

CITY OF MEXICO BEACH, FLORIDA

FINANCIAL STATEMENTS

SEPTEMBER 30, 2020



**CITY OF MEXICO BEACH, FLORIDA
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SEPTEMBER 30, 2020**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, City Council, and City Manager,
City of Mexico Beach, Florida:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Mexico Beach, Florida (the City), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our (1) unmodified audit opinions on the General Fund and Disaster Recovery Fund and (2) qualified audit opinions on the Governmental Activities, Business-Type Activities, and Water, Sewer, Sanitation, and Fire Funds.

Basis for Qualified Opinion on the Governmental Activities, Business-Type Activities, and Water, Sewer, Sanitation, and Fire Funds

As discussed in Note (11) to the financial statements, the City has not implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Accounting principles generally accepted in the United States of America require recording of an obligation for postemployment benefits other than pensions, which would increase liabilities, decrease net position, and change the expenses in governmental activities, business-type activities and water, sewer, sanitation and fire funds. The effects of this departure from accounting principles generally accepted in the United States of America on the governmental activities, business-type activities and water, sewer, sanitation and fire funds, has not been determined.

Qualified Opinion on the Governmental Activities, Business-Type Activities, and Water, Sewer, Sanitation, and Fire Funds

In our opinion, except for the effects of not implementing the provisions of GASB Statement No. 75, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of the City as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion on the General Fund and Disaster Recovery Fund

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund and Disaster Recovery Fund of the City as of September 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note (13) to the financial statements, in 2020, the City changed its method of accounting for inventory from the consumption method to the purchase method. The effects of correcting these misstatements have been applied to the beginning fund balance and net position amounts as of September 30, 2019. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

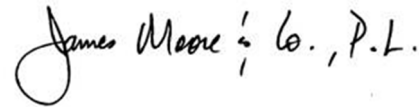
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The schedule of expenditures of federal awards and state financial assistance as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and Section 215.97, Florida Statutes, *Florida Single Audit Act*; and Chapter 10.550, Rules of the State of Florida, Office of the Auditor General, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large initial 'J'.

Tallahassee, Florida
March 22, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the City of Mexico Beach, Florida (hereinafter referred to as the "City") offers the readers of these basic financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2020. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position. The City encourages readers to consider the information presented here in conjunction with the financial statements, which follow this section.

Financial Highlights

- The City was catastrophically impacted by Hurricane Michael in October 2018, resulting in substantial negative financial positions and trends as the City waits on financial assistance from the Federal and State government.
- The total assets of the City of Mexico Beach, Florida exceeded its liabilities at the close of the most recent fiscal year by \$10,783,577 (net position). Of this amount, there is a deficit of (\$11,773,899) (unrestricted net position) available to be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased (decreased) by \$794,391 in fiscal year 2020, after restatements to beginning net position. Net position of the City's governmental activities increased (decreased) by \$1,002,347, while net position of its business type activities increased (decreased) by (\$207,956).
- The City's governmental funds reported a combined ending fund balance of (\$4,144,769) at the end of the current fiscal year, which increased (decreased) by \$415,809 in comparison to the (\$4,484,652) (as restated) reported at the end of the prior fiscal year. There is a net deficit of (\$6,383,474) of this amount available for spending at the City's discretion (unassigned fund balance).
- At the end of the 2020 fiscal year, unassigned fund balance for the General Fund was \$5,720,378 or 156% of the total fiscal year 2020 General Fund expenditures of \$3,782,841.
- The City's total long-term debt obligations decreased by \$493,322 during the fiscal year, due to scheduled current-year principal maturities/reductions on existing obligations. The City's combined long-term commitment for compensated absences totaled \$69,491 at year-end.

Overview of the Financial Statements

The City's basic financial statements are comprised of three parts: 1) management's discussion and analysis, 2) the basic financial statements, including notes to the financial statements, and 3) required supplementary information, including various pension-related schedules.

Management's discussion and analysis (MD&A) is intended to serve as an introduction to the basic financial statements and required supplementary information. The MD&A represents management's examination and analysis of the City's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the strategic plan, budget, as well as other management tools were used for this analysis.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the City's overall financial status, including its governmental activities and its business-type activities. These statements report information about the City using full accrual accounting methods, and an economic resources focus, as utilized by similar business activities in the private sector. Information concerning the City's assets and liabilities, both financial and capital, and short-term and long-term debt are included. Likewise, all revenues and expenses received during the year, regardless of when cash is received or paid are reported. However, rate-regulated accounting principles applicable to private sector utilities are not used by governmental utilities. The remaining statements are fund financial statements that focus on individual parts of the City government and report the City's operations in more detail than the government-wide financial statements. The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the City's water utility system. The financial statements also include notes which provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the City's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. This section also contains budgetary comparisons for the City's governmental fund activities.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The basic financial statements of the City include a statement of net position and a statement of activities, which are described as follows:

- A statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the end of its fiscal year, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position, which indicates an improved financial condition.
- The statement of activities presents the results of business operations over the course of the fiscal year and information as to how the City's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., delinquent taxes and earned but unused personal leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government services, public safety (police and building inspection), streets, storm water management, solid waste management, the Community Redevelopment Agency, disaster recovery and relief efforts, and recreation and leisure services. The business-type activities of the City include its water utility, sewer utility, stormwater utility, and sanitation activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted into cash. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations can be found on pages 14 and 16.

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and disaster recovery fund, both of which are considered to be major funds.

Proprietary Funds. Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund financial statements, like the government-wide statements, provide both long- and short-term financial information. The City's enterprise funds (water utility, sewer utility, sanitation, and fire) are the items included in the business-type activities presented in the government-wide statements. Since the accounting for these operations is similar to that provided in the government-wide financial statements, the fund financial statements provide limited supplemental information in more detail, such as cash flows data. The basic proprietary fund financial statements can be found on pages 17 to 19 of this report.

Financial Analysis of the City as a Whole

Net Position. As noted previously, net position may serve over time as a useful indicator of a government's financial position. This year, the City's combined total assets exceeded liabilities (net position) by \$10,783,577 at the end of 2020, compared to \$10,085,937 at the end of 2019. This represents a total increase of \$794,391 or 8% from the amount reported at the end of the prior fiscal year.

The following is a summary of net position at year end:

**Net Position
September 30, 2020 and 2019**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
ASSETS						
Current and other assets	\$ 13,934,385	\$ 40,533,232	\$ 2,422,566	\$ 2,792,729	\$ 16,356,951	\$ 43,325,961
Capital assets	11,693,642	10,113,177	11,528,586	11,843,611	23,222,228	21,956,788
Total assets	\$ 25,628,027	\$ 50,646,409	\$ 13,951,152	\$ 14,636,340	\$ 39,579,179	\$ 65,282,749
DEFERRED OUTFLOWS	\$ 875,623	\$ 549,673	\$ 188,331	\$ 715,100	\$ 1,063,954	\$ 1,264,773
LIABILITIES						
Current liabilities	\$ 18,090,592	\$ 45,006,896	\$ 3,939,702	\$ 3,334,108	\$ 22,030,294	\$ 48,341,004
Noncurrent liabilities:	2,427,679	1,390,389	4,956,837	6,534,529	7,384,516	7,924,918
Total liabilities	\$ 20,518,271	\$ 46,397,285	\$ 8,896,539	\$ 9,868,637	\$ 29,414,810	\$ 56,265,922
DEFERRED INFLOWS	\$ 366,021	\$ 85,035	\$ 78,725	\$ 110,628	\$ 444,746	\$ 195,663
NET POSITION						
Net investment in capital assets	\$ 11,607,179	\$ 10,007,554	\$ 7,088,280	\$ 6,979,143	\$ 18,695,459	\$ 16,986,697
Restricted	1,757,445	1,443,763	2,104,572	2,196,461	3,862,017	3,640,224
Unrestricted	(7,745,266)	(6,737,555)	(4,028,633)	(3,803,429)	(11,773,899)	(10,540,984)
Total net position	\$ 5,619,358	\$ 4,713,762	\$ 5,164,219	\$ 5,372,175	\$ 10,783,577	\$ 10,085,937

The most significant component of the City's net position (approximately 76%, due to negative unrestricted net position) is, by far, its investment in capital assets (land, infrastructure, buildings, and equipment), less any related debt used to acquire or construct those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (11%) represents resources that are subject to external restrictions on how they may be used. Consequently, the remaining 13% of unrestricted net position, represents amounts that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, and totaled a deficit of (\$11,773,899) at year-end, compared to a deficit balance of (\$10,540,984) in 2019. The main reason for the decrease from the prior year was due to the financial effects from Hurricane Michael, which impacted the City in October 2018. The City expects to recover some of these losses as additional grant reimbursements are approved and disbursed by FEMA.

Changes in Net Position. While the statement of net position shows a snapshot of the City's financial position at the end of the fiscal year, the statement of changes in net position provides answers as to the nature and source of those changes. During 2020, total revenues were \$19,235,319 compared to \$56,096,532 in the prior year. Approximately 13% of the City's revenue came from property taxes, 2% from other taxes and fees, 15% came from fees charged for services, and most of the remaining revenue included state and federal financial assistance and other miscellaneous revenues, including substantial FEMA reimbursements related to Hurricane Michael.

During 2020, expenses were \$18,440,928 as opposed to \$69,787,193 in the prior year, for a decrease of approximately 74% due to the recovery from Hurricane Michael. City-wide, public safety expenses accounted for approximately 14% of the City's expenses, water, sewer, stormwater, and sanitation expenses collectively were 10%. The other functions, including the general government, transportation, and culture and recreation each individually totaled close to or less than 10% of expenses relative to the City as a whole.

The following is a summary of changes in net position at year end:

**Changes in Net Position
For the Fiscal Years Ended September 30, 2020 and 2019**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
REVENUES						
Property taxes	\$ 2,397,380	\$ 2,197,106	\$ -	\$ -	\$ 2,397,380	\$ 2,197,106
Other taxes and fees	428,332	446,963	-	-	428,332	446,963
Charges for services	887,568	592,018	1,963,803	2,266,181	2,851,371	2,858,199
Intergovernmental and grants	13,345,550	50,190,301	116,237	337,529	13,461,787	50,527,830
Other revenues	96,137	34,732	312	31,702	96,449	66,434
Total revenues	17,154,967	53,461,120	2,080,352	2,635,412	19,235,319	56,096,532
EXPENSES						
General government	798,181	633,170	-	-	798,181	633,170
Public safety	2,534,609	888,395	-	-	2,534,609	888,395
Physical environment	147,701	166,839	-	-	147,701	166,839
Transportation	671,893	669,549	-	-	671,893	669,549
Economic environment	-	-	-	-	-	-
Human services	-	-	-	-	-	-
Culture and recreation	279,057	298,563	-	-	279,057	298,563
Disaster recovery	11,919,979	60,173,336	-	-	11,919,979	60,173,336
Water utility	-	-	948,925	2,489,129	948,925	2,489,129
Sewer utility	-	-	564,432	2,302,689	564,432	2,302,689
Sanitation	-	-	360,998	566,937	360,998	566,937
Fire	-	-	-	1,394,593	-	1,394,593
Interest expense	4,732	2,025	210,421	201,968	215,153	203,993
Total expenses	16,356,152	62,831,877	2,084,776	6,955,316	18,440,928	69,787,193
Income before transfers	798,815	(9,370,757)	(4,424)	(4,319,904)	794,391	(13,690,661)
Transfers	203,532	-	(203,532)	-	-	-
Change in net position	1,002,347	(9,370,757)	(207,956)	(4,319,904)	794,391	(13,690,661)
Net position, beginning of year	4,617,011	14,084,519	5,372,175	9,692,079	9,989,186	23,776,598
Net position, end of year	\$ 5,619,358	\$ 4,713,762	\$ 5,164,219	\$ 5,372,175	\$ 10,783,577	\$ 10,085,937

*2020 beginning of year net position amounts have been restated. 2019 amounts are shown as presented in the prior year financial statements.

Governmental Activities

Revenues for the City's governmental activities totaled \$17,154,967 in 2020. This represents a decrease of over \$36 million from than last year's reported revenues of \$53,461,120, and is primarily due to grant and insurance reimbursements related to Hurricane Michael during in 2019.

Governmental activities expenses totaled \$16,356,152, which decreased over \$46 million from the prior year due to the impacts of Hurricane Michael during 2019.

Business-Type Activities

The major source of operating revenues for the City's business-type activities is charges for services (water, sewer, sanitation, fire), which during the year decreased to a total of \$2,080,352, less than utility billings of \$2,635,412 in 2019 due to the lesser consumption in the aftermath of Hurricane Michael.

Total operating expenses of the proprietary funds fund decreased in 2020 and totaled \$2,084,776, compared to \$6,955,316 in 2019, a decrease of over \$4.8 million, primarily due to decreased repair expenses and substantial decrease in pension expense related to the change in the City's net pension liability during 2019.

Financial Analysis of the City's Funds

As stated previously, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As the City completed the year, its governmental funds reported a combined fund balance of (\$4,144,769), which was an increase (decrease) of \$415,809 compared with the amount reported last year. This increase was primarily related to disaster recovery expenditures related to Hurricane Michael in excess of subsequent reimbursement from insurance carriers and FEMA.

The general fund is the chief operating fund of the City. As of September 30, 2020, the unassigned fund balance in the general fund totaled \$5,720,378. This unassigned fund balance represents approximately 151% of the City's general fund spending requirements experienced during 2020.

The Disaster Recovery fund, which was established in 2019, had an ending fund balance of a deficit of (\$12,103,852), all of which was reported as unassigned and related to disaster recovery expenditures in excess of grant/insurance reimbursements in 2019 and 2020. The deficit fund balance in the Disaster Recovery Fund is expected to be recovered over of course of the coming years as the City receives additional reimbursements related to Hurricane Michael.

Proprietary Funds. The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

Charges for services in the proprietary funds decreased approximately \$300 thousand from the prior year, with similar decreased observed in the water, sewer, and fire funds due to decreased repairs and maintenance activity in the year following Hurricane Michael.

General Fund Budgetary Highlights

Permits and fees revenues were \$680,710 more than originally budgeted due to substantial building permit activity in the aftermath of Hurricane Michael.

Miscellaneous revenues were \$170,855 more than originally budgeted, mostly due to \$155,850 of unbudgeted donations received to aid in the Hurricane Michael recovery.

General Fund Expenditures varied by category from the budget and, in totality, were \$684,642 above the approved budget of \$3,098,199. Various over- and under-budget variances were noted due to shifting in services provided during the recovery from Hurricane Michael.

All of these factors combined resulted in \$2,730,013 increase to General Fund Balance for Fiscal Year 2020.

No budget amendments were made during 2020, resulting in no changes between the original and final budgets.

Capital Assets and Debt Administration

Capital Assets. At September 30, 2020, the City had nearly \$30 million invested in a broad range of capital assets, including land, buildings, park facilities, police equipment, public works equipment and water lines. See Note (6) for further information on the City's capital assets.

Long-Term Debt. The City has various notes and bonds payable totaling \$4,526,769 at year-end, compared to \$4,970,091 one year earlier, with the decrease being due to ongoing principal payments made in the current year. Under these agreements, the City must repay these loans with semiannual payments.

More detailed information about the City's long-term debt is presented in Note (7) to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Many factors are considered each year by the City Council in its efforts to establish an operating budget, to evaluate its personnel needs, and to develop uniform user fees that are reasonable, and more importantly, capable of cost recovery. Some of the major factors considered in this process are the local economy, civilian labor force, unemployment rates, and inflation rates.

- Due to the COVID-19 pandemic budget forecasts for fiscal 2021 are improving as the pandemic continued to lessen impacts on the local economy.
- The most recent estimates available for unemployment data in Mexico Beach, Bay County, and the State of Florida are compiled by the Florida Department of Economic Opportunity. Unemployment rates will be higher than previously forecast. US Bureau of Labor Statistics reports a preliminary unemployment number for April 2020 of 12.6%.
- Property tax revenue will increase based on a budget of approximately \$2.7 million. Fiscal 2020's approved millage rate was increased to 8.0 to help meet operating requirements in the wake of decreased property values due to Hurricane Michael. The same millage rate was also enacted in the Fiscal year 2021 budget as property values continue to recover.
- The fiscal year 2021 budgets adopted for all funds utilized the prior year's final adopted budgets and the City's actual financial results as the baseline from which priority setting and decisions were made to formulate the new budgets. The final budget was further modified to reflect changing revenue projections and anticipated changes in expenditure trends.
- Inflationary trends for Bay County are consistent with those trends experienced at the state and national levels.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the City of Mexico Beach Finance Department, PO Box 13425, Mexico Beach FL, 32410. Information can also be obtained at the City's website at www.mexicobeachgov.com.

CITY OF MEXICO BEACH, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Equity in pooled cash and cash equivalents	\$ 3,460,105	\$ 15,693	\$ 3,475,798
Receivables, net	11,772	233,452	245,224
Internal balances	3,757,191	(3,757,191)	-
Due from other governments	6,704,677	-	6,704,677
Prepays	640	-	640
Right-of-use assets	-	10,838	10,838
Restricted assets:			
Equity in pooled cash and cash equivalents	-	2,162,583	2,162,583
Capital assets:			
Capital assets, not being depreciated	1,963,777	732,495	2,696,272
Other capital assets, net of depreciation	9,729,865	10,796,091	20,525,956
Total assets	<u>\$ 25,628,027</u>	<u>\$ 10,193,961</u>	<u>\$ 35,821,988</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	<u>\$ 875,623</u>	<u>\$ 188,331</u>	<u>\$ 1,063,954</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 17,698,152	\$ 124,500	\$ 17,822,652
Unearned revenue	358,717	-	358,717
Accrued interest payable	-	58,011	58,011
Due to other governments	22,285	-	22,285
Noncurrent liabilities:			
Due within one year:			
Bonds and notes payable	86,463	267,526	353,989
Compensated absences	11,438	5,301	16,739
Due in more than one year:			
Bonds and notes payable	-	4,172,780	4,172,780
Compensated absences	37,096	15,656	52,752
Net pension liability	2,304,120	495,574	2,799,694
Total liabilities	<u>\$ 20,518,271</u>	<u>\$ 5,139,348</u>	<u>\$ 25,657,619</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	<u>\$ 366,021</u>	<u>\$ 78,725</u>	<u>\$ 444,746</u>
NET POSITION			
Net investment in capital assets	\$ 11,607,179	\$ 7,088,280	\$ 18,695,459
Restricted for:			
Debt service	-	481,951	481,951
Capital expansion	192,052	1,622,621	1,814,673
Construction	994,079	-	994,079
Building department	180,791	-	180,791
Law enforcement	1,937	-	1,937
Hurricane recovery	388,586	-	388,586
Unrestricted	(7,745,266)	(4,028,633)	(11,773,899)
Total net position	<u>\$ 5,619,358</u>	<u>\$ 5,164,219</u>	<u>\$ 10,783,577</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF MEXICO BEACH, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 798,181	\$ 40,981	\$ 68,838	\$ -	\$ (688,362)	\$ -	\$ (688,362)
Public safety	2,534,609	735,219	-	643,914	(1,155,476)	-	(1,155,476)
Physical environment	147,701	-	-	465,825	318,124	-	318,124
Transportation	671,893	111,368	107,234	92,310	(360,981)	-	(360,981)
Culture and recreation	279,057	-	-	547,680	268,623	-	268,623
Disaster recovery	11,919,979	-	11,383,677	-	(536,302)	-	(536,302)
Interest on long-term debt	4,732	-	-	-	(4,732)	-	(4,732)
Total governmental activities	<u>16,356,152</u>	<u>887,568</u>	<u>11,559,749</u>	<u>1,749,729</u>	<u>(2,159,106)</u>	<u>-</u>	<u>(2,159,106)</u>
Business-type activities:							
Water	1,065,087	753,979	-	44,518	-	(266,590)	(266,590)
Sewer	658,691	816,347	-	71,719	-	229,375	229,375
Sanitation	360,998	391,469	-	-	-	30,471	30,471
Total business-type activities	<u>2,084,776</u>	<u>1,961,795</u>	<u>-</u>	<u>116,237</u>	<u>-</u>	<u>(6,744)</u>	<u>(6,744)</u>
Total primary government	<u>\$ 18,440,928</u>	<u>\$ 2,849,363</u>	<u>\$ 11,559,749</u>	<u>\$ 1,865,966</u>	<u>(2,159,106)</u>	<u>(6,744)</u>	<u>(2,165,850)</u>
General revenues:							
Property taxes					2,397,380	-	2,397,380
Sales taxes					116,127	-	116,127
Infrastructure surtax					108,841	-	108,841
Communications service tax					17,821	-	17,821
Public service taxes					70,673	-	70,673
Other taxes					6,330	-	6,330
Franchise fees					108,540	-	108,540
State revenue sharing					36,072	-	36,072
Investment earnings					12,269	2,320	14,589
Miscellaneous revenues					83,868	-	83,868
Transfers					203,532	(203,532)	-
Total general revenues					<u>3,161,453</u>	<u>(201,212)</u>	<u>2,960,241</u>
Change in net position					1,002,347	(207,956)	794,391
Net position - beginning of year, as restated					4,617,011	5,372,175	9,989,186
Net position - ending of year					<u>\$ 5,619,358</u>	<u>\$ 5,164,219</u>	<u>\$ 10,783,577</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF MEXICO BEACH, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020**

	<u>General Fund</u>	<u>Disaster Recovery Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Equity in pooled cash and cash equivalents	\$ 3,460,105	\$ -	\$ 3,460,105
Receivables, net	11,772	-	11,772
Due from other governments	38,796	6,665,881	6,704,677
Due from other funds	4,866,436	813,873	5,680,309
Prepaid items	640	-	640
Total assets	<u>\$ 8,377,749</u>	<u>\$ 7,479,754</u>	<u>\$ 15,857,503</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 37,664	\$ 17,660,488	\$ 17,698,152
Unearned revenue	358,717	-	358,717
Due to other governments	22,285	-	22,285
Due to other funds	-	1,923,118	1,923,118
Total liabilities	<u>418,666</u>	<u>19,583,606</u>	<u>20,002,272</u>
FUND BALANCES			
Nonspendable:			
Prepaid items	640	-	640
Restricted for:			
Capital expansion	192,052	-	192,052
Intrastructure	994,079	-	994,079
Law enforcement	1,937	-	1,937
Building department	180,791	-	180,791
Hurricane recovery	388,586	-	388,586
Committed to:			
Canal maintenance	315,367	-	315,367
Assigned for:			
Boat ramp maintenance	117,057	-	117,057
Public works	48,196	-	48,196
Unassigned	5,720,378	(12,103,852)	(6,383,474)
Total fund balances	<u>7,959,083</u>	<u>(12,103,852)</u>	<u>(4,144,769)</u>
Total liabilities and fund balances	<u>\$ 8,377,749</u>	<u>\$ 7,479,754</u>	<u>\$ 15,857,503</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF MEXICO BEACH, FLORIDA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2020**

Fund balances - total governmental funds		\$ (4,144,769)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds</p>		
Total governmental capital assets	14,192,055	
Less: accumulated depreciation	(2,498,413)	11,693,642
<p>On the governmental fund statements, a net pension liability is not recorded until an amount is due and payable and the pension plan's fiduciary net position is not sufficient for payment of those benefits (no such liability exists at the end of the current fiscal year). On the statement of net position, the City's net pension liability of the defined benefit pension plans is reported as a noncurrent liability. Additionally, deferred outflows and deferred inflows related to pensions are also reported.</p>		
Net pension liability	(2,304,120)	
Deferred outflows related to pensions	875,623	
Deferred inflows related to pensions	(366,021)	(1,794,518)
<p>Long-term liabilities, including bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities, deferred outflows, and other debt-related deferred charges consist of the following:</p>		
Bonds and notes payable	(86,463)	
Compensated absences	(48,534)	(134,997)
Net position of governmental activities		\$ 5,619,358

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MEXICO BEACH, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	General Fund	Disaster Recovery Fund	Total Governmental Funds
Revenues			
Taxes	\$ 2,561,385	\$ -	\$ 2,561,385
Permits and fees	885,710	-	885,710
Intergovernmental	1,761,685	11,602,409	13,364,094
Fines and forfeitures	5,807	-	5,807
Investment income	11,116	1,153	12,269
Miscellaneous	247,855	60,554	308,409
Total revenues	5,473,558	11,664,116	17,137,674
Expenditures			
Current:			
General government	621,179	-	621,179
Public safety	2,207,511	-	2,207,511
Physical environment	114,375	-	114,375
Transportation	524,531	-	524,531
Culture and recreation	149,043	-	149,043
Disaster recovery	-	11,924,386	11,924,386
Capital outlay	92,310	1,682,402	1,774,712
Debt service:			
Principal retirement	69,160	-	69,160
Interest and fiscal charges	4,732	-	4,732
Total expenditures	3,782,841	13,606,788	17,389,629
Excess (deficiency) of revenues over expenditures	1,690,717	(1,942,672)	(251,955)
Other financing sources (uses)			
Transfers in	466,091	134,380	600,471
Insurance recoveries	-	17,293	17,293
Issuance of long-term debt	50,000	-	50,000
Total other financing sources (uses)	516,091	151,673	667,764
Net change in fund balances	2,206,808	(1,790,999)	415,809
Fund balances, beginning of year, as restated	5,752,275	(10,312,853)	(4,560,578)
Fund balances, end of year	\$ 7,959,083	\$ (12,103,852)	\$ (4,144,769)

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF MEXICO BEACH, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Net change in fund balances - total governmental funds	\$	415,809
Differences in amounts reported for governmental activities in the statement of activities are:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Capital outlay expenditures		1,774,712
Depreciation expense		(384,021)
The net effect of transfer of the closeout of the Fire Fund (an enterprise fund) to the General Fund (under governmental activities).		
		(396,939)
Bond and loan proceeds are reported as financing sources in the governmental funds. However, the issuance of debt is reported as long-term debt payable in the statement of net position. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment of debt principal reduces long-term liabilities in the statement of net position. These amounts are as follows:		
Principal repayment of general long-term debt		69,160
Issuance of governmental long-term debt		(50,000)
Governmental funds report contributions to defined benefit pension plans as expenditures. However, in the statement of activities, the amount contributed to defined benefit pension plans reduces future net pension liability. Also included in pension expense in the statement of activities are amounts required to be amortized.		
Change in net pension liability and deferred inflows/outflows related to pensions		(427,403)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. These adjustments are as follows:		
Change in compensated absences liability		1,029
Change in net position of governmental activities	\$	<u>1,002,347</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MEXICO BEACH, FLORIDA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2020

	Business-type Activities - Enterprise Funds				Total
	Water	Sewer	Sanitation	Fire	
ASSETS					
Equity in pooled cash and cash equivalents	\$ 200	\$ -	\$ 15,493	\$ -	\$ 15,693
Accounts receivable, net	81,282	109,088	43,082	-	233,452
Restricted current assets					
Restricted cash	50,952	7,059	-	-	58,011
Total current assets	<u>132,434</u>	<u>116,147</u>	<u>58,575</u>	<u>-</u>	<u>307,156</u>
Noncurrent assets:					
Intangible right-of-use asset	-	10,838	-	-	10,838
Restricted cash	682,281	1,422,291	-	-	2,104,572
Capital assets:					
Land	17,765	270,426	-	-	288,191
Construction in progress	89,495	354,809	-	-	444,304
Improvements	10,901,820	7,048,458	-	-	17,950,278
Machinery and equipment	393,543	184,992	460,652	-	1,039,187
Accumulated depreciation	<u>(3,895,500)</u>	<u>(4,029,400)</u>	<u>(268,474)</u>	<u>-</u>	<u>(8,193,374)</u>
Total capital assets, net	<u>7,507,123</u>	<u>3,829,285</u>	<u>192,178</u>	<u>-</u>	<u>11,528,586</u>
Total noncurrent assets	<u>8,189,404</u>	<u>5,262,414</u>	<u>192,178</u>	<u>-</u>	<u>13,643,996</u>
Total assets	<u>\$ 8,321,838</u>	<u>\$ 5,378,561</u>	<u>\$ 250,753</u>	<u>\$ -</u>	<u>\$ 13,951,152</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions	<u>\$ 121,483</u>	<u>\$ 8,743</u>	<u>\$ 58,105</u>	<u>\$ -</u>	<u>\$ 188,331</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 59,163	\$ 51,969	\$ 13,368	\$ -	\$ 124,500
Due to other funds	1,983,935	1,714,038	59,218	-	3,757,191
Compensated absences	2,533	875	1,893	-	5,301
Payable from restricted assets:					
Current maturities on long-term debt	119,651	147,875	-	-	267,526
Accrued interest payable	50,952	7,059	-	-	58,011
Total current liabilities	<u>2,216,234</u>	<u>1,921,816</u>	<u>74,479</u>	<u>-</u>	<u>4,212,529</u>
Noncurrent liabilities:					
Bonds and notes payable, net	2,577,680	1,595,100	-	-	4,172,780
Compensated absences	7,481	2,585	5,590	-	15,656
Net pension liability	319,671	23,006	152,897	-	495,574
Total noncurrent liabilities	<u>2,904,832</u>	<u>1,620,691</u>	<u>158,487</u>	<u>-</u>	<u>4,684,010</u>
Total liabilities	<u>\$ 5,121,066</u>	<u>\$ 3,542,507</u>	<u>\$ 232,966</u>	<u>\$ -</u>	<u>\$ 8,896,539</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions	<u>\$ 50,781</u>	<u>\$ 3,655</u>	<u>\$ 24,289</u>	<u>\$ -</u>	<u>\$ 78,725</u>
NET POSITION					
Net investment in capital assets	\$ 4,809,792	\$ 2,086,310	\$ 192,178	\$ -	\$ 7,088,280
Restricted for debt service	301,087	180,864	-	-	481,951
Restricted for utility plant expansion	381,194	1,241,427	-	-	1,622,621
Unrestricted	<u>(2,220,599)</u>	<u>(1,667,459)</u>	<u>(140,575)</u>	<u>-</u>	<u>(4,028,633)</u>
Total net position	<u>\$ 3,271,474</u>	<u>\$ 1,841,142</u>	<u>\$ 51,603</u>	<u>\$ -</u>	<u>\$ 5,164,219</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MEXICO BEACH, FLORIDA
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Business-type Activities - Enterprise Funds				Total
	Water	Sewer	Sanitation	Fire	
Operating revenues					
Charges for services	\$ 757,987	\$ 814,347	\$ 391,469	\$ -	\$ 1,963,803
Other revenues	(4,008)	2,000	-	-	(2,008)
Total operating revenues	<u>753,979</u>	<u>816,347</u>	<u>391,469</u>	<u>-</u>	<u>1,961,795</u>
Operating expenses					
Personal services	288,984	53,278	196,641	-	538,903
Operating expenses	364,692	298,385	127,613	-	790,690
Depreciation	295,249	212,769	36,744	-	544,762
Total operating expenses	<u>948,925</u>	<u>564,432</u>	<u>360,998</u>	<u>-</u>	<u>1,874,355</u>
Operating income (loss)	<u>(194,946)</u>	<u>251,915</u>	<u>30,471</u>	<u>-</u>	<u>87,440</u>
Nonoperating revenues (expenses)					
Interest earnings	826	1,468	26	-	2,320
Interest and amortization expense	(116,162)	(94,259)	-	-	(210,421)
Total nonoperating revenues (expenses)	<u>(115,336)</u>	<u>(92,791)</u>	<u>26</u>	<u>-</u>	<u>(208,101)</u>
Income (loss) before contributions and transfers	<u>(310,282)</u>	<u>159,124</u>	<u>30,497</u>	<u>-</u>	<u>(120,661)</u>
Capital contributions	44,518	71,719	-	-	116,237
Transfers in	-	-	-	396,939	396,939
Transfers out	-	(134,380)	-	(466,091)	(600,471)
Change in net position	<u>(265,764)</u>	<u>96,463</u>	<u>30,497</u>	<u>(69,152)</u>	<u>(207,956)</u>
Net position, beginning of year, as restated	3,537,238	1,744,679	21,106	69,152	5,372,175
Net position, end of year	<u>\$ 3,271,474</u>	<u>\$ 1,841,142</u>	<u>\$ 51,603</u>	<u>\$ -</u>	<u>\$ 5,164,219</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MEXICO BEACH, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Business-type Activities - Enterprise Funds				Total
	Water	Sewer	Sanitation	Fire	
Cash flows from operating activities					
Cash received from customers	\$ 729,358	\$ 614,450	\$ 388,190	\$ -	\$ 1,731,998
Cash paid to employees	(185,665)	(160,666)	(264,523)	-	(610,854)
Cash paid to suppliers	(440,604)	(719,228)	(122,628)	-	(1,282,460)
Net cash provided by (used in) operating activities	<u>103,089</u>	<u>(265,444)</u>	<u>1,039</u>	<u>-</u>	<u>(161,316)</u>
Cash flows from noncapital financing activities					
Transfers to other funds	-	(134,380)	-	(178,893)	(313,273)
Intergovernmental grant proceeds	-	-	-	-	-
Interfund loans	357,309	603,560	(2,868)	-	958,001
Net cash provided by (used in) noncapital financing activities	<u>357,309</u>	<u>469,180</u>	<u>(2,868)</u>	<u>(178,893)</u>	<u>644,728</u>
Cash flows from capital and related financing activities					
Impact fees	44,518	71,719	-	-	116,237
Acquisition and construction of capital assets	(239,771)	-	-	-	(239,771)
Principal payments of long-term debt	(193,660)	(230,502)	-	-	(424,162)
Interest paid	(94,962)	(95,128)	-	-	(190,090)
Net cash provided by (used in) capital and related financing activities	<u>(483,875)</u>	<u>(253,911)</u>	<u>-</u>	<u>-</u>	<u>(737,786)</u>
Cash flows from investing activities					
Interest received	826	1,468	26	-	2,320
Net change in cash and cash equivalents	<u>(22,651)</u>	<u>(48,707)</u>	<u>(1,803)</u>	<u>(178,893)</u>	<u>(252,054)</u>
Cash and cash equivalents, beginning of year	756,084	1,478,057	17,296	178,893	2,430,330
Cash and cash equivalents, end of year	<u>\$ 733,433</u>	<u>\$ 1,429,350</u>	<u>\$ 15,493</u>	<u>\$ -</u>	<u>\$ 2,178,276</u>
Cash and cash equivalents classified as:					
Unrestricted	\$ 200	\$ -	\$ 15,493	\$ -	\$ 15,693
Restricted	733,233	1,429,350	-	-	2,162,583
Total cash and cash equivalents	<u>\$ 733,433</u>	<u>\$ 1,429,350</u>	<u>\$ 15,493</u>	<u>\$ -</u>	<u>\$ 2,178,276</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (194,946)	\$ 251,915	\$ 30,471	\$ -	\$ 87,440
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	295,249	212,769	36,744	-	544,762
Changes in assets and liabilities:					
Accounts receivable	(24,621)	(201,897)	(3,279)	-	(229,797)
Prepaid items	-	1,806	-	-	1,806
Accounts payable and accrued liabilities	(75,912)	(422,649)	4,985	-	(493,576)
Unearned revenue	-	-	-	-	-
Compensated absences	(2,372)	2,717	624	-	969
Net pension liability	105,691	(110,105)	(68,506)	-	(72,920)
Net cash provided by (used in) operating activities	<u>\$ 103,089</u>	<u>\$ (265,444)</u>	<u>\$ 1,039</u>	<u>\$ -</u>	<u>\$ (161,316)</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(1) Summary of Significant Accounting Policies:

The financial statements of the City of Mexico Beach, Florida (the City), have been prepared in conformance with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for promulgating governmental accounting and financial reporting principles and the City has adopted the GASB Codification. The following is a summary of the City's significant accounting policies:

(a) **Reporting entity**—The City of Mexico Beach, Florida, is incorporated under the provisions of the State of Florida in 1967 and is located in eastern Bay County in northwest Florida along the Gulf of Mexico. The City operates under a City Council comprised of an elected Mayor and four City Council members, all elected at-large, and serves approximately 1,500 residents by providing human services, community enrichment and development, law enforcement and fire safety, and general administrative services. In addition, the City operates water, sewer, and sanitation utilities.

(b) **Government-wide and fund financial statements**—The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report aggregated information for the overall government for all of the activities of the primary government. These statements do not report fiduciary funds or fiduciary component units such as retirement trust funds. Those activities are reported only in fund financial statements. The effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange revenues, are reported separately from business-type activities, which are financed wholly or partially by fees charged to external parties for goods or services and are reported in enterprise funds.

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. Indirect costs are included in the program expense reported for individual functions and activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) 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 funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(c) **Measurement focus, basis of accounting, and financial statement presentation**— The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to, and accounted for in, individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The accounting and financial reporting treatment is determined by the applicable measurement focus and the basis of accounting. The basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Measurement focus indicates the type of resources being measured such as current financial resources (current assets less current liabilities) or economic resources (all assets and liabilities).

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(1) **Summary of Significant Accounting Policies:** (Continued)

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. 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 property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grants, other intergovernmental revenues, charges for services, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, certain expenditures relating to future periods, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund—The General Fund is the principal fund of the City which accounts for all financial transactions not accounted for in other funds. The majority of current operating expenditures of the City other than proprietary fund activities are financed through revenues received by the General Fund.

Disaster Recovery Fund—This Disaster Recovery fund accounts for the activity related to the City's recovery efforts following Hurricane Michael. The financial sources and uses are legally restricted for specific purposes.

The City reports the following major proprietary funds:

Water Fund—The Water Fund accounts for the costs and recovery of costs in the form of user charges related to the production, treatment and distribution of potable water. The maintenance and improvement of utility plant required to provide these goods and services are financed primarily from user charges. Physical plant expansion is financed primarily from revenue bond obligations and other long-term debt borrowings.

Sewer Fund—The Sewer Fund accounts for the costs and recovery of costs in the form of user charges related to the collection, treatment and disposal of sewage waste with the City. The maintenance and improvement of utility plant required to provide these goods and services are financed primarily from user charges. Physical plant expansion is financed primarily from revenue bond obligations and other long-term debt borrowings.

Sanitation Fund—The Sanitation Fund provides the community with refuse and recycling services, the costs of which are primarily recovered by user charges.

Fire Fund—The Fire Fund is used to account for the revenues and costs associated with the fire assessments. The Fire Fund assets and liabilities were transferred to the General Fund during fiscal year 2020.

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(1) **Summary of Significant Accounting Policies:** (Continued)

As a general rule, the effect of the City's interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments (when applicable). Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 sales and services. The City recognizes as operating revenue the portion of impact fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(d) **Budgets and budgetary accounting**—Annual budgets for all governmental and proprietary funds, except for the Disaster Recovery Fund which did not adopt a legal budget in the current year, are adopted in compliance with Florida law. The basis on which the budgets are prepared is consistent with the basis of accounting utilized by the various fund types. The governmental fund budgets are prepared on the modified accrual basis of accounting. The proprietary fund budgets are prepared on a full accrual basis of accounting. The City uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

- i. On or before July 1st, the City Manager submits a preliminary budget to the City Council for the ensuing fiscal year.
- ii. Budget workshop sessions are scheduled by the City Council, as needed.
- iii. A general summary of the budget and notice of public hearing is made available to the public.
- iv. Prior to October 1st, the budget is legally enacted through passage of an ordinance.
- v. The City Council, by resolution, may make supplemental appropriations in excess of those estimated for the year up to the amount of available revenue. Prior to the end of the fiscal year, supplemental appropriations are made for unanticipated spending requirements by the Council.
- vi. Budgetary control is exercised at the fund level.
- vii. Every appropriation lapses at the close of the fiscal year.

The budgets for governmental funds that were either adopted or amended during the year by the City Council were prepared using the modified accrual basis of accounting in accordance with generally accepted accounting principles.

The budgets for proprietary funds that were either adopted or amended during the year by the City Council were prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. The water, sewer, sanitation, and fire funds also have legally adopted annual budgets.

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(1) **Summary of Significant Accounting Policies:** (Continued)

(e) **Deposits and investments**—The City’s cash and cash equivalents include cash on hand, demand deposits and short-term investments that are readily convertible to known amounts of cash. Investments with original maturities of three months or less are considered to be cash equivalents.

(f) **Receivables and payables**—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” (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are reported net of an allowance for uncollectible accounts, which is based upon management’s analysis of historical trends.

(g) **Inventories and prepaid items**—Inventory items of materials and supplies, which are not significant in amount, are considered expenditures when purchased in the governmental funds and the proprietary funds. Inventory in the governmental funds consists of fuel held for use by all departments and funds. Inventory is valued at the lower of cost using the first-in, first-out (FIFO) method or market.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

(h) **Capital assets**—Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage improvements, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$750 and an estimated useful life of greater than one year. Infrastructure such as roads, bridges, and sidewalks are capitalized when their initial costs exceed \$25,000 and possess estimated useful lives in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition 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 asset lives are not capitalized, but charged to operating expense as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20 – 50 years
Improvements	20 – 50 years
Infrastructure	10 – 20 years
Machinery and equipment	3 – 15 years

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(1) **Summary of Significant Accounting Policies:** (Continued)

(i) **Compensated absences**—The City reports compensated absences in the applicable governmental or business-type activity columns in the governmental-wide financial statements. The portion of employee payroll costs paid subsequent to year-end attributable to services performed prior to year-end and accumulated unpaid vacation, sick-leave, and personal leave is recorded and recognized as a current liability. The remainder of the liability for compensated absences payable beyond the current period is recorded as a long-term liability.

(j) **Long-term obligations**—In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Original issue bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize premiums and discounts, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(k) **Fund equity**—In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Those classifications are as follows:

Nonspendable – amounts not available to be spent or not in spendable form, such as inventory and prepaid items.

Restricted – amounts constrained to specific purposes by their providers (such as grantors and higher levels of government), through constitutional provisions or by enabling legislation.

Committed – amounts constrained to specific purposes based on actions taken by the City Council through ordinance.

Assigned – amounts the City intends to use for a specific purpose. Intent can be expressed by City Council or by an official or body which the Council delegates authority.

Unassigned – amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available; the City considers restricted funds to have been spent first. When expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds and finally, unassigned funds, as needed.

**CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

(1) **Summary of Significant Accounting Policies:** (Continued)

(l) **Deferred outflows/inflows of resources**—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows related to pensions which qualify for reporting in this category. Deferred outflows related to pensions are discussed further in Note (10).

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The City deferred inflows related to pensions which qualify for reporting in this category. Deferred inflows related to pensions are discussed further in Note (10).

(m) **Property taxes**— Property tax revenues are recognized when levied, to the extent that they result in current receivables. Details of the property tax calendar are presented below:

Lien date	January 1
Levy date	October 1
Discount periods	November – February
No discount period	March
Delinquent date	April 1

(n) **Net position flow assumption**—Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to determine amounts reported as restricted and unrestricted net position, it is the City’s policy to consider restricted net position to have been used before unrestricted net position is applied.

(o) **Use of estimates**—Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates assumed in preparing the financial statements.

(2) **Reconciliation of Government-Wide and Fund Financial Statements:**

(a) **Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position**—Following the governmental fund balance sheet is a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. A detailed explanation of these differences is provided in this reconciliation.

(b) **Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**— Following the governmental fund statement of revenues, expenditures, and changes in fund balances, there is a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. A detailed explanation of these differences is provided in this reconciliation.

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(3) Deposits and Investments:

Deposits include cash on hand and amounts held in the City's demand accounts. At September 30, 2020, the carrying amount of the City's deposits was \$3,475,798. Each demand account is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Any balance in excess of FDIC insurance is covered by collateral held by the City's custodial bank, which is pledged to a state trust fund that provides security in accordance with Florida Security for Public Deposits Act, Chapter 280, Florida Statutes. The City had no investments at September 30, 2020.

(4) Accounts Receivable:

The City's receivables consisted of the following at September 30, 2020:

	<u>Gross Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Receivable</u>
Governmental Activities:			
General Fund	\$ 11,772	\$ -	\$ 11,772
Total – Governmental Activities	<u>11,772</u>	<u>-</u>	<u>11,772</u>
Business-Type Activities:			
Water Fund	87,938	(6,656)	81,282
Sewer Fund	109,088	-	109,088
Sanitation Fund	43,082	-	43,082
Totals – Business-Type Activities	<u>240,108</u>	<u>(6,656)</u>	<u>233,452</u>
Totals	<u>\$ 251,880</u>	<u>\$ (6,656)</u>	<u>\$ 245,224</u>

In addition to accounts receivable, the City also recorded \$6,704,677 in due from other governments at September 30, 2020, of which \$6,665,881 consists of Federal and State reimbursements related to Hurricane Michael which impacted the City in early fiscal year 2019. These amounts reflect management's best estimate of recoveries based on costs incurred and approved project worksheets, and are subject to change pending adjustments made by the respective Federal and/or State agencies.

(5) Interfund Loans and Transfers:

The outstanding balances between funds result mainly from the time lag between the dates reimbursable expenditures occur, when transactions are recorded in the accounting system, and when payments between funds are made. At September 30, 2020, individual fund interfund receivables and payables for the primary government were comprised of the following:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
General Fund:		
Water Fund	\$ 1,696,709	\$ -
Sewer Fund	1,187,391	-
Sanitation Fund	59,218	-
Disaster Recovery Fund	1,923,118	-
Disaster Recovery Fund		
General Fund	-	1,923,118
Water Fund	287,226	-
Sewer Fund	526,647	-
Water Fund:		
General Fund	-	1,696,709
Disaster Recovery Fund	-	287,226
Sewer Fund:		
General Fund	-	1,187,391
Disaster Recovery Fund	-	526,647
Sanitation Fund:		
General Fund	-	59,218
Total – All Funds	<u>\$ 5,680,309</u>	<u>\$ 5,680,309</u>

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(5) Interfund Loans and Transfers: (Continued)

Transfers may be used to (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, (2) move restricted amounts from borrowings to the debt service funds to establish and maintain mandatory reserve and sinking fund accounts, (3) move revenues from proprietary fund operations to the general fund for payments in lieu of taxes, and (4) move unrestricted revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as matching funds for various grant programs.

Transfer activity for the fiscal year ended September 30, 2020, is as follows:

	Transfer From	Transfer To
Governmental Activities:		
General Fund:		
Fire Fund	\$ 466,091	\$ -
Disaster Recovery Fund:		
Sewer Fund	134,380	
Governmental Activities:		
Fire Fund	396,939	-
Business-type Activities:		
Sewer Fund:		
Disaster Recovery Fund	-	134,380
Fire Fund:		
Governmental Activities	-	396,939
General Fund	-	466,091
Total – All Funds	\$ 997,410	\$ 997,410

(6) Capital Assets:

Capital asset activity for the fiscal year ended September 30, 2020, is as follows:

Governmental activities:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 237,111	\$ -	\$ -	\$ -	\$ 237,111
Construction in progress	1,696,996	29,670	-	-	1,726,666
Total assets not being depreciated	1,934,107	29,670	-	-	1,963,777
Capital assets being depreciated:					
Buildings	1,117,286	140,000	-	-	1,257,286
Improvements	7,699,078	1,388,351	-	-	9,087,429
Machinery and equipment	1,410,975	216,691	-	255,897	1,883,563
Total assets being depreciated	10,227,339	1,745,042	-	255,897	12,228,278
Less accumulated depreciation	(2,048,269)	(384,021)	-	(66,123)	(2,498,413)
Total capital assets being depreciated, net	8,179,070	1,361,021	-	189,774	9,729,865
Governmental activities capital assets, net	\$ 10,113,177	\$ 1,390,691	\$ -	\$ 189,774	\$ 11,693,642

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(6) **Capital Assets:** (Continued)

Business-type activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 288,191	\$ -	\$ -	\$ -	\$ 288,191
Construction in progress	175,069	269,235	-	-	444,304
Total assets not being depreciated	<u>463,260</u>	<u>269,235</u>	<u>-</u>	<u>-</u>	<u>732,495</u>
Capital assets being depreciated:					
Buildings	-	-	-	-	-
Improvements	17,800,002	150,276	-	-	17,950,278
Machinery and equipment	1,295,084	-	-	(255,897)	1,039,187
Total assets being depreciated	<u>19,095,086</u>	<u>150,276</u>	<u>-</u>	<u>(255,897)</u>	<u>18,989,465</u>
Less accumulated depreciation for:					
Less accumulated depreciation	(7,714,735)	(544,762)	-	66,123	(8,193,374)
Total capital assets being depreciated, net	<u>11,380,351</u>	<u>(394,486)</u>	<u>-</u>	<u>(189,774)</u>	<u>10,796,091</u>
Business-type activities capital assets, net	<u>\$ 11,843,611</u>	<u>\$ (125,251)</u>	<u>\$ -</u>	<u>\$ (189,774)</u>	<u>\$ 11,528,586</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 68,267
Public safety	95,827
Transportation	96,545
Physical environment	10,328
Culture and recreation	113,054
Total depreciation expense - governmental activities	<u>\$ 384,021</u>
Business-type activities:	
Water	\$ 295,249
Sewer	212,769
Sanitation	36,744
Total depreciation expense - business-type activities	<u>\$ 544,762</u>

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(7) Long-Term Liabilities:

Long-term liability activity for the year ended September 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable	\$ 105,623	\$ -	\$ (69,160)	\$ 36,463	\$ 36,463
Notes payable	-	50,000	-	50,000	50,000
Compensated absences	36,382	45,275	(33,123)	48,534	11,438
Total long-term liabilities	<u>\$ 142,005</u>	<u>\$ 95,275</u>	<u>\$ (102,283)</u>	<u>\$ 134,997</u>	<u>\$ 97,901</u>
Business-type activities:					
Bonds payable	\$ 4,212,788	\$ -	\$ (424,162)	\$ 3,788,626	\$ 267,526
Notes payable	651,680	-	-	651,680	155,421
Compensated absences	33,169	23,069	(35,281)	20,957	5,301
Total long-term liabilities	<u>\$ 4,897,637</u>	<u>\$ 23,069</u>	<u>\$ (459,443)</u>	<u>\$ 4,461,263</u>	<u>\$ 428,248</u>

Bonds and notes payable in the City's governmental activities at September 30, 2020, were comprised of the following obligations:

Utility Systems Refunding Bond, Series 2009, issued for the purpose of refunding note payable to City of Gulf Breeze, Florida Capital funding loan program. The series 2009 bonds are payable solely from and secure by pledged revenue consisting of net revenue of the water and sewer system, such amounts of non-ad valorem revenues as shall be budgeted and appropriated for the payment of the 2009 Utility Note, and any proceeds from the 2009 Utility Note held in any of the funds and accounts created. The bonds are split 17%/83% between governmental/business type activities. The stated interest rate is 4.48% and the bond matures April 2021. Bonds are due in payments of interest annually on July 1st. The outstanding balance at September 30, 2020, was \$25,823.

Capital Improvement Bond, Series 2009, issued for the purpose of refunding the series 1979, 1980, 1982, and 1995 bonds and the note payable to City of Gulf Breeze, Florida. The series 2009 bonds are payable solely from and secured by pledge revenue consisting of such amounts of non-ad valorem revenues as shall be budgeted and appropriated for the payment of the 2009 Capital Improvements Bond, and any proceeds from the 2009 Capital Improvements Bond held in any of the funds and accounts created. The bonds are split 17%/83% between governmental/business type activities. The stated interest rate is 4.48% and the bond matures in April 2021. Bonds are due in payments of interest annually on July 1st. The outstanding balance at September 30, 2020, was \$10,640.

Hurricane Recovery Revenue Note, Series 2019, issued for the purpose of financing and reimbursing the City for certain costs associated with Hurricane Michael response, recovery and mitigation, including debris removal and stormwater system repair and/or such other capital improvements. The City may request up to two advances per month, and each advance shall be in a minimum amount of \$50,000, until September 30, 2021, and up to the total amount of \$9,200,000. The fixed rate is 3.55% per annum on the basis of a 30-day month, 360 day years. The outstanding balance at September 30, 2020, was \$50,000.

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(7) **Long-Term Liabilities:** (Continued)

Annual debt service requirements to maturity for the City’s governmental activities bonds and notes payable are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2021	\$ 86,463	\$ 3,409	\$ 89,872
Total	\$ 86,463	\$ 3,409	\$ 89,872

Bonds payable in the City’s business-type activities at September 30, 2020, were comprised of the following obligations:

Water and Sewer Revenue Bonds, Series 2000, were issued to fund a portion of the costs of constructing improvements to the utility system. The series 2000 bonds are secured by a junior and subordinate pledge of gross revenues of the system. The stated interest rate is 4.875% and the bonds mature September 2039. Bonds are due in payments of interest annually on September 1st. The outstanding balance at September 30, 2020, was \$1,595,100.

Utility Systems Refunding Bond, Series 2009, issued for the purpose of refunding note payable to City of Gulf Breeze, Florida Capital funding loan program. The series 2009 bonds are payable solely from and secure by pledged revenue consisting of net revenue of the water and sewer system, such amounts of non-ad valorem revenues as shall be budgeted and appropriated for the payment of the 2009 Utility Note, and any proceeds from the 2009 Utility Note held in any of the funds and accounts created. The bonds are split 17%/83% between governmental/business type activities. The stated interest rate is 4.48% and the bond matures April 2021. Bonds are due in payments of interest annually on July 1st. The outstanding balance at September 30, 2020, was \$126,077.

Capital Improvement Bond, Series 2009, issued for the purpose of refunding the Series 1979, 1980, 1982, and 1995 bonds and the note payable to City of Gulf Breeze, Florida. The series 2009 bonds are payable solely from and secured by pledge revenue consisting of such amounts of non-ad valorem revenues as shall be budgeted and appropriated for the payment of the 2009 Capital Improvements Bond, and any proceeds from the 2009 Capital Improvements Bond held in any of the funds and accounts created. The bonds are split 17%/83% between governmental/business type activities. The stated interest rate is 4.48% and the bond matures in April 2021. Bonds are due in payments of interest annually on July 1st. The outstanding balance at September 30, 2020, was \$51,949.

USDA Bonds, Series 2013 were issued to construct a (water)(waste) system. The series 2013 bonds are secured by a pledge of the net revenues of the City’s water system and sewer system. The stated interest rate is 3.25% and the bonds mature September 2052. Bonds are due in payments of interest annually on September 1st. The outstanding balance at September 30, 2020, was \$1,926,000.

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(7) **Long-Term Liabilities:** (Continued)

Notes payable in the City’s business-type activities at September 30, 2020, were comprised of the following obligations:

In April 2001, the City entered into an agreement with the State of Florida, Department of Environmental Protection for a \$2,583,284 loan for the cost of replacing water system lines at an interest rate of 3.08% per year for 20 years. Semiannual installments are due each January 15 and July 15 of \$87,214. The loan is collateralized by the pledged revenues of the water charges by the utility fund. The outstanding balance at September 30, 2020, was \$496,259.

Annual debt service requirements to maturity for the City’s business-type activities bonds and notes payable, are as follows:

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2021	\$ 422,947	\$ 171,117	\$ 594,064
2022	253,776	154,509	408,285
2023	261,783	145,546	407,329
2024	271,700	136,296	407,996
2025	105,500	128,022	233,522
2026-2030	599,000	568,801	1,167,801
2031-2035	737,000	429,352	1,166,352
2036-2040	813,600	254,465	1,068,065
2041-2045	362,000	135,657	497,657
2046-2050	425,000	72,834	497,834
2051-2054	188,000	18,233	206,233
Total	<u>\$ 4,440,306</u>	<u>\$ 2,214,832</u>	<u>\$ 6,655,138</u>

(8) **Commitments and Contingencies:**

The City is engaged in various liability claims incidental to the conduct of its general government operations at September 30, 2020. The outcomes of established claims are included in these financial statements. In the opinion of the City’s legal counsel, no legal proceedings are pending or threatened against the City which are not covered by applicable insurance which would inhibit its ability to perform its operations or materially affect its financial condition.

Amounts received or receivable from grantor agencies in current and prior years are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute, a liability of the applicable fund(s). The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

The City is authorized by the provisions of Chapter 159, Part II, Florida Statutes to make and execute financing agreements which provide assistance to qualified nonprofit corporations to finance and refinance healthcare facilities and other projects described in Section 159.27, Florida Statutes. In December 1997, the City sponsored a \$150,000,000 local government floating rate bond issue from which the proceeds were issued to make variable rate loans to those entities described above. Any loans issued for financing these projects are secured by a pledge of the revenue derived from the projects and security interests in such projects.

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(8) **Commitments and Contingencies:** (Continued)

The bonds are secured by the property finances and are payable solely from the payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

During and through the end of the fiscal year ended September 30, 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the City as of March 22, 2022, management believes that an impact on the City's financial position and results of future operations is reasonably possible.

(9) **Risk Management:**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, all of which is satisfactorily insured by limited risk, high deductible commercial general liability insurance. Commercial insurance policies are also obtained for other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

(10) **Employee Retirement Plans:**

A. Florida Retirement System

Plan Description and Administration

The entity participates in the Florida Retirement System (FRS), a multiple-employer, cost-sharing defined public employee retirement system which covers all of the entity's full-time employees. The System is administered by the State of Florida, Department of Administration, Division of Retirement to provide retirement and survivor benefits to participating public employees. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(10) **Employee Retirement Plans:** (Continued)

In addition, all regular employees of the entity are eligible to enroll as members of the Retiree Health Insurance Subsidy (HIS) Program. The HIS is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. Eligible retirees and beneficiaries receive a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under one of the state-administered retirement systems must provide proof of eligible health insurance coverage, which can include Medicare.

Benefits Provided and Employees Covered

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to four years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement plan and/or class to which the member belonged when the service credit was earned.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

Employees may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular, DROP, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

**CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

(10) **Employee Retirement Plans:** (Continued)

Financial Statements

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services, Bureau of Financial Reporting Statewide Financial Reporting Section by mail at 200 E. Gaines Street, Tallahassee, Florida 32399-0364; by telephone at (850) 413-5511; or at the Department's Web site (www.myfloridacfo.com). An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from:

Florida Department of Management Services
Division of Retirement, Research and Education Services
P.O. Box 9000
Tallahassee, FL 32315-9000
850-488-5706 or toll free at 877-377-1737

Contributions

The entity participates in certain classes of FRS membership. Each class has descriptions and contribution rates in effect at September 30, 2020, as follows (contribution rates are in agreement with the actuarially determined rates):

FRS Membership Plan & Class	Through June 30, 2020	After June 30, 2020
Regular Class	8.47%	10.00%

Current-year employer HIS contributions were made at a rate of 1.66% of covered payroll.

For the plan year ended June 30, 2020, actual contributions made for employees participating in FRS and HIS were as follows:

Entity Contributions – FRS	\$ 175,180
Entity Contributions – HIS	24,284
Employee Contributions – FRS	43,887

Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions

At September 30, 2020, the entity reported a liability related to FRS and HIS as follows:

Plan	Net Pension Liability
FRS	\$ 2,285,159
HIS	514,535
Total	\$ 2,799,694

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(10) **Employee Retirement Plans:** (Continued)

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The entity's proportion of the net pension liability was based on a projection of the long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, as actuarially determined. At June 30, 2020 and June 30, 2019, the entity's proportionate share of the FRS and HIS net pension liabilities were as follows:

Plan	2020	2019
FRS	0.005272454%	0.006655052%
HIS	0.004214101%	0.005391065%

For the year ended June 30, 2020, pension expense was recognized related to the FRS and HIS plans as follows:

FRS	\$	492,935
HIS		43,572
Total	\$	536,507

Deferred outflows/inflows related to pensions:

At September 30, 2020, the entity reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	FRS		HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 87,458	\$ -	\$ 21,048	\$ (397)
Changes of assumptions	413,687	-	55,327	(29,918)
Net different between projected and actual investment earnings	136,061	-	411	-
Change in Entity's proportionate share	216,283	(292,535)	86,187	(121,896)
Contributions subsequent to measurement date	41,532	-	5,960	-
	\$895,021	\$ (292,535)	\$168,933	\$ (152,211)

The above amounts for deferred outflows of resources for contributions related to pensions resulting from entity contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended September 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions being amortized for a period of greater than one year will be recognized in pension expense in succeeding years as follows:

2021	\$	146,430
2022		204,115
2023		157,491
2024		85,155
2025		(10,296)
Thereafter		(11,179)
Total	\$	571,716

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(10) **Employee Retirement Plans:** (Continued)

Actuarial assumptions:

The actuarial assumptions for both defined benefit plans are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The FRS has a valuation performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS was completed in 2019 for the period July 1, 2013, through June 30, 2018. Because HIS is funded on a pay-as-you-go basis, no experience study has been completed.

The total pension liability for each of the defined benefit plans was determined by an actuarial valuation, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.40%. Payroll growth, including inflation, for both plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS investments is 6.80%. This rate decreased from the prior year rate, which was 6.90%. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. Because HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 2.21% was used to determine the total pension for the program. This rate decreased from the prior year rate, which was 3.50%. Mortality assumptions for both plans were based on the PUB2010 base table varies by member category and sex, projected generationally with Scale MP-2018 details.

Long-term expected rate of return:

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in October 2019, the FRS Actuarial Assumptions conference reviewed long-term assumptions developed by both Milliman's capital market assumptions team and by a capital market assumptions team from Aon Hewitt Investment Consulting, which consults to the Florida State Board of Administration. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the long-term target asset allocation. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Arithmetic Expected Rate of Return</u>
Cash	1.0%	2.2%
Fixed income	19.0%	3.0%
Global equities	54.2%	8.0%
Real estate	10.3%	6.4%
Private equity	11.1%	10.8%
Strategic investments	4.4%	5.5%
Total	<u>100.0%</u>	

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(10) **Employee Retirement Plans:** (Continued)

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the proportionate shares of the FRS and HIS net pension liability of the entity calculated using the current discount rates, as well as what the entity's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

<u>Plan</u>	<u>Current Discount Rate</u>	<u>NPL with 1% Decrease</u>	<u>NPL at Current Discount Rate</u>	<u>NPL with 1% Increase</u>
FRS	6.80%	\$ 3,649,015	\$ 2,285,159	\$ 1,146,061
HIS	2.21%	594,779	514,535	448,855

(11) **Other Post-Employment Benefits (OPEB):**

The City has not implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities, note disclosures, and required supplementary information.

(12) **Deficit Fund Balance:**

At September 30, 2020, the disaster recovery fund had a deficit fund balance of (\$12,103,852) due to Hurricane Michael expenditures in excess of related reimbursements. This deficit is expected to be recovered from future grant reimbursements and, to the extent necessary, transfers from the general fund.

(13) **Prior Period Restatements:**

The City recorded restatements to beginning fund balance/net position in various funds related to the change in accounting policy to track and report inventory under the purchase method rather than the consumption method.

The impact of the above restatements on the respective fund balance/net position amounts as of September 30, 2019, are as follows:

<u>Governmental Activities</u>	<u>General Fund</u>	<u>Governmental Activities</u>
Net position – 9/30/19, originally reported	\$ 5,849,026	\$ 4,713,762
Inventory change to purchase method	(96,751)	(96,751)
Net position – 9/30/19, as restated	<u>\$ 5,752,275</u>	<u>\$ 4,617,011</u>

CITY OF MEXICO BEACH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

(14) Interlocal Agreement

The City entered into a wastewater treatment contract with Bay County (the County) in May 1997, whereby the County will exclusively reserve for the City 323,000 gallons per day of allocated wastewater treatment capacity of the Military Point Advanced Wastewater Treatment Facility. The City has agreed to pay for such capacity and treatment services for wastewater collected from City customers.

The City has entered into a memorandum of agreement with the Mexico Beach Community Development Council, Inc. (the Council) for the maintenance of the City's municipal canal and beaches. The agreements which are renewable annually provide for the Council to pay the City \$18,000 and \$15,000 annually respectively, for canal and beach maintenance. Additionally, the City has entered into an agreement with the Council for the maintenance and operating of the City's public television station granted by franchise agreement, at no cost to the Council.

(15) Recent Accounting Pronouncements:

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial statements. Listed below are pronouncements with required implementation dates, as adjusted based on the impacts of GASB Statement No. 95, effective for subsequent fiscal years that have not yet been implemented. Management has not currently determined what, if any, impact implementation of the following will have on the City's financial statements:

- (a) GASB issued Statement No. 87, *Leases*, in June 2017. GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in GASB 87 are effective for periods beginning after June 15, 2021.
- (b) GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, in May 2020. provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA.

(16) Major Events and Fund Deficits – Hurricane Michael:

In October 2018, the City was severely impacted by Hurricane Michael, which caused catastrophic damage in the City and its surrounding areas for which the related activity has been recorded in the Disaster Recovery fund. While the immediate effects of this natural disaster have resulted in substantial fund deficits in the Disaster Recovery fund and for the City's governmental funds as a whole, the City intends to ultimately recover these deficits through additional insurance and Federal reimbursements over time.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MEXICO BEACH, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$ 2,565,771	\$ 2,565,771	\$ 2,561,385	\$ (4,386)
Permits and fees	205,000	205,000	885,710	680,710
Intergovernmental	217,986	217,986	1,761,685	1,543,699
Fines and forfeitures	2,000	2,000	5,807	3,807
Investment income	5,000	5,000	11,116	6,116
Miscellaneous	77,000	77,000	247,855	170,855
Total revenues	<u>3,072,757</u>	<u>3,072,757</u>	<u>5,473,558</u>	<u>2,400,801</u>
Expenditures				
Current:				
General government	517,365	517,365	621,179	(103,814)
Public safety	1,417,155	1,417,155	2,207,511	(790,356)
Physical environment	148,323	148,323	114,375	33,948
Transportation	633,222	633,222	524,531	108,691
Culture and recreation	170,779	170,779	149,043	21,736
Capital outlay	138,094	138,094	92,310	45,784
Debt service:				
Principal retirement	64,535	64,535	69,160	(4,625)
Interest and fiscal charges	8,726	8,726	4,732	3,994
Total expenditures	<u>3,098,199</u>	<u>3,098,199</u>	<u>3,782,841</u>	<u>(684,642)</u>
Net change in fund balances	<u>(523,205)</u>	<u>(523,205)</u>	<u>2,206,808</u>	<u>2,730,013</u>
Fund balances, beginning of year, as restated	5,752,275	5,752,275	5,752,275	-
Fund balances, end of year	<u>\$ 5,229,070</u>	<u>\$ 5,229,070</u>	<u>\$ 7,959,083</u>	<u>\$ 2,730,013</u>

CITY OF MEXICO BEACH, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DISASTER RECOVERY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 11,602,409	\$ 11,602,409
Total revenues	<u>-</u>	<u>-</u>	<u>11,664,116</u>	<u>11,664,116</u>
Expenditures				
Current:				
Disaster recovery	-	-	11,924,386	(11,924,386)
Capital outlay	-	-	1,682,402	(1,682,402)
Total expenditures	<u>-</u>	<u>-</u>	<u>13,606,788</u>	<u>(13,606,788)</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(1,942,672)</u>	<u>(1,942,672)</u>
Other financing sources (uses)				
Insurance recoveries	-	-	17,293	17,293
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(1,790,999)</u>	<u>(1,790,999)</u>
Fund balances, beginning of year	(10,312,853)	(10,312,853)	(10,312,853)	-
Fund balances, end of year	<u><u>\$(10,312,853)</u></u>	<u><u>\$(10,312,853)</u></u>	<u><u>\$(12,103,852)</u></u>	<u><u>\$ (1,790,999)</u></u>

NOTE: This schedule is presented for illustrative purposes only. No budget was legally adopted for the Disaster Recovery Fund.

CITY OF MEXICO BEACH, FLORIDA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS
(UNAUDITED)

	As of the Plan Year Ended June 30,					
	2020	2019	2018	2017	2016	2015
Florida Retirement System (FRS)						
Proportion of the net pension liability	0.005272454%	0.006655052%	0.005331589%	0.005299310%	0.005029665%	0.004740202%
Proportionate share of the net pension liability	\$ 2,285,159	\$ 2,291,907	\$ 1,605,902	\$ 1,567,500	\$ 1,191,760	\$ 612,261
Covered payroll	1,462,885	1,803,377	1,577,433	1,397,900	1,427,727	1,194,506
Proportionate share of the net pension liability as a percentage of covered payroll	156.21%	127.09%	101.80%	112.13%	83.47%	51.26%
Plan fiduciary net position as a percentage of the total pension liability	78.85%	82.61%	84.26%	83.89%	84.88%	92.00%
Health Insurance Subsidy Program (HIS)						
Proportion of the net pension liability	0.004214101%	0.005391065%	0.004488508%	0.004719828%	0.004512518%	0.004341030%
Proportionate share of the net pension liability	\$ 514,535	\$ 603,206	\$ 475,069	\$ 504,666	\$ 525,915	\$ 442,717
Covered payroll	1,462,885	1,803,377	1,577,433	1,397,900	1,427,727	1,194,506
Proportionate share of the net pension liability as a percentage of covered payroll	35.17%	33.45%	30.12%	36.10%	36.84%	37.06%
Plan fiduciary net position as a percentage of the total pension liability	3.00%	2.63%	2.15%	1.64%	0.97%	0.50%

Note 1: GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

CITY OF MEXICO BEACH, FLORIDA
SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS
(UNAUDITED)

	For the Fical Year Ended June 30,					
	2020	2019	2018	2017	2016	2015
Florida Retirement System (FRS)						
Contractually required contribution	\$ 175,180	\$ 206,355	\$ 193,911	\$ 174,888	\$ 158,839	\$ 146,644
Contributions in relation to the contractually required contribution	(175,180)	(206,355)	(193,911)	(174,888)	(158,839)	(146,644)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,462,885	\$ 1,803,377	\$ 1,577,433	\$ 1,397,900	\$ 1,427,727	\$ 1,194,506
Contributions as a percentage of covered payroll	11.97%	11.44%	12.29%	12.51%	11.13%	12.28%
Health Insurance Subsidy Program (HIS)						
Contractually required contribution	\$ 24,284	\$ 29,936	\$ 26,185	\$ 23,205	\$ 23,700	\$ 15,051
Contributions in relation to the contractually required contribution	(24,284)	(29,936)	(26,185)	(23,205)	(23,700)	(15,051)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,462,885	\$ 1,803,377	\$ 1,577,433	\$ 1,397,900	\$ 1,427,727	\$ 1,194,506
Contributions as a percentage of covered payroll	1.66%	1.66%	1.66%	1.66%	1.66%	1.26%

Note 1: GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available.

SUPPLEMENTARY INFORMATION

CITY OF MEXICO BEACH, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Federal/State Agency / Pass-Through Entity / Federal Program / State Project	CFDA / CSFA Number	Contract / Grant Number	Expenditures
FEDERAL AWARDS			
<u>U.S. Department of Agriculture</u>			
Indirect Programs:			
Passed-through Natural Resources Conservation Service Emergency Watershed Protection Program	10.923	NRCS-ADS-093	\$ 391,875
<u>Department of Homeland Security / Federal Emergency Management Administration</u>			
Indirect Programs:			
Pass-Through Florida Division of Emergency Management Disaster Grants - Public Assistance (Hurricane Michael)	97.036	DEM-17-PA-U5-06-74-01-131	37,230,749
Total Federal Awards			<u>\$ 37,622,624</u>
STATE FINANCIAL ASSISTANCE			
<u>Executive Office of the Governor</u>			
Direct Programs:			
Hurricane Michael Grant Recovery Program	31.070	F0031	\$ 643,914
<u>State of Florida Department of Transportation</u>			
Direct Programs:			
Local Transportation Projects	55.039	G1583	1,109,063
Total State Financial Assistance			<u>\$ 1,752,977</u>

The accompanying notes to the schedule of expenditures of federal awards and state financial assistance are an integral part of this schedule.

CITY OF MEXICO BEACH, FLORIDA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2020

(1) **Basis of Presentation:**

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of the City of Mexico Beach, Florida (the City), and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Section 215.97, Florida Statutes, *Florida Single Audit Act*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City.

(2) **Summary of Significant Accounting Policies:**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Section 215, Florida Statutes, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) **De Minimis Indirect Cost Rate Election:**

The City did not elect to use the 10% de minimis indirect cost rate as covered in §200.414, *Indirect (F&A) costs*, of the Uniform Guidance.

(4) **Subrecipients:**

The City did not pass any monies recognized on the schedule of expenditures of federal awards and state financial assistance to subrecipients.

(5) **Deferred FEMA Expenditures:**

During the fiscal year ended September 30, 2020, the City incurred substantial costs related to Hurricane Michael. Per the OMB Compliance Supplement, any reimbursements from the Federal Emergency Management Agency (FEMA) under CFDA 97.036 are not to be recognized as expenditures for purposes of the Schedule of Expenditures of Federal Awards and State Financial Assistance until the respective Project Worksheets (PW) have been approved. At September 30, 2020, only some of the City's PWs from these storms had been approved by FEMA. As a result, there are \$37,230,749 of expenditures and the related revenues which have been recorded for financial statement purposes and not on the Schedule of Expenditures of Federal Awards and State Financial Assistance; these expenditures will be recognized on the Schedule of Expenditures of Federal Awards and State Financial Assistance in future years once approved by FEMA.

(6) **Contingency:**

Project expenditures are subject to audit and adjustment. If any expenditures were to be disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency would become a liability of the City. In the opinion of management, all Project expenditures included on the accompanying schedule are in compliance with the terms of the project agreements and applicable federal and state laws and regulations.

**CITY OF MEXICO BEACH, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

A. Summary of Auditors' Results:

Financial Statements:

Type of audit report issued on the financial statements: *Qualified*

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards:

Internal control over major Federal programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major Federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X none reported

Auditee qualified as a low-risk auditee? yes X no

Dollar threshold used to distinguish between type A and type B programs: \$1,128,679

Identification of major Federal programs:

CFDA Number	Program Name
97.036	Disaster Grants – Public Assistance (Hurricane Michael)

State Financial Assistance:

Internal control over major State projects:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major State projects: *Unmodified*

Any audit findings disclosed that are required to be reported for state financial assistance projects in accordance with Chapter 10.550? _____ yes X none reported

Dollar threshold used to distinguish between type A and type B programs: \$596,423

Identification of major State programs:

CSFA Number	Program Name
55.039	Local Transportation Projects
31.070	Hurricane Michael Recovery Grant Program

B. Financial Statement Findings:

2020-001 Management Override and Segregation of Duties

Criteria: Internal controls are designed to safeguard assets and help prevent or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. Although internal controls are critical in the prevention and detection of fraud, management may still be able to override controls to perpetrate fraud.

Condition: The size of the City’s accounting staff and turnover during the year precluded certain internal controls that would be preferred. Certain practices could be implemented to improve existing internal control without impairing efficiency.

Cause: The size of the City’s accounting and administrative staff and turnover during the year precluded certain internal controls that would be preferred including: 1) review of journal entries posted to the accounting system by an individual not involved in the creating of the journal entry and 2) restricting access for updating pay rates within the payroll system to management or human resources.

Effect: Errors or material misstatements in the financial statements may exist and not be detected.

Recommendation: We recommend management develop and implement controls that sufficiently segregate duties within the accounting function.

2020-002 Reconciliation of Account Balances and Audit Adjustments

Criteria: Internal controls over financial reporting should include timely year-end reconciliations of all significant account balances, with such reconciliations to also include procedures related to the proper cutoff of significant revenue and expense activities. These reconciliations should be performed on a timely and regular basis to help prevent misappropriation and ensure timely identification of errors or other issues.

Condition: Many significant account balances were not reconciled until a significant period of time after year-end. Substantial journal entries and adjustments were required as a result of audit procedures, including various restatements to correct beginning fund balance and net position balances.

Cause: For the year ended September 30, 2020, many accounts were not reconciled on a timely basis and certain adjustments were required to be made to the accounting records subsequent to the start of the audit process related to year-end accrual entries. We noted this to be largely due to significant personnel turnover during and subsequent to year-end and a substantially increased accounting burden in the wake of Hurricane Michael.

Effect: Financial statements would be materially misstated if significant adjustments were not made. Errors or improper activity may not be detected on a timely basis if reconciliations are not performed timely.

Recommendation: We recommend management select and apply the appropriate accounting principles to prepare the financial statements in accordance with generally accepted accounting principles.

2020-003 Timeliness of Bank Reconciliations

Criteria: Bank accounts should be reconciled on a timely and regular basis to help prevent misappropriation and ensure the proper recording of all cash transactions.

Condition: Bank reconciliations were not performed timely during the course of the year.

Cause: We noted the City's bank accounts were not reconciled on a timely basis during the year during the year. Additionally, audit adjustments were required during the audit to agree the accounting records to the amount listed on the bank reconciliation. We noted this to be largely due to significant personnel turnover during and subsequent to year-end and a substantially increased accounting burden in the wake of Hurricane Michael.

Effect: Assets could potentially be misappropriated or accounting records could be misstated, with such issues not being identified on a timely basis, if at all.

Recommendation: We recommend the City's finance department perform bank reconciliations within 30 days after the end of the month and ensure all reconciled balances per the bank reconciliations agree to the general ledger.

- C. **Federal Program Findings and Questioned Costs:** None.
- D. **State Project Findings and Questioned Costs:** None.
- E. **Summary Schedule of Prior Audit Findings:** Not applicable as there were no prior year findings.
- F. **Corrective Action Plan:** See Management's Response to findings on page 60.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL

To the Honorable Mayor, City Council, and City Manager,
City of Mexico Beach, Florida:

Report on Compliance for Each Major Federal Program and State Project

We have audited the City of Mexico Beach, Florida's (the City) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* and *Florida Department of Financial Services State Projects Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs and state projects for the year ended September 30, 2020. The City's major federal programs and major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal and state statutes, regulations, and the terms and conditions of its federal awards and state projects applicable to its federal programs and state projects.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs and major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.550, Rules of the State of Florida, Office of the Auditor General. Those standards, the Uniform Guidance, and Chapter 10.550, Rules of the State of Florida, Office 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program and State Project

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended September 30, 2020.


Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance 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's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Chapter 10.550, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large, looped initial 'J'.

Tallahassee, Florida
March 22, 2022



INDEPENDENT AUDITORS' 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*

To the Honorable Mayor, City Council, and City Manager,
City of Mexico Beach, Florida:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Mexico Beach, Florida (the City), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 22, 2022.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001, 2020-002, and 2020-003 that we consider to be material weaknesses.

Compliance and Other Matters

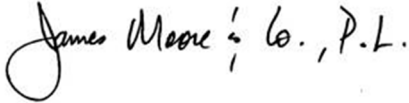
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Management's Response to Findings

The City's responses to the findings identified in our audit are outlined as listed in the table of contents. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large initial 'J'.

Tallahassee, Florida
March 22, 2022

**INDEPENDENT AUDITORS' MANAGEMENT LETTER REQUIRED
BY CHAPTER 10.550, RULES OF THE STATE OF FLORIDA
OFFICE OF THE AUDITOR GENERAL**

To the Honorable Mayor, City Council, and City Manager,
City of Mexico Beach, Florida:

Report on the Financial Statements

We have audited the basic financial statements of City of Mexico Beach, Florida (the City), as of and for the fiscal year ended September 30, 2020, and have issued our report thereon dated March 22, 2022.

As discussed in Note (11) to the financial statements, the City has not implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Accounting principles generally accepted in the United States of America require recording of an obligation for postemployment benefits other than pensions, which would increase liabilities, decrease net position, and change the expenses in governmental activities, business-type activities and water, sewer, sanitation and fire funds. The effects of this departure from accounting principles generally accepted in the United States of America on the governmental activities, business-type activities and water, sewer, sanitation, and fire funds, has not been determined.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance); and Chapter 10.550, Rules of the Florida Auditor General.

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance for Each Major Federal Program and State Project and Report on Internal Control over Compliance in accordance with the Uniform Guidance and Chapter 10.550, Rules of the Auditor General; Schedule of Findings and Questioned Costs; and Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated March 22, 2022, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. No findings and recommendations remain uncorrected from the second preceding annual financial report. See summary schedule of prior audit findings for the follow up of individual comments.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority for the primary government and component units of the reporting entity is disclosed in Note 1 of the basic financial statements.

Financial Condition and Management

Sections 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific conditions met. In connection with our audit, we noted the following:

2020-004 Financial Condition and Emergency – Based on our financial condition assessment procedures, we noted a deteriorating financial condition. A significant amount of disaster recovery expenditures related to Hurricane Michael were incurred in the current year, and insufficient cash was on hand to cover the related costs. Current year expenditures exceeded revenues within the fund, ultimately creating a negative fund balance within the fund, which is an indicator of a deteriorating financial condition. As a result of the deteriorating financial condition we noted the City has not paid all uncontested claims from vendors within 90 days, which is a condition noted in section 218.503(1) Florida Statutes, of a financial emergency. While we noted this occurred under exceptional circumstances, we recommend management continuously review and monitor the negative fund balance and plan for recovery thereof.

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the City. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. As noted above, the results of our financial condition assessment indicated a deteriorating financial condition.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we had the following recommendation:

2020-005 Budgetary Control – Florida Statutes, Chapter 166.241(2) provides that the budget must regulate expenditures of the municipality, and it is unlawful for any officer of municipal government to expend or contract for expenditures in any fiscal year except in pursuant of budgeted expenditures. During our audit, we noted there was no legally adopted budget for the disaster recovery fund. We recommend going forward, the City legally adopt a budget for all funds and that the City maintains a level of expenditures that is within the adopted budget.

2020-006 Utility Deposits – The City currently has no policy to collect and hold customer deposits on utility accounts. In the event of nonpayment on customer accounts, particularly for any accounts not in the name of the property owner, the City's risk of write-offs and potential cost of future collections is substantially higher than it would be if deposits were collected. We recommend the City contemplate the benefits of implementing a utility deposit policy for new accounts.

2020-007 Building Permit Expenditures – Section 553.80(7)(a) of Florida Statutes limits the amount of unexpended building permit funds carried forward to future fiscal years to no more than the City's average operating budget for enforcing the Florida Building Code for the previous four fiscal years. A local government must use any funds in excess of this limitation to rebate or reduce fees. During our audit, we noted the City does not specifically budget and track expenditures related to building department activities in a standalone department of the general fund budget. We recommend the City specifically budget and track expenditures related to the building department, whether as a department of the general fund or an entirely separate fund.

Additional Matters

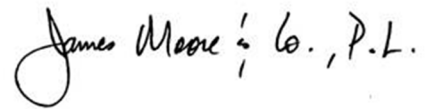
Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Management's Response to Findings

The City's responses to the findings identified in our audit are outlined as listed in the table of contents. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Letter

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

A handwritten signature in black ink that reads "James Moore & Co., P.L.". The signature is written in a cursive style with a large, looped initial "J".

Tallahassee, Florida
March 22, 2022



INDEPENDENT ACCOUNTANTS' EXAMINATION REPORT

To the Honorable Mayor, City Council, and City Manager,
City of Mexico Beach, Florida:

We have examined the City of Mexico Beach, Florida's (the City) compliance with Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2020. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied with Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2020, in all material respects. An examination involves performing procedures to obtain evidence about the City's compliance with those requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of risks of material noncompliance with those requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the City of Mexico Beach, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2020.

A handwritten signature in black ink that reads 'James Moore & Co., P.L.' The signature is written in a cursive, professional style.

Tallahassee, Florida
March 22, 2022



201 Paradise Path • Mexico Beach, Florida • 32456
PHONE: 850-648-5700 • FAX: 850-247-2702

IMPACT FEE AFFIDAVIT

BEFORE ME, the undersigned authority, personally appeared Douglas Baber who being duly sworn, deposes and says on oath that:

1. I am the Chief Financial Officer of the City of Mexico Beach which is a local government entity of the State of Florida:
2. The governing body of the City of Mexico Beach adopted Ordinance No. 483 – Recreational, Police and Fire and Ordinance No. 488 – Water and Sewer implementing an impact fee or authorized the City of Mexico Beach to receive and expend proceeds of an impact fee implemented by the City of Mexico Beach and
3. The City of Mexico Beach has complied with and, as of the date of this Affidavit remains in compliance with Section 163.31801, Florida Statutes.

FURTHER AFFIANT SAYETH NAUGHT.

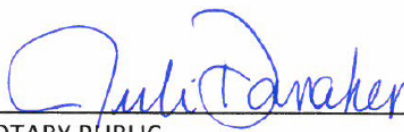


Douglas Baber, City Administrator

STATE OF FLORIDA
COUNTY OF Bay

SWORN TO AND SUBSCRIBED before me this 20th day of January, 2022.





NOTARY PUBLIC
Print Name: Juli Danaher

Personally, known or produced identification.

Type of identification produced: _____

My Commission Expires: May 29, 2022

www.mexicobeachgov.com

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2019-001 Management Override and Segregation of Duties

Status: in progress; significant lag time occurred from initial development of finding through present due to Hurricane Michael recovery.

2019-002 Reconciliation of Account Balances and Audit Adjustments

Status: in progress; significant lag time occurred from initial development of finding through present due to Hurricane Michael recovery.

2019-003 Timeliness of Bank Reconciliation

Status: in progress; significant lag time occurred from initial development of finding through present due to Hurricane Michael recovery.

2019-004 Financial Condition and Emergency

Status: in progress; significant lag time occurred from initial development of finding through present due to Hurricane Michael recovery.

2019-005 Budgetary Control

Status: in progress; significant lag time occurred from initial development of finding through present due to Hurricane Michael recovery.

2019-006 Utility Deposits

Status: in progress; significant lag time occurred from initial development of finding through present due to Hurricane Michael recovery.

2019-007 Building Permit Expenditures

Status: in progress; significant lag time occurred from initial development of finding through present due to Hurricane Michael recovery.

MANAGEMENT'S RESPONSE TO CURRENT YEAR FINDINGS

2020-001 Management Override and Segregation of Duties

Contact Person: Douglas Baber

Management Response: Mexico Beach will implement internal controls for processing accounting functions in order to better segregate the duties.

Anticipated completion date: Immediate

2020-002 Reconciliation of Account Balances and Audit Adjustments

Contact Person: Douglas Baber

Management Response: Management will apply the appropriate accounting principles to prepare the financial statements in accordance with generally accepted accounting principles.

Anticipated completion date: Immediate

2020-003 Timeliness of Bank Reconciliation

Contact Person: Douglas Baber

Management Response: Management agrees with the recommendation to have all bank reconciliations prepared within 30 days after the end of the month to ensure all reconciled balances per the bank reconciliations agree to the general ledger.

Anticipated completion date: Immediate

2020-004 Financial Condition and Emergency

Contact Person: Douglas Baber

Management Response: Management will continue to review and monitor the negative fund balances and plan for recovery accordingly.

Anticipated completion date: Immediate

2020-005 Budgetary Control

Contact Person: Douglas Baber

Management Response: Management will prepare and adopt budgets for all funds under the jurisdiction and control of the City.

Anticipated completion date: Immediate

2020-006 Utility Deposits

Contact Person: Douglas Baber

Management Response: The City will review and contemplate the benefits of collecting deposits on Utility Billing accounts in the future to determine the feasibility of collecting said deposits and the impact to any future bad debt write offs.

Anticipated completion date: Immediate

2020-007 Building Permit Expenditures

Contact Person: Douglas Baber

Management Response: The City will track expenditures for all Building Department expenses in order to adhere to Section 553.80(7)(a) of Florida Statutes.

Anticipated completion date: Immediate