,818,977	\$ 25,082,055

See accompanying notes

City of Apalachicola, Florida
Statement of Activities
Year Ended September 30, 2007

		Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			
		Charges for		Operating Grants		Capital Grants		Primary Government	
		Expenses	Services	and Contributions				Governmental	Business-type
								Activities	Activities
									Total
Functions/Programs									
Primary Government									
Governmental activities									
General government	\$ 1,565,125	\$ 52,757	\$ 671,198	\$ 4,849,138	\$ 4,007,968	\$ -	\$ -	\$ 4,007,968	4,007,968
Public safety	908,672	9,686	-	-	(898,986)	-	-	(898,986)	(898,986)
Transportation	784,064	-	-	460,990	(323,074)	-	-	(323,074)	(323,074)
Culture and recreation	118,289	-	-	92,130	(26,159)	-	-	(26,159)	(26,159)
Total governmental activities	3,376,150	62,443	671,198	5,402,258	2,759,749	-	-	2,759,749	2,759,749
Business-type activities									
Water, sewer, garbage and mooring	2,615,222	2,258,086	-	44,250	-	(312,886)	(312,886)	(312,886)	(312,886)
Total primary government	\$ 5,991,372	\$ 2,320,529	\$ 671,198	\$ 5,446,508	2,759,749	(312,886)	(312,886)	2,446,863	2,446,863
General revenues									
Taxes									
Property taxes					1,395,894	-	-	1,395,894	1,395,894
Local option taxes					56,412	-	-	56,412	56,412
Franchise and utility service tax					351,791	-	-	351,791	351,791
Sales tax and other shared revenues					245,397	-	-	245,397	245,397
Investment earnings					92,933	314,876	-	407,809	407,809
Miscellaneous					92,657	-	-	92,657	92,657
Transfers					52,000	(52,000)	-	-	-
Total general revenues					2,287,084	262,876	-	2,549,960	2,549,960
Change in net assets									
					5,046,833	(50,010)	-	4,996,823	4,996,823
Net assets - beginning of year					7,103,120	12,868,987	-	19,972,107	19,972,107
Prior period adjustment					113,125	-	-	113,125	113,125
Net assets - beginning (as restated)					7,216,245	12,868,987	-	20,085,232	20,085,232
Net assets - end of year					\$ 12,263,078	\$ 12,818,977	\$	25,082,055	25,082,055

City of Apalachicola, Florida
Balance Sheet
Governmental Funds
September 30, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 674,585	\$ 626,771	\$ 1,301,356
Investments	31,870	214,137	246,007
Due from other governmental units	1,283,698	-	1,283,698
Accounts receivable, net	84,870	5,538	90,408
Notes receivable	-	415,549	415,549
Total assets	\$ 2,075,023	\$ 1,261,995	3,337,018
Liabilities and fund equity			
Liabilities			
Bank overdraft	\$ 183,878	\$ 584	184,462
Accounts payable	788,167	-	788,167
Deferred revenue	10,178	415,551	425,729
Total liabilities	982,223	416,135	1,398,358
Fund equity			
Fund balances			
Reserved	-	812,409	812,409
Unreserved	1,092,800	33,451	1,126,251
Total fund equity	1,092,800	845,860	1,938,660
Total liabilities and fund equity	\$ 2,075,023	\$ 1,261,995	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	10,904,849
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(953,433)
Accrued interest payable is not due in the current period and, therefore, is not reported in the funds.	(42,549)
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.	415,551
Net assets of governmental activities	\$ 12,263,078

See accompanying notes

City of Apalachicola, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2007

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 1,747,685	\$ 56,412	\$ 1,804,097
Licenses and permits	52,757	-	52,757
Intergovernmental	2,198,073	-	2,198,073
Fines and forfeitures	9,686	-	9,686
Investment earnings and other	123,355	76,169	199,524
Total revenues	4,131,556	132,581	4,264,137
Expenditures			
Current operating			
General government	1,336,107	117,256	1,453,363
Public safety	751,496	-	751,496
Transportation	700,620	-	700,620
Culture and recreation	6,031	57,766	63,797
Capital outlay	1,544,714	3,372	1,548,086
Debt service	174,852	-	174,852
Total expenditures	4,513,820	178,394	4,692,214
Excess (deficit) of revenues over (under) expenditures	(382,264)	(45,813)	(428,077)
Other financing sources (uses)			
Transfers in	345,916	21,250	367,166
Transfers out	(121,250)	(193,916)	(315,166)
Debt issuance	673,347	-	673,347
Total other financing sources (uses)	898,013	(172,666)	725,347
Net change in fund balances	515,749	(218,479)	297,270
Fund balances - beginning	463,926	1,064,339	1,528,265
Prior period adjustment	113,125	-	113,125
Fund balances - beginning (as restated)	577,051	1,064,339	1,641,390
Fund balances - ending	\$ 1,092,800	\$ 845,860	\$ 1,938,660

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, 2007

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

Net change in fund balances - total governmental funds	\$ 297,270
Capital outlay, reported as expenditures in governmental funds, are shown as capital assets in the statement of activities.	1,548,086
Depreciation expense on governmental capital assets included in the governmental activities in the statement of activities.	(251,810)
Proceeds from debt is reported as revenue in the governmental funds but as an increase in long-term liabilities in the statement of net assets.	(673,347)
Repayment of long-term debt is reported as an expenditure in governmental funds but as a reduction of long-term liabilities in the statement of net assets.	151,957
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.	(126,242)
Expenditures for revolving loans issued and revenue for loan repayments are reported in the governmental funds, and recorded through notes receivable activity in the statement of net assets.	(19,861)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	4,120,780
<u>Change in net assets of governmental activities</u>	<u>\$ 5,046,833</u>

City of Apalachicola, Florida
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended September 30, 2007

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$ 1,841,720	\$ 1,841,720	\$ 1,747,685	\$ (94,035)
Licenses and permits	72,500	72,500	52,757	(19,743)
Intergovernmental	239,750	239,750	2,198,073	1,958,323
Fines and forfeitures	6,000	6,000	9,686	3,686
Investment earnings and other	100,000	100,000	123,355	23,355
Total revenues	2,259,970	2,259,970	4,131,556	1,871,586
Expenditures				
Current operating				
General government	584,470	584,470	1,336,107	(751,637)
Public safety	798,900	798,900	751,496	47,404
Transportation	525,000	525,000	700,620	(175,620)
Culture and recreation	11,800	11,800	6,031	5,769
Capital outlay	24,000	24,000	1,544,714	(1,520,714)
Debt service	143,500	143,500	174,852	(31,352)
Total expenditures	2,087,670	2,087,670	4,513,820	(2,426,150)
Excess (deficit) of revenues over (under) expenditures	172,300	172,300	(382,264)	(554,564)
Other financing sources (uses)				
Transfers in	-	-	345,916	345,916
Transfers out	(27,000)	(27,000)	(121,250)	(94,250)
Debt issuance	-	-	673,347	673,347
Total other financing sources (uses)	(27,000)	(27,000)	898,013	925,013
Net change in fund balance	145,300	145,300	515,749	370,449
Fund balances - beginning	463,926	463,926	463,926	-
Prior period adjustment	-	-	113,125	113,125
Fund balances - beginning	463,926	463,926	577,051	113,125
Fund balances - ending	\$ 609,226	\$ 609,226	\$ 1,092,800	\$ 483,574

See accompanying notes

City of Apalachicola, Florida
Statement of Net Assets
Proprietary Fund
September 30, 2007

Business-type Activities

Assets

Current assets

Cash and cash equivalents	\$ 54,743
Investments	9,591
Accounts receivable, net	123,192
Due from other funds	-
Prepaid expenses	57,688

Total current assets	245,214
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Noncurrent assets

Restricted assets

Cash and cash equivalents	
Revenue bonds	193,379
Customer deposits	119,836
State revolving loan escrow	241,287
Interest receivable	42,884
Investments	
State revolving loan escrow	3,157,914

Total restricted assets	3,755,300
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Property, plant and equipment

Property, plant and equipment	26,016,546
Accumulated depreciation	(6,894,415)

Net property, plant and equipment	19,122,131
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Other assets

Deposits	5,620
Loan costs	177,763

Total other assets	183,383
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Total noncurrent assets	23,060,814
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Total assets	\$ 23,306,028
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(Continued)

City of Apalachicola, Florida
Statement of Net Assets (Continued)
Proprietary Fund
September 30, 2007

Business-type Activities

Liabilities

Current liabilities

Bank overdraft	\$ 72,801
Accounts payable	81,575
Accrued interest	137,433
Bonds payable - current	62,000
Notes payable - current	382,438
Compensated absences	9,990

Total current liabilities	746,237
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Noncurrent liabilities

Customer deposits	119,836
Bonds payable	3,435,352
Notes payable	6,165,646
Compensated absences	19,980

Total noncurrent liabilities	9,740,814
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Total liabilities	10,487,051
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Net assets

Invested in capital assets, net of related debt	9,076,695
Restricted	
Debt service	3,462,596
Renewal and replacement	172,868
Unrestricted	106,818

Total net assets	\$ 12,818,977
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City of Apalachicola, Florida
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
Year Ended September 30, 2007

Business-type Activities	
Operating revenue	
Utility billings	\$ 1,640,337
Tap fees	123,502
Mooring fees	85,431
Rental income	408,816
Total operating revenue	2,258,086
Operating expenses	
Personal services	109,685
Garbage collection services	416,858
Water and sewer operations contractual services	851,029
Supplies, gas and oil	27,143
Communications	1,309
Utilities	58,067
Repairs and maintenance	18,902
Insurance	162,527
Professional fees	16,795
Miscellaneous	13,084
Depreciation	561,182
Total operating expenses	2,236,581
Operating income	21,505
Nonoperating revenues (expenses)	
Investment income	314,876
Interest expense/fees	(378,641)
Total nonoperating revenues (expenses)	(63,765)
Income (loss) before contributions and transfers	(42,260)
Contributions and transfers	
Capital contributions - grants	44,250
Transfers out	(152,000)
Transfers in	100,000
Total contributions and transfers	(7,750)
Change in net assets	(50,010)
Net assets - beginning	12,868,987
Net assets - ending	\$ 12,818,977

See accompanying notes

City of Apalachicola, Florida
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2007

Business-type Activities	
Operating activities	
Receipts from customers	\$ 2,271,575
Payments to suppliers	(1,552,078)
Payments to employees	(115,064)
Net cash provided by operating activities	604,433
Noncapital financing activities	
Payment from other funds	38,940
Transfers in	100,000
Transfers out	(152,000)
Net cash used by noncapital and related financing activities	(13,060)
Capital and related financing activities	
Capital contributions - grants	44,250
Acquisition of capital assets	(672,606)
Repayment of revenue bonds and notes payable	(574,031)
Interest paid on long-term debt	(317,842)
Net cash used by capital and related financing activities	(1,520,229)
Investing activities	
Proceeds from sales and maturities of investments	534,887
Interest received	271,992
Net cash provided by investing activities	806,879
Increase (decrease) in cash and cash equivalents	(121,977)
Cash and cash equivalents - beginning	731,222
Cash and cash equivalents - ending	\$ 609,245
Classified as	
Current assets - cash and cash equivalents	\$ 54,743
Restricted assets - cash and cash equivalents	554,502
Cash and cash equivalents - ending	\$ 609,245

(Continued)

City of Apalachicola, Florida
Statement of Cash Flows
Proprietary Fund (Continued)
Year Ended September 30, 2007

Business-type Activities

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

Operating income	\$ 21,505
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	561,182
Amortization	16,930
(Increase) decrease in assets	
Accounts receivable, net	4,342
Prepaid expenses	(57,688)
Increase (decrease) in liabilities	
Accounts payable	92,638
Litigation settlement payable	(38,244)
Compensated absences	(5,379)
Customer deposits	9,147
Net cash provided by operating activities	\$ 604,433

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 3,000 residents. The City provides a full range of municipal services, including fire and police protection, public works activities, parks and recreation, transportation and general administrative services. In addition, the City operates a water, sewer and garbage collection utility.

The financial reporting entity consists of the primary government, and its component units, for which the primary government is considered to be financially accountable. Also included are other entities whose exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Each potential component unit is individually evaluated using specific criteria outlined in Governmental Accounting Standards Board (GASB) Statement No. 14 to determine whether the entity is: (a) part of the primary government; (b) a component unit which should be included in the reporting entity (blended or discretely presented); (c) an organization which should be excluded from the reporting entity entirely.

The principal criteria for classifying a potential component unit include the legal separateness of the organization, the financial accountability of the primary government for the potential component unit resulting from either the primary government's ability to impose its will on the potential component unit, or the potential component unit's fiscal dependency on the primary government. In applying the above criteria, management has determined that the Apalachicola Public Library and the Apalachicola Recreation Board are considered component units and are blended in the financial statements of the City.

The City appoints the governing Board for the Apalachicola Housing Authority (Authority), which makes the Authority a related organization. However, the Authority is not considered a component unit since it is not financially accountable to or fiscally dependent on the Board.

The Apalachicola Community Redevelopment Agency is an advisory committee appointed by the Board and conducts no financial transactions and is not considered a component unit.

There are no entities for which there were positive responses to specific criteria used for establishing oversight responsibility that were excluded from the City's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies applicable to the City are described below.

Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units, if any, for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and, (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

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

The City reports the following major proprietary fund:

- Water and sewer fund - This fund is used to account for the operations of the City's water, sewer, and garbage system, and Scipio Creek and Battery Park docking facilities, which are financed in a manner similar to private business enterprises, where the costs, including depreciation, of providing services to the general public on a continuing basis are financed or recovered primarily through user charges.

Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as with accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for water, sewer and garbage service and Scipio Creek and Battery Park docking facilities. Operating expenses of the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For enterprise activities, the City applies all applicable GASB pronouncements. Additionally, the City applies pronouncements issued on or before November 30, 1989, by the Financial Accounting Standards Board (FASB) and its predecessor bodies, unless those pronouncements conflict with or contradict GASB pronouncements. Pursuant to GASB Statement No. 20, the City has elected not to apply all FASB statements and interpretations issued after November 30, 1989.

Budgets and Budgetary Accounting

General governmental revenue and expenditures accounted for in budgetary funds are controlled by a budgetary accounting system in accordance with various legal requirements which govern the City's operations. Budgets are monitored at varying levels of classification detail; however, expenditures cannot legally exceed total appropriations at the individual fund level. All budget changes that affect the total of a fund's budget must be approved by the City Council.

The budgetary information presented for the general fund and the major special revenue funds is prepared on the modified accrual basis. Encumbrances are not recorded. Unexpended items at year-end must be reappropriated in the subsequent year.

Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Receivables

Customer accounts receivable are recorded in the enterprise funds at their net realizable value, reduced by an allowance for uncollectible accounts. The allowance at September 30, 2007, was \$132,000. Unbilled amounts are not recorded.

Due From (To) Other Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances."

Inventories

Inventory items of materials and supplies, which are not significant in amount, are considered expenditures when purchased.

Restricted Assets

Certain proceeds of the City's revenue bonds (enterprise funds), as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants or other legal agreements. The revenue bond sinking funds are used to report resources set aside to pay debt service if the sources of the pledged revenues do not generate sufficient funds to satisfy the debt service requirements. The renewal and replacement funds are used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. The City typically uses restricted assets before using unrestricted assets, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition. Restricted cash is also used to report resources set aside to refund customer deposits.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, rights of way, stormwater system, sidewalks, and similar items) are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Property, plant and equipment with initial, individual costs that exceed \$750 and estimated useful lives of over one year are recorded as capital assets. Infrastructure, such as buildings, roads, bridges, and sidewalks are capitalized when their initial costs exceed \$25,000 and possess estimated useful lives of more than one year. Capital assets are recorded at historical cost or estimated historical cost if original cost is unknown. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Depreciation is provided on the straight-line basis generally over the following estimated useful lives:

Buildings	30-50 years
Improvements other than buildings	10-50 years
Machinery and equipment	5-15 years
Infrastructure	30-50 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. For assets constructed with governmental fund resources, interest during construction is not capitalized.

Deferred Revenues

Deferred revenues reported in the government-wide financial statements represent unearned revenues. The deferred revenues are recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in governmental fund financial statements represent unearned revenues or revenues which are measurable but not available, and in accordance with the modified accrual basis of accounting, are reported as deferred revenues.

Compensated Absences

The City maintains a policy that permits employees to accumulate earned but unused vacation and sick pay benefits that will be paid to employees upon separation from City service if certain criteria are met. These benefits, plus their related tax and retirement costs are classified as compensated absences. Employees may be paid for unused vacation hours accrued up to a maximum amount. Payment of unused sick leave, upon termination, is also provided for up to varying amounts.

Both the current and long-term portion of compensated absences are accrued and reported in the government-wide financial statements. No expenditure is reported in the government fund level statements for these amounts until payment is made. Proprietary fund types accrue sick leave and vacation benefits in the period they are earned. Compensated absences liability is based on current rates of pay.

Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the Property Appraiser and Tax Collector. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. Florida Statutes permit municipalities to levy property taxes at a rate of up to 10 mills for general operations. The City's millage rate for the year ended September 30, 2007, was 6.25 mills.

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

City of Apalachicola, Florida

Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes (Continued)

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

All taxes become payable on November 1, of each year, or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. All taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. Taxes paid in March are without discount.

Property taxes are collected by the Franklin County Tax Collector. State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes and for enforcement of collection of real property taxes by the sale of interest-bearing tax certificates.

Reserves and Designations of Fund Equity

Reserves indicate that portion of fund balance or net assets that is not available for appropriation or which is legally segregated for a specific future use. The description of each reserve indicates the purpose for which each is intended. Designated portions of fund equity represent management's tentative future spending plans. Such designations should be clearly distinguished from reserves, since managerial plans are subject to change and may never be legally authorized or result in actual expenditures.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Use of Restricted Assets

It is generally the practice of the City to utilize restricted net assets before unrestricted net assets when possible.

Encumbrances

Encumbrances represent commitments in the form of purchase orders which are chargeable to an appropriation and for which a part of the appropriation is reserved. Encumbrances do not represent expenditures or liabilities. The City does not record encumbrances outstanding at year end.

Long-term Obligations

In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Expenses

General fund expenditures for insurance and similar services extended over more than one accounting year are accounted for as expenditures in the period of acquisition.

Amortization

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

NOTE 3 – CASH AND INVESTMENTS

Deposits

All cash resources of the City are placed in banks that qualify as public depositories, as required by law (Florida Security for Public Deposits Act). Every qualified public depository is required by this law to deposit with the State Treasurer eligible collateral equal to, or in excess of, an amount to be determined by the State Treasurer. The State Treasurer is required by this law to ensure that the City's funds are entirely collateralized throughout the fiscal year.

In the event of a failure by a qualified public depository, losses, in excess of federal depository insurance and proceeds from the sale of the securities pledged by the defaulting depository, are assessed against the other qualified public depositories of the same type as the depository in default. When other qualified public depositories are assessed additional amounts, they are assessed on a pro-rata basis.

Investments

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

The Local Government Surplus Funds Trust Fund; negotiable direct obligations, the principal and interest of which are unconditionally guaranteed by the United States Government at the then prevailing market price for such securities; interest-bearing time deposits or savings accounts in banks organized under the laws of Florida, in national banks organized under the laws of the United States and doing business and situated in Florida, in savings and loan associations which are under the State of Florida supervision, or in federal savings and loan associations located in Florida and organized under federal law and federal supervision, provided that any such deposits are secured by collateral as may be prescribed by law.

Credit Risks

The credit risk of certain investments, such as investment pools managed by other outside parties, cannot be categorized because the City's investments are not evidenced by specific, identifiable investment securities.

Interest Rate Risks

At September 30, 2007, the City did not hold any investments that were considered to be an interest rate risk.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Custodial Risks

At September 30, 2007, the City did not hold any deposits or investments that were considered to be a custodial risk. See note 17 for further information on custodial risks.

Concentration of Credit Risk

At September 30, 2007, the City did not hold any investments that were considered to be a concentration of credit risk.

At September 30, 2007, the City's cash and investments consisted of the following:

	Credit Rating	Current	0-5 Years	5-10 Years	Total Carrying Amount
Cash including money market fund	(1)	\$ 1,749,182	\$ -	\$ -	\$ 1,749,182
U.S. Treasury notes	(2)	603,173	509,222	-	1,112,395
U.S. Government agencies	AAA	797,953	1,395,137	-	2,193,090
Local Govt Surplus Trust Fund Pool	(1)	312,330	-	-	312,330
Total		\$ 3,462,638	\$ 1,904,359	\$ -	\$ 5,366,997

(1) These funds are not rated. Investments in these funds are restricted to cash, short term obligations of the U.S. government and government backed securities.

(2) Ratings are not applicable to government issued securities and obligations.

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 4 – CAPITAL ASSETS

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

	September 30, 2006	Increases	Decreases	September 30, 2007
Capital assets, not being depreciated				
Land	\$ 2,391,584	\$ 4,144,640	\$ -	\$ 6,536,224
Construction in progress	805,910	942,060	(101,250)	1,646,720
Total capital assets not being depreciated	3,197,494	5,086,700	(101,250)	8,182,944
Capital assets being depreciated				
Buildings	1,018,645	-	-	1,018,645
Improvements other than buildings	1,462,980	-	-	1,462,980
Machinery and equipment	1,475,403	104,709	(251,010)	1,329,102
Infrastructure	193,124	584,633	-	777,757
Total capital assets being depreciated	4,150,152	689,342	(251,010)	4,588,484
Less accumulated depreciation				
Buildings	396,762	21,089	-	417,851
Improvements other than buildings	596,148	34,330	-	630,478
Machinery and equipment	783,063	189,923	(170,860)	802,126
Infrastructure	9,656	6,468	-	16,124
Total accumulated depreciation	1,785,629	251,810	(170,860)	1,866,579
Total depreciable assets, net of accumulated depreciation	2,364,523	437,532	(80,150)	2,721,905
Total governmental activities' capital assets, net of accumulated depreciation	\$ 5,562,017	\$ 5,524,232	\$ (181,400)	\$ 10,904,849

City of Apalachicola, Florida
Notes to Basic Financial Statements

NOTE 4 – CAPITAL ASSETS (CONTINUED)

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

	September 30, 2006	Increases	Decreases	September 30, 2007
Capital assets not being depreciated				
Land	\$ 363,057	\$ -	\$ -	\$ 363,057
Construction in progress	5,201,800	429,416	(5,201,800)	429,416
Total capital assets not being depreciated	5,564,857	429,416	(5,201,800)	792,473
Capital assets being depreciated				
Buildings and utility systems	19,779,082	5,444,990	-	25,224,072
Less accumulated depreciation				
Buildings and utility systems	(6,333,232)	(561,182)	-	(6,894,414)
Total depreciable assets, net of accumulated depreciation	13,445,850	4,883,808	-	18,329,658
Total business-type activities' capital assets, net of accumulated depreciation	\$ 19,010,707	\$ 5,313,224	\$(5,201,800)	\$ 19,122,131

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

Governmental activities	
General government	\$ 3,179
Public safety	126,888
Transportation	67,252
Culture and recreation	54,491
Total depreciation expense - governmental activities	\$ 251,810

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

Business-type activities	
Water	\$ 66,390
Sewer	484,247
Mooring/boat basins	10,545
Total depreciation expense - business-type activities	\$ 561,182

City of Apalachicola, Florida

Notes to Basic Financial Statements

NOTE 5 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

Long-term debt of the governmental activities of the City at September 30, 2007 is as follows:

	Original Issue	Balance September 30, 2006	Additions (Reductions)	Balance September 30, 2007
Installment purchase agreement for fire truck, payable in annual installments of \$13,984, including interest at 4.85%	\$108,770	\$ 38,189	\$ (12,132)	\$ 26,057
Installment purchase agreement for dump truck, payable in annual installments of \$34,746, including interest at 4.92%	66,234	33,117	(33,117)	-
Installment purchase agreement for 7 computers payable in 36 monthly installments of \$273 at 10% interest, maturing June 2009	8,744	7,996	(2,782)	5,214
Installment purchase agreement for 3 vehicles payable in 3 annual installments of \$22,280 including 6.25% interest, maturing July 2008	62,985	40,705	(19,662)	21,043
Installment purchase agreement for 4 vehicles payable in 3 annual installments of \$32,875 Including 4.6% interest, maturing November 2007	123,080	90,204	(28,726)	61,478
Installment purchase agreement for backhoe/ loader payable in 5 annual installments at 5.75% maturing June 2010	71,000	55,126	(12,619)	42,507
Installment purchase agreement for one truck payable in monthly installments of \$456 including 4.817% interest, maturing January 2011	19,794	-	16,820	16,820
Installment purchase agreement for 2 trucks payable in monthly installments of \$1,234 including 4.828% interest, maturing March 2011	53,553	-	47,598	47,598
Total installment purchase obligations		265,337	(44,620)	220,717
Line of credit Line of credit agreement for Historic Preservation, payable in full on 11/23/2006 including interest at 8.25%	301,054	33,990	(33,990)	-
Liability for compensated absences		106,513	26,203	132,716
Total governmental activities long-term obligations		\$ 405,840	\$ (52,407)	\$ 353,433

City of Apalachicola, Florida

Notes to Basic Financial Statements

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

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

Year Ending September 30,	Amount
2008	\$ 97,594
2009	79,695
2010	34,320
2011	9,108
Total	\$ 220,717

The City's has two lines of credit totaling \$600,000 secured by the City's certificates of deposit in the amount of \$545,130. Both agreements require that the entire outstanding amount plus interest of \$31,458 be paid by January 31, 2008. The amount outstanding at September 30, 2007 was \$600,000.

The portion of compensated absences liability estimated to be paid during the next year (current portion) is \$44,239.

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

	Balance September 30, 2006	Additions	Deductions	Balance September 30, 2007	Due Within One Year
\$3,073,000 Water and Sewer Revenue Bonds – Series 2003, interest only payable on September 1, 2004. Thereafter, annual installments of principal and interest over remaining 38 years with final payment in year 2043	\$ 2,990,274	\$ -	\$ (44,000)	\$ 2,946,274	\$ 45,000
\$390,000 Water and Sewer Revenue Bonds – Series 1983, due in annual installments of \$2,000 to \$29,000 from September 1, 1987 to September 1, 2024, with interest at 5.0% (see (a) below)	289,448	-	(9,000)	280,448	9,000
\$361,630 Water and Sewer Revenue Bonds – Series 1986, due in annual installments of \$3,000 to \$21,630 from September 1, 1989 to September 1, 2026, with interest at 6.0% (see (b) below)	278,630	-	(8,000)	270,630	8,000

City of Apalachicola, Florida

Notes to Basic Financial Statements

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

	Balance September 30, 2006	Additions	Deductions	Balance September 30, 2007	Due Within One Year
Note payable to the State of Florida Revolving Loan Trust Fund for sewer system construction costs. Semiannual payments of \$363,766 including interest on the loan increments at 3.07% to 3.57% commenced on December 15, 2001, and semiannually thereafter (see note 13) for a period of twenty years – see (c), (d) and (e) below	\$ 7,052,880	\$ -	\$ (509,051)	\$ 6,543,829	\$ 378,193
Installment purchase agreement for truck payable in 3 annual installments of \$4,548 at 6.9% interest, maturing June 2008	8,235		(3,980)	4,255	4,255
Liability for compensated absences	35,349	-	(5,379)	29,970	9,990
Total business-type long-term obligations	\$ 10,654,816	\$ -	\$ (579,410)	\$ 10,075,406	\$ 454,438

- (a) The series 1983 water and sewer revenue bonds are secured by a first lien on the gross revenues of the water and sewer system and a first lien on the City's public service taxes and guaranteed entitlement revenues.
- (b) The series 1986 water and sewer revenue bonds are secured by a junior lien on the above-mentioned revenues.
- (c) The series 2003 water and sewer revenue bonds were issued on parity with the 1983 and 1986 water and sewer revenue bonds.
- (d) The FDEP has a lien on the funds and earnings in the Capital City Trust Company escrow account, which is the source of funds for repayment of the State of Florida Revolving Loan Trust Fund loan. In addition, there exists a supplemental pledge of net water and sewer system revenues which is subordinate to payment of the 1983 and 1986 water and sewer bonds. The FDEP loan is also subordinate to the Series 2003 water and sewer revenue bonds issued in connection with the 2002-2003 water system improvements.
- (e) Semiannual payments of \$291,029 including interest are payable commencing December 15, 2007. This amount will be adjusted upon completion of loan disbursements.

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

The sinking fund and reserve account balances relating to the Series 2003, 1983 and 1986 bond issues are \$20,511 and \$172,868 respectively, at September 30, 2007.

City of Apalachicola, Florida

Notes to Basic Financial Statements

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

Annual Debt Maturities

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

Year Ending September 30,	Series 1983 Revenue Bonds		Series 1986 Revenue Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 9,000	\$ 14,022	\$ 8,000	\$ 16,238
2009	10,000	13,572	9,000	15,758
2010	11,000	13,072	9,000	15,218
2011	11,000	12,522	10,000	14,678
2012	12,000	11,972	10,000	14,078
2013-2017	75,000	49,860	62,000	60,370
2018-2022	107,000	28,110	81,000	39,550
2023-2027	45,448	3,094	81,630	12,512
Total	\$ 280,448	\$ 146,224	\$ 270,630	\$ 188,402

Year Ending September 30,	Series 2003 Revenue Bonds		State Revolving Loan	
	Principal	Interest	Principal	Interest
2008	\$ 45,000	\$ 95,754	\$ 378,193	\$ 203,864
2009	46,000	94,291	390,241	191,816
2010	48,000	92,796	402,673	179,385
2011	50,000	91,236	415,501	166,557
2012	52,000	89,611	428,737	153,320
2013-2017	288,000	421,471	2,357,469	552,819
2018-2022	338,000	371,616	2,171,015	157,216
2023-2027	398,000	312,791	-	-
2028-2032	472,000	243,566	-	-
2033-2037	555,000	161,633	-	-
2038-2042	654,274	65,304	-	-
Total	\$ 2,946,274	\$ 2,040,069	\$ 6,543,829	\$ 1,604,977

City of Apalachicola, Florida

Notes to Basic Financial Statements

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

Year Ending September 30,	Installment Purchase Agreement	
	Principal	Interest
2008	\$ 4,255	\$ 294

NOTE 7 – NOTES RECEIVABLE

The following long-term notes receivable are recorded in the governmental funds and result from U.S. Department of Housing and Urban Development grants to the City, of which the proceeds were loaned to qualified applicants through a revolving loan program. Notes receivable balances consist of the following at September 30:

	2007	2006
Second mortgage receivable – original loan of \$321,666; \$1,105 due monthly including 4% interest, the unpaid balance matures in August 2008	\$ 158,856	\$ 165,616
Second mortgage receivable - original loan of \$50,000, payable in 120 monthly installments of \$532 including interest at 5% beginning August 1999. Balance includes past due interest of \$8,500	41,273	45,481
Second mortgage receivable – original loan \$100,000, payable in 120 monthly payments of \$1,012 including interest at 4%	91,838	96,820
Other notes receivable – advances on loan agreements	123,582	127,495
Total	\$ 415,549	\$ 435,412

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

Notes to Basic Financial Statements

NOTE 8 – EQUITY***Restricted Net Assets***

The City's restricted investments in the water and sewer fund are being used to repay a loan obtained for the replacement of the City's sewer system (see note 6).

Reserved Fund Balances

Reservations of fund balances show amounts that are not appropriated for expenditures or are legally restricted for specific uses. The purpose for each is indicated as follows:

Funds	Purpose	Amount
Governmental funds		
Local option gas tax	Specific transportation expenditures	\$ 67,207
Library	Specific library expenditures	443,365
HUD revolving loans fund	Revolving loan program (note 6)	286,747
Raney house trust	Raney House building restoration and preservation	15,090
Total fund balances reserved		\$ 812,409
Enterprise funds	Restricted for renewal and replacement	\$ 172,868
	Restricted for debt service	3,462,596
Total net assets restricted		\$ 3,635,464

NOTE 9 – INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

Transfers Out	Transfers In	Amount	Purpose
Water and sewer fund	General fund	\$ 152,000	Administrative services and cash advance
General fund	Water and sewer fund	100,000	Repayment of advance
General fund	Nonmajor governmental funds	21,250	Transfer of general revenues for library and recreation activities
Nonmajor governmental funds	General fund	193,916	Road maintenance expense reimbursement

NOTE 10 – INTEREST COSTS

The City follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. In 2007, total interest was incurred of \$475,943, of which \$48,591 was charged to interest and \$427,352 was charged to operations.

Notes to Basic Financial Statements

NOTE 11 – OTHER DISCLOSURES

The City's contract with U.S. Filter Operating Services, Inc. for operations, maintenance and management services for the City's water treatment and distribution facilities and the wastewater collection and treatment facilities ended in July 2007. ESG was a subcontractor of U.S. Filter Operating Services during 2006. A one year contract was entered into with ESG to continue services for one year from July 2007.

NOTE 12 – RETIREMENT BENEFITS***Plan Description***

The City participates in the Florida State Retirement System (FRS) a cost-sharing, multiple employer defined benefit retirement plan administered by the State of Florida Department of Administration, Division of Retirement, to provide retirement and survivor benefits to participating public employees. Chapter 121, Florida Statutes, establishes the authority for participant eligibility, contribution requirements, vesting eligibility and benefit provisions. FRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by contacting the State of Florida Department of Management Services, Division of Retirement, 2639 North Monroe Street, Building C, Tallahassee, Florida 32399-1560.

The System provides vesting of benefits after six years of creditable service. Members are eligible for normal retirement after six years of service and attaining age 62, or 30 years of service regardless of age. Early retirement may be taken any time after completing six years of service; however, there is a 5% benefit reduction for each year prior to normal retirement.

FRS also provides death and disability benefits and cost-of-living adjustments. Generally, membership is compulsory for all full-time and part-time employees. Retirement coverage is employee noncontributory. The employer pays all contributions.

Funding Policy

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts provide that employees pay all contributions at rates determined each year by the legislature.

The rates as a percentage of gross earnings are as follows:

	October 1, 2006 Through June 30, 2007	July 1, 2007 Through September 30, 2007
Regular class	9.85%	9.85%
Special risk employee class	20.92%	20.92%
DROP plan participants	10.91%	10.91%

Notes to Basic Financial Statements

NOTE 12 – RETIREMENT BENEFITS (CONTINUED)

During the year ended September 30, 2007, total payroll for all covered employees was \$1,041,346. The City's contributions for the years ended September 30, 2007, 2006 and 2005 were \$132,538, 105,441 and 89,632, respectively which equal the required contributions. For the year ended September 30, 2007, retirement contributions represented 12.7% of covered payroll.

NOTE 13 – REPLACEMENT OF WATER SYSTEM AND RELATED FINANCING

The City has replaced and upgraded its water system and has secured long-term financing and a grant for the cost of the replacement, of approximately \$5,000,000. Costs incurred through September 30, 2007, amount to \$5,294,641 for the water system replacement and are carried in the water and sewer fund under the account property, plant and equipment.

Water and sewer system revenue bonds in the amount of \$3,073,000 have been issued to fund approximately 58% of the cost of the replacement project. A U.S.D.A. Rural Development grant of \$1,605,000 is being used to fund approximately 30% of the project's cost.

NOTE 14 – COMMITMENTS, CONTINGENCIES AND RISK MANAGEMENT

Litigation

The City is defendant in various litigation which has been turned over to the City's insurance carrier for defense. Settlements, if any, are not anticipated to exceed the policy amounts of insurance carried by the City.

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors or omissions; injuries to employees and/or the public; or damage to property of others. The City purchases commercial insurance to cover its risk of losses. The City carries comprehensive coverage on certain vehicles and equipment, as long as deemed economically justifiable. The City also carries liability insurance on the aforementioned vehicles and equipment.

Environmental Matters

The City's wastewater treatment facility and operations are subject to federal and state environmental laws and regulations. Since December 1998, the City has been subject to the requirements of a consent order from the FDEP relating to the City's wastewater treatment facility. The consent order requires the City to undertake a number of measures with regard to improving and replacing the present methods of collecting, processing and discharging waste effluent. In July 1999, a permit was issued by FDEP allowing the City to operate the facility and to undertake construction activities in connection therewith. The permit replaced a temporary operating permit. During 2007, the City agreed to perform additional improvements estimated to cost a minimum of \$250,500 for permit violations that occurred from March 2004 to November 2006, in lieu of civil penalties.

The City intends to comply with its environmental responsibilities and believes replacing the sewer system, which was completed during the 2004-2005 fiscal year, and upgrading the water system as discussed in note 13 will allow the City to fulfill its environmental responsibilities.

Notes to Basic Financial Statements

NOTE 15 – BUDGETARY DATA

The City had actual expenditures in excess of budgeted amounts in the general fund for the year ended September 30, 2007. A portion of this amount was offset by revenues earned in excess of anticipated amounts. The net result was a deficit of revenues over expenditures.

NOTE 16 – PRIOR PERIOD ADJUSTMENT

An increase in the beginning fund balance of the general fund and beginning net assets of the governmental activities in the amount of \$113,125 has been recorded to reflect the correction of grant revenues not properly recorded in the prior year.

NOTE 17 – SUBSEQUENT EVENTS

At September 30, 2007, the City had \$312,330 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On November 29, 2007, the State Board of Administration implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the Fund coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to subprime mortgage risk. On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A consisted of all money market appropriate assets, which was approximately \$12 billion or 86% of Pool assets. Pool B consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately \$2 billion or 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B.

Pool A participants may withdraw 15% of their balance or \$2 million, whichever is greater, without penalty. Withdrawals from Pool A in excess of the above limit are subject to a 2% redemption fee. New investments in Pool A are not subject to the redemption fee or withdrawal restrictions. Future withdrawal provisions from Pool A will be subject to further evaluation based on the maturities of existing investments and the liquidity requirements of the Pool. On December 21, 2007, Standard and Poor's Ratings Services assigned its "AAAM" principal stability fund rating to Pool A.

Pool B participants are prohibited from withdrawing any amount from the Pool and a formal withdrawal policy has not yet been developed. Market valuations of the assets held in Pool B are not readily available. In addition, full realization of the principle value of Pool B assets is not readily determinable.

At December 31, 2007, the City had \$321,244 and \$54,530 invested in Pool A and B, respectively. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

Combining Financial Statements

City of Apalachicola, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2007

	Library	Local Option Gas Tax	Recreation	HUD Revolving Loans Fund	Raney House Trust	Capital Improvement Fund	Total Nonmajor Governmental Funds
Assets							
Cash and cash equivalents	\$ 444,166	\$ -	\$ 33,234	\$ 149,371	\$ -	\$ -	\$ 626,771
Investments	-	61,669	-	137,378	15,090	-	214,137
Accounts receivable, net	-	5,538	-	-	-	-	5,538
Notes receivable	-	-	-	415,549	-	-	415,549
Total assets	\$ 444,166	\$ 67,207	\$ 33,234	\$ 702,298	\$ 15,090	\$ -	\$ 1,261,995
Liabilities and fund equity							
Bank overdraft	\$ 584	\$ -	\$ -	\$ -	\$ -	\$ -	584
Deferred revenue	-	-	-	415,551	-	-	415,551
Total liabilities	584	-	-	415,551	-	-	416,135
Fund equity							
Fund balances							
Reserved	443,365	67,207	-	286,747	15,090	-	812,409
Unreserved	217	-	33,234	-	-	-	33,451
Total fund equity	443,582	67,207	33,234	286,747	15,090	-	845,860
Total liabilities and fund equity	\$ 444,166	\$ 67,207	\$ 33,234	\$ 702,298	\$ 15,090	\$ -	\$ 1,261,995

City of Apalachicola, Florida
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2007

	Library	Local Option Gas Tax	Recreation	HUD Revolving Loans Fund	Raney House Trust	Capital Improvement Fund	Total Nonmajor Governmental Funds
Revenues							
Taxes	\$ -	\$ 56,412	\$ -	\$ -	\$ -	\$ -	\$ 56,412
Investment earnings and other	18,207	4,316	1,561	50,870	1,215	-	76,169
Total revenues	18,207	60,728	1,561	50,870	1,215	-	132,581
Expenditures							
Current operating							
General government	-	-	-	-	-	117,256	117,256
Culture and recreation	21,050	-	20,502	-	16,214	-	57,766
Capital outlay	3,372	-	-	-	-	-	3,372
Total expenditures	24,422	-	20,502	-	16,214	117,256	178,394
Excess (deficit) of revenues over (under) expenditures	(6,215)	60,728	(18,941)	50,870	(14,999)	(117,256)	(45,813)
Other financing sources (uses)							
Transfers out	-	(193,916)	-	-	-	-	(193,916)
Transfers in	10,000	-	11,250	-	-	-	21,250
Total other financing sources (uses)	10,000	(193,916)	11,250	-	-	-	(172,666)
Net change in fund balances	3,785	(133,188)	(7,691)	50,870	(14,999)	(117,256)	(218,479)
Fund balances - beginning	439,797	200,395	40,925	235,877	30,089	117,256	1,064,339
Fund balances - ending	\$ 443,582	\$ 67,207	\$ 33,234	\$ 286,747	\$ 15,090	\$ -	\$ 845,860

See accompanying notes

Compliance Section

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

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

We have audited the financial statements of the City of Apalachicola, Florida (the City) as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated July 16, 2008.

We conducted our audit in accordance with United States generally accepted auditing standards, and Government Auditing Standards, issued by the Comptroller General of the United States. We have also issued our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated July 16, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the state of Florida and require that certain items be addressed in this letter.

The *Rules of the Auditor General* [Section 10.554(1)(h)1.] require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial audit report have been satisfactorily addressed by the City, except as noted below under the heading "Prior Year Audit Findings and Recommendations."

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)2.], the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Apalachicola complied with Section 218.415, Florida Statutes.

The *Rules of the Auditor General* [Sections 10.554(1)(h)(3.)] require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit we had the following finding.

Current Year Audit Findings and Recommendations

07-03 All Accounting transactions need to be recorded

Accounts payable related to grant funded projects were not entered in the accounting system. This prevents an accurate accounting of the City's liabilities, expenses and cash flow requirements.

07-04 Cash needs to be managed to eliminate negative bank balances

As of September 30, 2007, the City's bank accounts were overdrawn by more than \$250,000. We recommend the City reduce grant funded projects that require the City to initially fund the projects or projects that require continued maintenance at the City's expense until the City can accumulate sufficient cash to cover these costs.

The *Rules of the Auditor General* [Sections 10.554(1)(h)(4.)] suggests disclosure in the management letter of the following matters if not already addressed in the auditor's report on compliance and internal controls or schedule of findings and questioned costs and are not clearly inconsequential: (1) violations of laws, rules, regulations and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations or instances of fraud discovered by, or that came to the attention of, the auditor. Our audit report disclosed the following matters:

Prior Year Audit Findings and Recommendations

07-01 Need to Comply with Budgetary Requirements (prior year 06-01)

Because revenues were received in excess of anticipated amounts, additional expenses were incurred during the year resulting in expenses exceeding budgeted amounts. Budgets should be reviewed and amended as needed throughout the year in order to maintain compliance with State law.

07-02 Need for Separation of Duties (prior year 06-02)

Separation of certain accounting and administrative duties among employees, which is recommended as an effective internal control procedure, was not considered feasible by the City because of its size and the limited number of employees. The City recognizes that the cost of its internal control structure should not exceed the benefits expected to be derived. The City also recognizes the inherent limitations of an internal control structure. Mistakes and irregularities may occur in any event with or without an adequate internal control structure. Furthermore, adequate segregation of duties can be circumvented by collusion. Nevertheless, internal control is strengthened when incompatible duties are separated and review procedures are established and adhered to.

The *Rules of the Auditor General* [Section 10.554(1)(h)5.] require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed. The City was established by Chapter 37-18432, Laws of Florida.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)6.(a)], a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the City met the following condition described by Section 218.503(1), Florida Statutes.

(b) Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds. Several grant related accounts payable accrued for fiscal year ended 2007, totaling over \$400,000 were unpaid within 90 days.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)6.(b)], we determined that the annual financial report for the City for the fiscal year ended September 30, 2007, was filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, and is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)6.(c) and 10.556(7)], we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information of the Mayor, City Council, management of the City, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

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

Panama City Beach, Florida
July 16, 2008

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Apalachicola, Florida (the City) as of and for the year ended September 30, 2007, which collectively comprise the City of Apalachicola, Florida's basic financial statements and have issued our report thereon dated July 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

07-03 All Accounting transactions need to be recorded. Certain accounts payable related to grant funded projects were not entered in the accounting system. This prevents an accurate accounting of the City's liabilities, expenses and cash flow requirements.

07-05 Significant adjustments to the financial records were made in order for the financial statements to conform to U.S. generally accepted accounting principles.

07-06 Inadequate design of internal control over the preparation of the financial statements being audited gives rise to a significant deficiency in internal control.

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

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

Compliance and Other Matters

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

We noted certain other matters that we reported to management in a separate letter dated July 16, 2008.

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

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

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

Panama City Beach, Florida
July 16, 2008

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

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

Compliance

We have audited the compliance of the City of Apalachicola, Florida with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the Executive Office of the Governor's State Projects Compliance Supplement that are applicable to each of its major federal programs and state projects for the year ended September 30, 2007. The City of Apalachicola, Florida's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of the City of Apalachicola, Florida's management. Our responsibility is to express an opinion on the City of Apalachicola, Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, *Rules of the Auditor General*. Those standards, OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the City of Apalachicola, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Apalachicola, Florida's compliance with those requirements.

In our opinion, the City of Apalachicola, Florida, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal awards and state projects for the year ended September 30, 2007.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a major federal program or state project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a major federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a major federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 07-07 to be a significant deficiency.

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

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

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

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

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

Panama City Beach, Florida
July 16, 2008

City of Apalachicola, Florida
Schedule of Expenditures of Federal Awards
and State Financial Assistance
Year Ended September 30, 2007

Federal/State Agency Pass through entity State Project	CFDA/CSFA No.	Contract/Grant No.	Expenditures
Federal Awards			
U.S. Department of Housing and Urban Development Passed through the Florida Department of Community Affairs Community Development Block Grants			
Streetscape program	14.228	05DB-2Q-02-29-02-C02	\$ 581,299
Fire station	14.228	N/A	1,500
Total Community Development Block Grants			582,799
U.S. Department of Justice Passed through the Florida Department of Law Enforcement Edward Byrne Memorial Justice Assistance Grant Program	16.738	2007-JAG-D304	1,000
U.S. Department of Transportation Highway Planning and Construction Grant Sidewalk - Scipio Creek to Battery Park	20.205	ANV63	481,274
U.S. Department of Homeland Security Passed through the Florida Department of Community Affairs Public Assistance Grant	97.036	037-01625-00	550,826
Total expenditures of federal awards			\$ 1,615,899
State Financial Assistance			
Fish and Wildlife Conservation Commission			
Veteran's Park	N/A	FWC04249	\$ 7,093
Derelict Vessel Removal	N/A	06162	250
Battery Park Phase II	N/A	05117	500
Scipio Creek Haul Out Slip	N/A	06088	18,640
Total Fish and Wildlife Conservation Commission			26,483
Florida Recreation Development Assistance	37.017	F06093	113,007
Florida Department of Environmental Protection Florida Legislature Special Appropriations for Sewer System Replacement	37.039	SP-493(4)	44,250
Florida Disadvantaged Small Community Program	37.039	SG427120	429,416
Florida Depart of Community Affairs Technical Assistance Grant		07-DR-8-02-29-02-022	50,000
Florida Department of State Division of Historical Resources Apalachicola City Hall Project Grant	45.032	SC309	92,130
Florida Communities Trust Area of Critical State Concern - Land Acquisition Grant	52.003	07-CT-97-06-F6-A1-048	4,144,119
Office of Tourism Trade and Economic Development	N/A	OT06-108	49,982
Florida Legislature Special Appropriations Passed through Northwest Florida Water Management District Stormwater Quality Improvements - Drainage Improvement	N/A	-----	2,109
Total state financial assistance			\$ 4,951,496

City of Apalachicola, Florida
Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards and State Financial Assistance

Internal control over major programs		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported
Type of auditor's report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 3510(a) or Chapter 10.557, Rules of the Auditor General State of Florida	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no

Identification of major programs:

<u>CFDA/CSFA Number</u>	<u>Name of Federal Award/State Financial Assistance Project</u>
14.228	U.S. Department of Housing and Urban Development Community Development Block Grants
20.205	U.S. Department of Transportation Highway Planning and Construction Grant
37.039	Florida Disadvantaged Small Community Program
52.003	Florida Communities Trust Area of Critical State Concern - Land Acquisition Grant
97.036	U.S. Department of Homeland Security Public Assistance Grant

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

Auditee qualified as low risk auditee? ☐ yes ☒ no

(Continued)

City of Apalachicola, Florida
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS

07-02 Segregation of Duties

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

07-03 All Accounting Transactions are not Recorded

Accounts payable related to grant funded projects were not entered into the accounting system.

SECTION III - FINDINGS AND QUESTIONED COSTS - FEDERAL AWARD PROGRAMS

07-07 Requesting Reimbursement Prior to Disbursing Payments

Grant Identification: Community Development Block Grant

Criteria: Cash management procedures

Cause: Checks to vendors were not disbursed until after grant reimbursement funds were received.

Effect: Noncompliance with grant cash management procedures.

Questioned Costs: Not applicable

Recommendation: We recommend the City utilizes the separate bank account as required by the grantor to determine that vendor payments have been disbursed prior to requesting reimbursement funds.

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

There were no findings.

SECTION V - CORRECTIVE ACTION PLAN - FEDERAL AWARD PROGRAM

The City has opened a new bank account to track expenditures for the grant. Management will review checks written in the account to determine the payments have been disbursed prior to approving reimbursement requests.

SECTION VI - OTHER ISSUES

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



CITY OF APALACHICOLA

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www.cityofapalachicola.com

Mayor
Van W. Johnson, Sr.

July 16, 2008

Commissioners
John M. Bartley, Sr.
Frank Cook
James L. Elliott
Valentina R. Webb

State of Florida Office
of the Auditor General
P.O. Box 1735
Tallahassee, FL 32302-1735

City Administrator
Betty Taylor-Webb

The City of Apalachicola is in receipt of the findings identified in the annual Financial Statements for the fiscal year ended September 30, 2007 submitted by Carr Riggs and Ingram, LLC. On behalf of the City the following responses have been developed and are hereby submitted:

City Clerk
Lee H. Mathes, CMC

MANAGEMENT LETTER

City Attorney
J. Patrick Floyd

Status of Prior Year Audit Recommendations

07-01 Budgetary Requirements (prior year 06-01)

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

07-02 Separation of Duties (prior year 06-02)

As stated in the prior audit reports, this issue results from the limited number of employees in the City Office. The duties of City office personnel are continually being reviewed by City Administration in an effort to provide internal control and in an effort to work toward a more effective and efficient overall operational structure. Significant productive steps have been made in this area over the past several years with the employment of additional staff and we feel internal control is nearing the highest level possible with resources available, internal monitoring will continue for additional improvements.

07-03 All Accounting Transactions are not Recorded

The City will record all grant related uncontested vendor invoices in the accounting system as received.

07-04 Cash needs to be managed to eliminate negative bank balances

Negative bank balances were in the most part generated with the recording of grant activity. This audit year has proven that the City has been very fortunate in grant procurement and along with several reimbursable grants, a large part of this deficiency results from the fact that the City has been faced with well over a million dollars in storm related projects from the 2005 hurricane season. The City is not financially in a position to have the excess funds available to cover these multiple expenses, even on a temporary basis, hence several lines of credits have been established to defray negative bank balances in the future.

Auditor General – Page 2
July 16, 2008

Additionally, the City recently raised utility fees by 20% to defray the increased costs of City day-to-day operations. In addition, no new grant projects will be started until sufficient cash flows are available or a means established to fund the project and subsequent maintenance costs.

07-05 Need for Significant Adjustments to the Financial Records

We realize that ideally our internal control system should be designed in a manner that ensures the accuracy of the financial statements and that the Auditors should not have to recommend journal entries to see that they conform to generally accepted accounting principles. Again, the City has made significant productive steps in this area over the past several years and we expect that in the future our internal control procedures will build positively in a direction to ensure our financial statements conform to generally accepted accounting principles.

07-06 Inadequate Design of Internal Controls over Financial Statements

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

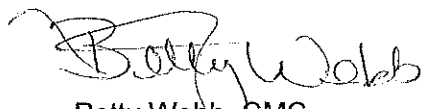
REPORT ON COMPLIANCE

07-07 Requesting Reimbursement Prior to Disbursing Payments

The City has set up a separate bank account as requested by the Department of Community Affairs and will mail checks to vendors prior to submitting a request for reimbursement. As part of our improved operation relative to grant activity, the City is now in the practice of setting up individual bank accounts for each active grant as a means of improved monitoring standards.

We appreciate the courtesy and assistance demonstrated by the staff of Carr, Riggs & Ingram, LLC during this audit. Please feel free to contact me at 850/653-9319 if there are any questions related to this report or if further information is required.

Respectfully submitted,



Betty Webb, CMC
City Administrator