



**CITY OF CALLAWAY, FLORIDA**

**CITY HALL**

6601 East Highway 22, Callaway, FL 32404  
Phone 850-871-6000 • FAX 850-871-2444  
www.cityofcallaway.com

Mayor  
Thomas W. Abbott

Commissioners  
Dennis A. DeLapp  
Pamn Henderson  
David Otano  
Ralph L. Hollister

**NOTICE OF MEETING**

**CALLAWAY AUDIT COMMITTEE  
AUDIT COMMITTEE MEETING**

Wednesday, February 27, 2013 – 5:00 P.M.

**CALLAWAY ARTS & CONFERENCE CENTER  
500 CALLAWAY PARK WAY, CALLAWAY, FL 32404**

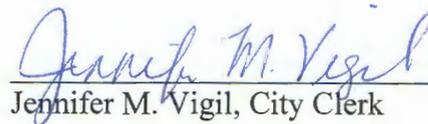
William Castor   Pamn Henderson   John L’Heureux   Shelley McKinney   Doug Smith

**AGENDA**

CALL TO ORDER  
ROLL CALL  
APPROVAL OF MINUTES – December 13, 2012

**BUSINESS ITEMS:**

- ITEM #1      Review Draft FY12 Audit – Angela Balent – Warren Averett, LLC
- ITEM #2      Discussion of RFP (Requests for Proposals) for Auditing Services –  
Chairperson McKinney

  
Jennifer M. Vigil, City Clerk

If a person decides to appeal any decision made by the City Commission with respect to any matter considered at the meeting, if an appeal is available, such person will need a record of the proceeding and such person may need to ensure that a verbatim record of the proceeding is made, which record includes the testimony and evidence upon which the appeal is to be based. Any person requiring a special accommodation at this meeting because of a disability or physical impairment should contact Jennifer M. Vigil, Callaway City Clerk, at 6601 E. Highway 22, Callaway, FL 32404; or by phone at (850) 871-6000 at least five calendar days prior to the meeting.

If you are hearing or speech impaired, and you possess TDD equipment, you may contact the City Clerk using the Florida Dual Party Relay System, which can be reached at 1-800-955-8770 (Voice) or 1-800-955-7661 (TDD).

Fire Department  
P: 850-871-2753  
F: 850-871-5564

Leisure Services  
P: 850-874-0031  
F: 850-874-9977

Planning / Code Enforcement  
P: 850-871-4672  
F: 850-871-2404

Public Works  
P: 850-871-1033  
F: 850-871-2416

Arts & Conference Center  
P: 850-874-0035  
F: 850-874-0706

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**CALLAWAY AUDIT COMMITTEE MEETING**

**December 13, 2012**

**TIME: 6:00 P.M.**

Called to order by Chairperson McKinney at 6:00 P.M.

ROLL-CALL – PRESENT: Shelley McKinney, Pamn Henderson, John L’Heureux,  
Doug Smith

MEMBER/S ABSENT: Bill Castor

ALSO PRESENT: Sandra Hirth

**APPROVAL OF MINUTES:**

Commissioner Henderson moved to approve the Audit Committee meeting minutes of November 7, 2012. Doug Smith seconded the motion.

All ayes

**BUSINESS ITEMS:**

**ITEM #1 REVIEW FRAUD REPORTING POLICY – CHAIRPERSON MCKINNEY**

The Audit Committee members discussed the Fraud Reporting Policy in its’ final form. They believe the shorter version will be much easier for employees to understand and to know what they (employees) need to do to report suspected fraud. Prior to this meeting, Chairperson McKinney and City Manager Collins discussed proposed changes to the policy (shorter definition of fraud as well as the form that was developed for employee input). If approved by the Audit Committee, he will have the policy placed on the January 8, 2013, Commission agenda.

Training for all employees will be forthcoming. Chairperson McKinney was asked by City Manager Collins to be involved with this training which she graciously agreed to do!

Commissioner Henderson moved to approve the Fraud Reporting Policy and to have it placed on the January 8, 2013, Commission agenda. Motion was seconded by Doug Smith.

All ayes  
Bill Castor absent.

There being no further business, the meeting was adjourned by Chairperson McKinney at 6:21 P.M.

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Sandra B. Hirth, Assistant to the City Manager

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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**CITY OF CALLAWAY, FLORIDA**  
Fiscal Year Ended September 30, 2012



*CALLAWAY... "A great place to live, work, and play."*

[www.cityofcallaway.com](http://www.cityofcallaway.com)

# **City of Callaway, Florida**

## **Comprehensive Annual Financial Report Fiscal Year Ended September 30, 2012**

**Prepared By**

**Alice M. Bennett, Director of Finance  
and  
Marcus Collins, City Manager**

# **Principal Officials of the City of Callaway, Florida**

## **CITY COMMISSION**

**Thomas W. Abbott  
Mayor**

**Dennis A. DeLapp  
Commissioner, Ward I**

**Pamela Henderson  
Commissioner, Ward II**

**David Otano  
Commissioner, Ward III**

**Ralph L. Hollister  
Commissioner, Ward IV**

**Marcus Collins  
City Manager**

## **DEPARTMENT HEADS**

Jennifer M. Vigil, City Clerk

David P. Joyner, Jr., Fire Chief

Robert “Bobby” Baker, Director of Public Works

Alice M. Bennett, CPA, CFE, CGMA, CPFIM, Director of Finance

Michael Fuller, Director of Planning

Tim Legare, CSFM, Director of Leisure Services

**Kevin Obos, City Attorney  
Harrison, Sale, McCloy, Chartered**

**Warren Averett, LLC  
Independent Certified Public Accountants  
& Consultants**

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- **LOCATION OF GOVERNMENT**

**DRAFT FOR DISCUSSION ONLY**

**City of Callaway, Florida**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Year Ended September 30, 2012**

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Year Ended September 30, 2012**

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**City of Callaway, Florida**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Year Ended September 30, 2012**

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**CITY HALL**

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Thomas W. Abbott

**Commissioners**  
Dennis A. DeLapp  
Pamn Henderson  
David Otano  
Ralph L. Hollister

February 18, 2013

Honorable Mayor and City Commission  
City of Callaway  
Callaway, Florida

The Comprehensive Annual Financial Report of the City of Callaway (The City) for the fiscal year ended September 30, 2012, is hereby submitted. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the enclosed data is accurate in all material aspects and is presented in a manner designed to fairly set forth the financial position and the results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

**General Information**

The City has prepared its financial statements to meet the requirements of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments (GASB 34). GASB 34 established a reporting model that the City has reported in five parts:

1. Management’s Discussion and Analysis; a narrative report providing significant information about the City and how the City’s financial position has changed from September 30, 2011, to September 30, 2012, and the reasons for the change;
2. Government-wide Financial Statements; statements which report on the governmental and business-type assets, liabilities, expenses, and revenues of the City;

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**Fire Department  
Center**  
P: 850-871-2753  
F: 850-871-5564

**Leisure Services**  
P: 850-874-0031  
F: 850-874-9977

**Planning / Code Enforcement**  
P: 850-871-4672  
F: 850-871-2404

**Public Works**  
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F: 850-871-2416

**Arts & Conference**  
P: 850-874-0035  
F: 850-874-0706

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3. Fund Financial Statements; statements which report on the major individual governmental and proprietary funds of the City;
4. Budgetary Comparisons for the City's general fund and other major governmental funds, and;
5. The notes to those financial statements.

### **Independent Audit**

In compliance with the laws of the State of Florida, the City of Callaway was audited by independent certified public accountants. The opinion of Warren Averett, LLC may be found in the Financial Section of this report. The specific report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards* can be found in the Compliance Section.

### **Accounting System and Budgetary Control**

The accounting records for general governmental operations are maintained on a modified accrual basis with revenue being recorded upon determination that it is both available and measurable. Expenditures for general governmental operations are recorded when the services or goods are received and the liabilities incurred. Accounting records for enterprise and internal service funds are converted to the full accrual basis of accounting at fiscal year-end for reporting purposes.

In developing and evaluating the accounting system, consideration is given to the adequacy of the internal control structure. The internal control structure is designed to provide reasonable, but not absolute, assurance regarding; (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework.

State law requires cities and their elected officials to develop balanced budgets to provide for the operation of their offices. Details of expenditures to be made and the resources available to meet these proposed obligations must be included in the budget. Upon adoption, the budget document becomes the legal basis for carrying out the activities of the City. The City of Callaway Commission adopts budgets for all funds. Budgets are adopted on a basis consistent with generally accepted accounting principles, except as noted in the Notes to the Basic Financial Statements. Budget control is maintained by a computerized encumbrance system, which restricts budgetary amounts upon input. All appropriations are reviewed at year-end for accuracy. All encumbrances are closed at the end of the year.

## **The Reporting Entity and Its Services**

The City of Callaway is a chartered city established under the legal authority of the Constitution and the Laws of the State of Florida. The City provides a full range of services. These include public safety (law enforcement and fire), physical environment, economic environment, highways and streets, general administrative services, culture, and recreation.

The City also operates three enterprise activities: Water, Sewer, and Solid Waste services. In addition, the City has created The Callaway Community Redevelopment Agency which provides services specifically to the community redevelopment areas of the city.

## **Relevant Financial Policies**

The City's General Fund formal fund policy establishes a targeted minimum reserve balance in its Unassigned Fund Balance equal to 25% of the current fiscal year operating expenditures and transfers out budgeted for the fund. The 2012 General Fund Unassigned Fund Balance remains over the targeted goal.

## **Retirement Plan**

Employees of the City are members of the Florida Retirement System, a multi-employer defined benefit plan. Employer contribution rates are established in July of each year by the State of Florida. Employees who are members of the plan are required to contribute 3% of their wages to the plan on a pre-tax basis. Participation in the plan is compulsory for all employees who are qualified to participate.

## **Economic Condition and Outlook**

The City of Callaway is an urban community in Bay County, east of Panama City in northwest Florida. The community is situated on the northern shores of East Bay and is separated from the Gulf of Mexico by East Bay and a peninsula occupied by Tyndall Air Force Base.

Tyndall Air Force Base is a major contributor to Callaway's economy, with a large percentage of the residents being associated with this military installation or being retired personnel. Unlike less fortunate areas in Florida, Tyndall Air Force Base has been spared from closing. Providing homes for Tyndall employees, both military and civilian, has been a major factor in sustaining our population and that of surrounding communities.

In addition to the major economic contribution from the military, many have chosen the City of Callaway as their home, even though they may work in another area. As a bedroom community, demand for services adds to the economic base of the City such as shopping centers, banks, fast-food chains, restaurants, retail outlets, retirement facilities and a nursing home facility.

## Major Initiatives

The City of Callaway Commission enacted a City ad valorem tax in the amount of 2 mils beginning Fiscal Year 2005. The tax is collected via the Bay County Property Appraiser's Office and is distributed to the City monthly. In September of 2008, the Commission voted to increase the millage rate to 2.25. It remains at that rate (2.25 mils) today.

During the Fiscal Year 2006, the City was approved for a U. S. Department of Agriculture low interest loan in the amount of \$2,000,000 with a \$100,000 grant to fund a new Public Safety Building to house our law enforcement and fire department. Construction of this building was completed in 2009.

In fiscal year 2007, the City formed the Callaway Community Redevelopment Agency to implement an approved plan for redevelopment improvements within a specific area. A trust fund was established by the City for, and on behalf of, the Community Redevelopment Agency. Each year, the incremental increase in ad valorem taxes levied by all taxing authorities within the redevelopment area will be paid into the trust fund to be disbursed for improvements which were designated in the approved plan for redevelopment in the defined area.

In fiscal year 2011, a new international airport has opened in our (Bay) county. The airport, which was the first greenfield airport to open since September 11, 2001, has received national attention. This new facility along with its planned surrounding development is projected to serve as an economic catalyst for our entire region.

Also in fiscal year 2011, the City completed a major multi-million dollar expansion of the utility infrastructure to improve services to existing utility users and also to provide services to newly and/or soon to be developed areas. The construction which began in 2007 also included a five million gallon ground water storage tank.

Costs for the utility expansion (described above) finished at approximately \$6,000,000 under budget. As a result, the remaining funds in the construction account are available to use towards future debt service payments on these projects. It is hoped that by the time these funds are depleted, the economy will rebound to meet the previously projected quotas. Nonetheless, the City, meantime, will continue to search for ways to conserve costs.

During the current fiscal year, the City purchased the last private utility system on the eastside of Bay County – commonly known as the Sandy Creek service area. This acquisition added 215 customers to our existing utility system along with approximately 400 undeveloped lots for potential, future customers.

For the Future- Callaway, along with the nation as a whole, has experienced an economic downturn in recent years. Real estate development which had been previously forecast has failed to meet projections although we have seen a small upswing in recent months. Since much of its revenue is linked to economic

conditions, the City is taking a proactive approach to cut costs and review other revenue streams while remaining optimistic that this recent upswing will continue.

The expenditure appropriations budget approved by the City for the upcoming year is 7.6% below this year's ending budget, exclusive of early debt retirements which have received Commission approval for the coming year. Also included in the expenditure budget is \$641,254 for capital purchases and improvements. The City is also projecting a small increase in total revenues (excluding any grant revenues) and anticipates maintaining its targeted level of reserves in all funds.

For a more detailed analysis of the City's financial activities and economic outlook, please see the Management's Discussion and Analysis section of this report.

### **Reporting Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Callaway for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2011. This was the 19<sup>th</sup> consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgements**

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated services of the entire staff of the City Hall, the Department Heads of the City, and full cooperation and consultation of the firm of Warren Averett, LLC.

In closing, without the leadership, support and policies provided by the City Commission in conducting the financial operations of the City in a sound and progressive manner, preparation of this report would not have been possible.

Sincerely,

Sincerely,

Marcus Collins  
City Manager

Alice M. Bennett, CPA, CFE, CGMA, CPFIM  
Director of Finance

## **Certificate of Achievement for Excellence in Financial Reporting**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Callaway, Florida for its comprehensive annual financial report for the fiscal year ended September 30, 2011.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to  
City of Callaway  
Florida

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Christopher P. Moirice*

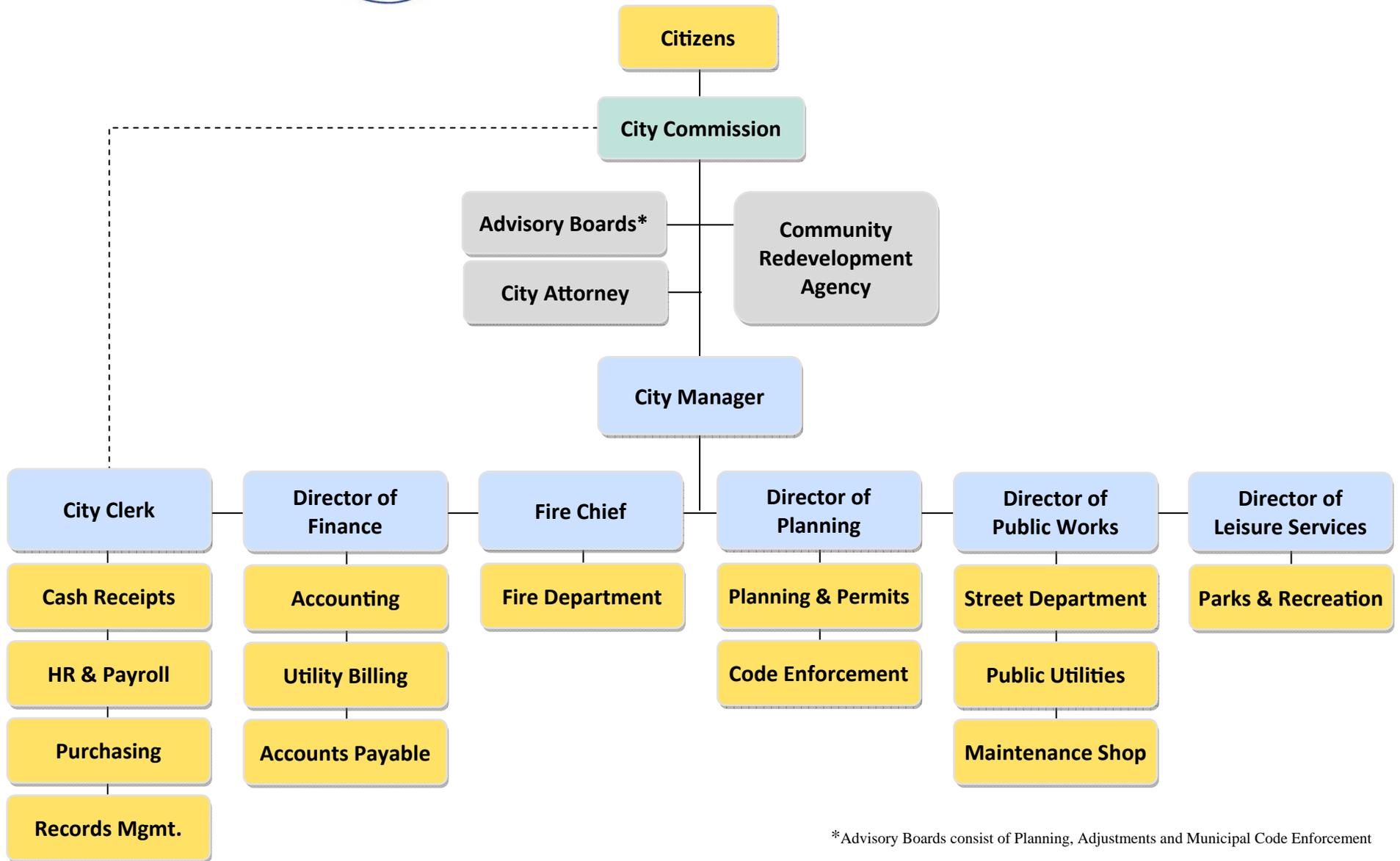
President

*Jeffrey R. Egan*

Executive Director



The City of Callaway, Florida  
**ORGANIZATIONAL CHART**  
 Year Ended September 30, 2012



\*Advisory Boards consist of Planning, Adjustments and Municipal Code Enforcement

## Location of Government



The City of Callaway, Florida is an urban community in Bay County located east of Panama City, Florida, in the Panhandle Region of Northwest Florida. This community is separated from the Gulf of Mexico by East Bay and Tyndall Air Force Base.



## **II. FINANCIAL SECTION**

- **INDEPENDENT AUDITOR'S REPORT**
- **MANAGEMENT'S DISCUSSION AND ANALYSIS**
- **BASIC FINANCIAL STATEMENTS**
  - **Government-Wide Financial Statements**
  - **Fund Financial Statements**
  - **Notes to Financial Statements**
- **INDIVIDUAL FUND STATEMENTS**

*DRAFT FOR DISCUSSION ONLY*

# WARREN AVERETT

## O'SULLIVAN CREEL

CPAs & Consultants | A Business of Warren Averett, LLC

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Suite 301  
Fort Walton Beach, FL  
32548

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Honorable Mayor and City Commissioners  
City of Callaway, Florida

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Callaway, Florida, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Callaway, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated February 18, 2013, on our consideration of the City of Callaway, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Honorable Mayor and City Commissioners  
City of Callaway, Florida  
Independent Auditor's Report (Continued)

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Callaway, Florida's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

February 18, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Callaway, Florida (the City), we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended September 30, 2012.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities by approximately \$30 million (net assets), and represents an increase of \$530 thousand (or 1.77%) from the prior year. Of this amount, \$12.4 million represents investments in capital assets (e.g. land, construction in progress, building, vehicles, machinery, and equipment) less any related debt used to acquire these assets that is still outstanding, \$3.6 million is restricted for future obligations, and \$14.4 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The business-type activities decreased \$243 thousand (or 1.13%), and the governmental activities increased \$773 thousand (or 9.08%) during fiscal year 2012.
- The City's governmental funds reported combined ending fund balances of \$3.2 million, an increase of \$285 thousand over the prior year. Approximately \$2.1 million (or 64.67%) of ending fund balances, is unassigned and available for spending at the discretion of the City Commission.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was 41% of the total General Fund expenditures.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The focus of the Governmental Accounting Standards Board (GASB) Statement No. 34 Financial Statements is on both the City as a whole (government-wide), and on the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison (year-to-year, government-to-government), and enhance the City's accountability.

This discussion and analysis intends to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

Designed to be corporate-like, the government-wide financial statements consolidate governmental and business-type activities into two columns, which add to a total for primary government. This provides readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. This statement combines and consolidates the governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of the City.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods.

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 (including city manager, city clerk, human resources, finance, purchasing, building inspector and non-departmental expenses), public safety (fire), highways and streets (including public works, administration, streets, central garage, repairs and maintenance), maintenance, economic environment (Community Development Block Grant), and culture and recreation (parks, library, and arts and conference center). The business-type activities of the City include water, sewer and solid waste management. The government-wide financial statements are found on pages 14-15 of this report.

The government-wide financial statements include the City (*primary government*) and the Callaway Community Redevelopment Agency (CRA), a legally separate component unit. The CRA is presented as a blended component unit as the City and the CRA share a governing body.

## **FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, 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.

## **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.

Such information may be useful in evaluating a government's near-term financial requirements. Found on pages 16-19 of this report are the basic governmental fund financial statements.

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 Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual governmental funds (General Fund, the Capital Projects Fund, the Community Redevelopment Fund [a special revenue fund for the component unit], and the Debt Service Fund). The General Fund is the only major fund, however, for reporting efficiency and presentation all governmental fund information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. The City adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements are provided to demonstrate compliance with the budgets.

### **PROPRIETARY FUNDS**

Proprietary funds of the City include Water Fund, Sewer Fund, and the Solid Waste Fund. Proprietary Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Proprietary Funds to account for its utility operations (water operations and distribution, sewer collections and treatment), and sanitation services.

Found on pages 21-25 of this report are the basic proprietary fund financial statements.

### **NOTES TO FINANCIAL STATEMENTS**

The notes provide additional information, which is essential to the full understanding of the data provided in the government-wide and fund financial statements. Beginning on page 26 of this report are the notes to the financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$30 million (net assets) for the fiscal year ended 2012, as reported in Table 1.

\$12.4 million (or 41%) of the City's net assets reflects its investment in capital assets (e.g. land, construction in progress, buildings, vehicles, machinery and equipment) less any related debt used to acquire those assets that is 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 reports investment in its capital assets net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

**Table 1**  
**City of Callaway, Florida**  
**STATEMENTS OF NET ASSETS**  
**AS OF SEPTEMBER 30, 2012 AND 2011**  
**(In Thousands of Dollars\*)**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 3,530	\$ 3,179	\$ 31,851	\$ 33,193	\$ 35,381	\$ 36,372
Capital assets	8,946	8,681	23,982	23,927	32,928	32,608
<b>Total assets</b>	<b>12,476</b>	<b>11,860</b>	<b>55,833</b>	<b>57,120</b>	<b>68,309</b>	<b>68,980</b>
Long-term liabilities outstanding	2,524	2,771	31,622	33,152	34,146	35,923
Other liabilities	669	579	3,032	2,546	3,701	3,125
<b>Total liabilities</b>	<b>3,193</b>	<b>3,350</b>	<b>34,654</b>	<b>35,698</b>	<b>37,847</b>	<b>39,048</b>
Net assets						
Invested in capital assets net of related debt	6,174	5,678	6,255	7,018	12,429	12,696
Restricted	251	440	3,366	3,276	3,617	3,716
Unrestricted	2,858	2,392	11,559	11,128	14,417	13,520
<b>Total net assets</b>	<b>\$ 9,283</b>	<b>\$ 8,510</b>	<b>\$ 21,180</b>	<b>\$ 21,422</b>	<b>\$ 30,463</b>	<b>\$ 29,932</b>

\*all dollar amounts rounded to the nearest thousand

An additional portion of the City's net assets \$3.6 million (or 12%) represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, \$14.4 million, may be used to meet the governments' ongoing obligations to citizens and creditors.

The City's overall financial condition has improved during the year ending September 30, 2012. The overall increase in the City's net assets was \$530 thousand (or 1.77%) during fiscal year 2012. Governmental activities increased \$773 thousand, resulting from a decrease in expenditures and an increase in revenues. Business-type activities decreased \$243 thousand, primarily due to an increase in expenses. The change in expenditures/expenses mainly relate to the implementation of an updated cost allocation plan.

## GOVERNMENTAL ACTIVITIES

Reported in Table 2 are the key elements of this increase.

**Table 2**  
**City of Callaway, Florida**  
**CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

	Governmental Activities		Business-Type Activities		Primary Government Total	
	2012	2011	2012	2011	2012	2011
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services	\$ 318,821	\$ 279,547	\$ 6,601,744	\$ 6,621,621	\$ 6,920,565	\$ 6,901,168
Operating grants and contributions	434,915	319,215	-	-	434,915	319,215
Capital grants and contributions	235,093	18,735	314,961	151,146	550,054	169,881
<b>General revenues</b>						
Property taxes	1,069,161	1,105,487	-	-	1,069,161	1,105,487
Other taxes	4,096,097	4,278,549	-	-	4,096,097	4,278,549
Other revenue	68,099	43,173	639,840	485,767	707,939	528,940
<b>TOTAL REVENUES</b>	<b>6,222,186</b>	<b>6,044,706</b>	<b>7,556,545</b>	<b>7,258,534</b>	<b>13,778,731</b>	<b>13,303,240</b>

**Table 2 (Continued)**  
**City of Callaway, Florida**  
**CHANGE IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	Governmental Activities		Business-Type Activities		Primary Government Total	
	2012	2011	2012	2011	2012	2011
<b>EXPENSES</b>						
<b>Primary government</b>						
General government	837,397	1,155,767	-	-	837,397	1,155,767
Public safety	2,223,594	2,277,754	-	-	2,223,594	2,277,754
Highways and streets	864,132	725,828	-	-	864,132	725,828
Maintenance	117,596	156,977	-	-	117,596	156,977
Economic environment	433,436	316,056	-	-	433,436	316,056
Culture and recreation	839,514	858,207	-	-	839,514	858,207
Debt service interest	133,574	143,685	-	-	133,574	143,685
<b>Business-type activities</b>						
Water	-	-	3,105,426	2,773,062	3,105,426	2,773,062
Sewer	-	-	4,197,623	3,700,790	4,197,623	3,700,790
Solid Waste	-	-	496,297	420,763	496,297	420,763
<b>TOTAL EXPENSES</b>	<b><u>5,449,243</u></b>	<b><u>5,634,274</u></b>	<b><u>7,799,346</u></b>	<b><u>6,894,615</u></b>	<b><u>13,248,589</u></b>	<b><u>12,528,889</u></b>
<b>Increase (decrease) in net assets</b>	<b>772,943</b>	<b>410,432</b>	<b>(242,801)</b>	<b>363,919</b>	<b>530,142</b>	<b>774,351</b>
<b>NET ASSETS BEGINNING</b>	<b><u>8,509,999</u></b>	<b><u>8,099,567</u></b>	<b><u>21,422,194</u></b>	<b><u>21,058,275</u></b>	<b><u>29,932,193</u></b>	<b><u>29,157,842</u></b>
<b>NET ASSETS ENDING</b>	<b><u>\$ 9,282,942</u></b>	<b><u>\$ 8,509,999</u></b>	<b><u>\$ 21,179,393</u></b>	<b><u>\$ 21,422,194</u></b>	<b><u>\$ 30,462,335</u></b>	<b><u>\$ 29,932,193</u></b>

\* Fiscal year 2011 revenues have been reclassified to conform with current year presentation.

## FINANCIAL IMPACTS

### NORMAL IMPACTS

There are eight basic impacts on revenues and expenses as reflected below:

#### *Revenues*

- **Economic Condition:** This can reflect a declining, stable, or growing economic environment and has a substantial impact on property, sales, gas or other tax revenue.
- **Commission Approved Rate Adjustments:** While certain tax rates are set by statute, the City Commission has significant authority to impose and periodically adjust rates (water, wastewater, impact fees, recreation user fees, etc.).
- **Changing Patterns in Intergovernmental Grant Revenue (both recurring and non-recurring):** Certain recurring revenues (state revenue sharing) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.
- **Market Impacts on Investment Income:** The current market conditions have an influence on the City's investment income causing it to fluctuate.

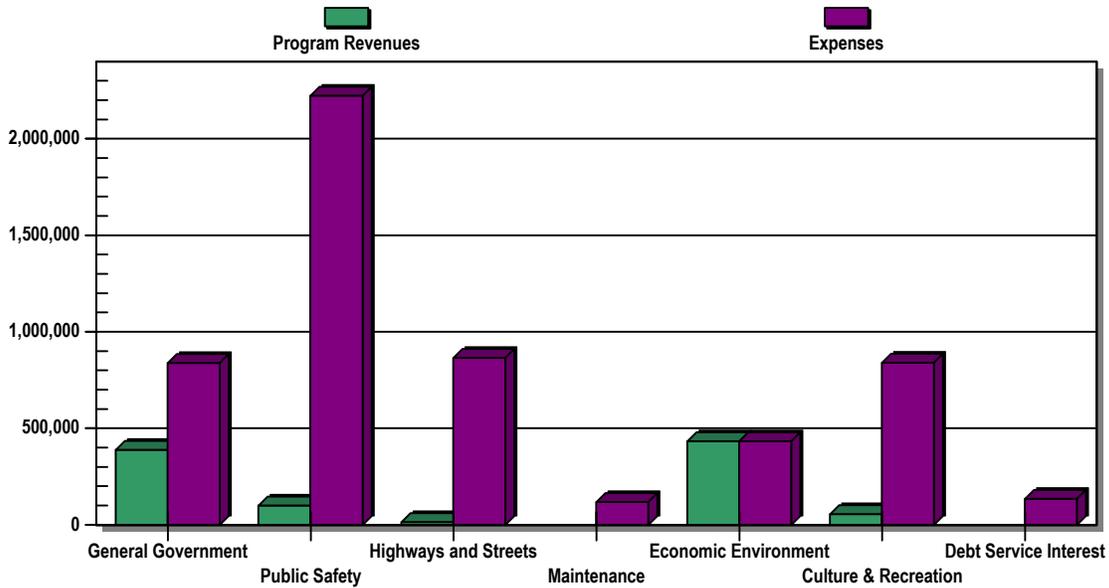
## ***Expenses***

- Introduction of New Programs: Within functional expense categories (fire, public works, community development, parks and recreation, etc.), individual programs may be added or deleted to meet changing community needs.
- Authorized Position Adjustments: Changes in service demand may cause the City Commission to change authorized staffing.
- Salary Adjustments: The ability to attract and retain human and intellectual resources requires the City to strive to approach a competitive salary range position in the marketplace.
- Inflation: While overall inflation appears to be low, the City is a major consumer of certain commodities such as paper, chemicals, supplies, fuel, oil and parts. Some fluctuations may experience commodity specific increases.

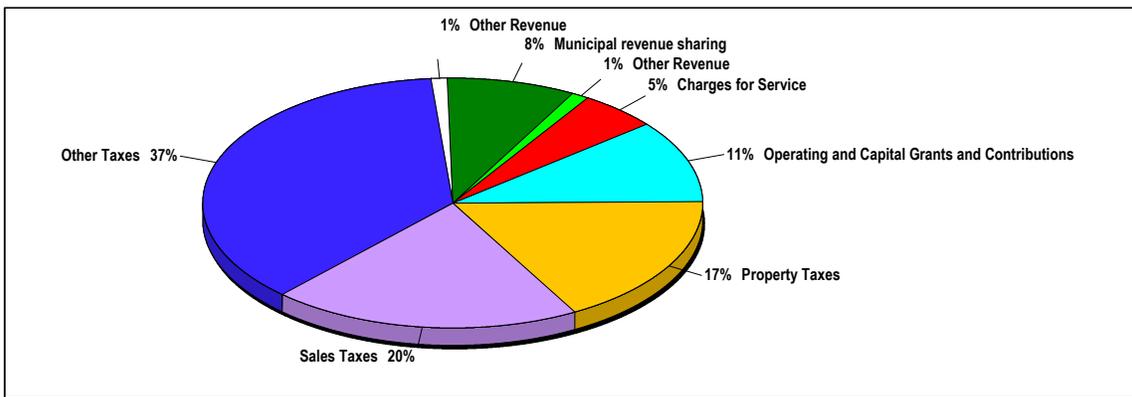
## ***Current Year Impacts - Governmental Activities***

- Other taxes decreased \$182 thousand or 4% primarily due to a decline in utility service taxes of \$54,575 and franchise taxes of \$98,157.
- Capital grants increased by \$216,358 due to the receipt and expenditure of a State Energy grant for the purpose of reducing energy production and greenhouse gas emissions to City Hall.
- General government expenses decreased 28% primarily due to the implementation of the City's new cost allocation plan in fiscal year 2012, which re-allocated approximately \$460 thousand general government expenses, primarily salaries and wages, to the proprietary funds.
- Highway and street expenses increased \$138 thousand or 19% due to an increase in salaries and wages, and associated benefits resulting from the implementation of the City's cost allocation plan.
- Economic environment expenses increased \$117 thousand or 37% due to the receipt of additional CDBG Housing Rehabilitation grant revenues which were expended in the current year.

**Chart 1**  
**Expenses and Program Revenue - Governmental Activities**



**Chart 2**  
**Revenues by Source - Governmental Activities**

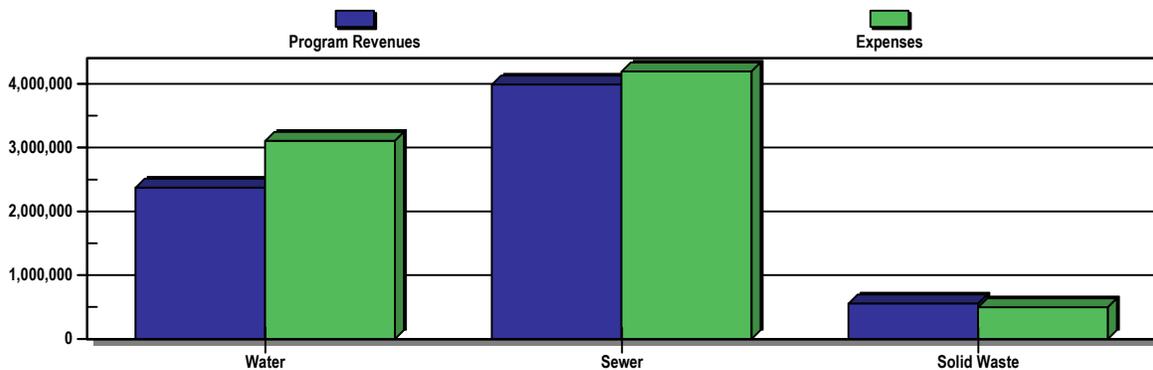


***Business-Type Activities***

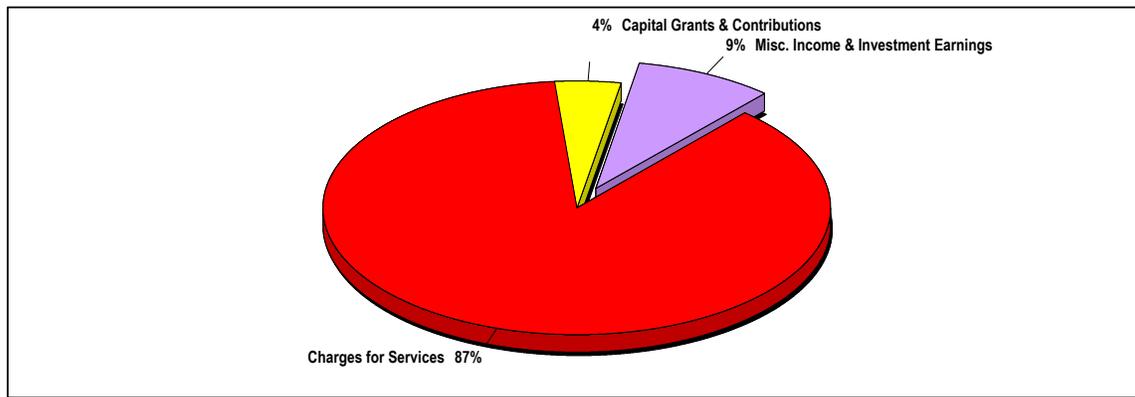
The net assets from business-type activities decreased \$243 thousand (or 1.13%).

- Charges for services for business-type activities decreased by \$20 thousand (or approximately 3%). Water and Sewer rates increased by approximately 2.5%, however, consumption decreased due to a wet summer season.
- Other revenues increased by \$154 thousand (or 32%), primarily as a result of an increase in equity earnings in the joint venture.
- Total expenses in the Water Fund increased \$332,364 (or 12%) and the Sewer Fund increased \$496,833 (or 13%), which is related to the increase in interest expense due to less capitalized interest in current year and the implementation of the new cost allocation plan.

**Chart 3**  
**Expense and Program Revenue - Business-Type Activities**



**Chart 4**  
**Revenues by Source - Business-Type Activities**



**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, 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, unassigned 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 of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3.2 million, an increase of \$285 thousand in comparison with the prior year. Approximately \$2.1 million of fund balance (or 65%) constitutes unassigned fund balance, which is available for spending at the City Commission's discretion. The remainder of fund balance is categorized as:

- Nonspendable - prepaid items and inventory
- Restricted - bond covenants, impact fees, and community redevelopment
- Committed - voluntary park fees, stormwater fees, and capital improvements
- Assigned - debt service payments

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2.1 million, while total fund balance reached \$3.1 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 41% of the total General Fund expenditures, while total fund balance represents 61% of that same amount.

During the current fiscal year, the fund balance of the City's General Fund increased by \$486 thousand. Key factors are as follows:

- An increase of \$144,430 in intergovernmental revenue as a result of an increase in half cent sales tax collections and grant proceeds for the City's CDBG Housing Rehabilitation project; however all grant proceeds were expended in current fiscal year.
- Expenditures decreased overall by \$55 thousand, which relates to a combination of 1.) the implementation of the City's new cost allocation plan in fiscal year 2012, which re-allocated some general fund expenditures, primarily salaries and wages, to the proprietary funds, 2.) an increase in capital outlay of \$114 thousand for current year projects, and 3.) an increase of \$117 thousand of CDBG Housing Rehabilitation project completion expenses.

The Community Redevelopment Fund has a total fund balance of \$92 thousand, all of which is restricted at September 30, 2012. The Community Redevelopment Fund experienced a loss of \$201 thousand due to current year capital outlay which consisted of \$260 thousand for stormwater projects which exceeded the revenue for the current year.

## **PROPRIETARY FUNDS**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the proprietary funds totaled \$11.6 million at the end of the year; of that, the Water Fund amounted to \$1.9 million, the Sewer Fund totaled \$8.9 million (which includes the \$5.4 million investment in the Military Point Advanced Wastewater Treatment joint venture) and the Solid Waste Fund was \$714 thousand. Net assets for proprietary funds decreased \$243 thousand during 2012. Please refer to the statement of net assets - proprietary funds and the statement of revenue, expenses, and changes in net assets - proprietary funds for specific numerical data.

## BUDGETARY HIGHLIGHTS

### GENERAL FUND

Actual expenditures varied 6% from budgeted expenditures in part as a result of legal fees related to ongoing litigation being less than budgeted amounts. In addition, the City was under budget in group insurance, wages and related benefits, and various other expenditures.

## CAPITAL ASSET AND DEBT LONG-TERM DEBT OUTSTANDING

### CAPITAL ASSETS

The City's investments in capital assets for its governmental and business-type activities as of September 30, 2012, amounts to \$32.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, wastewater and drainage systems improvements, vehicles, machinery and equipment, park facilities, roads and highways, etc. The total increase in the City's investment in capital assets for the current fiscal year was \$320 thousand (or 0.98%) with an overall 3.05% increase for governmental activities, and a 0.23% increase for business-type activities, all of which is summarized as follows:

Table 3  
City of Callaway, Florida  
Capital Assets  
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 846,594	\$ 846,594	\$ 177,428	\$ 177,428	\$ 1,024,022	\$ 1,024,022
Buildings	3,498,099	3,610,709	2,230,160	849,642	5,728,259	4,460,351
Improvements other than buildings	4,240,944	3,945,470	21,116,927	22,571,391	25,357,871	26,516,861
Vehicles	93,097	100,867	242,189	73,558	335,286	174,425
Machinery and equipment	167,764	169,887	192,538	224,584	360,302	394,471
Construction in progress	99,576	7,500	23,191	30,664	122,767	38,164
<b>Total</b>	<b>\$ 8,946,074</b>	<b>\$ 8,681,027</b>	<b>\$ 23,982,433</b>	<b>\$ 23,927,267</b>	<b>\$ 32,928,507</b>	<b>\$ 32,608,294</b>

Additional information on the capital assets of the City can be found in Note 5 of this report.

### LONG-TERM DEBT OUTSTANDING

At the end of the current fiscal year, the City had total debt outstanding of \$36 million. The debt amount represents notes payable and revenue bonds payable secured by specified revenue sources and equipment. No new debt was incurred for the year ending September 30, 2012.

Table 4  
City of Callaway, Florida  
Long-Term Debt Outstanding

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Notes payable	\$ 285,446	\$ 327,361	\$ 5,247,666	\$ 5,973,467	\$ 5,533,112	\$ 6,300,828
Revenue bonds payable	2,487,003	2,675,537	27,889,027	28,510,458	30,376,030	31,185,995
<b>Total</b>	<b>\$ 2,772,449</b>	<b>\$ 3,002,898</b>	<b>\$ 33,136,693</b>	<b>\$ 34,483,925</b>	<b>\$ 35,909,142</b>	<b>\$ 37,486,823</b>

Principal repayments during the year for governmental activities were \$230,449, and \$1,332,301 for business-type activities. Revenue bonds payable in the business-type activities includes an unamortized bond premium in the amount of \$43,713.

Additional information on the City's long-term debt can be found in Note 9 of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In recent months, the City has seen a small upswing in development within the area and we remain optimistic that this trend will continue. With our current year acquisition of the last private utility system on the eastside of Bay County, we added an immediate 215 customers to our utility system and approximately 400 undeveloped lots for potential, future customers.

The Northwest Florida Beaches International Airport which opened last year continues to grow in popularity, bringing more visitors into our area. The beautiful nearby beaches, higher education institutions, and military installations are all contributing factors that make the City of Callaway an idyllic bedroom community for the area.

Property taxes are the largest source of income for the City's general fund. The millage rate in the City of Callaway is 2.25 mils (1.21 mils below the municipal average for Bay County). Despite recent declines in property values, our budget for next year projects only a \$24,543 decrease in property tax revenues; however, due to projected increases in other sources, the general fund revenues for the coming year are estimated to actually exceed those of this year by a few thousand dollars (excluding any grant revenues). At the same time, utility service revenues from water and sewer charges are expected to increase by 4.4% and 4.2%, respectively. City-wide total expenditures, on the other hand, are budgeted 7.9% below those of the current year.

As part of the regular budget monitoring process, the finance department prepares a monthly financial report which is distributed to the City Manager, Department Heads, and the City Commission for review. In addition, a quarterly analysis of the budget estimates versus the actual results is presented during a public meeting to allow all citizens to monitor the City's compliance with the approved budget. When necessary the City Commission holds public hearings to adopt amended budget resolutions.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to City of Callaway, 6601 East Highway 22, Callaway, Florida 32404, Attention: Director of Finance. The City's website address is <http://www.cityofcallaway.com>.

**City of Callaway, Florida**  
**STATEMENT OF NET ASSETS**  
**September 30, 2012**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,557,355	\$ 5,438,509	\$ 7,995,864
Investments	9,721	-	9,721
Receivables, net	336,944	538,769	875,713
Due from other governments	222,816	-	222,816
Due from joint venture	-	74,813	74,813
Prepaid items	80,874	2,991	83,865
Deferred charges	-	103,027	103,027
Inventory, at cost	58,667	-	58,667
Restricted assets			
Cash and cash equivalents	247,136	2,067,569	2,314,705
Investments	-	6,176,867	6,176,867
Capital assets, net			
Non-depreciable	946,170	200,619	1,146,789
Depreciable, net	7,999,904	23,781,814	31,781,718
Other assets			
Bond issuance costs, unamortized	16,400	1,135,247	1,151,647
Note receivable - joint venture	-	10,872,666	10,872,666
Investment in joint venture	-	5,440,600	5,440,600
<b>TOTAL ASSETS</b>	<b><u>12,475,987</u></b>	<b><u>55,833,491</u></b>	<b><u>68,309,478</u></b>
<b>LIABILITIES</b>			
Accounts payable	219,166	648,589	867,755
Accrued payroll liabilities	69,275	13,229	82,504
Accrued interest payable	15,334	-	15,334
Unearned revenue	11,625	6,400	18,025
Due to joint venture	-	129,469	129,469
Due to other governments	25,259	3,563	28,822
Payable from restricted assets			
Customer deposits	-	469,060	469,060
Accrued interest payable	-	186,136	186,136
Non-current liabilities			
Due within one year			
Note payable	43,436	746,428	789,864
Revenue bonds payable	204,673	768,168	972,841
Accrued compensated absences	79,937	60,959	140,896
Amounts due beyond one year			
Note payable	242,010	4,501,238	4,743,248
Revenue bonds payable, net	2,282,330	27,120,859	29,403,189
<b>TOTAL LIABILITIES</b>	<b><u>3,193,045</u></b>	<b><u>34,654,098</u></b>	<b><u>37,847,143</u></b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,173,625	6,254,985	12,428,610
Restricted			
Debt service	46,004	1,792,327	1,838,331
Other	204,826	-	204,826
Capital improvements/extensions	-	1,573,339	1,573,339
Unrestricted	2,858,487	11,558,742	14,417,229
<b>TOTAL NET ASSETS</b>	<b><u>\$ 9,282,942</u></b>	<b><u>\$ 21,179,393</u></b>	<b><u>\$ 30,462,335</u></b>

The accompanying notes are an integral  
part of these financial statements.

**City of Callaway, Florida**  
**STATEMENT OF ACTIVITIES**  
**Year Ended September 30, 2012**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Function/program activities							
Government activities							
General government	\$ 837,397	\$ 182,801	\$ 1,479	\$ 203,530	\$ (449,587)	\$ -	\$ (449,587)
Public safety	2,223,594	99,344	-	-	(2,124,250)	-	(2,124,250)
Highways and streets	864,132	-	-	13,656	(850,476)	-	(850,476)
Maintenance	117,596	-	-	-	(117,596)	-	(117,596)
Economic environment	433,436	-	433,436	-	-	-	-
Culture and recreation	839,514	36,676	-	17,907	(784,931)	-	(784,931)
Debt service interest	133,574	-	-	-	(133,574)	-	(133,574)
Total government activities	<u>5,449,243</u>	<u>318,821</u>	<u>434,915</u>	<u>235,093</u>	<u>(4,460,414)</u>	<u>-</u>	<u>(4,460,414)</u>
Business-type activities							
Water	3,105,426	2,250,585	-	121,579	-	(733,262)	(733,262)
Sewer	4,197,623	3,795,533	-	193,382	-	(208,708)	(208,708)
Solid waste	496,297	555,626	-	-	-	59,329	59,329
Total business-type activities	<u>7,799,346</u>	<u>6,601,744</u>	<u>-</u>	<u>314,961</u>	<u>-</u>	<u>(882,641)</u>	<u>(882,641)</u>
Total primary government	<u>\$ 13,248,589</u>	<u>\$ 6,920,565</u>	<u>\$ 434,915</u>	<u>\$ 550,054</u>	<u>\$ (4,460,414)</u>	<u>\$ (882,641)</u>	<u>\$ (5,343,055)</u>
General revenues							
Taxes							
Property taxes					\$ 1,069,161	\$ -	\$ 1,069,161
Municipal revenue sharing					541,797	-	541,797
Sales taxes					1,254,394	-	1,254,394
Utility service taxes					1,482,510	-	1,482,510
Franchise taxes					730,848	-	730,848
Tax increments for redevelopment district					63,895	-	63,895
Other					22,653	-	22,653
Gain/(loss) on sale of assets					46,133	10,660	56,793
Equity earnings in joint venture					-	535,992	535,992
Miscellaneous					17,094	1,527	18,621
Investment earnings					4,872	91,661	96,533
Total general revenues					<u>5,233,357</u>	<u>639,840</u>	<u>5,873,197</u>
Change in net assets					772,943	(242,801)	530,142
Net assets - beginning of year					<u>8,509,999</u>	<u>21,422,194</u>	<u>29,932,193</u>
Net assets - end of year					<u>\$ 9,282,942</u>	<u>\$ 21,179,393</u>	<u>\$ 30,462,335</u>

The accompanying notes are an integral part of these financial statements.

**City of Callaway, Florida**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**September 30, 2012**

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Community Redevelopment</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,456,404	\$ -	\$ 100,951	\$ -	\$ 2,557,355
Investments	9,721	-	-	-	9,721
Receivables, net	336,944	-	-	-	336,944
Due from other funds	55,393	-	32	-	55,425
Due from other governments	162,956	59,860	-	-	222,816
Inventory, at cost	58,667	-	-	-	58,667
Prepaid items	80,874	-	-	-	80,874
Restricted assets					
Cash and cash equivalents	<u>247,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>247,136</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,408,095</u></b>	<b><u>\$ 59,860</u></b>	<b><u>\$ 100,983</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,568,938</u></b>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>Liabilities</b>					
Accounts payable	\$ 205,416	\$ 13,750	\$ -	\$ -	\$ 219,166
Accrued payroll liabilities	69,275	-	-	-	69,275
Unearned revenue	11,625	-	-	-	11,625
Due to other governments	25,259	-	-	-	25,259
Due to other funds	<u>32</u>	<u>46,110</u>	<u>9,283</u>	<u>-</u>	<u>55,425</u>
<b>Total liabilities</b>	<b><u>311,607</u></b>	<b><u>59,860</u></b>	<b><u>9,283</u></b>	<b><u>-</u></b>	<b><u>380,750</u></b>
<b>Fund balance</b>					
<b>Nonspendable</b>					
Prepaid items	80,874	-	-	-	80,874
Inventory	58,667	-	-	-	58,667
<b>Restricted</b>					
Bond covenants	46,004	-	-	-	46,004
Impact fees	113,126	-	-	-	113,126
Redevelopment	-	-	91,700	-	91,700
<b>Committed</b>					
Park fees	34,658	-	-	-	34,658
Stormwater fees	53,224	-	-	-	53,224
Contract obligation	2,543	-	-	-	2,543
<b>Assigned</b>					
Debt service appropriations	645,528	-	-	-	645,528
<b>Unassigned</b>					
Unassigned	<u>2,061,864</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,061,864</u>
<b>Total fund balance</b>	<b><u>3,096,488</u></b>	<b><u>-</u></b>	<b><u>91,700</u></b>	<b><u>-</u></b>	<b><u>3,188,188</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 3,408,095</u></b>	<b><u>\$ 59,860</u></b>	<b><u>\$ 100,983</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,568,938</u></b>

The accompanying notes are an integral  
part of these financial statements.

**City of Callaway, Florida**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF THE BALANCE SHEET TO THE**  
**STATEMENT OF NET ASSETS**  
**September 30, 2012**

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Fund balances - total governmental funds (page 16) \$ 3,188,188

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Governmental non-depreciable assets	946,170	
Governmental depreciable assets	14,618,866	
Less accumulated depreciation	<u>(6,618,962)</u>	
		8,946,074

Other assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.

Bond issuance costs	24,000	
Less accumulated amortization	<u>(7,600)</u>	
		16,400

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Revenue bonds payable	(2,487,003)	
Accrued interest	(15,334)	
Notes payable	(285,446)	
Compensated absences	<u>(79,937)</u>	
		<u>(2,867,720)</u>

Net assets of governmental activities (page 14) \$ 9,282,942

The accompanying notes are an integral  
part of these financial statements.

**City of Callaway, Florida**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**Year Ended September 30, 2012**

	<u>General</u>	<u>Capital Projects</u>	<u>Community Redevelopment</u>	<u>Debt Service</u>	<u>Total</u>
<b>REVENUES</b>					
Taxes	\$ 2,779,442	\$ -	\$ 23,753	\$ -	\$ 2,803,195
Licenses, fees, and permits	867,583	-	-	-	867,583
Intergovernmental	2,026,394	217,186	40,142	-	2,283,722
Charges for services	142,883	-	-	-	142,883
Fines and forfeits	1,842	-	-	-	1,842
Miscellaneous	<u>126,662</u>	<u>-</u>	<u>689</u>	<u>-</u>	<u>127,351</u>
<b>TOTAL REVENUES</b>	<u>5,944,806</u>	<u>217,186</u>	<u>64,584</u>	<u>-</u>	<u>6,226,576</u>
<b>EXPENDITURES</b>					
Current					
General government	782,970	-	5,379	-	788,349
Public safety	2,116,358	-	-	-	2,116,358
Highways and streets	816,712	-	-	-	816,712
Maintenance	104,011	-	-	-	104,011
Economic environment	433,436	-	-	-	433,436
Culture and recreation	652,697	-	-	-	652,697
Capital outlay	176,878	229,664	260,211	-	666,753
Debt service					
Principal	-	-	-	230,449	230,449
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,589</u>	<u>132,589</u>
<b>TOTAL EXPENDITURES</b>	<u>5,083,062</u>	<u>229,664</u>	<u>265,590</u>	<u>363,038</u>	<u>5,941,354</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>861,744</u>	<u>(12,478)</u>	<u>(201,006)</u>	<u>(363,038)</u>	<u>285,222</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	12,478	-	363,038	375,516
Transfers out	<u>(375,516)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(375,516)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(375,516)</u>	<u>12,478</u>	<u>-</u>	<u>363,038</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	486,228	-	(201,006)	-	285,222
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>2,610,260</u>	<u>-</u>	<u>292,706</u>	<u>-</u>	<u>2,902,966</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 3,096,488</u>	<u>\$ -</u>	<u>\$ 91,700</u>	<u>\$ -</u>	<u>\$ 3,188,188</u>

The accompanying notes are an integral part of these financial statements.

**City of Callaway, Florida**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**  
**Year Ended September 30, 2012**

Net change in fund balances - total governmental funds (page 18)		\$ 285,222
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives.		
Expenditures for capital assets	666,753	
Less current year depreciation	<u>(397,317)</u>	269,436
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives.		
Disposals of capital assets	(134,326)	
Accumulated depreciation associated with disposals	<u>129,937</u>	(4,389)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		
Accrued interest	1,415	
Principal payments	230,449	
Amortization of bond issue costs	<u>(2,400)</u>	229,464
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in long-term compensated absences		<u>(6,790)</u>
Change in net assets of governmental activities (page 15)		<u>\$ 772,943</u>

The accompanying notes are an integral part of these financial statements.

**City of Callaway, Florida**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**Year Ended September 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 2,776,930	\$ 2,759,430	\$ 2,779,442	\$ 20,012
Licenses, fees, and permits	966,450	862,125	867,583	5,458
Intergovernmental	2,239,549	2,041,626	2,026,394	(15,232)
Charges for services	140,144	140,672	142,883	2,211
Fines and forfeits	5,000	2,500	1,842	(658)
Miscellaneous	<u>128,400</u>	<u>125,191</u>	<u>126,662</u>	<u>1,471</u>
TOTAL REVENUES	<u>6,256,473</u>	<u>5,931,544</u>	<u>5,944,806</u>	<u>13,262</u>
EXPENDITURES				
Current				
General government	901,513	889,247	782,970	106,277
Public safety	2,214,580	2,214,580	2,116,358	98,222
Highways and streets	1,010,485	922,932	816,712	106,220
Maintenance	109,835	109,835	104,011	5,824
Economic environment	411,659	433,436	433,436	-
Culture and recreation	689,990	659,125	652,697	6,428
Capital outlay	<u>298,369</u>	<u>178,287</u>	<u>176,878</u>	<u>1,409</u>
TOTAL EXPENDITURES	<u>5,636,431</u>	<u>5,407,442</u>	<u>5,083,062</u>	<u>324,380</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>620,042</u>	<u>524,102</u>	<u>861,744</u>	<u>337,642</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(363,039)</u>	<u>(373,039)</u>	<u>(375,516)</u>	<u>(2,477)</u>
NET CHANGE IN FUND BALANCE	257,003	151,063	486,228	335,165
FUND BALANCE - BEGINNING OF YEAR	<u>2,334,663</u>	<u>2,610,260</u>	<u>2,610,260</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 2,591,666</u>	<u>\$ 2,761,323</u>	<u>\$ 3,096,488</u>	<u>\$ 335,165</u>

The accompanying notes are an integral  
part of these financial statements.

**City of Callaway, Florida**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**September 30, 2012**

	Business-Type Activities			Total Enterprise Funds
	Water Fund	Sewer Fund	Solid Waste Fund	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 1,541,068	\$ 3,201,668	\$ 695,773	\$ 5,438,509
Receivables, net				
Accounts	160,072	331,823	46,874	538,769
Due from other fund	-	700	-	700
Prepaid items	2,991	-	-	2,991
Due from joint venture	-	74,813	-	74,813
Deferred charges	-	103,027	-	103,027
Total current assets	<u>1,704,131</u>	<u>3,712,031</u>	<u>742,647</u>	<u>6,158,809</u>
Non-current assets				
Restricted assets				
Cash and cash equivalents	519,395	1,548,174	-	2,067,569
Investments	<u>3,148,321</u>	<u>3,028,546</u>	-	<u>6,176,867</u>
Total restricted assets	<u>3,667,716</u>	<u>4,576,720</u>	-	<u>8,244,436</u>
Capital assets				
Non-depreciable	113,083	87,536	-	200,619
Depreciable, net	<u>14,026,841</u>	<u>9,607,636</u>	<u>147,337</u>	<u>23,781,814</u>
Total capital assets	<u>14,139,924</u>	<u>9,695,172</u>	<u>147,337</u>	<u>23,982,433</u>
Other assets				
Unamortized bond issue costs	586,780	548,467	-	1,135,247
Notes receivable - joint venture	-	10,872,666	-	10,872,666
Investment in joint venture	-	<u>5,440,600</u>	-	<u>5,440,600</u>
Total other assets	<u>586,780</u>	<u>16,861,733</u>	-	<u>17,448,513</u>
Total non-current assets	<u>18,394,420</u>	<u>31,133,625</u>	<u>147,337</u>	<u>49,675,382</u>
<b>TOTAL ASSETS</b>	<u><b>\$20,098,551</b></u>	<u><b>\$34,845,656</b></u>	<u><b>\$ 889,984</b></u>	<u><b>\$55,834,191</b></u>

Continued...

The accompanying notes are an integral  
part of these financial statements.

**City of Callaway, Florida**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**September 30, 2012**

	Business-Type Activities			Total Enterprise Funds
	Water Fund	Sewer Fund	Solid Waste Fund	
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 183,737	\$ 447,945	\$ 16,907	\$ 648,589
Accrued liabilities				
Compensated absences	22,052	28,830	10,077	60,959
Wages	4,427	6,695	2,107	13,229
Unearned revenue	600	5,800	-	6,400
Due to joint venture	-	129,469	-	129,469
Due to other funds	700	-	-	700
Due to other governments	3,563	-	-	3,563
Notes payable	-	746,428	-	746,428
Revenue bonds payable	263,820	504,348	-	768,168
Payable from restricted assets				
Customer deposits	469,060	-	-	469,060
Accrued interest payable	104,034	82,102	-	186,136
Total current liabilities	<u>1,051,993</u>	<u>1,951,617</u>	<u>29,091</u>	<u>3,032,701</u>
Non-current liabilities				
Notes payable	-	4,501,238	-	4,501,238
Revenue bonds payable, net	<u>12,264,539</u>	<u>14,856,320</u>	<u>-</u>	<u>27,120,859</u>
Total non-current liabilities	<u>12,264,539</u>	<u>19,357,558</u>	<u>-</u>	<u>31,622,097</u>
<b>TOTAL LIABILITIES</b>	<u><b>13,316,532</b></u>	<u><b>21,309,175</b></u>	<u><b>29,091</b></u>	<u><b>34,654,798</b></u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	3,916,458	2,191,190	147,337	6,254,985
Restricted				
Debt service/bond covenants	919,959	872,368	-	1,792,327
Impact fees	25,165	1,548,174	-	1,573,339
Unrestricted	<u>1,920,437</u>	<u>8,924,749</u>	<u>713,556</u>	<u>11,558,742</u>
<b>TOTAL NET ASSETS</b>	<u><b>\$ 6,782,019</b></u>	<u><b>\$13,536,481</b></u>	<u><b>\$ 860,893</b></u>	<u><b>\$21,179,393</b></u>

The accompanying notes are an integral  
part of these financial statements.

**City of Callaway, Florida**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Year Ended September 30, 2012**

	Business-Type Activities			Total Enterprise Funds
	Water Fund	Sewer Fund	Solid Waste Fund	
OPERATING REVENUES				
Charges for services	<u>\$ 2,250,585</u>	<u>\$ 3,795,533</u>	<u>\$ 555,626</u>	<u>\$ 6,601,744</u>
OPERATING EXPENSES				
Personal services	603,822	692,251	295,535	1,591,608
Operating	1,400,291	2,532,329	194,727	4,127,347
Depreciation	<u>454,674</u>	<u>460,816</u>	<u>6,035</u>	<u>921,525</u>
TOTAL OPERATING EXPENSES	<u>2,458,787</u>	<u>3,685,396</u>	<u>496,297</u>	<u>6,640,480</u>
OPERATING INCOME (LOSS)	<u>(208,202)</u>	<u>110,137</u>	<u>59,329</u>	<u>(38,736)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest expense	(621,949)	(490,143)	-	(1,112,092)
Amortization	(24,690)	(22,084)	-	(46,774)
Equity earnings in joint venture	-	535,992	-	535,992
Gain/(loss) on disposal of capital assets	860	700	9,100	10,660
Interest income	9,152	15,195	1,782	26,129
Change in fair value of investments	32,766	32,766	-	65,532
Miscellaneous	<u>-</u>	<u>-</u>	<u>1,527</u>	<u>1,527</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(603,861)</u>	<u>72,426</u>	<u>12,409</u>	<u>(519,026)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(812,063)</u>	<u>182,563</u>	<u>71,738</u>	<u>(557,762)</u>
Capital grants and contributions	<u>121,579</u>	<u>193,382</u>	<u>-</u>	<u>314,961</u>
CHANGE IN NET ASSETS	(690,484)	375,945	71,738	(242,801)
NET ASSETS - BEGINNING OF YEAR	<u>7,472,503</u>	<u>13,160,536</u>	<u>789,155</u>	<u>21,422,194</u>
NET ASSETS - END OF YEAR	<u>\$ 6,782,019</u>	<u>\$ 13,536,481</u>	<u>\$ 860,893</u>	<u>\$ 21,179,393</u>

The accompanying notes are an integral  
part of these financial statements.

**City of Callaway, Florida**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**Year Ended September 30, 2012**

	Business-Type Activities			Total Enterprise Funds
	Water Fund	Sewer Fund	Solid Waste Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 2,300,648	\$ 3,822,283	\$ 558,129	\$ 6,681,060
Payments to suppliers	(1,316,783)	(2,390,933)	(183,796)	(3,891,512)
Payments to employees	(608,953)	(694,020)	(294,723)	(1,597,696)
Miscellaneous income	-	-	1,528	1,528
Net cash provided (used) by operating activities	<u>374,912</u>	<u>737,330</u>	<u>81,138</u>	<u>1,193,380</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Interfund balances	<u>700</u>	<u>(700)</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by non-capital financing activities	<u>700</u>	<u>(700)</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisitions of capital assets	(291,515)	(535,974)	(149,203)	(976,692)
Proceeds from impact fees	121,579	193,382	-	314,961
Proceeds from disposal of fixed assets	860	700	9,100	10,660
Principal paid on revenue bonds and notes payable	(185,157)	(133,843)	-	(319,000)
Interest paid on bonds, loans, and leases payable	(630,964)	(498,369)	-	(1,129,333)
Net cash provided (used) by capital and related financing activities	<u>(985,197)</u>	<u>(974,104)</u>	<u>(140,103)</u>	<u>(2,099,404)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	9,152	15,195	1,782	26,129
Proceeds from sale of investments	<u>646,124</u>	<u>612,564</u>	<u>-</u>	<u>1,258,688</u>
Net cash provided (used) by investing activities	<u>655,276</u>	<u>627,759</u>	<u>1,782</u>	<u>1,284,817</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	45,691	390,285	(57,183)	378,793
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>2,014,772</u>	<u>4,359,557</u>	<u>752,956</u>	<u>7,127,285</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,060,463</u>	<u>\$ 4,749,842</u>	<u>\$ 695,773</u>	<u>\$ 7,506,078</u>

Continued...

The accompanying notes are an integral  
part of these financial statements.

**City of Callaway, Florida**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**Year Ended September 30, 2012**

	Business-Type Activities			Total Enterprise Funds
	Water Fund	Sewer Fund	Solid Waste Fund	
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF</b>				
Current assets	\$ 1,541,068	\$ 3,201,668	\$ 695,773	\$ 5,438,509
Restricted assets	<u>519,395</u>	<u>1,548,174</u>	<u>-</u>	<u>2,067,569</u>
Total cash and cash equivalents	<u>\$ 2,060,463</u>	<u>\$ 4,749,842</u>	<u>\$ 695,773</u>	<u>\$ 7,506,078</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (208,202)	\$ 110,137	\$ 59,329	\$ (38,736)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	454,674	460,816	6,035	921,525
Miscellaneous revenue	-	-	1,528	1,528
Decrease (increase) in assets				
Accounts receivable	37,838	20,950	2,503	61,291
Deferred charges	-	(103,027)	-	(103,027)
Prepaid expenses	(1,229)	-	-	(1,229)
Increase (decrease) in liabilities				
Customer deposits	11,625	-	-	11,625
Accounts payable	84,059	244,423	10,931	339,413
Accrued wages	(1,067)	596	(74)	(545)
Compensated absences	(4,064)	(2,365)	886	(5,543)
Unearned revenue	600	5,800	-	(5,543)
Due to other governments	<u>678</u>	<u>-</u>	<u>-</u>	<u>6,400</u>
Net cash provided (used) by operating activities	<u>\$ 374,912</u>	<u>\$ 737,330</u>	<u>\$ 81,138</u>	<u>\$ 1,193,380</u>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS</b>				
Amortization of bond issue costs	<u>\$ 24,690</u>	<u>\$ 22,084</u>	<u>\$ -</u>	<u>\$ 46,774</u>
Equity earnings in joint venture	<u>\$ -</u>	<u>\$ 535,992</u>	<u>\$ -</u>	<u>\$ 535,992</u>

The accompanying notes are an integral  
part of these financial statements.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Callaway, Florida (the City) was incorporated in 1963. The City's original charter was enacted in 1964. The present charter was enacted in 1996. The City is a political subdivision of the State of Florida and is located in Bay County. The City occupies approximately twelve square miles on the northern shore of East Bay. It operates under a commissioner-manager form of government and provides the following services: general government, public safety (fire control, protective inspections and emergency and disaster relief services), highways and streets, maintenance, parks and recreation, public improvements, planning and zoning, and utility (water and sewer, and solid waste) services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America applicable to governmental units and the Uniform Accounting System mandated by Chapter 218.33, Florida Statutes. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

The following is a summary of the more significant accounting policies of the City:

**A. The Reporting Entity**

As required by accounting principles generally accepted in the United States of America, these financial statements present the City (the primary government). In evaluating the City as a reporting entity, management has considered all potential component units for which the City may or may not be financially accountable and, as such, be included within the City's financial statements. Management utilized criteria set forth in GASB Statement No. 14 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB Statement No. 14, the City is financially accountable if it appoints a voting majority of the potential component unit's governing board, and it is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. The Reporting Entity (Continued)**

As of September 30, 2012, the City had one component unit, the Callaway Community Redevelopment Agency (Agency) as defined by GASB Statement No. 14, due to the nature and significance of the Agency's relationship with the City. The Agency was created on May 8, 2007 by City Ordinance 829 pursuant to Florida Statute 163.356. All of the City's Commission members serve as board members of the Agency. The Agency's governing body is the same as the governing body of the City and the Agency provides services specifically to the Community Redevelopment Area of the City. Due to the nature and significance of the Agency's relationship with the City, exclusion of the Agency's financial operations would render the City's financial statements incomplete or misleading. The Agency is disclosed using the blended presentation method, and is presented as a governmental fund type with a fiscal year end of September 30.

**B. Government-Wide and Fund Financial Statements**

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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.

Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus and Basis of Accounting**

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

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

Property taxes are recorded 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 revenues to be available if they are collected within six months of the end of the current fiscal period, except for property taxes, for which the period is 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Franchise fees, 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. Sales taxes, gasoline taxes, and other intergovernmental revenues collected and held by the state at year-end on behalf of the City, are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Bay County Tax Collector bills and collects property taxes for the City in accordance with the laws of the State of Florida. Property taxes attach as an enforceable lien on property as of the date of assessment and remain in effect until discharge by payment. Taxes are payable when levied (on November 1, or as soon thereafter as the assessment roll becomes available to the Tax Collector).

The following is the current property tax calendar:

Lien Date	January 1, 2012
Levy Date	November 1, 2012
Due Date	November 1, 2012
Delinquent Date	April 1, 2013

Discounts of 1% are granted for each month taxes are paid prior to March 2013.

Revenue recognition criteria for property taxes under GASB requires that property taxes expected to be collected within 60 days of the current period be accrued. No accrual has been made for 2013 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

Current year taxes, which are uncollected as of the end of the fiscal year, are generally immaterial in amount and highly susceptible to uncollectibility and, therefore, are not recorded as a receivable on the balance sheet date.

**D. Basis of Presentation**

The financial transactions of the City are recorded in individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's utility function and various other functions of the government. 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 or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. 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 non-operating 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 also recognizes, as operating revenues, the portion of tap fees intended to recover the cost of connecting 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 non-operating revenues and expenses.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Basis of Presentation (Continued)**

GASB Statement 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City has used GASB Statement 34 minimum criteria for major fund determination to determine which funds are required to be reported as major funds. The Community Redevelopment Fund, Capital Projects Fund, Debt Service Fund and Solid Waste Fund did not meet the minimum criteria calculation, yet the City has chosen to report these funds as major funds due to the significance of the fund(s) to the City or to maintain consistency with the prior year's reporting.

The following two broad classifications are used to categorize the fund types used by the City:

**Governmental**

Governmental funds focus on the determination of financial position and changes in financial position (sources, uses and balances of financial resources) and not net income. The City has the following major governmental funds:

General Fund - This is the City's primary operating fund and is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Community Redevelopment Fund - The community redevelopment fund is the operating fund of the Community Redevelopment Agency (the "Agency"). It is used to account for the activities of the Agency.

Capital Projects Fund - The capital projects fund is used to account for the acquisition or construction of major capital facilities and projects (other than those financed by proprietary funds).

Debt Service Fund - This fund is used to account for financial resources to be used for the repayment of debt.

**Proprietary**

Proprietary funds focus on the determination of net income, changes in net assets, financial position and cash flows. The following is a description of the City's major proprietary funds:

Water Fund - Accounts for the operations and activities related to the water system within the City.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Basis of Presentation (Continued)**

**Proprietary (Continued)**

Sewer Fund - Accounts for the operations and activities related to the sewer system within the City.

Solid Waste Fund - Accounts for the operations and activities related to the solid waste services within the City.

**E. Assets, Liabilities, and Net Assets or Equity**

**Cash and Cash Equivalents**

Each fund's cash on hand, demand deposits, and short-term investments are considered cash and cash equivalents. For purposes of these statements, all highly liquid investments (including restricted assets), with a maturity of three months or less when purchased, are considered to be cash equivalents.

**Deposits and Investments**

Section 218.415, Florida Statutes, requires the investment of surplus public funds and prescribes the instruments in which those investments are authorized. Specifically, allowable investments include the State of Florida Local Government Surplus Funds Trust Fund, direct obligations of the United States Government or other interest-bearing time deposits or saving accounts in the state or federal banks for savings and loan associations, debt securities of the Federal Farm Credit Banks, The Federal Home Loan Mortgages Corporation, the Federal National Mortgage Association and securities of or other interest in certain investment companies or investment trusts, the portfolio of which is limited to the United States Government obligations or repurchase agreements fully collateralized by such obligations.

The City adheres strictly to the provisions of those cited statutes, as well as with Chapter 280, Florida Statutes, which requires the City to maintain deposits only with "Qualified Public Depositories." The City maintains a cash and investment pool available for use by all funds. Earnings from such investments are allocated to the respective funds based on applicable cash participation by each fund. In addition, restricted cash accounts, money market deposit accounts, and certificates of deposit are separately maintained by several City funds in accordance with bond ordinances and other contractual agreements.

Investments are stated at fair value, based on quoted market prices.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Deposits and Investments (Continued)**

The City's cash and investment pool and certain individual funds participate in the Local Government Surplus Trust Fund - Florida PRIME and Fund B, operated by Florida's State Board of Administration (SBA). The SBA is governed by Chapter 19-1 of the Florida Administrative Code (FAC). The FAC provides guidance and establishes the general operating procedures for the administration of the Local Government Surplus Trust Funds. Additionally, the Florida Auditor General performs an operational audit of activities and investments of the SBA. GASB Statement No. 31, titled *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, applies to the Florida PRIME and Fund B. GASB 31 outlines the two options for accounting and reporting for money market investment pools as either "2a-7 like" or fluctuating net asset value (NAV). GASB 31 describes a "2a-7 like" pool as an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with Rule 2a-7 under the Investment Company Act of 1940 (the 1940 Act). Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant NAV of \$1.00 per share, provided that such funds meet certain conditions. City investments with the SBA may be made or liquidated by wire on a same day basis, subject to limitations described in Note 3.

The Florida PRIME is considered a SEC "2a-7 like" fund, thus the account balance is also considered the fair value of the City's investment.

The Fund B is accounted for as a fluctuating NAV pool. The Fair Value factor for September 30, 2012, was .94896811 percent. The account balance was multiplied by the factor in order to report the fair value of the City's investment in Fund B.

**Receivables and Payables**

Interfund transactions are reflected as loans, services provided, reimbursements, or transfers. Loans between funds outstanding at the end of the fiscal year are referred to as either "due to other funds" or "due from other funds" (i.e., the current portion of interfund loans) or "advances" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Receivables and Payables (Continued)**

Services provided, deemed to be at market, or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. All proprietary fund receivables are shown net of an allowance for uncollectibles. The City's allowance estimate is based on historical collection experience and a review of the current status of accounts receivable.

**Inventory and Prepaid Items**

Inventory in governmental funds is valued at cost using the first in/first out (FIFO) method and are recorded as expenditures when consumed (consumption method) rather than when purchased. A portion of the General Fund balance equal to the inventory amount has been reserved in the fund financial statements to indicate that it is not available for appropriation.

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 (consumption method).

**Restricted Assets**

Restricted assets are maintained in both the governmental and business-type activities. Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "reserve fund" account is used to report resources set aside to make up potential future deficiencies in the sinking fund account. Water meter deposits received from customers of the water and sewer system are placed in the Water Meter Deposit Trust Account. This money is restricted to use as payment of the final customer bill or returned to the customer upon settlement of the final bill. Impact fees and special capital extension fees from customers are restricted in the Water, Sewer, and General Fund for future system improvements. Additionally, stormwater fees from customers are restricted in the General Fund for future system improvements.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, infrastructure, water and sewer distribution systems 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 City as assets costing in excess of \$1,000 and with an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. The amount of interest capitalized during the construction phase of capital assets of business-type activities is calculated by offsetting interest expense incurred from the date of borrowing until the completion of the project with interest earned on the invested proceeds over the same period.

Capital assets are stated at cost, except for contributed assets, which are recorded at fair value on the date received. Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50 Years
Improvements other than buildings	20-50 Years
System infrastructure	10-50 Years
Machinery and equipment	3-15 Years

**Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

The City estimates that all compensated absences accrued at September 30, 2012 will be used within one year; therefore, compensated absences are reported as current liabilities in these financial statements.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Compensated Absences (Continued)**

The policy of the City for accruing annual and sick leave per pay period is as follows:

<u>Years of Employment</u>	<u>General Employees</u>	<u>Fire Department</u>
1st Year	2 Hours	2.4 Hours
2 to 5 Years	4 Hours	4.8 Hours
5 to 10 Years	5 Hours	6.0 Hours
10 or More Years	6 Hours	7.2 Hours
Sick Leave	4 Hours	4.8 Hours

Upon termination of employment, an employee will be paid for accumulated annual leave, but all accumulated sick leave will be forfeited. Compensated absences of the governmental activities are typically paid from the General Fund.

**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 funds Statement of Net Assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs associated with the issuance of revenue bonds are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

The difference between the re-acquisition price (new debt) and the net carrying value of the old debt creates a deferred gain/loss from advance refunding of debt. This difference is deferred and amortized as a component of interest expense using the bonds outstanding method over the shorter of the remaining life of the old debt or the life of the new debt. The deferred account is offset against the new liability.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, gains/loss from refunding, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums and gains from refunding's received on debt issuances are reported as other financing sources while discounts and losses from refunding's on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Capitalization of Interest**

Interest costs related to bond issues are capitalized during the construction period in the business-type activities. During the year ended September 30, 2012, the City did not have any capitalized interest.

**Classification of Fund Balance**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54, are comprised of the following:

- *Nonspendable Fund Balance* - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories and prepaid items.
- *Restricted Fund Balance* - includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* - includes amounts that can only be used for the specific purposes determined by a formal action of the City's highest level of decision-making authority, the City Commission. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally, which would involve a Resolution for items committed within the budget, or an Ordinance for all other commitments.
- *Assigned Fund Balance* - comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. *Intent* can be expressed by (a) the City Commission or (b) a body (for example: a budget or finance committee) or official to which the City Commission has delegated the authority to assign amounts to be used for specific purposes. The City Commission has delegated authority to the City Manager.

City of Callaway, Florida  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2012

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Classification of Fund Balance (Continued)**

- *Unassigned Fund Balance* - is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of restraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification with the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance. The City's General Fund formal fund balance policy establishes a targeted minimum reserve balance in its Unassigned Fund Balance equal to 25% of the current fiscal year operating expenditure and transfers out budgeted for the fund.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

**Net Assets**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

**F. Reclassifications**

Certain accounts in prior-year financial statements have been reclassified for comparative purposes to conform to presentation in the current-year financial statements.

**G. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Subsequent Events**

Subsequent events were evaluated through February 18, 2013, which is the date the financial statements were available to be issued.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets**

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted by ordinance for all governmental and proprietary funds. However, budgets for proprietary funds are not legally required to be reported on and are not included in these financial statements. All appropriations lapse at fiscal year-end except for appropriations related to multi-year capital projects.

Florida Statutes provide that it is unlawful to make expenditures that exceed the total amount budgeted for each fund. Chapter 129, Florida Statutes, governs the manner in which the budget may be legally amended once it has been approved. Therefore, the fund level is the legal level of control for budget considerations according to Florida Statutes.

The City budgets expenditures at the total department level. Only the City Commission can approve budget amendments that change the total approved budget appropriation of an individual department. Department managers can transfer appropriations within the departmental budget, but cannot change the total appropriation of an individual department without the approval of the City Commission.

If, during the fiscal year, additional revenue becomes available for appropriations in excess of those estimated in the budget, the Commission by resolution may make supplemental appropriations for the year up to the amount of such excess. During the current fiscal year, various supplemental appropriations were approved by the Commission in accordance with Florida Statutes.

Budgetary data presented in the accompanying basic financial statements in the final budgeted amounts column represents the final budgetary data. In this column, the effects of budget amendments have been applied to original budgetary data.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**B. Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources that are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. All encumbrances were closed at the end of the year. Therefore, no provision for encumbrances has been made.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The City's cash and cash equivalents (including restricted assets) include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments include pooled investments and money market funds.

The types of investments, which can be made by the City, are restricted by state statutes and other contractual agreements. A description of the requirements and the types of investments allowed can be found in Note 1-E.

*Interest Rate Risk* - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The weighted average days to maturity of the PRIME fund at September 30, 2012, was 39 days. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB 40 is not available; however, an estimate of weighted average (WAL) life is available. The WAL (based on future cash flows) of Fund B at September 30, 2012, is 4.08 years. However, because Fund B consists of restricted or defaulted securities, there is considerable uncertainty regarding the weighted average life. The City does not have a formal policy relating to interest rate risk.

*Custodial Credit Risk - Deposits* - Regarding deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy is to maintain deposit balances, including cash, at various banks which are "Qualified Public Depositories" as defined by Chapter 280, Florida Statutes. The provisions of the Florida Statute allow Qualified Public Depositories to participate in a multiple financial institution collateral pool to ensure the security for public deposits. All Qualified Public Depositories must deposit eligible collateral with the Treasurer of the State of Florida equal to or in excess of their required collateral pledging level. In the event of default by a qualified public institution, the Treasurer will pay public depositors all losses in excess of insurance and collateral through assessments among all Qualified Public Depositories.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)**

*Custodial Credit Risk - Investments* - For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. All the City's investments are excluded from the definition of custodial credit risk. The City has no investment policy regarding credit risk.

*Concentration Credit Risk* - As of September 30, 2012, the City did not hold any investments that were considered to be a concentration credit risk. The City has no investment policy on concentration credit risk.

*Credit Risk - Investments* - At September 30, 2012, the City's investments consisted of the following:

	Par/Principal Value	Fair Value	Credit Rating
Regions Trust Cash Sweep (collateralized)	\$ 5,641,668	\$ 5,641,668	N/A
Money market funds	\$ 239,590	\$ 239,590	N/A
State Board of Administration investments			
Local government surplus funds trust fund (PRIME)	5,479	5,479	AAAm
Fund B	<u>330,809</u>	<u>299,851</u>	*
Total investments	<u>\$ 6,217,546</u>	<u>\$ 6,186,588</u>	

\* Fund B is not rated by any nationally recognized statistical rating agency.

**NOTE 4 - RECEIVABLES**

Receivables at September 30, 2012, were as follows:

	Governmental Activities			Business-Type Activities			
	General Fund	Capital Projects Fund	Total	Water Fund	Sewer Fund	Solid Waste Fund	Total
Accounts	\$ 337,514	\$ -	\$ 337,514	\$ 164,446	\$ 341,160	\$ 48,193	\$ 553,799
Less allowance for doubtful accounts	<u>(570)</u>	<u>-</u>	<u>(570)</u>	<u>(4,374)</u>	<u>(9,337)</u>	<u>(1,319)</u>	<u>(15,030)</u>
Receivables, net	<u>336,944</u>	<u>-</u>	<u>336,944</u>	<u>160,072</u>	<u>331,823</u>	<u>46,874</u>	<u>538,769</u>
Due from other governments	<u>162,956</u>	<u>59,860</u>	<u>222,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 499,900</u>	<u>\$ 59,860</u>	<u>\$ 559,760</u>	<u>\$ 160,072</u>	<u>\$ 331,823</u>	<u>\$ 46,874</u>	<u>\$ 538,769</u>

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 4 - RECEIVABLES (CONTINUED)**

**Due from Other Governments**

All amounts due from other governments in the General Fund relate to 1/2 cent sales tax, communications service tax, local option fuel tax, and other intergovernmental revenue. The amount due from other governments in the Capital Projects Fund includes the grant reimbursement due from the State regarding the Department of Energy Grant and an amount due from Federal government regarding the FDOT Sidewalk Project.

**NOTE 5 - CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Beginning Balance *</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 846,594	\$ -	\$ -	\$ 846,594
Construction in progress	<u>7,500</u>	<u>315,584</u>	<u>(223,508)</u>	<u>99,576</u>
Total capital assets not being depreciated	<u>854,094</u>	<u>315,584</u>	<u>(223,508)</u>	<u>946,170</u>
Capital assets being depreciated				
Buildings	4,085,141	-	-	4,085,141
Improvements other than buildings	6,637,079	260,211	214,427	7,111,717
Vehicles	641,116	27,369	(105,972)	562,513
Machinery and equipment	<u>2,815,179</u>	<u>63,589</u>	<u>(19,273)</u>	<u>2,859,495</u>
Total capital assets being depreciated	<u>14,178,515</u>	<u>351,169</u>	<u>89,182</u>	<u>14,618,866</u>
Less accumulated depreciation				
Buildings	(474,432)	(112,610)	-	(587,042)
Improvements other than buildings	(2,691,609)	(183,856)	4,692	(2,870,773)
Vehicles	(540,249)	(35,139)	105,972	(469,416)
Machinery and equipment	<u>(2,645,292)</u>	<u>(65,712)</u>	<u>19,273</u>	<u>(2,691,731)</u>
Total accumulated depreciation	<u>(6,351,582)</u>	<u>(397,317)</u>	<u>129,937</u>	<u>(6,618,962)</u>
Total capital assets being depreciated, net	<u>7,826,933</u>	<u>(46,148)</u>	<u>219,119</u>	<u>7,999,904</u>
<b>Governmental activities, net</b>	<u>\$ 8,681,027</u>	<u>\$ 269,436</u>	<u>\$ (4,389)</u>	<u>\$ 8,946,074</u>

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)**

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 177,428	\$ -	\$ -	\$ 177,428
Construction in progress	30,664	184,071	(191,544)	23,191
Total capital assets not being depreciated	<u>208,092</u>	<u>184,071</u>	<u>(191,544)</u>	<u>200,619</u>
Capital assets being depreciated				
Buildings and improvements	5,596,222	9,884	-	5,606,106
Utility system	23,035,969	487,819	191,544	23,715,332
Vehicles	1,350,735	241,697	(86,914)	1,505,518
Machinery and equipment	1,286,508	53,220	-	1,339,728
Total capital assets being depreciated	<u>31,269,434</u>	<u>792,620</u>	<u>104,630</u>	<u>32,166,684</u>
Less accumulated depreciation				
Buildings and improvements	(3,190,582)	(185,364)	-	(3,375,946)
Utility system	(1,997,834)	(600,571)	-	(2,598,405)
Vehicles	(1,277,177)	(73,066)	86,914	(1,263,329)
Machinery and equipment	(1,084,666)	(62,524)	-	(1,147,190)
Total accumulated depreciation	<u>(7,550,259)</u>	<u>(921,525)</u>	<u>86,914</u>	<u>(8,384,870)</u>
Total capital assets being depreciated, net	<u>23,719,175</u>	<u>(128,905)</u>	<u>191,544</u>	<u>23,781,814</u>
<b>Business-type activities, net</b>	<u>\$ 23,927,267</u>	<u>\$ 55,166</u>	<u>\$ -</u>	<u>\$ 23,982,433</u>

\* The beginning balance for business-type activities depreciable capital assets (not including accumulated depreciation) was re-classed to reflect the proper amounts by capital asset category. The total capital assets being depreciated balance was unchanged.

**Construction in Progress**

Construction in progress for governmental activities and business-type activities relates to lift station upgrades and significant roadway improvements, respectively.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)**

**Depreciation Expense by Function**

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

**Governmental activities**

General government	\$ 42,258
Public safety	107,237
Highways and streets	47,420
Maintenance	13,585
Parks and recreation	186,817
	<u>397,317</u>

Total depreciation expense - governmental activities \$ 397,317

**Business-type activities**

Water	\$ 454,674
Sewer	460,816
Solid waste	6,035
	<u>921,525</u>

Total depreciation expense - business-type activities \$ 921,525

**Open Commitments on Construction Projects**

The City has construction projects as of September 30, 2012, as referenced below. The remaining amounts on those projects at year-end are as follows:

Project	Contract Amount	Expended to Date	Remaining Commitment
<i>Governmental Activities</i>			
Bayfront roadway improvements	\$ 88,463	\$ 85,920	\$ 2,543
Engineering for US 98 and SR 22 Sidewalk Project	47,355	13,656	33,699
<i>Business-Type Activities</i>			
CA-17/CA-31 Lift Station Modifications	173,194	23,191	150,003
<b>Totals</b>	<b>\$ 309,012</b>	<b>\$ 122,767</b>	<b>\$ 186,245</b>

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 6 - PENSION PLAN**

**A. Florida Retirement System**

Plan Description

The City participates in the Florida Retirement System (FRS), a cost-sharing multiple-employer retirement plan administered by the State of Florida Division of Retirement, Department of Administration. The FRS provides retirement, disability, or death benefits to Plan members or their designated beneficiaries. Chapter 121, Florida Statutes, established the authority for participant eligibility, contribution requirements, vesting eligibility and benefit provisions. Chapter 121 of the Florida Statutes assigns the authority to establish and amend benefits provisions to the Florida Retirement System. However, Article X, Section 14 of the State of Florida Constitution and Part VII, Chapter 112 of the Florida Statutes requires that any increase in requirement benefits must be funded concurrently on an actuarially sound basis. The Florida Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State of Florida Division of Retirement, 1317 Winewood Boulevard, Building 8, Tallahassee, Florida 32399-65701, by calling 850-414-6346, or via the web at <http://dms.myflorida.com>.

Beginning in 2002, a defined contribution plan alternative to the existing defined benefit plan known as the Public Employee Optional Retirement Program or the FRS Investment Plan became available to FRS members. Under this plan, the employer makes contributions to an account set up in the participant's name, and the participant controls where the contributions are invested among the plan's investment funds. New employees are by default enrolled in the defined benefit plan; however, they will have five months after the month of hire to elect to participate in the FRS Investment Plan. The FRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on the State of Florida Department of Management Services website at [www.dms.myflorida.com](http://www.dms.myflorida.com).

FRS Plan Changes

Effective July 1, 2011, the Florida Legislature passed Senate Bill 2100 that made substantive changes to the Florida Retirement System (FRS). The new Bill requires all FRS Investment and Pension Plan members (except those in DROP) to now pay a 3% employee contribution, on a pretax basis, beginning on or after July 1, 2011. Cost of living adjustments (COLA) on or after July 1, 2011 are not automatic at 3%, but based on total years of service earned prior to July 1, 2011 to total years of service at retirement, multiplied by 3%.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 6 - PENSION PLAN (CONTINUED)**

**A. Florida Retirement System (Continued)**

FRS Plan Changes (Continued)

New members enrolling into FRS for the first time after July 1, 2011 will be subject to additional changes including 1) an increased vesting period from 6 years to 8 years, 2) a change calculation of benefits using Average Final Compensation (AFC) on the highest eight years of compensation as compared to highest five years. In addition, the normal retirement date for Regular, Senior Management Service, Elected Officers', and Special Risk Administrative Support Classes was modified to be age 65, with 8 years of service or 33 years of service regardless of age. Normal retirement for Special Risk Class members now at age 60, with 8 years of service, or 30 years of special risk class service OR age 57, with 30 years of combined special risk class service and military service. For those members participating in the DROP program, the Legislature reduced the annual interest rate used for benefits from 6.5% to 1.3%. The funding policy relative to the FRS plan is disclosed below.

Funding Policy

Contribution requirements of the plan are established in Florida Statutes Chapter 121 and may only be amended by legislative action. Effective July 1, 2011, the Florida Legislature passed Senate Bill 2100 requiring all employee members to contribute 3% to the Plan. Formerly, only employers were required to contribute to the FRS Plan. The FRS funding policy now provides for monthly employer and employee contributions at actuarially determined rates that, expressed as percentages of annual covered payroll are adequate to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial funding method. If an unfunded actuarial liability re-emerges as a result of future plan benefit changes, assumption changes, or methodology changes, it is assumed any unfunded actuarial liability would be amortized over 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 6 - PENSION PLAN (CONTINUED)**

**A. Florida Retirement System (Continued)**

Funding Policy (Continued)

The actuarially determined employer contribution rates (including HIS of 1.11%) for each class of employee expressed as a percentage of covered pre and post Senate Bill 2100 are listed below.

Class:	<u>Contribution Rates</u> <u>(10/1/11 - 6/30/12)</u>	<u>Contribution Rates</u> <u>(7/1/12 - 9/30/12)</u>
Regular	7.91 %	8.18 %
Special Risk - Regular	17.10 %	17.90 %
Senior Management Service Class	9.27 %	9.30 %
Elected Officials	14.14 %	13.23 %
Deferred Retirement Option Plan (DROP)	4.42 %	5.44 %

The City's contributions for years ended September 30, 2012, 2011, and 2010 totaled \$187,404, \$323,117, and \$363,554, respectively and are equal to the required contributions for the year. The covered payroll for the years ended September 30, 2012, 2011, and 2010 was \$2,746,578, \$2,856,420 and \$3,072,048, respectively.

**NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB)**

During the year ended September 30, 2010 (date of last valuation), the City implemented Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*, for certain postemployment health care benefits provided by the City.

**A. Plan Description**

Pursuant to Section 112.0801, Florida Statutes, the City is mandated to permit eligible retirees and their eligible dependents to participate in the health insurance at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Retirees pay 100% of the blended (active and retiree combined) equivalent premium rates. The blended rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 7 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

**B. Funding Policy, Membership and Net OPEB Obligation**

The City finances the post-employment benefits on a "pay-as-you-go" basis. For the year ending September 30, 2010 (date of last valuation), the City did not have any retirees that participated in the plan, nor does it expect future retirees (current active employees) to participate. Based on the current and expected participation, an independent actuary's assessment was that there was no annual required contribution (ARC) and net OPEB obligation for the year ending September 30, 2010 (date of last valuation). Since conditions have not changed, management believes there is no annual required contribution or net OPEB obligation at September 30, 2012.

**NOTE 8 - 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; workers' compensation claims and natural disasters. The City purchases commercial insurance for all risk of loss. There has been no significant reduction in insurance coverage from the prior year. Commercial insurance coverage has been sufficient to cover all claims made in the prior three fiscal years.

**NOTE 9 - LONG-TERM DEBT**

**Changes in Long-Term Debt Liabilities**

Long-term debt activity for the year ended September 30, 2012, is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
<b>Governmental activities</b>					
Revenue bonds payable	\$ 2,675,537	\$ -	\$ (188,534)	\$ 2,487,003	\$ 204,673
Notes payable	327,361	-	(41,915)	285,446	43,436
Compensated absences	73,147	111,252	(104,462)	79,937	79,937
<b>Total governmental activities</b>	<b>\$ 3,076,045</b>	<b>\$ 111,252</b>	<b>\$ (334,911)</b>	<b>\$ 2,852,386</b>	<b>\$ 328,046</b>
<b>Business-type activities</b>					
Revenue bonds payable	\$ 28,451,814	\$ -	\$ (606,500)	\$ 27,845,314	\$ 768,168
Add unamortized bond issuance premium	58,644	-	(14,931)	43,713	-
Notes payable	5,973,467	-	(725,801)	5,247,666	746,428
Compensated absences	66,502	56,185	(61,728)	60,959	60,959
<b>Total business-type activities</b>	<b>\$ 34,550,427</b>	<b>\$ 56,185</b>	<b>\$ (1,408,960)</b>	<b>\$ 33,197,652</b>	<b>\$ 1,575,555</b>

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 9 - LONG-TERM DEBT (CONTINUED)**

**Description of Long-Term Debt Outstanding**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES</b>			
<b><i>Revenue Bonds Payable</i></b>			
\$1,037,000 Recreation Capital Improvement Revenue Bonds, payable in monthly installments of \$7,097 including interest, with a final maturity on October 5, 2018. Interest accrues at an annual rate of 5.36%. This bond is secured by a pledge to budget and appropriate non-ad valorem revenues. This entire bond was used to finance capital assets.	\$ 63,450	\$ 372,330	\$ 435,780
\$900,000 Capital Improvement Revenue Bond, Series 2003, payable in quarterly installments of \$28,863, including interest at 5.10% and a final maturity on April 1, 2013. This bond is secured by a pledge to budget and appropriate non-ad valorem revenues. This entire bond was used to finance capital assets.	117,223	-	117,223
\$2,000,000 Public Safety Capital Improvement Revenue Bonds, Series 2009, principal payable annually on September 1 in amounts ranging from \$21,000 to \$112,000, and interest payable annually at 4.375% and a final maturity on September 1, 2047; secured by pledging of Public Service Tax and Gas Franchise Fees. The City has pledged to budget and appropriate non-ad valorem revenues, amounts sufficient to cover any shortfalls in the amounts of pledged funds available to pay the bonds. This entire bond was used to finance capital assets.	24,000	1,910,000	1,934,000
<b><i>Total revenue bonds</i></b>	204,673	2,282,330	2,487,003
<b><i>Note Payable</i></b>			
\$444,500 Capital Improvement Revenue Note, Series 2008A, payable in annual installments of \$53,798, including interest at 3.63% and a final maturity on February 15, 2018. This note is secured by a pledge to budget and appropriate non-ad valorem revenues. This entire note was used to finance capital assets.	43,436	242,010	285,446
<b><i>Accrued Compensated Absences</i></b>			
Total long-term portion of accumulated, vested annual leave for governmental fund types.	79,937	-	79,937
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	\$ 328,046	\$ 2,524,340	\$ 2,852,386

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 9 - LONG-TERM DEBT (CONTINUED)**

***Description of Long-Term Debt Outstanding (Continued)***

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>BUSINESS-TYPE ACTIVITIES</b>			
<b><i>Revenue Bonds</i></b>			
Authorized and issued \$15,155,000 Wastewater Revenue Refunding Bonds, Series 2004; 3% to 5.7% interest, depending on maturity dates of bonds. Principal and interest is payable semi-annually on March 1 and September 1, payments began on March 1, 2005. Collateralized by the net revenues of the Military Point Advanced Wastewater Treatment Facility joint venture. The City is liable for one-half of the total obligation.	\$ 297,500	\$ 5,327,500	\$ 5,625,000
Authorized and issued \$20,435,000 Capital Improvement Revenue Bonds, Series 2007; 4.20% to 5.25% interest, depending on maturity dates of bonds. Principal and interest is payable semi-annually on February 1 and August 1. Final maturity on bonds is August 1, 2037. Principal payment began August 1, 2010. As of September 30, 2012, this bond has funded \$9,534,195 of capital assets. The Capital Improvement Revenue Bond requires the establishment of a reserve fund which must maintain a balance equal to the lesser of (i) 10% of the proceeds of the Bonds, (ii) Maximum Debt Service Requirement for the Bonds, or (iii) 125% of the average annual Debt Service Requirement for the Bonds.	425,000	19,535,000	19,960,000
Plus unamortized bond premium	-	43,713	43,713
Authorized and issue \$2,415,246 Utility System Revenue Bonds, payable in quarterly installments of \$37,192 including interest, with a final maturity and balloon payment on October 30, 2018 of \$1,952,652. Interest accrues at an annual rate of 4.53% This bond is secured by a pledge to budget and appropriate non-ad valorem revenues. This entire bond was used to finance capital assets.	<u>45,668</u>	<u>2,214,646</u>	<u>2,260,314</u>
<b><i>Total Revenue Bonds</i></b>	<u>768,168</u>	<u>27,120,859</u>	<u>27,889,027</u>

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 9 - LONG-TERM DEBT (CONTINUED)**

***Description of Long-Term Debt Outstanding (Continued)***

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>BUSINESS-TYPE ACTIVITIES (CONTINUED)</b>			
<b><i>Note Payable</i></b>			
State of Florida State Revolving Loan Fund Program for the joint venture (Military Point Advanced Wastewater Treatment Facility) between Bay County, City of Callaway, City of Springfield, City of Parker, and the Town of Cedar Grove. The funds are being used directly by the joint venture with Bay County, Florida, and the City of Callaway as joint obligors. The loan payments are made directly by the joint venture. The note carries an interest rate of 2.82%. Payments of \$1,000,150 are due on a semi-annual basis beginning September 1, 1999. Collateralized by the net revenues of the Military Point Advanced Wastewater Treatment Facility. As obligor, the City of Callaway has reported one-half of the liability on these financial statements with the remaining one-half reported by Bay County, Florida. The City is also contingently liable for the one-half reported by Bay County, Florida.			
	<u>746,428</u>	<u>4,501,238</u>	<u>5,247,666</u>
<b><i>Accrued Compensated Absences</i></b>			
Accumulated, vested annual compensation for Enterprise Funds.			
	<u>60,959</u>	<u>-</u>	<u>60,959</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b><u>\$ 1,575,555</u></b>	<b><u>\$ 31,622,097</u></b>	<b><u>\$ 33,197,652</u></b>
<b>GRAND TOTAL LONG-TERM DEBT</b>			<b><u>\$ 36,050,038</u></b>

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 9 - LONG-TERM DEBT (CONTINUED)**

**Annual Requirements to Amortize Debt Outstanding**

The annual requirements to amortize all debt outstanding except accrued and annual leave as of September 30, 2012, are as follows:

**Governmental Activities**

Year Ending September 30	Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 204,673	\$ 109,817	\$ 43,436	\$ 10,362
2014	91,936	101,795	45,013	8,785
2015	96,616	97,024	46,647	7,151
2016	102,493	92,007	48,340	5,458
2017	107,585	86,689	50,095	3,703
2018-2022	245,700	382,692	51,915	1,884
2023-2027	203,000	341,295	-	-
2028-2032	251,000	292,906	-	-
2033-2037	312,000	232,881	-	-
2038-2042	386,000	158,376	-	-
2043-2047	486,000	66,282	-	-
Total	<u>\$ 2,487,003</u>	<u>\$ 1,961,764</u>	<u>\$ 285,446</u>	<u>\$ 37,343</u>

**Business-Type Activities**

Year Ending September 30	Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 768,168	\$ 1,374,962	\$ 746,428	\$ 142,927
2014	802,801	1,342,653	767,644	121,711
2015	837,535	1,308,661	789,465	99,890
2016	872,107	1,273,803	811,910	77,445
2017	907,308	1,236,296	834,994	54,361
2018-2022	6,923,404	5,163,355	1,297,225	36,808
2023-2027	5,727,500	3,703,804	-	-
2028-2032	4,795,000	2,405,550	-	-
2033-2037	6,211,491	1,007,738	-	-
Total	<u>\$ 27,845,314</u>	<u>\$18,816,822</u>	<u>\$ 5,247,666</u>	<u>\$ 533,142</u>

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 10 - PLEDGED REVENUES**

**Governmental Activities**

The \$2,000,000 Public Safety Capital Improvement Revenue Bonds, Series 2009 were used to refund a bond anticipation note as part of financing the costs of acquisition and construction of a police and fire public safety building. Bonds are secured by pledging of Public Service Tax and Gas Franchise Fees. The City has pledged to budget and appropriate non-ad valorem revenues, amounts sufficient to cover any shortfalls in the amount of pledged funds available to pay the bonds. The pledge remains in effect until extinguishments or maturity of the debt in 2047, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2012, totaled \$3,817,263.

**Business Type Activities**

The \$20,435,000 Capital Improvement Revenue Bonds were issued to finance the cost of acquisition and construction of certain capital improvements in connection with the water and sewer utility system. The bonds are secured by special capital extension fees and the City's pledge to budget and appropriate non-ad valorem revenues in amounts sufficient to cover any shortfalls in the amount of pledged funds. The pledge remains in effect until extinguishment or maturity of the debt in 2037, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2012 totaled \$35,987,033.

**NOTE 11 - INTERFUND TRANSFERS**

The composition of interfund balances as of September 30, 2012, is as follows:

	<b>Transfers In</b>			
<b>Transfers Out</b>	Capital Projects Fund	Debt Service Fund	Water Fund	Total
General Fund	\$ 12,478	\$ 363,038	\$ -	\$ 375,516

Transfers of \$363,038 out of the General Fund to the Debt Service Fund represent amounts for debt principal and interest payments. Transfers of \$12,478 out of the General Fund to the Capital Projects Fund represent amounts for capital outlay expenditures related to the Department of Energy grant project for energy improvements to City Hall. City participation is required under the terms of the grant.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 12 - JOINT VENTURE**

The City of Callaway, Florida, in alliance with Bay County, Florida, the cities of Springfield, Parker, and the former Town of Cedar Grove joined efforts on September 27, 1996 to supply existing and expanded wastewater treatment and disposal services. The mission of this partnership is to provide these services in an economical, efficient, and environmentally appropriate manner to their respective citizenry. This venture, known as the Military Point Advanced Wastewater Treatment Facility (MPAWTF), has constructed a 7.0 MGD advanced wastewater facility. The operations of the plant began in July 1999. Costs of the project were funded through a combination of a state of Florida revolving trust loan and a bond issue between Bay County, the City of Callaway and the joint venture.

The joint venture is owned and governed by its owners. The owners are Bay County, and the cities of Callaway, Parker and Springfield. The City of Callaway's capacity percentage in the joint venture is 30.545% as of September 30, 2012. One owner is selected by the other to be responsible for operating the MPAWTF. The owner delegated to be the operator is Bay County, Florida. The operator of the MPAWTF, in accordance with the interlocal agreement, prepares the MPAWTF's annual budget, sets treatment rates, and collects funds sufficient to pay debt service; costs of operations and maintenance; renewal and replacement; and enhancements to reserves.

The results of operations and cash flows are accounted for, in total, within the financial statements of the joint venture. The City's interest in equity is reported within the City's Sewer Fund. As of September 30, 2012, the City's portion of the equity of the venture was \$5,440,600. Complete financial statements for the joint venture, may be obtained from the operator at P.O. Box 2269, Panama City, Florida 32402.

As of September 30, 2012, the City owes the joint venture \$129,469, for transferred collection systems and a segregation line, and the joint venture owes the City \$74,813, for excess funds accumulated in the repair and replacement account and reserve account. This balance has been recorded in the Sewer Fund as "due to joint venture" and "due from joint venture", respectively. In addition, the City is owed \$10,872,666 at September 30, 2012 from the joint venture. This represents the outstanding obligation of the MPAWTF to the City for the Wastewater Revenue Bonds issued in the City's name. The bond proceeds were transferred to MPAWTF and used for capital expansion. The outstanding obligation of the City related to these bond and note payables, which are reported as debt in the City's sewer Fund is \$10,872,666 at September 30, 2012.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 12 - JOINT VENTURE (CONTINUED)**

Condensed financial statements from the MPAWTF are as follows:

**Statement of Net Assets**  
**Year Ended September 30, 2012**

Assets	
Current assets	\$ 3,778,148
Noncurrent assets	<u>32,460,874</u>
Total assets	<u>36,239,022</u>
Liabilities	
Current liabilities	2,717,437
Noncurrent liabilities	<u>20,302,734</u>
Total liabilities	<u>23,020,171</u>
Net assets	<u>\$ 13,218,851</u>

**Statement of Activities**  
**Year Ended September 30, 2012**

Operating revenues	\$ 6,699,242
Operating expenses	<u>4,097,312</u>
Operating income	2,601,930
Non-operating revenues (expenses), net	<u>(898,404)</u>
Net income before contributions from owners	1,703,526
Distribution to owners	<u>361,732</u>
Change in net assets	1,341,794
Net assets, beginning of year	<u>11,877,057</u>
Net assets, end of year	<u>\$ 13,218,851</u>

The City of Callaway's investment in joint venture increased in the amount of \$535,992, derived as follows:

Share of net income	\$ 520,794
Distribution to owners	(105,974)
Increase in reserve requirements	74,813
Service fee allocation	<u>46,359</u>
Increase in investment in joint venture	<u>\$ 535,992</u>

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

**Legal Matters**

The City Attorney has indicated that there are no items pending or recently resolved litigation which would materially affect the City's financial statements as of September 30, 2012.

**Law Enforcement Services**

On July 14, 2011, the City entered into an agreement with the Sheriff of Bay County, Florida, requesting the Sheriff provide police services to the City at the cost of \$1,244,372 for the twelve month period beginning October 1, 2011 and terminating September 30, 2012. This agreement includes an automatic renewal for a one year term that shall commence on October 1, 2012 and terminate September 30, 2013 at the rate of 105% of the fiscal year 2012 amount.

**NOTE 14 - SUBSEQUENT EVENTS**

**Sandy Creek Receivable**

On December 28, 2011, the City entered into an agreement with Sandy Creek Utility Services, Inc. to purchase and acquire the water distribution systems, as well as, the sewage collection systems of every kind and nature owned by Sandy Creek Utility Services, Inc. in Bay County Florida, located east of the north-south line of the Hathaway Bridge centerpoint. The Sandy Creek Utility Services, Inc. decommissioned its treatment plants and transferred its remaining limited distribution and collection facilities to the City as of May 1, 2012, which completed the connection to the City's system.

The City's Impact Fee Ordinance and Special Capital Extension Fee Ordinance make it unlawful for any person to connect to the City's system without first paying the impact fees or special capital extension fees. On December 6, 2012, the City was granted a final judgment to assess and collect special capital extension fees and impact fees from property owners within the Sandy Creek Assessment Area ("Improved Lot Owners"). In order to meet bond covenant requirements, that require the fee to be collected, the City issued the Utility System Capital Improvement and Extension Revenue Bonds, Series 2012, in the amount of \$735,000 to finance the fees on behalf of the Sandy Creek Subdivision. The City will special assess the property owners within the Sandy Creek Assessment Area approximately \$1.4 million, plus legal costs in the amount of \$105,130, less grants of \$53,729 applied as a credit, over a ten year period.

**City of Callaway, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 14 - SUBSEQUENT EVENTS (CONTINUED)**

**Fire Truck Capital Lease**

On March 14, 2012, the City Commission authorized the lease of a 2012 Rescue Pumper (fire truck). Although the capital lease agreement was executed in March 2012, the actual term of the lease commences when the equipment is obtained by the City (as stated in the lease agreement). The fire truck was in the process of being built at September 30, 2012. In November 2012, the fire truck was delivered to the City, and instead of commencement of the capital lease, the City Commission voted to extinguish this debt using general fund reserves. The debt was extinguished on November 19, 2012 in the amount of \$261,654.

**General Fund Debt**

In November 2012, the City Commission voted to extinguish the debt of the Leisure Service Building and the A&C Center in the amount of \$293,361 and \$90,516, respectively, using general fund reserves.

**New GASB Pronouncements**

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans* - an amendment to Statement No. 25. This Statement enhances the financial reporting by state and local governmental pension plans. This Statement replaces the requirement of Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Management believes GASB Statement No. 67 will not have a material effect on the financial position, changes in net assets, or cash flows of the City.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment to Statement No. 27. This Statement enhances the financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Management believes GASB Statement No. 67 will not have a material effect on the financial position, changes in net assets, or cash flows of the City. However, the GASB statement will require the recording of certain unfunded actuarial liabilities of the cost sharing multiple-employer retirement plan administered by the State of Florida Division of Retirement disclosed in Note 6 if in existence at the time of adoption of the Statement. The plan as of July 1, 2012 was funded at 86.9%. The City will be required to record its proportionate share of the unfunded liability, if such liability exists, with the adoption of these statements.

# City of Callaway, Florida

## Individual Fund Statements

These financial statements provide a more detailed view of the Basic Financial Statements presented in the preceding section.

### GENERAL FUND

Expenditures by Department - Budget (GAAP Basis) and Actual

### NON-MAJOR GOVERNMENTAL FUND

*Capital Projects Fund* - The capital projects fund is used to account for the acquisition or construction of major capital facilities and projects (other than those financed by proprietary funds).

*Community Redevelopment Fund* - The community redevelopment fund is the operating fund of the Community Redevelopment Agency (the "Agency"). It is used to account for the activities of the Agency.

*Debt Service Fund* - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest in accordance with bond ordinances.

**City of Callaway, Florida**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES BY DEPARTMENT -**  
**BUDGET (GAAP BASIS) AND ACTUAL**  
**Year Ended September 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Legislative	\$ 43,762	\$ 43,762	\$ 40,908	\$ 2,854
Executive	131,086	135,056	132,294	2,762
Financial and administrative	58,205	58,205	57,102	1,103
Legal counsel	56,825	56,825	-	56,825
Comprehensive planning and code enforcement	346,194	311,194	274,146	37,048
Elections	5,187	2,051	1,165	886
Other general governmental services	500,254	283,654	278,700	4,954
Law enforcement	1,250,947	1,250,947	1,250,917	30
Fire control	985,633	985,633	887,441	98,192
Highways and streets	1,019,485	1,019,485	912,012	107,473
Maintenance	109,835	109,835	104,011	5,824
Housing and urban development	411,659	433,436	433,436	-
Leisure services	<u>717,359</u>	<u>717,359</u>	<u>710,930</u>	<u>6,429</u>
Total General Fund Expenditures by Department	<u>\$ 5,636,431</u>	<u>\$ 5,407,442</u>	<u>\$ 5,083,062</u>	<u>\$ 324,380</u>

**City of Callaway, Florida**  
**CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**Year Ended September 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental	\$ -	\$ 308,000	\$ 217,186	\$ (90,814)
TOTAL REVENUES	<u>-</u>	<u>308,000</u>	<u>217,186</u>	<u>(90,814)</u>
EXPENDITURES				
Capital outlay	-	318,000	229,664	88,336
TOTAL EXPENDITURES	<u>-</u>	<u>318,000</u>	<u>229,664</u>	<u>88,336</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(10,000)</u>	<u>(12,478)</u>	<u>(2,478)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	10,000	12,478	2,478
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE - BEGINNING OF YEAR	-	-	-	-
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**City of Callaway, Florida**  
**COMMUNITY REDEVELOPMENT FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**Year Ended September 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 27,207	\$ 27,207	\$ 23,753	\$ (3,454)
Intergovernmental	44,135	43,919	40,142	(3,777)
Miscellaneous	<u>300</u>	<u>800</u>	<u>689</u>	<u>(111)</u>
TOTAL REVENUES	<u>71,642</u>	<u>71,926</u>	<u>64,584</u>	<u>(7,342)</u>
EXPENDITURES				
Current				
General government services	34,900	23,861	5,379	18,482
Capital outlay	<u>245,439</u>	<u>298,731</u>	<u>260,211</u>	<u>38,520</u>
TOTAL EXPENDITURES	<u>280,339</u>	<u>322,592</u>	<u>265,590</u>	<u>57,002</u>
NET CHANGE IN FUND BALANCE	(208,697)	(250,666)	(201,006)	49,660
FUND BALANCE - BEGINNING OF YEAR	<u>208,697</u>	<u>292,706</u>	<u>292,706</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 42,040</u>	<u>\$ 91,700</u>	<u>\$ 49,660</u>

**City of Callaway, Florida**  
**DEBT SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**Year Ended September 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	-	-
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
Debt service				
Principal	230,411	230,449	230,449	-
Interest	<u>132,628</u>	<u>132,589</u>	<u>132,589</u>	-
TOTAL EXPENDITURES	<u>363,039</u>	<u>363,038</u>	<u>363,038</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(363,039)</u>	<u>(363,038)</u>	<u>(363,038)</u>	<u>-</u>
OTHER FINANCING SOURCES				
Transfers In	<u>363,039</u>	<u>363,038</u>	<u>363,038</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Need Statistical Information**

#### **IV. COMPLIANCE SECTION**

- **COMPLIANCE MATTERS**
- **MANAGEMENT LETTER**
- **RESPONSES TO MANAGEMENT LETTER**

**DRAFT FOR DISCUSSION ONLY**

**City of Callaway, Florida**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended September 30, 2012**

<u>Federal Program</u>	<u>CFDA Number</u>	<u>Contract/Grant Number</u>	<u>Expenditures</u>
U.S. Department of Transportation			
Indirect Programs			
Pass-Through from:			
Florida Department of Transportation			
ARRA - Highway Planning and Construction Grant	20.205	AQI01	\$ 8,306
ARRA - Highway Planning and Construction Grant	20.205	AQI02	<u>5,350</u>
<b><i>Total U.S. Department of Transportation</i></b>			<b><u>13,656</u></b>
U.S. Department of Energy			
Indirect Program			
Pass-Through from:			
Florida Energy and Climate Commission			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	ARE043/17612	203,530
U.S. Department of Housing and Urban Development			
Indirect Program			
Pass-Through from:			
Florida Department of Community Affairs			
Community Development Block Grant	14.228	11DB-L4-01-13- 02-H02	<u>433,436</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 650,622</u></b>

DRAFT FOR DISCUSSION ONLY

The accompanying notes are an  
integral part of this schedule.

**City of Callaway, Florida**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended September 30, 2012**

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***Note 1. Basis of Presentation***

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Callaway, Florida, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements described in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**DRAFT FOR DISCUSSION ONLY**

Honorable Mayor and City Commissioners  
City of Callaway, Florida

### **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***

We have audited the financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, of the City of Callaway, Florida, as of and for the year ended September 30, 2012, which collectively comprise the City of Callaway, Florida's basic financial statements, and have issued our report thereon dated February 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Management of the City of Callaway, Florida, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Callaway, Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Callaway, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Callaway, Florida's internal control over financial reporting.

*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 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.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Honorable Mayor and City Council Members  
City of Callaway, Florida  
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* (Continued)

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the City of Callaway, Florida, in a separate letter dated February 18, 2013.

This report is intended solely for the information and use of the Audit Committee, management, City Commission, others within the City, the State of Florida, Office of the Auditor General, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

February 18, 2013

DRAFT FOR DISCUSSION ONLY

# WARREN AVERETT

## O'SULLIVAN CREEL

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Honorable Mayor and City Commission Members  
City of Callaway, Florida

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

### **Compliance**

We have audited the City of Callaway, Florida's (the City) compliance with the types of compliance requirements described in the *United States Office of Management and Budget (OMB) Circular A-133, Compliance Supplement*, that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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

Honorable Mayor and City Council Members  
City of Callaway, Florida  
Report on Compliance with Requirements Applicable to Each  
Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133 (Continued)

**Internal Control over Compliance**

Management of the City of Callaway, Florida, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Audit Committee, management, City Commission, others within the City, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

February 18, 2013

**City of Callaway, Florida**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2012**

**I. SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   No
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that is/are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   No

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.228	U.S. Department of Housing and Urban Development - <i>Community Development Black Grants</i>
81.128	U.S. Department of Energy - <i>ARRA - Energy Efficiency and Conservation Block Grant</i>
20.205	U.S. Department of Transportation - <i>ARRA - Highway Planning and Construction Grant</i>

Dollar threshold used to distinguish between type A and type B programs

\_\_\_\_\_   \$300,000   \_\_\_\_\_

Auditee qualified as low-risk auditee?

\_\_\_\_\_ Yes   X   No

Continued...

**City of Callaway, Florida**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2012**

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**II. FINANCIAL STATEMENT FINDING**

We noted no matters involving noncompliance that are required to be reported in accordance with section 510(a) of Circular A-133.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL PROGRAMS**

We noted no matters involving noncompliance that are required to be reported in accordance with OMB Circular A-133.

*DRAFT FOR DISCUSSION ONLY*

Honorable Mayor and City Commission Members  
City of Callaway, Florida

### MANAGEMENT LETTER

We have audited the financial statements of the City of Callaway, Florida, as of and for the fiscal year ended September 30, 2012, and have issued our report thereon dated February 18, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550 Rules of the Florida Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated February 18, 2013, should be considered in conjunction with this Management Letter.

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

Section 10.554(1)(i)(1), *Rules of the Auditor General*, requires that we determine whether or not correction actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address recommendations made in the preceding annual financial report (except as noted below under the heading "Prior Year Comments").

Section 10.554(1)(i)(2), *Rules of the Auditor General*, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Callaway, Florida complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)(3), *Rules of the Auditor General*, requires that we address in the Management Letter any recommendations to improve financial management. In connection with our audit, our comments and recommendations are reported under the heading "Current Year Comments."

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

Section 10.554(1)(i)(5), *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) Deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)(6), *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the financial statements. The official title and legal authority for the City of Callaway, Florida has been disclosed in Note 1 to the financial statements.

Section 10.554(1)(i)7.a., *Rules of the Auditor General*, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Callaway, Florida, did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., *Rules of the Auditor General*, requires that we determine whether the annual financial report for the City of Callaway, Florida, for the fiscal year ended September 30, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we determined that these two reports are in agreement.

Pursuant to Sections 10.554(1)(i)7.c., and 10.556(7), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of Callaway, Florida'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 the same. In accordance with the *Rules of the Auditor General* (Section 10.556(7)), a financial condition assessment was performed, which did not indicate a deteriorating financial condition.

## **PRIOR YEAR COMMENTS**

### **2010-ML-01 DEBT SERVICE REQUIREMENTS**

#### ***Prior Year Comment Summarized***

The City, in 2007, issued Capital Improvement Revenue Bonds of \$20,435,000 for improvements to its water and sewer system. The bonds were intended to be repaid from a special capital extension fee to be collected from expected new development in an urban service area in the eastern portion of City limits. Due to the downturn in the real estate market and overall United States economy, development of the area has not progressed as expected. The City has permission from bond counsel to utilize unspent bond proceeds to pay down the bonds over the next few years. However it is expected the City will need to service the debt from its revenue streams beginning in the 2015-2016 time frame. We recommended the City project future revenues and costs in its utility operation and determine an appropriate debt service strategy that does not rely solely on repayment of the debt via capital extension fees. We also recommended the City evaluate utility rates in the water fund in tandem with future debt service needs as the water fund has experienced recurring losses.

**PRIOR YEAR COMMENTS (CONTINUED)**

**2010-ML-01 DEBT SERVICE REQUIREMENTS (CONTINUED)**

***Status***

The City collected approximately \$16,586 and \$15,726 of special capital extension fees in the Water and Sewer Funds, respectively, during the year ended September 30, 2012. Debt service on the bonds was approximately \$1,298,975 during the year ended September 30, 2012. Unspent bond proceeds of \$1,266,663 were necessary to service the debt. Rates in the utility funds were increased 2% during the year ended September 30, 2012 in an effort to achieve break even operating performance. For the year ended September 30, 2012 the City reported an operating loss in its water fund of \$208,202 and a net loss of \$690,484. The sewer fund reported operating income of \$110,137 and net income of \$375,975, however the net income was driven by equity earnings in the joint venture of \$535,992.

***Recommendation***

We continue to recommend development of a debt service strategy and an analysis of rates in the water and sewer utility fund.

***Management Response***

There are sufficient bond proceeds remaining to cover the utility fund's debt payments for several years; however, servicing the City's debt remains a major focus of the City's current management. Within the first quarter of FY13, the City Manager requested and received authorization to retire three long term debts of the City's general fund. It is his intent to retire one additional debt early in FY14; thereby reducing the annual debt payments by more than \$300,000, while still maintaining the City's targeted unassigned fund balance in reserves. This savings can be redirected to make annual & advance payments on remaining debts.

The City has requested and received agreement from the Florida Rural Water Association to conduct a formal "Rate & Fee Study" of our water and sewer departments. Several reports, projections, analysis, and historical data have been provided to a rate study specialist in their engineering department. Following his review of the submitted materials, he has stated that he will be visiting us to obtain additional information needed to finish his study and report which will be presented to the City Commission for review and needed action.

The City Manager has, in the meantime, challenged all departments to curb spending as much as possible to allow for additional contributions toward future debt service. We feel that these measures, coupled with rate adjustments that remain to be determined by the rate study specialist, will serve to address the operating losses experienced in the current year and will also allow for additional contributions toward future debt service payments.

## **PRIOR YEAR COMMENTS (CONTINUED)**

### **2010-ML-02 INFORMATION TECHNOLOGY PLANNING**

#### ***Prior Year Comment Summarized***

We noted the City did not have formal strategic planning for timing of IT infrastructure replacement and related software upgrades. The disaster recovery/business continuity plan is informal and could be enhanced with specific detail. Service level agreements (contracts) were not in place with either the accounting software vendor or the vendor used for IT support and maintenance activities since that function is outsourced. We recommended that service level contracts be executed to formally establish expectations by both parties, the development of a formal disaster recovery plan to address all risk factors the City may be subject to and that the plan include a provision for testing the plan each year, and the formalization of IT planning to include an IT committee. The committee would be responsible for generating a formal strategic plan to include budgeting for IT systems and infrastructure replacement and upgrades.

#### ***Status***

A detailed disaster recovery and business continuity plan was developed by management and approved by the Commission in November 2012. The accounting software upgrade is scheduled for January, 2013. We continue to recommend the City incorporate the timing of IT infrastructure replacement and software upgrades into its strategic plan; however we consider the comment closed based on the changes that have been implemented.

## **CURRENT YEAR COMMENTS**

### **2012-ML-01 ANTI-FRAUD PROGRAM**

#### ***Observation***

The City of Callaway, Florida has established an audit committee. The committee would like to take a more pro-active role in fraud prevention and detection.

#### ***Recommendation***

The City of Callaway, Florida could strengthen its anti-fraud program with the adoption of the following:

- Periodic documented fraud risk assessments.
- A written fraud response plan.
- Training for the committee and City employees on warning signs of fraud and what to do if they suspect fraud is occurring.
- Implementation of a whistleblower policy

The Association of Certified Fraud Examiners has a fraud risk assessment tool that could be used by the Committee to strengthen its anti-fraud program. Further a written fraud response plan would address investigation protocols and guidance on reporting known or suspected fraud to the appropriate authorities. Since the audit committee is subject to the Florida Sunshine rules it would be prudent to involve the City attorney in addressing investigation protocols and reporting.

## **CURRENT YEAR COMMENTS (CONTINUED)**

### **2012-ML-01 ANTI-FRAUD PROGRAM (CONTINUED)**

#### ***Management Response***

In December 2012, the City's Audit Committee developed a written Fraud Reporting Policy. The proposed policy was presented to the City Commission on January 8, 2013 and it received their unanimous approval. Following the Commission's action, city employees attended mandatory training sessions which were conducted on February 7, 2013.

The policy is designed to encourage the reporting of fraud by employees in an effort to protect the City, employees, and the citizens' interests.

Key elements of the City's Fraud Reporting Policy include: A definition of fraud; The importance of reporting fraud; Methods for resolving allegations of fraud; A form which can be utilized by employees to report fraud; and "Whistleblower" references.

A committee was established to review allegations of fraud and to refer those warranting further investigation to the proper authorities.

### **2012-ML-02 WRITTEN CONTROL RISK ASSESSMENT**

#### ***Observation***

The City of Callaway, Florida has not formally documented management's control risk assessment regarding significant transaction cycles. Like many organizations, the City assesses risk routinely but the risk assessment process is not documented or formalized.

#### ***Recommendation***

Documenting control risk assessments will provide additional assurances that key business processes have appropriate control activities in place. The assessment and documentation will help management identify control gaps, strengthen existing controls, and remove redundancies where applicable. The risk assessment process involves:

- Determining the objectives/goals of significant business processes
- Identifying what can go wrong (risks)
- Prioritizing what can go wrong (risk ranking)

Once the risk assessment is completed, control activities around the risks must be evaluated. Control activities are the processes that reduce the risk that errors or irregularities will occur. We recommend the City of Callaway, Florida formally document their control risk assessment process.

**CURRENT YEAR COMMENTS (CONTINUED)**

**2012-ML-02 WRITTEN CONTROL RISK ASSESSMENT (CONTINUED)**

***Management Response***

As a small government entity, management has the advantage of first-hand information of where some risks exist. In addition, information is derived from employees, citizens, suppliers, and others which enable managers to identify inherent risks while carrying out their normal responsibilities.

Control activities occur throughout the City at all levels and in all functions. These activities include approvals, authorizations, verifications, reconciliations, reviews of operating performance, maintenance of security of assets, and segregation of duties. To help assure that management directives are carried out, these control activities will be evaluated to ensure that necessary actions are being taken to identify areas of noncompliance and, if needed, to install additional controls. For instance, in areas where staff size does not allow for proper segregation of duties, compensating controls will be utilized.

The City will work on developing a written control risk assessment policy to focus on these inherent risks associated with reliable financial reporting. The policy will also address control activities to evaluate the risk reduction methods.

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

We sincerely hope these comments and recommendations will be of assistance in the administration and operation of the City of Callaway, Florida. Please feel free to contact us regarding the preceding or any other aspect of the audit of your financial statements.

We greatly appreciate the assistance and cooperation extended to us during our audit.

February 18, 2013



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**REQUEST FOR PROPOSAL PACKAGE RECEIPT**

Please complete the information below if you are picking up a RFP package from the City of Callaway. This information will allow us to contact you should there be a change or if additional information is to be provided in the RFP request.

Thank you.

**RFP Package Received:**     Request for Proposal for Audit Services

**Date Received:** \_\_\_\_\_

**Company Name:** \_\_\_\_\_

**Company Address:** \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Company Phone & Fax Number:** \_\_\_\_\_

**THE CITY OF CALLAWAY  
REQUEST FOR PROPOSAL FOR AUDIT SERVICES**

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The City Commission of the City of Callaway ("Commission") is requesting proposals from qualified firms of certified public accountants to audit its financial statements for the fiscal years ending September 30, 2010, 2011 and 2012. These audits are to be performed in accordance with general auditing standards in addition to the following:

- (1) Section 218.39, Florida Statutes
- (2) Rules of the Florida Department of Financial Services
- (3) Rules of the Auditor General (Chapter 10.550, Local Government Entity Audits)
- (4) AICPA Audit and Accounting Guide – Audits of State and Local Governmental Units
- (5) Federal and Florida Single Audit Acts
- (6) *Government Auditing Standards* issued by the Comptroller General of the United States
- (7) Circular No. A-133, Executive Office of the President, Office of Management and Budget, Washington, DC

**I. General Information**

- 1) The City of Callaway has a population of 14,233 (U. S. Dept. of Commerce, 2000 Census). It has 5,541 total households as of September 30, 2000 (U. S. Dept. of Commerce, 2000 Census) and has 8,340 registered voters (Bay County Supervisor of Elections Office as of September, 2008).

Callaway is comprised of approximately 12 square miles and is served by two major roadways – U. S. 98 and S. R. 22. The Bay County Sheriff's Office contracts with the City to provide law enforcement services. Callaway has its own Fire Department which provides fire protection not only for the City but for some of the unincorporated areas of Bay County.

- 2) The Audit Committee consists of one (1) City Commissioner, one (1) City Employee, and three (3) Citizens of Callaway. A copy of Resolution 08-31 is attached.

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- 3) Questions regarding the Request for Proposal (RFP) are to be addressed to:

Genette Bernal,  
City Clerk  
City of Callaway  
6601 East Highway 22  
Callaway, Florida 32404  
Telephone: (850) 871-6000

- 4) All responses to this RFP must be received as soon as possible, but no later than 2:00 p.m. (CST) February 3, 2010, at the address listed above. Original and nine signed copies of your proposal shall be submitted in one sealed package, clearly marked on the outside "Proposal for Independent Auditing Services". All responses received by the deadline above will be unsealed at 2:15 p.m. (CST) February 3, 2010, at the address listed above. Any responses received after the deadline will be returned to the proposer unopened and marked "RECEIVED AFTER DEADLINE". All costs incurred by the responding firms in preparing proposals to this request will not be reimbursed by the City of Callaway.
- 5) The Audit Committee reserves the right to reject any or all proposals submitted and to request additional information from the proposers. At the discretion of the Commission or the Audit Committee, firms submitting proposals may be requested to make oral presentations as part of the evaluation process.
- 6) The Commission reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected. Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposals, unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the City of Callaway and the firm selected.
- 7) The Audit Committee will rank the proposers and recommend the highest ranked firm in accordance with Section 218.391, Florida Statutes to the Commission. Upon approval, it is anticipated that the Commission will enter into a three year contract for services related to fiscal years ending September 30, 2010; September 30, 2011; and September 30, 2012.

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8) **RFP Calendar:**

12/18/09 Request for Proposal noticed  
1/15/10 All inquiries submitted in writing  
2/3/10 Responses to RFP due (2:00 p.m. CST)  
Feb/Mar February/March 2010 – During these months the Audit Committee will meet to evaluate the proposals with the intention of making a formal recommendation to the City Commission at the Regular Commission Meeting on either the 2<sup>nd</sup> or 4<sup>th</sup> Tuesday of March.

- 9) Audits for the last several fiscal years were completed by Carr, Riggs & Ingram, LLC.
- 10) The City of Callaway does not have an internal audit department.
- 11) All requirements and conditions set forth in this RFP shall be incorporated into the contract between the City of Callaway and the selected firm unless expressly provided otherwise by the contract.

**II. Description of Records to be Audited**

- 1) The City provides a full range of services including public safety (law enforcement and fire), physical environment, economic environment, highways and streets, general administrative services, culture, and recreation. In addition the City also operates three enterprise activities: Water, Sewer, and Solid Waste services. Also, the City sits as the CRA Board of the City of Callaway CRA. Risk Management programs within the City consist of the following programs: Workers Compensation coverage by Florida Municipal Insurance Trust, property and liability insurance, as well as public officials insurance; and City-paid disability and term life insurance for all full time employees, as well as subsidies of health insurance.
- 2) The City maintains its own accounting records
- 3) All accounting records are maintained on the modified accrual basis with accounting records for enterprise and internal service funds converted to full accrual basis at fiscal year-end.
- 4) Budgets are integrated with the accounting records.

**III. Services Required**

- 1) Prepare an audit and an opinion on the basic financial statements of the City of Callaway. The audit is to be done in accordance with the Rules of

the Auditor General, Chapter 10.550; the Federal and Florida Single Audit Acts (if applicable); OMB Circular A-133; *Government Auditing Standards* issued by the Comptroller General of the United States; and the AICPA Auditing Standards. In addition, as part of the Audit, the City requires the conduct of a random sample of city employees to gather information of any suspicious activity, suspected fraud, abuse, or internal control problems.

- 2) Final audit required by this RFP must be completed within five (5) months of the end of the fiscal year.
- 3) Prepare a calendar including the following items which will be established by the Audit Committee:
  - a. Contract signed with proposer
  - b. Interim audit procedures
  - c. Fiscal year end for the City of Callaway
  - d. Close books of the City of Callaway
  - e. Preliminary management comments and recommendations delivered to the City of Callaway Audit Committee
  - f. Written management comments delivered to the City of Callaway Audit Committee
  - g. First draft of financial statements delivered to Director of Finance and the Audit Committee
  - h. Second draft of financial statements delivered to Director of Finance and the Audit Committee
  - i. Final production of financial statements delivered to Director of Finance and Audit Committee.
  - j. Provide a formal "outbrief" to the City Commission and Audit Committee in a public workshop.
- 4) Prepare a draft of the City of Callaway's financial statements and related notes to be reviewed and approved by the City of Callaway.
- 5) Prepare all required note disclosures for the City of Callaway's financial statements.
- 6) Prepare the Annual Financial Report which shall include the following contents:

Title Page

Financial Section

Report of Independent Accountants  
Management's Discussion and Analysis  
Basic Financial Statements

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**Statement of Net Assets  
Statement of Activities  
Statement of Cash Flow  
Notes to Financial Statements**

**Independent Auditor's Report on Additional Information**

**Schedule of Expenditures of Federal Awards**

**Report on Compliance and Internal Control**

**Summary of Findings**

**Independent Auditor's Management Letter**

- 7) **Following the completion of the audit of the fiscal year's financial statements, the auditor shall issue the following reports for the City of Callaway.**
  - a. **A report on the fair presentation of the financial statements in conformity with generally accepted accounting principles.**
  - b. **A report on the internal control structure based on the auditors understanding of the control structure and assessment of control risk.**
  - c. **A report on compliance with applicable laws and regulations.**
  - d. **Reports on compliance with specific requirements applicable to Federal awards and State financial assistance programs.**
  - e. **The auditor shall communicate in a letter to management and the Audit Committee any reportable conditions found during the audit.**
- 8) **Department of Financial Services report review as required by Section 218.32(1), Florida Statutes.**
- 9) **Assistance in providing guidance and implementing changes in governmental accounting standards**
- 10) **For any debt issued by the City of Callaway, which included an official statement in connection with the debt containing basic financial statements and the report of independent accounts, the firm shall be required to issue a "consent and citation of expertise" as auditor and any necessary "comfort letters" at no additional cost to the City of Callaway.**

11) **Fraud and illegal acts:** Auditors shall be required to make an immediate, **written** report of all fraud and illegal acts.

12) **Support by City Staff**

City Staff will perform the year-end closing of the books

City Staff will provide information necessary for preparing draft financial statements and related notes

City Staff will prepare work schedules and related materials as requested by the selected firm

City Staff will provide paid invoices, cancelled checks and other supportive documentation as requested by the firm.

**IV. Qualifications of the Auditor**

- 1) The firm must have been established in Florida and performed continuous CPA services for a minimum of five years.
- 2) The firm should clearly indicate its available governmental expertise. Resumes should be provided for the partner and manager who would be in charge of the audit.
- 3) The individuals who will be primarily responsible for the audit must have 24 hours of governmental accounting and auditing CPE.
- 4) The firm should indicate its approach to peer review and provide a report of the most recent peer review. Indicate whether that peer review included a review of local government client activities.
- 5) The firm should indicate any disciplinary actions that have been instituted or proposed against the firm during the last three years.
- 6) The firm should describe the results of any State or Federal reviews during the past three years of the firm's governmental client audit work.

**V. Information to be Included in the Proposal**

- 1) Title page showing the RFP subject, the name of the firm, address, telephone number, the name of the contact person and the date.
- 2) A table of contents providing a clear identification of the material by section and by page number.
- 3) A statement setting forth the proposer's understanding of the work to be done and a positive commitment to perform the work within the specified time period.

- 4) **A statement as to whether the firm is local, regional or national.**
- 5) **The location of the office from which the work is to be done and the number of personnel in that office who would be working on the audit.**
- 6) **An identification of the partners, managers and supervisors who will work on the audit, including staff from other than the local office if necessary for this audit. Resumes for each managerial and supervisory person to be assigned to the audit should be submitted and include the following information:**
  - a. **Formal education**
  - b. **Supplemental education relative to governmental accounting and auditing**
  - c. **Experience in public accounting in general**
  - d. **Experience in private business or government**
  - e. **Experience in auditing governmental units**
  - f. **Membership in various national and state governmental accounting boards, committees, or associations (past and present)**
  - g. **Professional recognition, such as Certified Public Accounting licenses, awards, etc.**
- 7) **A description of your office's experience in preparing governmental financial statements and in providing assistance in obtaining the Certificate of Achievement for Excellence in Financial Reporting.**
- 8) **A listing of Florida counties and municipalities for which your firm is providing or has provided audit services.**
- 9) **The proposal should set forth a work plan, including an explanation of the audit methodology to be followed, to perform the services required in Section III of this request for proposal.**

**Proposers will be required to provide the following information on their audit approach:**

- a. **Proposed segmentation of the engagement**
- b. **Level of staff and number of hours to be assigned to each proposed segment of the engagement.**
- c. **Sample size and the extent to which statistical sampling is to be used in the engagement.**
- d. **Extent of use of EDP software in the engagement.**
- e. **Type and extent of analytical procedures to be used in the engagement.**

- f. Approach to be taken to gain and document an understanding of the internal control structure.
- g. Approach to be taken in determining laws and regulations that will be subject to audit test work.
- h. Approach to be taken in drawing audit samples for purposes of tests of compliance.

**V. Evaluation Procedures**

- 1) All responses will be reviewed by the Audit Committee using the mandatory and technical quality elements below and the committee may use as guidance the latest Auditor Selection Guidelines prepared by the Florida Auditor Selection Task Force.
- 2) The responses will be evaluated using two sets of criteria. Firms meeting the mandatory criteria will have their proposals evaluated and scored on technical qualifications. Cost of services shall not be considered at this stage. The following represent the principal criteria which will be considered during the evaluation process.

**Mandatory Elements:**

- a. The audit firm is independent and licensed to practice in Florida
- b. The firm has no conflict of interest with regard to any other work performed by the firm to the City of Callaway
- c. The firm adheres to the instructions in this request for proposal on preparing and submitting the proposal
- d. The firm submits a copy of its last external quality control review report and the firm has a record of quality audit work.
- e. Ability to provide the required services in a timely fashion.

**Technical Quality:**

- a. General Government audit experience
- b. Qualifications of individuals assigned to audit
- c. Size and organization structure of firm
- d. Demonstrated understanding of City's requirements
- e. Audit approach

**VI. Note to All Prospective Proposers**

**QUESTIONS OR INQUIRIES REGARDING THE MEANING OR INTERPRETATION OF ANY OF THE PROVISIONS OF THIS RFP MUST BE**

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**MADE IN WRITING PRIOR TO CLOSE OF BUSINESS JANUARY 15, 2010 AND DIRECTED TO CITY CLERK OF THE CITY OF CALLAWAY. ALL WRITTEN QUESTIONS WILL BE PROVIDED TO THE AUDIT COMMITTEE MEMBERS, THE APPROPRIATE STAFF WITHIN THE CITY OF CALLAWAY, AND ALL PARTIES WHO HAVE PICKED UP RFP PACKAGES AT THE TIME OF THE QUESTION. WHEN RESPONSES ARE REQUIRED TO ANY INQUIRY, THE RESPONSE SHALL BE MADE THROUGH THE CITY CLERK IN WRITING AND PROVIDED TO THE AUDIT COMMITTEE AND TO ALL PARTIES WHO HAVE PICKED UP RFP PACKAGES. CONTACT WITH OTHER CALLAWAY PERSONNEL FOR PURPOSES OF INQUIRIES REGARDING MEANING OR INTERPRETATION SHALL BE GROUNDS FOR ELIMINATION.**