

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF CALLAWAY, FLORIDA
Fiscal Year Ended September 30, 2013



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www.cityofcallaway.com

City of Callaway, Florida

Comprehensive Annual Financial Report Fiscal Year Ended September 30, 2013

Prepared By

**Debra A. Yeager, CPA, 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

Sandra B Hirth, City Clerk

David P. Joyner, Jr., Fire Chief

Larry Johnson, Director of Public Works

Debra A. Yeager, CPA, 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
CPAs and Advisors

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City of Callaway, Florida
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2013

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CITY OF CALLAWAY, FLORIDA
CITY HALL

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Phone 850-871-6000 • FAX 850-871-2444
www.cityofcallaway.com

Mayor
Thomas W. Abbott

Commissioners
Dennis A. DeLapp
Pamn Henderson
Ralph L. Hollister

February 26, 2014

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, 2013, 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, 2012, to September 30, 2013, 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;

**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
P: 850-871-1033
F: 850-871-2416

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

“This institution is an equal opportunity provider and employer.”

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 2013 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 mills 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 mills) 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 fiscal year 2012, 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.

During the fiscal year 2013, the City paid off early several debt issuances and made a substantial principal reduction of another while maintaining its targeted level of reserves in all funds. The City enacted a four day workweek with City Hall being open five days a week at no additional cost. The City also established a Code Enforcement Board for the purpose of cleaning up and bringing order to the City's ordinance enforcement procedures.

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 12.6% below this year's ending budget, exclusive of early debt retirements. Also included in the expenditure budget is \$150,743 for capital purchases and improvements.

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, 2012. This was the 20th 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.

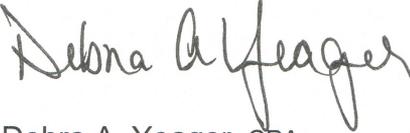
In closing, without the leadership, support and policies provided by the City Commission in conducting the financial operations of the City in a sound and progressive manner, preparation of this report would not have been possible.

Sincerely,



Marcus Collins
City Manager

Sincerely,



Debra A. Yeager, CPA
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, 2012.

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.





Government Finance Officers Association

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

Presented to

**City of Callaway
Florida**

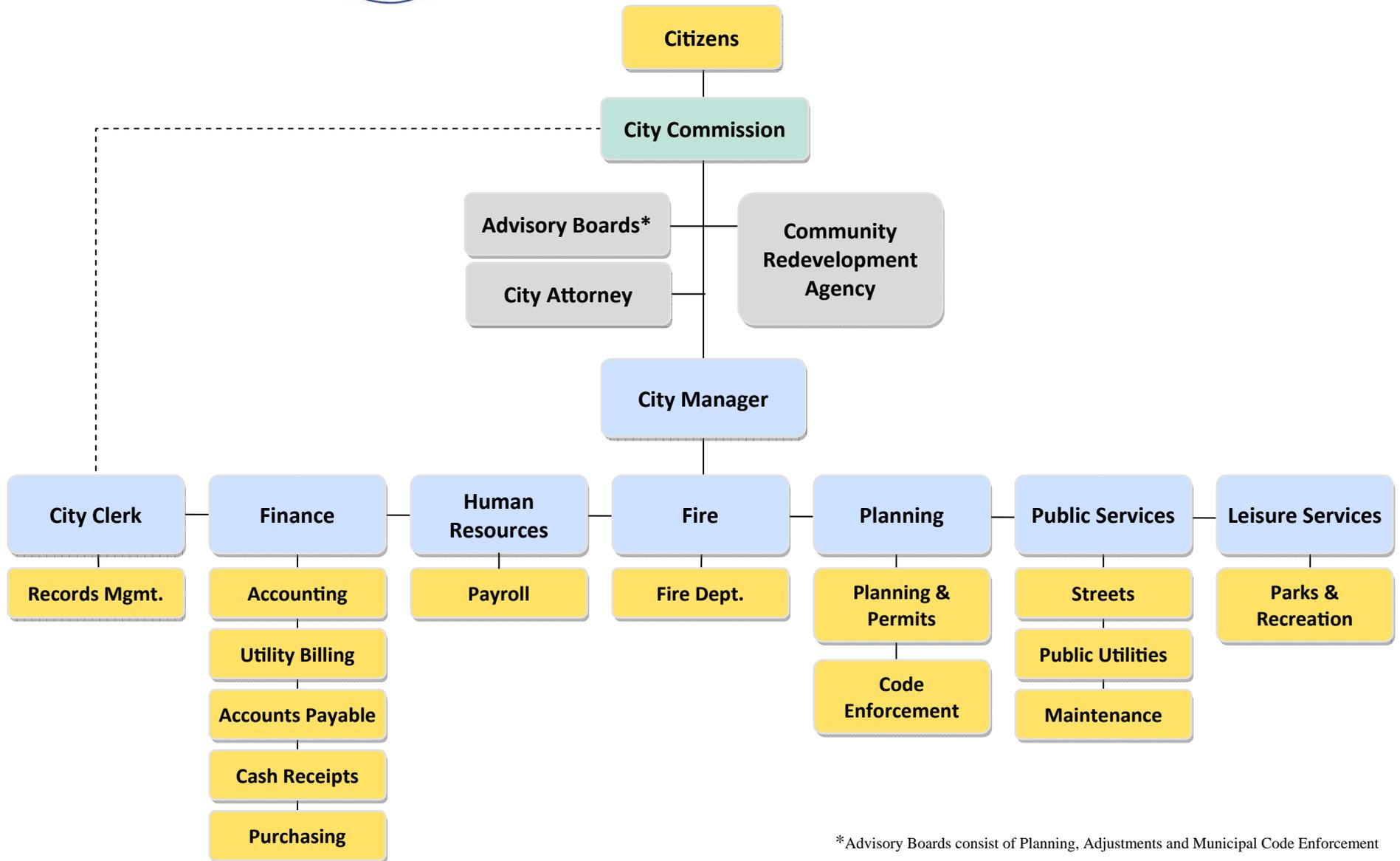
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO



The City of Callaway, Florida
ORGANIZATIONAL CHART
 Year Ended September 30, 2013



*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**



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Honorable Mayor and City Commissioners
City of Callaway, Florida

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Military Point Advanced Wastewater Treatment Facility joint venture which represent 10%, 16%, and 10%, respectively of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the joint venture activity, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, 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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4-15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Callaway, Florida's basic financial statements. The introductory section, combining and individual non-major fund financial statements/schedules, 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 Schedule of Receipts and Expenditures of Funds Related to the Deepwater Horizon Oil Spill is presented for purposes of additional analysis as required by the Florida Auditor General Rule 10.557(3)(m) and is not a required part of the basic financial statements.

The combining and individual non-major fund financial statements/schedules and Schedule of Receipts and Expenditures of Funds Related to the Deepwater Horizon Oil Spill are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements/schedules and Schedule of Receipts and Expenditures of Funds Related to the Deepwater Horizon Oil Spill are fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2014, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Callaway, Florida's internal control over financial reporting and compliance.

Warren Averett, LLC

Fort Walton Beach, Florida
February 26, 2014

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, 2013.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities by approximately \$33 million (net position), and represents an increase of \$2.4 million (or 7.73%) from the prior year. Of this amount, \$12.8 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, \$4.8 million is restricted for future obligations, and \$15.2 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The business-type activities increased \$1.2 million (or 5.53%), and the governmental activities increased \$1.2 million (or 12.74%) during fiscal year 2013.
- The City's governmental funds reported combined ending fund balances of \$3.1 million, a decrease of \$88 thousand over the prior year. Approximately \$2.5 million (or 79.85%) 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 51% 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 Position presents information on all of the City's assets (including deferred outflows) and liabilities (including deferred inflows), with the difference between the two reported as net position. 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 position may serve as a useful indicator of the financial position of the City.

The Statement of Changes in Net Position presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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 16-17 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 18-22 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 and Debt Service Fund were major funds in fiscal year 2013. The Capital Projects Fund and Community Redevelopment Fund are presented as other governmental funds. The City adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison schedules 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 23-27 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 28 of this report are the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$33 million (net position) for the fiscal year ended 2013, as reported in Table 1.

\$12.8 million (or 39%) of the City's net position 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 POSITION
AS OF SEPTEMBER 30, 2013 AND 2012
(In Thousands of Dollars*)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 3,391	\$ 3,530	\$ 32,540	\$ 31,851	\$ 35,931	\$ 35,381
Capital assets	8,909	8,946	23,318	23,982	32,227	32,928
Total assets	12,300	12,476	55,858	55,833	68,158	68,309
Long-term liabilities outstanding	1,458	2,524	30,537	31,622	31,995	34,146
Other liabilities	377	669	2,971	3,032	3,348	3,701
Total liabilities	1,835	3,193	33,508	34,654	35,343	37,847
Net position						
Invested in capital assets net of related debt	7,426	6,174	5,400	6,255	12,826	12,429
Restricted	284	251	4,526	3,366	4,810	3,617
Unrestricted	2,756	2,858	12,424	11,559	15,180	14,417
Total net position	\$ 10,466	\$ 9,283	\$ 22,350	\$ 21,180	\$ 32,816	\$ 30,463

*all dollar amounts rounded to the nearest thousand

An additional portion of the City's net position \$4.8 million (or 15%) represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net position, \$15.2 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, 2013. The overall increase in the City's net position was \$2.4 million (or 7.73%) during fiscal year 2013. Governmental activities increased \$1.2 million, resulting from a decrease in expenses and proceeds obtained from a legal settlement. Business-type activities increased \$1.2 million, primarily due to an increase in capital contributions.

GOVERNMENTAL ACTIVITIES

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

Table 2
City of Callaway, Florida
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	Governmental Activities		Business-Type Activities		Primary Government Total	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program revenues						
Charges for services	\$ 333,037	\$ 318,821	\$ 7,487,848	\$ 7,137,736	\$ 7,820,885	\$ 7,456,557
Operating grants and contributions	3,936	434,915	-	-	3,936	434,915
Capital grants and contributions	53,902	235,093	1,426,988	314,961	1,480,890	550,054
General revenues						
Property taxes	1,037,464	1,069,161	-	-	1,037,464	1,069,161
Other taxes	4,239,333	4,096,097	-	-	4,239,333	4,096,097
Other revenue	660,908	68,099	154,105	103,848	815,013	171,947
TOTAL REVENUES	6,328,580	6,222,186	9,068,941	7,556,545	15,397,521	13,778,731

Table 2 (Continued)
City of Callaway, Florida
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	Governmental Activities		Business-Type Activities		Primary Government Total	
	2013	2012	2013	2012	2013	2012
EXPENSES						
Primary government						
General government	935,860	837,397	-	-	935,860	837,397
Public safety	2,300,597	2,223,594	-	-	2,300,597	2,223,594
Highways and streets	869,349	864,132	-	-	869,349	864,132
Maintenance	117,759	117,596	-	-	117,759	117,596
Economic environment	-	433,436	-	-	-	433,436
Culture and recreation	810,040	839,514	-	-	810,040	839,514
Debt service interest	112,647	133,574	-	-	112,647	133,574
Business-type activities						
Water	-	-	3,002,667	3,105,426	3,002,667	3,105,426
Sewer	-	-	4,316,635	4,197,623	4,316,635	4,197,623
Solid Waste	-	-	578,697	496,297	578,697	496,297
TOTAL EXPENSES	<u>5,146,252</u>	<u>5,449,243</u>	<u>7,897,999</u>	<u>7,799,346</u>	<u>13,044,251</u>	<u>13,248,589</u>
Increase (decrease) in net position	1,182,328	772,943	1,170,942	(242,801)	2,353,270	530,142
NET POSITION BEGINNING	<u>9,282,942</u>	<u>8,509,999</u>	<u>21,179,393</u>	<u>21,422,194</u>	<u>30,462,335</u>	<u>29,932,193</u>
NET POSITION ENDING	<u>\$ 10,465,270</u>	<u>\$ 9,282,942</u>	<u>\$ 22,350,335</u>	<u>\$ 21,179,393</u>	<u>\$ 32,815,605</u>	<u>\$ 30,462,335</u>

* Fiscal year 2012 revenues have been reclassified to conform to 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

- Operating grants and contributions revenue decreased by \$431 thousand primarily due to the prior year CDBG Housing Rehabilitation grant funding. Correspondingly, economic environment expenses decreased \$433 thousand. This grant was closed out in fiscal year 2012.
- Capital grants and contributions decreased by \$181 thousand due to the prior year receipt of a State Energy grant for the purpose of reducing energy production and greenhouse gas emissions from City Hall. This grant was closed out in fiscal year 2012.
- Other taxes increased \$143 thousand, which can be attributed to an increase in local option fuel tax and communication services tax collections.
- Other revenue increased \$593 thousand, which can be attributed primarily to a legal settlement reached during fiscal year 2013. This settlement also resulted in a significant increase in legal fees when compared to fiscal year 2012, which is the primary reason for the \$98 thousand increase in general government expenses.

Chart 1
Expenses and Program Revenue - Governmental Activities

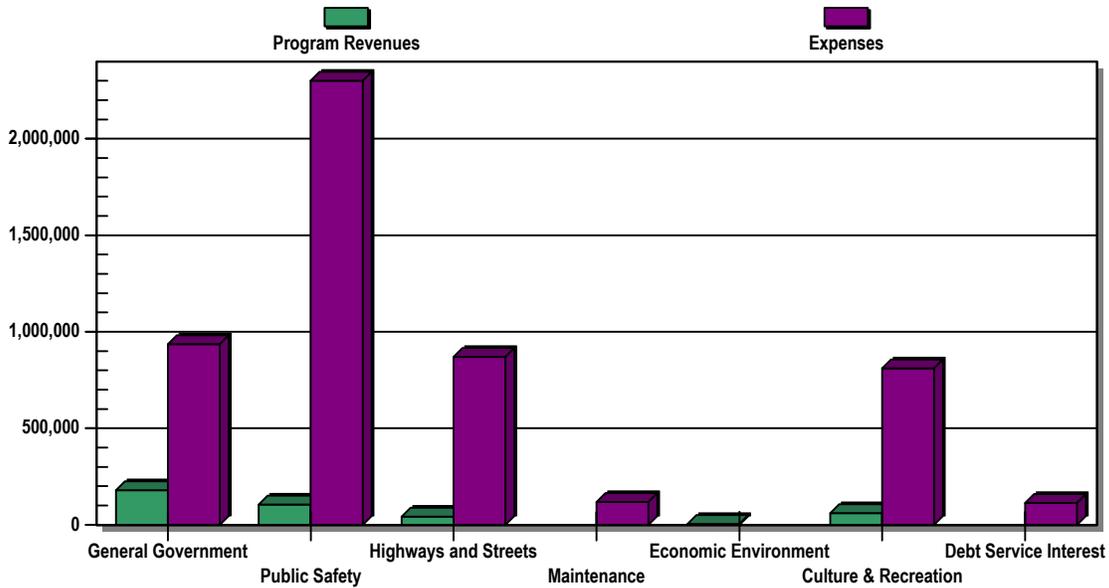
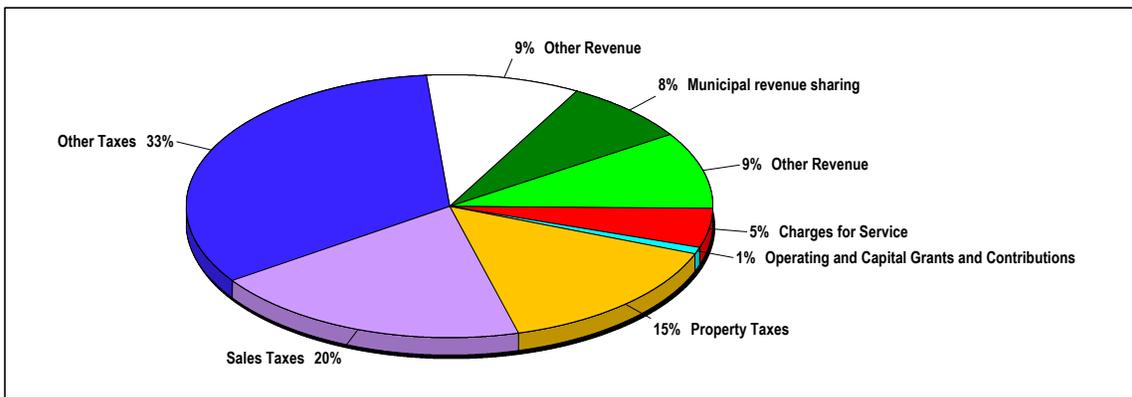


Chart 2
Revenues by Source - Governmental Activities



Business-Type Activities

The net position from business-type activities increased \$1.2 million (or 5.53%).

- Charges for services for business-type activities increased by \$350 thousand (or approximately 49%). This increase is primarily due to the following reasons: 1) an increase in equity earnings in the joint venture of \$152 thousand from the prior year and 2) the addition of the Sandy Creek residents onto the City's sewer system in June 2012. Fiscal year 2013 was the first full year of sewer service for these residents. Consequently, total expenses in the Sewer Fund increased \$119 thousand.
- Capital grants and contributions increased by \$1.1 million, resulting primarily from the capital contribution revenue resulting from new utility customers from the newly acquired Sandy Creek development.

Chart 3
Expense and Program Revenue - Business-Type Activities

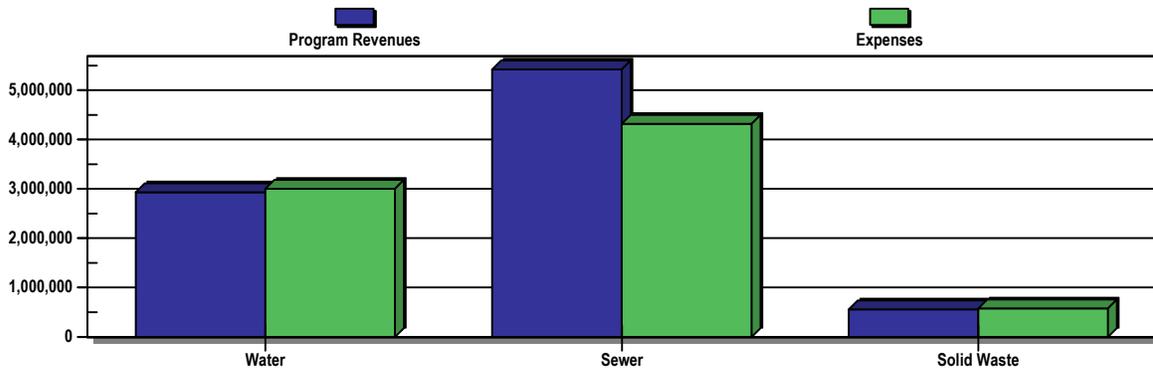
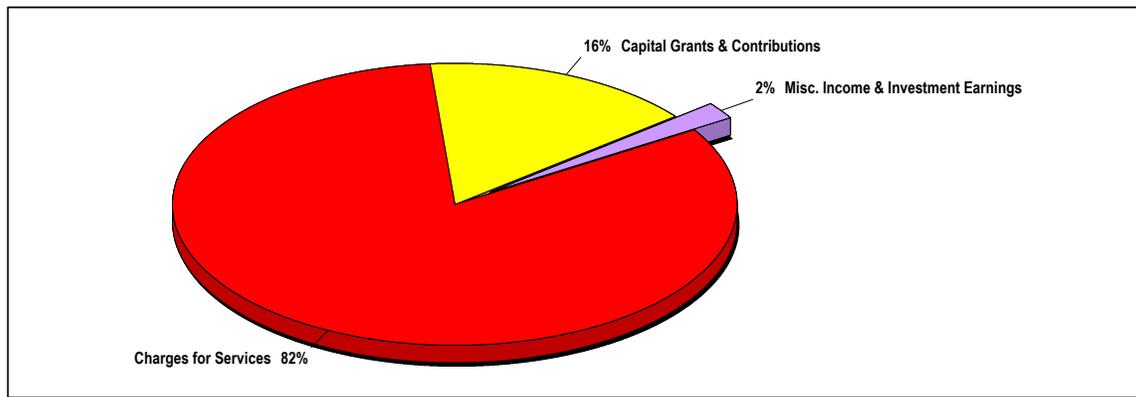


Chart 4
Revenues by Source - Business-Type Activities



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 \$3.1 million, a decrease of \$88 thousand in comparison with the prior year. Approximately \$2.5 million of fund balance (or 80%) 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 and stormwater fees

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 \$2.5 million, while total fund balance reached \$3.0 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 51% of the total General Fund expenditures, while total fund balance represents 62% of that same amount.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$98 thousand. Key factors are as follows:

- Revenues increased overall by \$293 thousand as a result of proceeds obtained from a legal settlement reached during the current fiscal year. This increase is partially offset by a decrease in grant proceeds for the City's CDBG Housing Rehabilitation project in the prior year.
- Overall, expenditures decreased by \$243 thousand, which relates to a decrease of CDBG Housing Rehabilitation project expenses in the prior year. This decrease in expenditures is offset by an increase in legal fees related to the legal settlement reached as well as an increase in public safety expenses related to additional law enforcement service fees.
- Transfers out of the General Fund increased by \$1.1 million, mostly to the Debt Service Fund. The increase in transfers was primarily due to the City Commission voting to extinguish three debt issuances in the governmental activities.

The Community Redevelopment Fund has a total fund balance of \$107 thousand, all of which is restricted at September 30, 2013. The Community Redevelopment Fund fund balance increased \$15 thousand due to less capital outlay when compared to previous years.

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 position of the proprietary funds totaled \$12.4 million at the end of the year; of that, the Water Fund amounted to \$2.2 million, the Sewer Fund totaled \$9.5 million (which includes the \$5.7 million investment in the Military Point Advanced Wastewater Treatment joint venture) and the Solid Waste Fund was \$731 thousand. Net position for proprietary funds increased \$1.2 million during fiscal year 2013. Please refer to the statement of net position - proprietary funds and the statement of revenue, expenses, and changes in net position - proprietary funds for specific numerical data.

BUDGETARY HIGHLIGHTS

GENERAL FUND

Actual expenditures varied 15% from budgeted expenditures in part as a result of road repair supplies and capital outlay expenditures being less than budgeted amounts. In addition, the City was under budget in group insurance, wages and related benefits, and various other expenditures.

The budget for miscellaneous revenue budget was increased during the year ended September 30, 2013, by \$612 thousand to account for proceeds relating to the legal settlement. The capital outlay expenditures budget was increased during the fiscal year to account for the purchase of a new fire truck for the fire control department of the General Fund.

CAPITAL ASSETS AND LONG-TERM DEBT OUTSTANDING

CAPITAL ASSETS

The City's investments in capital assets for its governmental and business-type activities as of September 30, 2013, amounts to \$32.2 million (net of accumulated depreciation/amortization). 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 decrease in the City's investment in capital assets for the current fiscal year was \$701 thousand (or 2.13%) with an overall 0.42% decrease for governmental activities, and a 2.77% decrease for business-type activities, all of which is summarized as follows:

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

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 846,594	\$ 846,594	\$ 177,428	\$ 177,428	\$ 1,024,022	\$ 1,024,022
Buildings	3,385,612	3,498,099	2,151,931	2,230,160	5,537,543	5,728,259
Improvements other than buildings	4,168,528	4,240,944	20,656,791	21,116,927	24,825,319	25,357,871
Vehicles	297,741	93,097	198,383	242,189	496,124	335,286
Machinery and equipment	120,115	167,764	133,868	192,538	253,983	360,302
Software	90,234	-	-	-	90,234	-
Construction in progress	-	99,576	-	23,191	-	122,767
Total	\$ 8,908,824	\$ 8,946,074	\$ 23,318,401	\$ 23,982,433	\$ 32,227,225	\$ 32,928,507

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 \$33.7 million. The debt amount represents notes payable and revenue bonds payable secured by specified revenue sources and equipment. The City had a new \$735,000 bond issuance in the business-type activities during the year ended September 30, 2013.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Notes payable	\$ -	\$ 285,446	\$ 4,501,237	\$ 5,247,666	\$ 4,501,237	\$ 5,533,112
Revenue bonds payable	1,482,692	2,487,003	27,680,006	27,889,027	29,162,698	30,376,030
Total	\$ 1,482,692	\$ 2,772,449	\$ 32,181,243	\$ 33,136,693	\$ 33,663,935	\$ 35,909,142

Principal repayments during the year for governmental activities were \$1,289,757, and \$1,675,520 for business-type activities. Revenue bonds payable in the business-type activities includes an unamortized bond premium in the amount of \$28,782. Three debt issuances in governmental activities were extinguished by actions of the City Commission during the fiscal year.

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 prior 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 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 one of the larger sources of income for the City's general fund. The millage rate in the City of Callaway is 2.25 mils (1.23 mils below the municipal average for Bay County). Despite recent declines in property values, our budget for next year projects only a \$16,863 decrease in property tax revenues. A reallocation of franchise fees from the general fund to the water and sewer funds for the next fiscal year should result in an 11.7% decrease in general fund revenues. Overall general fund revenues for the coming year are expected to decrease 14.3% and while general fund expenditures are expected to decrease 21%. At the same time, utility service revenues from water and sewer charges are expected to increase by 2.5% each. City-wide total expenditures, on the other hand, are budgeted 17.9% 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 POSITION
September 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,478,990	\$ 5,431,263	\$ 7,910,253
Receivables, net	212,202	654,378	866,580
Due from other governments	167,746	-	167,746
Due from joint venture	-	383,988	383,988
Prepaid items	117,858	2,991	120,849
Inventory, at cost	53,706	-	53,706
Restricted assets			
Cash and cash equivalents	346,629	8,334,641	8,681,270
Capital assets, net			
Non-depreciable	846,594	177,428	1,024,022
Depreciable, net	8,062,230	23,140,973	31,203,203
Other assets			
Capital contributions receivable, non-current	-	1,086,923	1,086,923
Bond issuance costs, unamortized	14,000	1,088,215	1,102,215
Note receivable - joint venture	-	9,828,737	9,828,737
Investment in joint venture	-	5,729,119	5,729,119
TOTAL ASSETS	<u>12,299,955</u>	<u>55,858,656</u>	<u>68,158,611</u>
LIABILITIES			
Accounts payable	163,970	416,090	580,060
Accrued payroll liabilities	74,336	18,868	93,204
Accrued interest payable	5,138	-	5,138
Unearned revenue	13,200	-	13,200
Due to joint venture	-	113,807	113,807
Due to other governments	25,637	3,417	29,054
Payable from restricted assets			
Customer deposits	-	515,945	515,945
Accrued interest payable	-	190,076	190,076
Non-current liabilities			
Due within one year			
Note payable	-	767,644	767,644
Revenue bonds payable	25,000	876,302	901,302
Accrued compensated absences	69,712	68,875	138,587
Amounts due beyond one year			
Note payable	-	3,733,593	3,733,593
Revenue bonds payable, net	1,457,692	26,803,704	28,261,396
TOTAL LIABILITIES	<u>1,834,685</u>	<u>33,508,321</u>	<u>35,343,006</u>
NET POSITION			
Invested in capital assets, net of related debt	7,426,132	5,399,952	12,826,084
Restricted			
Debt service	57,804	1,685,194	1,742,998
Other	225,775	-	225,775
Capital improvements/extensions	-	2,841,047	2,841,047
Unrestricted	2,755,559	12,424,142	15,179,701
TOTAL NET POSITION	<u>\$ 10,465,270</u>	<u>\$ 22,350,335</u>	<u>\$ 32,815,605</u>

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

City of Callaway, Florida
STATEMENT OF ACTIVITIES
Year Ended September 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	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	\$ 935,860	\$ 179,349	\$ 220	\$ -	\$ (756,291)	\$ -	\$ (756,291)
Public safety	2,300,597	104,311	-	-	(2,196,286)	-	(2,196,286)
Highways and streets	869,349	5,866	-	36,435	(827,048)	-	(827,048)
Maintenance	117,759	-	-	-	(117,759)	-	(117,759)
Economic environment	-	-	3,716	-	3,716	-	3,716
Culture and recreation	810,040	43,511	-	17,467	(749,062)	-	(749,062)
Debt service interest	112,647	-	-	-	(112,647)	-	(112,647)
Total government activities	<u>5,146,252</u>	<u>333,037</u>	<u>3,936</u>	<u>53,902</u>	<u>(4,755,377)</u>	<u>-</u>	<u>(4,755,377)</u>
Business-type activities							
Water	3,002,667	2,278,329	-	653,482	-	(70,856)	(70,856)
Sewer	4,316,635	4,650,125	-	773,506	-	1,106,996	1,106,996
Solid waste	578,697	559,394	-	-	-	(19,303)	(19,303)
Total business-type activities	<u>7,897,999</u>	<u>7,487,848</u>	<u>-</u>	<u>1,426,988</u>	<u>-</u>	<u>1,016,837</u>	<u>1,016,837</u>
Total primary government	<u>\$ 13,044,251</u>	<u>\$ 7,820,885</u>	<u>\$ 3,936</u>	<u>\$ 1,480,890</u>	<u>\$ (4,755,377)</u>	<u>\$ 1,016,837</u>	<u>\$ (3,738,540)</u>
General revenues							
Taxes							
Property taxes					\$ 1,037,464	\$ -	\$ 1,037,464
Municipal revenue sharing					562,553	-	562,553
Sales taxes					1,369,220	-	1,369,220
Utility service taxes					1,526,782	-	1,526,782
Franchise taxes					706,002	-	706,002
Tax increments for redevelopment district					53,912	-	53,912
Other					20,864	-	20,864
Gain/(loss) on sale of assets					51,660	11,519	63,179
Miscellaneous					30,068	12,408	42,476
Investment earnings					4,180	130,178	134,358
Special item: Deepwater Horizon settlement					575,000	-	575,000
Total general revenues					<u>5,937,705</u>	<u>154,105</u>	<u>6,091,810</u>
Change in net position					1,182,328	1,170,942	2,353,270
Net position - beginning of year					<u>9,282,942</u>	<u>21,179,393</u>	<u>30,462,335</u>
Net position - end of year					<u>\$ 10,465,270</u>	<u>\$ 22,350,335</u>	<u>\$ 32,815,605</u>

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

City of Callaway, Florida
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2013

	<u>Major Funds</u>		Other Governmental Funds	Total Governmental Funds
	<u>General Fund</u>	<u>Debt Service</u>		
ASSETS				
Cash and cash equivalents	\$ 2,364,587	\$ -	\$ 114,403	\$ 2,478,990
Receivables, net	212,202	-	-	212,202
Due from other funds	11,494	-	47	11,541
Due from other governments	167,746	-	-	167,746
Inventory, at cost	53,706	-	-	53,706
Prepaid items	117,858	-	-	117,858
Restricted assets				
Cash and cash equivalents	<u>346,629</u>	<u>-</u>	<u>-</u>	<u>346,629</u>
TOTAL ASSETS	<u>\$ 3,274,222</u>	<u>\$ -</u>	<u>\$ 114,450</u>	<u>\$ 3,388,672</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 162,720	\$ -	\$ 1,250	\$ 163,970
Accrued payroll liabilities	74,336	-	-	74,336
Unearned revenue	13,200	-	-	13,200
Due to other governments	25,637	-	-	25,637
Due to other funds	<u>47</u>	<u>-</u>	<u>11,494</u>	<u>11,541</u>
Total liabilities	<u>275,940</u>	<u>-</u>	<u>12,744</u>	<u>288,684</u>
Fund balance				
Nonspendable				
Prepaid items	117,858	-	-	117,858
Inventory	53,706	-	-	53,706
Restricted				
Bond covenants	57,804	-	-	57,804
Impact fees	119,223	-	-	119,223
Redevelopment	-	-	106,552	106,552
Committed				
Park fees	52,125	-	-	52,125
Stormwater fees	117,476	-	-	117,476
Unassigned	<u>2,480,090</u>	<u>-</u>	<u>(4,846)</u>	<u>2,475,244</u>
Total fund balance	<u>2,998,282</u>	<u>-</u>	<u>101,706</u>	<u>3,099,988</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,274,222</u>	<u>\$ -</u>	<u>\$ 114,450</u>	<u>\$ 3,388,672</u>

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 POSITION
September 30, 2013

Fund balances - total governmental funds (page 18) \$ 3,099,988

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

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

Governmental non-depreciable assets	846,594	
Governmental depreciable assets	15,078,035	
Less accumulated depreciation/amortization	<u>(7,015,805)</u>	
		8,908,824

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>(10,000)</u>	
		14,000

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

Revenue bonds payable	(1,482,692)	
Accrued interest	(5,138)	
Compensated absences	<u>(69,712)</u>	
		<u>(1,557,542)</u>

Net position of governmental activities (page 16) \$ 10,465,270

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, 2013

	<u>Major Funds</u>		Other	<u>Total</u>
	<u>General</u>	<u>Debt Service</u>	Governmental Funds	
REVENUES				
Taxes	\$ 2,842,854	\$ -	\$ 20,872	\$ 2,863,726
Licenses, fees, and permits	848,470	-	-	848,470
Intergovernmental	1,680,200	-	69,475	1,749,675
Charges for services	142,723	-	-	142,723
Fines and forfeits	3,672	-	-	3,672
Miscellaneous	<u>720,255</u>	<u>-</u>	<u>59</u>	<u>720,314</u>
TOTAL REVENUES	<u>6,238,174</u>	<u>-</u>	<u>90,406</u>	<u>6,328,580</u>
EXPENDITURES				
Current				
General government	847,197		39,119	886,316
Public safety	2,162,630		-	2,162,630
Highways and streets	815,883	-	-	815,883
Maintenance	104,616	-	-	104,616
Culture and recreation	626,215	-	-	626,215
Capital outlay	283,875	-	127,045	410,920
Debt service				
Principal	-	1,289,757	-	1,289,757
Interest	<u>-</u>	<u>120,443</u>	<u>-</u>	<u>120,443</u>
TOTAL EXPENDITURES	<u>4,840,416</u>	<u>1,410,200</u>	<u>166,164</u>	<u>6,416,780</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,397,758</u>	<u>(1,410,200)</u>	<u>(75,758)</u>	<u>(88,200)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,410,200	85,764	1,495,964
Transfers out	<u>(1,495,964)</u>	<u>-</u>	<u>-</u>	<u>(1,495,964)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,495,964)</u>	<u>1,410,200</u>	<u>85,764</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(98,206)	-	10,006	(88,200)
FUND BALANCE - BEGINNING OF YEAR	<u>3,096,488</u>	<u>-</u>	<u>91,700</u>	<u>3,188,188</u>
FUND BALANCE - END OF YEAR	<u>\$ 2,998,282</u>	<u>\$ -</u>	<u>\$ 101,706</u>	<u>\$ 3,099,988</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, 2013

Net change in fund balances - total governmental funds (page 20)	\$	(88,200)
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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/amortized over their estimated useful lives.

Expenditures for capital assets	410,920	
Less current year depreciation/amortization	<u>(448,170)</u>	(37,250)

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated/amortized over their estimated useful lives.

Disposals of capital assets	(51,327)	
Accumulated depreciation/amortization associated with disposals	<u>51,327</u>	-

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 position. 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	10,196	
Principal payments	1,289,757	
Amortization of bond issue costs	<u>(2,400)</u>	1,297,553

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>10,225</u>
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Change in net position of governmental activities (page 17)	\$	<u><u>1,182,328</u></u>
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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, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 2,746,822	\$ 2,797,054	\$ 2,842,854	\$ 45,800
Licenses, fees, and permits	865,400	850,000	848,470	(1,530)
Intergovernmental	1,648,627	1,648,627	1,680,200	31,573
Charges for services	144,511	144,511	142,723	(1,788)
Fines and forfeits	2,500	2,500	3,672	1,172
Miscellaneous	<u>92,950</u>	<u>705,350</u>	<u>720,255</u>	<u>14,905</u>
TOTAL REVENUES	<u>5,500,810</u>	<u>6,148,042</u>	<u>6,238,174</u>	<u>90,132</u>
EXPENDITURES				
Current				
General government	1,259,243	1,326,344	847,197	479,147
Public safety	2,204,114	2,205,643	2,162,630	43,013
Highways and streets	1,045,734	1,022,833	815,883	206,950
Maintenance	191,913	192,373	104,616	87,757
Culture and recreation	678,991	663,523	626,215	37,308
Capital outlay	<u>77,000</u>	<u>305,980</u>	<u>283,875</u>	<u>22,105</u>
TOTAL EXPENDITURES	<u>5,456,995</u>	<u>5,716,696</u>	<u>4,840,416</u>	<u>876,280</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>43,815</u>	<u>431,346</u>	<u>1,397,758</u>	<u>966,412</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	609,793	566,437	-	(566,437)
Transfers out	<u>(984,321)</u>	<u>(1,525,566)</u>	<u>(1,495,964)</u>	<u>29,602</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(374,528)</u>	<u>(959,129)</u>	<u>(1,495,964)</u>	<u>(536,835)</u>
NET CHANGE IN FUND BALANCE	(330,713)	(527,783)	(98,206)	429,577
FUND BALANCE - BEGINNING OF YEAR	<u>330,713</u>	<u>527,783</u>	<u>3,096,488</u>	<u>2,568,705</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,998,282</u>	<u>\$ 2,998,282</u>

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

City of Callaway, Florida
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2013

	Business-Type Activities			Total Enterprise Funds
	Major Funds		Non-Major Fund	
	Water Fund	Sewer Fund	Solid Waste Fund	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,693,387	\$ 3,024,055	\$ 713,821	\$ 5,431,263
Receivables, net				
Accounts	156,992	325,431	46,886	529,309
Capital contributions	-	125,069	-	125,069
Prepaid items	2,991	-	-	2,991
Due from joint venture	-	383,988	-	383,988
Total current assets	<u>1,853,370</u>	<u>3,858,543</u>	<u>760,707</u>	<u>6,472,620</u>
Non-current assets				
Restricted assets				
Cash and cash equivalents	<u>3,652,794</u>	<u>4,681,847</u>	<u>-</u>	<u>8,334,641</u>
Capital assets				
Non-depreciable	113,083	64,345	-	177,428
Depreciable, net	<u>13,569,505</u>	<u>9,447,032</u>	<u>124,436</u>	<u>23,140,973</u>
Total capital assets	<u>13,682,588</u>	<u>9,511,377</u>	<u>124,436</u>	<u>23,318,401</u>
Other assets				
Capital contributions receivable	-	1,086,923	-	1,086,923
Unamortized bond issue costs	562,090	526,125	-	1,088,215
Notes receivable - joint venture	-	9,828,737	-	9,828,737
Investment in joint venture	-	5,729,119	-	5,729,119
Total other assets	<u>562,090</u>	<u>17,170,904</u>	<u>-</u>	<u>17,732,994</u>
Total non-current assets	<u>17,897,472</u>	<u>31,364,128</u>	<u>124,436</u>	<u>49,386,036</u>
TOTAL ASSETS	<u>\$19,750,842</u>	<u>\$35,222,671</u>	<u>\$ 885,143</u>	<u>\$55,858,656</u>

Continued...

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

City of Callaway, Florida
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
September 30, 2013

	Business-Type Activities			
	Major Funds		Non-Major Fund	Total Enterprise Funds
	Water Fund	Sewer Fund	Solid Waste Fund	
LIABILITIES				
Current liabilities				
Accounts payable	\$ 87,584	\$ 315,628	\$ 12,878	\$ 416,090
Accrued liabilities				
Compensated absences	26,207	28,257	14,411	68,875
Wages	7,324	8,689	2,855	18,868
Due to joint venture	-	113,807	-	113,807
Due to other governments	3,417	-	-	3,417
Notes payable	-	767,644	-	767,644
Revenue bonds payable	276,220	600,082	-	876,302
Payable from restricted assets				
Customer deposits	515,945	-	-	515,945
Accrued interest payable	102,030	88,046	-	190,076
Total current liabilities	<u>1,018,727</u>	<u>1,922,153</u>	<u>30,144</u>	<u>2,971,024</u>
Non-current liabilities				
Notes payable	-	3,733,593	-	3,733,593
Revenue bonds payable, net	<u>11,980,323</u>	<u>14,823,381</u>	<u>-</u>	<u>26,803,704</u>
Total non-current liabilities	<u>11,980,323</u>	<u>18,556,974</u>	<u>-</u>	<u>30,537,297</u>
TOTAL LIABILITIES	<u>12,999,050</u>	<u>20,479,127</u>	<u>30,144</u>	<u>33,508,321</u>
NET POSITION				
Invested in capital assets, net of related debt	3,384,637	1,890,879	124,436	5,399,952
Restricted				
Debt service/bond covenants	878,011	807,183	-	1,685,194
Impact fees	278,463	2,562,584	-	2,841,047
Unrestricted	<u>2,210,681</u>	<u>9,482,898</u>	<u>730,563</u>	<u>12,424,142</u>
TOTAL NET POSITION	<u>\$ 6,751,792</u>	<u>\$ 14,743,544</u>	<u>\$ 854,999</u>	<u>\$ 22,350,335</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 POSITION
Year Ended September 30, 2013

	Business-Type Activities			
	Major Funds		Non-Major Fund	Total Enterprise Funds
	Water Fund	Sewer Fund	Solid Waste Fund	
OPERATING REVENUES				
Charges for services	<u>\$ 2,278,329</u>	<u>\$ 3,961,956</u>	<u>\$ 559,394</u>	<u>\$ 6,799,679</u>
OPERATING EXPENSES				
Personal services	606,251	701,922	316,724	1,624,897
Operating	1,297,505	2,619,204	239,072	4,155,781
Depreciation	<u>463,642</u>	<u>461,280</u>	<u>22,901</u>	<u>947,823</u>
TOTAL OPERATING EXPENSES	<u>2,367,398</u>	<u>3,782,406</u>	<u>578,697</u>	<u>6,728,501</u>
OPERATING INCOME (LOSS)	<u>(89,069)</u>	<u>179,550</u>	<u>(19,303)</u>	<u>71,178</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest expense	(610,579)	(511,887)	-	(1,122,466)
Amortization	(24,690)	(22,342)	-	(47,032)
Equity earnings in joint venture	-	688,169	-	688,169
Gain/(loss) on disposal of capital assets	6,718	(2,779)	7,580	11,519
Interest income	7,607	72,992	1,469	82,068
Change in fair value of investments	24,055	24,055	-	48,110
Miscellaneous	<u>2,249</u>	<u>5,799</u>	<u>4,360</u>	<u>12,408</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(594,640)</u>	<u>254,007</u>	<u>13,409</u>	<u>(327,224)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>(683,709)</u>	<u>433,557</u>	<u>(5,894)</u>	<u>(256,046)</u>
Capital grants and contributions	<u>653,482</u>	<u>773,506</u>	<u>-</u>	<u>1,426,988</u>
CHANGE IN NET POSITION	(30,227)	1,207,063	(5,894)	1,170,942
NET POSITION - BEGINNING OF YEAR	<u>6,782,019</u>	<u>13,536,481</u>	<u>860,893</u>	<u>21,179,393</u>
NET POSITION - END OF YEAR	<u>\$ 6,751,792</u>	<u>\$ 14,743,544</u>	<u>\$ 854,999</u>	<u>\$ 22,350,335</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, 2013

	Business-Type Activities			Total Enterprise Funds
	Major Funds		Non-Major Fund	
	Water Fund	Sewer Fund	Solid Waste Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 2,327,694	\$ 3,485,556	\$ 559,382	\$ 6,372,632
Payments to suppliers	(1,393,804)	(2,648,494)	(243,101)	(4,285,399)
Payments to employees	(599,199)	(700,501)	(311,642)	(1,611,342)
Miscellaneous income	2,249	5,799	4,360	12,408
Net cash provided (used) by operating activities	<u>336,940</u>	<u>142,360</u>	<u>8,999</u>	<u>488,299</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Interfund balances	<u>(700)</u>	<u>700</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisitions of capital assets	(6,306)	(283,115)	-	(289,421)
Proceeds from capital contributions	653,482	38,507	-	691,989
Proceeds from disposal of capital assets	6,718	2,851	7,580	17,149
Proceeds from issuance of new debt	-	735,000	-	735,000
Principal paid on revenue bonds and notes payable	(264,152)	(367,439)	-	(631,591)
Interest paid on bonds, loans, and leases payable	<u>(620,247)</u>	<u>(513,210)</u>	<u>-</u>	<u>(1,133,457)</u>
Net cash provided (used) by capital and related financing activities	<u>(230,505)</u>	<u>(387,406)</u>	<u>7,580</u>	<u>(610,331)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	31,662	97,047	1,469	130,178
Distribution of earnings from joint venture	<u>-</u>	<u>74,813</u>	<u>-</u>	<u>74,813</u>
Net cash provided (used) by investing activities	<u>31,662</u>	<u>171,860</u>	<u>1,469</u>	<u>204,991</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	137,397	(72,486)	18,048	82,959
*CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>5,208,784</u>	<u>7,778,388</u>	<u>695,773</u>	<u>13,682,945</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 5,346,181</u>	<u>\$ 7,705,902</u>	<u>\$ 713,821</u>	<u>\$13,765,904</u>

*Reclassified to current year presentation

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, 2013

	Business-Type Activities			
	Major Funds		Non-Major Fund	Total Enterprise Funds
	Water Fund	Sewer Fund	Solid Waste Fund	
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF				
Current assets	\$ 1,693,387	\$ 3,024,055	\$ 713,821	\$ 5,431,263
Restricted assets	<u>3,652,794</u>	<u>4,681,847</u>	<u>-</u>	<u>8,334,641</u>
Total cash and cash equivalents	<u>\$ 5,346,181</u>	<u>\$ 7,705,902</u>	<u>\$ 713,821</u>	<u>\$13,765,904</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (89,069)	\$ 179,550	\$ (19,303)	\$ 71,178
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	463,642	461,280	22,901	947,823
Miscellaneous revenue	2,249	5,799	4,360	12,408
Decrease (increase) in assets				
Receivables	3,080	(470,600)	(12)	(467,532)
Deferred charges	-	103,027	-	103,027
Increase (decrease) in liabilities				
Customer deposits	46,885	-	-	46,885
Accounts payable	(96,153)	(132,317)	(4,029)	(232,499)
Accrued wages	2,897	1,994	748	5,639
Compensated absences	4,155	(573)	4,334	7,916
Unearned revenue	(600)	(5,800)	-	(6,400)
Due to other governments	<u>(146)</u>	<u>-</u>	<u>-</u>	<u>(146)</u>
Net cash provided (used) by operating activities	<u>\$ 336,940</u>	<u>\$ 142,360</u>	<u>\$ 8,999</u>	<u>\$ 488,299</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS				
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>\$ 688,169</u>	<u>\$ -</u>	<u>\$ 688,169</u>

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

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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 & 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. 61 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB Statement No. 61, 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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. The Reporting Entity (Continued)

As of September 30, 2013, the City had one component unit, the Callaway Community Redevelopment Agency (Agency) as defined by GASB Statement No. 61, 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 Position and the Statement of Changes in Net Position) 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, 2013

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, 2013
Levy Date	November 1, 2013
Due Date	November 1, 2013
Delinquent Date	April 1, 2014

Discounts of 1% are granted for each month taxes are paid prior to March 2014.

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 2014 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, 2013

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.

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.

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

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.

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 position, 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.

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

E. Assets, Liabilities, and Net Position 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.

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 and money market deposit accounts 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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position 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. 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, 2013, was 1.13262284 percent. The account balance was multiplied by the factor in order to report the fair value of the City's investment in Fund B. Fund B does not meet the requirements of a "2a-7 like" fund defined by GASB Statement No. 31 and is considered an investment; however the City has not chosen to reclass Fund B from a cash equivalent to investment for reporting purposes due to its immaterial balance of \$166,660 at September 30, 2013.

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."

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Receivables and Payables (Continued)

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.

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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position 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/amortized 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, 2013 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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position 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 with two weeks notice, 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 Position. 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 refundings 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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position 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, 2013, 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 fund balance amounts that can only be used for the specific purposes that are internally imposed by a formal action (a Resolution) 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 (a Resolution) that imposed the constraint initially. Contractual obligations are included to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual obligations.
- *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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position 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 place 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 Position

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. 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.

G. Subsequent Events

Subsequent events were evaluated through February 26, 2014, which is the date the financial statements were available to be issued.

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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.

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.

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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.

Deposits

Custodial Credit Risk - It is the City's policy to maintain its deposits only with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. The provisions of this 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 place with or in the name of the Chief Financial Officer of the State of Florida, collateral in the amount of the average daily balance of public deposits multiplied by the average monthly balance of public deposits or 125 percent of the average daily balance of public deposits greater than capital. In the event of default by a qualified public depository, excess losses over insurance and collateral will be recovered through assessments to all qualified public depositories of the same type as the depository in default. Under this method, all City deposits are considered fully insured. The City has no further custodial credit risk policy.

Investments

At September 30, 2013 the City held the following investments, (which are considered cash equivalents for reporting purposes) not subject to interest rate risk.

	<u>Fair Value</u>
Regions Trust Cash Sweep	\$ 5,139,034
Money Market Funds	<u>239,819</u>
	<u>\$ 5,378,853</u>

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

The City maintains investments in Florida State Board of Administration's (SBA) Local Government Surplus Funds Trust Pools, and these deposits are included as cash equivalents. At September 30, 2013, the City maintained \$149,502 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool B (Fund B) with a fair value of \$166,660. Fund B consists of assets that have defaulted on payment, paid more slowly than expected, and/or were assessed as having significant credit and liquidity risk. Fund B has been "frozen" by the SBA since December 2007, but has distributed portions of the pool to participants since that date. Fund B will continue to distribute funds to all participants as the assets within the Fund are able to be liquidated. The primary goal of the Fund is to make members "whole" and not realize a loss on the investment. Fund B has not received a credit rating by any of the nationally-recognized rating agencies as of September 30, 2013. The City believes that it will not incur a loss on the realizable value of the remaining investments held in the Fund.

Interest Rate Risk-Investments - Due to the nature of securities in Fund B, the interest rate risk information required by GASB 40 is not available. However, an estimate of weighted average life (WAL) is available. In the calculation of WAL, the time at which an expected principal amount is to be received (measured in years) is weighted by the principal amount received at the time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL (based on expected future cash flows) of Fund B at September 30, 2013, is estimated at 4.04 years. However, because Fund B consists of restricted or defaulted securities there is a considerable uncertainty regarding the weighted average life. The City does not have a formal policy that limits its investments maturities as a means of managing its exposure to fair value losses or is in from increasing interest rates.

The City also maintains \$9,963 invested in SBA's Florida PRIME. The Florida PRIME current credit rating is AAAM by Standard and Poor's. The weighted average to maturity (WAM) of Florida PRIME at September 30, 2013, is 44 days. Next interest rate reset dates for floating rate securities are used in the calculation of the WAM.

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 - The City places no limits on the amount it may invest on any one issuer. As of September 30, 2013, the City did not hold any investments that were considered to be a concentration credit risk.

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 4 - RECEIVABLES

Current receivables at September 30, 2013, were as follows:

	Governmental Activities		Business-Type Activities		
	General Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total
Accounts	\$ 213,241	\$ 164,824	\$ 342,868	\$ 49,407	\$ 557,099
Less allowance for doubtful accounts	(1,039)	(7,832)	(17,437)	(2,521)	(27,790)
Capital contributions, current	-	-	125,069	-	125,069
Receivables, net	<u>212,202</u>	<u>156,992</u>	<u>450,500</u>	<u>46,886</u>	<u>654,378</u>
Due from other governments	<u>167,746</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 379,948</u>	<u>\$ 156,992</u>	<u>\$ 450,500</u>	<u>\$ 46,886</u>	<u>\$ 654,378</u>

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.

Capital Contributions 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 center point. 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.

As of September 30, 2013, the capital contributions receivable totaled \$1,211,992, including amounts due within twelve months of \$125,069. The outstanding receivable bears interest at a rate of 5.05%, which will be recognized over the remaining term of the receivable. The non-current portion of \$1,086,923 has been presented as an other asset at September 30, 2013.

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 5 - CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated/amortized				
Land	\$ 846,594	\$ -	\$ -	\$ 846,594
Construction in progress	<u>99,576</u>	<u>33,699</u>	<u>(133,275)</u>	<u>-</u>
Total capital assets not being depreciated/amortized	<u>946,170</u>	<u>33,699</u>	<u>(133,275)</u>	<u>846,594</u>
Capital assets being depreciated/amortized				
Buildings	4,085,141	-	-	4,085,141
Improvements other than buildings	7,111,717	-	133,275	7,244,992
Vehicles	562,513	270,421	-	832,934
Machinery and equipment	2,859,495	13,454	(51,327)	2,821,622
Software	<u>-</u>	<u>93,346</u>	<u>-</u>	<u>93,346</u>
Total capital assets being depreciated/amortized	<u>14,618,866</u>	<u>377,221</u>	<u>81,948</u>	<u>15,078,035</u>
Less accumulated depreciation/amortization				
Buildings	(587,042)	(112,487)	-	(699,529)
Improvements other than buildings	(2,870,773)	(205,691)	-	(3,076,464)
Vehicles	(469,416)	(65,777)	-	(535,193)
Machinery and equipment	(2,691,731)	(61,103)	51,327	(2,701,507)
Software	<u>-</u>	<u>(3,112)</u>	<u>-</u>	<u>(3,112)</u>
Total accumulated depreciation/amortization	<u>(6,618,962)</u>	<u>(448,170)</u>	<u>51,327</u>	<u>(7,015,805)</u>
Total capital assets being depreciated/amortized, net	<u>7,999,904</u>	<u>(70,949)</u>	<u>133,275</u>	<u>8,062,230</u>
Governmental activities, net	<u>\$ 8,946,074</u>	<u>\$ (37,250)</u>	<u>\$ -</u>	<u>\$ 8,908,824</u>

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 177,428	\$ -	\$ -	\$ 177,428
Construction in progress	23,191	-	(23,191)	-
Total capital assets not being depreciated	200,619	-	(23,191)	177,428
Capital assets being depreciated				
Buildings and improvements	5,606,106	114,923	(10,667)	5,710,362
Utility system	23,715,332	164,950	23,191	23,903,473
Vehicles	1,505,518	-	(40,673)	1,464,845
Machinery and equipment	1,339,728	9,547	(88,526)	1,260,749
Total capital assets being depreciated	32,166,684	289,420	(116,675)	32,339,429
Less accumulated depreciation				
Buildings and improvements	(3,375,946)	(187,523)	5,038	(3,558,431)
Utility system	(2,598,405)	(648,277)	-	(3,246,682)
Vehicles	(1,263,329)	(43,806)	40,673	(1,266,462)
Machinery and equipment	(1,147,190)	(68,217)	88,526	(1,126,881)
Total accumulated depreciation	(8,384,870)	(947,823)	134,237	(9,198,456)
Total capital assets being depreciated, net	23,781,814	(658,403)	17,562	23,140,973
Business-type activities, net	\$ 23,982,433	\$ (658,403)	\$ (5,629)	\$ 23,318,401

Depreciation/Amortization Expense by Function

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

Governmental activities

General government	\$ 59,771
Public safety	137,965
Highways and streets	53,466
Maintenance	13,143
Parks and recreation	183,825
Total depreciation/amortization expense - governmental activities	\$ 448,170

Business-type activities

Water	\$ 463,641
Sewer	461,280
Solid waste	22,902
Total depreciation expense - business-type activities	\$ 947,823

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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.

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, 2013

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, 2013

NOTE 6 - PENSION PLAN (CONTINUED)

A. Florida Retirement System (Continued)

Funding Policy (Continued)

The actuarially determined employer contribution rates (including Health Insurance Subsidy (HIS) of 1.20%) 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>(10/1/12 - 6/30/13)</u>	<u>Contribution Rates</u> <u>(7/1/13 - 9/30/13)</u>
Regular	8.18 %	9.95 %
Special Risk - Regular	17.90 %	22.06 %
Senior Management Service Class	9.30 %	21.31 %
Elected Officials	13.23 %	36.03 %
Deferred Retirement Option Plan (DROP)	5.44 %	12.84 %

The City's contributions for years ended September 30, 2013, 2012, and 2011 totaled \$212,802, \$187,404, and \$323,117, respectively and are equal to the required contributions for the year. The covered payroll for the years ended September 30, 2013, 2012, and 2011 was \$2,682,017, \$2,746,578 and \$2,856,420, 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, 2013

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, 2013.

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, 2013, is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
Governmental activities					
Revenue bonds payable	\$ 2,487,003	\$ -	\$ (1,004,311)	\$ 1,482,692	\$ 25,000
Notes payable	285,446	-	(285,446)	-	-
Compensated absences	79,937	105,800	(116,025)	69,712	69,712
Total governmental activities	\$ 2,852,386	\$ 105,800	\$ (1,405,782)	\$ 1,552,404	\$ 94,712
Business-type activities					
Revenue bonds payable	\$ 27,845,314	\$ 735,000	\$ (929,090)	\$ 27,651,224	\$ 876,302
Add unamortized bond issuance premium	43,713	-	(14,931)	28,782	-
Notes payable	5,247,666	-	(746,429)	4,501,237	767,644
Compensated absences	60,959	63,662	(55,746)	68,875	68,875
Total business-type activities	\$ 33,197,652	\$ 798,662	\$ (1,746,196)	\$ 32,250,118	\$ 1,712,821

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES			
<i>Revenue Bond Payable</i>			
\$2,000,000 Public Safety Capital Improvement Revenue Bonds, Series 2009, principal payable annually on September 1 in amounts ranging from \$21,000 to \$84,000, and interest payable annually at 4.375% and a final maturity on September 1, 2043; 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.	<u>\$ 25,000</u>	<u>\$ 1,457,692</u>	<u>\$ 1,482,692</u>
<i>Accrued Compensated Absences</i>			
Total long-term portion of accumulated, vested annual leave for governmental fund types.	<u>69,712</u>	<u>-</u>	<u>69,712</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u><u>\$ 94,712</u></u>	<u><u>\$ 1,457,692</u></u>	<u><u>\$ 1,552,404</u></u>
	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
BUSINESS-TYPE ACTIVITIES			
<i>Revenue Bonds</i>			
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.	\$ 310,000	\$ 5,017,500	\$ 5,327,500

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
BUSINESS-TYPE ACTIVITIES (CONTINUED)			
<i>Revenue Bonds (Continued)</i>			
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, 2013, 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.	445,000	19,090,000	19,535,000
Plus unamortized bond premium	<u>-</u>	<u>28,782</u>	<u>28,782</u>
	<u>445,000</u>	<u>19,118,782</u>	<u>19,563,782</u>
 Authorized and issued \$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>47,802</u>	 <u>2,166,512</u>	 <u>2,214,314</u>
 Authorized and issued \$735,000 Utility System Capital Improvement and Extension Revenue Bonds, interest payable in semi-annual installments and principal payable annually, with a final maturity on June 30, 2022. Interest accrues at an annual rate of 5.05%. This bond is secured by a pledge of the impact fees and special capital extension fees to fund the cost of capital improvements upon all properties formerly permitted and obligated to be served by Sandy Creek Utility Services, Inc.	 <u>73,500</u>	 <u>500,910</u>	 <u>574,410</u>
<i>Total Revenue Bonds</i>	<u>876,302</u>	<u>26,803,704</u>	<u>27,680,006</u>

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

	Current	Long-Term	Total
BUSINESS-TYPE ACTIVITIES (CONTINUED)			
<i>Note Payable</i>			
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.	767,644	3,733,593	4,501,237
<i>Accrued Compensated Absences</i>			
Accumulated, vested annual compensation for Enterprise Funds.	68,875	-	68,875
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 1,712,821	\$ 30,537,297	\$ 32,250,118
GRAND TOTAL LONG-TERM DEBT			\$ 33,802,522

For the governmental activities, compensated absences are generally liquidated by the General Fund.

During fiscal year 2013, the City Commission voted to pay off several debt issuances in the general fund using general fund reserves and legal settlement monies.

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding except accrued and annual leave as of September 30, 2013, are as follows:

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Year Ending September 30	Governmental Activities		Business Type Activities			
	Revenue Bonds		Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 25,000	\$ 66,184	\$ 876,302	\$ 1,376,059	\$ 767,644	\$ 121,711
2015	26,000	63,757	911,035	1,338,355	789,465	99,890
2016	28,000	62,620	945,607	1,299,785	811,810	77,445
2017	29,000	61,395	980,808	1,258,567	834,994	54,361
2018	30,000	60,126	1,025,869	1,212,194	858,740	30,615
2019-2023	171,000	279,760	7,339,436	4,863,769	438,584	6,193
2024-2028	212,000	238,855	5,452,500	3,423,052	-	-
2029-2033	262,000	188,367	5,045,000	2,153,812	-	-
2034-2038	326,000	125,673	5,074,667	682,763	-	-
2039-2042	<u>373,692</u>	<u>47,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,482,692</u>	<u>\$ 1,194,667</u>	<u>\$ 27,651,224</u>	<u>\$17,608,356</u>	<u>\$ 4,501,237</u>	<u>\$ 390,215</u>

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 2043, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2013, totaled \$2,677,359.

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 extinguishments or maturity of the debt in 2037, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2013 totaled \$34,549,883.

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 11 - INTERFUND TRANSFERS

The composition of interfund balances as of September 30, 2013, is as follows:

<u>Transfers Out</u>	<u>Transfers In</u>		<u>Total</u>
	Capital Projects Fund	Debt Service Fund	
General Fund	\$ 85,764	\$ 1,410,200	\$ 1,495,964

Transfers of \$1,410,200 out of the General Fund to the Debt Service Fund represent amounts for debt principal and interest payments. Transfers of \$85,764 out of the General Fund to the Capital Projects Fund represent amounts for capital outlay expenditures related to a major software upgrade.

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, 2013. 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, 2013, the City's portion of the equity of the venture was \$5,729,119. Complete financial statements for the joint venture, may be obtained from the operator at P.O. Box 2269, Panama City, Florida 32402.

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 12 - JOINT VENTURE (CONTINUED)

As of September 30, 2013, the City owes the joint venture \$113,807, for transferred collection systems and a segregation line, and the joint venture owes the City \$383,988, 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 \$9,828,737 at September 30, 2013 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 \$9,828,737 at September 30, 2013.

Condensed financial statements from the MPAWTF are as follows:

Statement of Net Position
Year Ended September 30, 2013

Assets	
Current assets	\$ 5,333,663
Noncurrent assets	<u>30,742,213</u>
Total assets	<u>36,075,876</u>
Liabilities	
Current liabilities	3,900,445
Noncurrent liabilities	<u>17,992,824</u>
Total liabilities	<u>21,893,269</u>
Net position	<u>\$ 14,182,607</u>

Statement of Activities
Year Ended September 30, 2013

Operating revenues	\$ 7,348,845
Operating expenses	<u>4,287,232</u>
Operating income	3,061,613
Non-operating revenues (expenses), net	<u>(847,709)</u>
Net income before contributions from owners	2,213,904
Distribution to owners	<u>1,250,148</u>
Change in net position	963,756
Net position, beginning of year	<u>13,218,851</u>
Net position, end of year	<u>\$ 14,182,607</u>

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 12 - JOINT VENTURE (CONTINUED)

The City of Callaway's investment in joint venture increased in the amount of \$688,169, derived as follows:

Share of net income	\$ 672,507
Distribution to owners	(383,988)
Increase in reserve requirements	383,988
Service fee allocation	<u>15,662</u>
Increase in investment in joint venture	<u>\$ 688,169</u>

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, 2013.

Law Enforcement Services

In September 2013, 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 \$1,339,256 for the twelve month period beginning October 1, 2013 and terminating September 30, 2014. This agreement includes an automatic renewal for a one year term that shall commence on October 1, 2014 and terminate September 30, 2015 at the rate of 105% of the fiscal year 2014 amount.

NOTE 14 - SPECIAL ITEM

Deepwater Horizon Settlement

During the year ended September 30, 2013, the City entered into a full and final settlement for economic and property damages related to the Deepwater Horizon oil spill in 2010. The gross amount of the settlement amounted to \$575,000; actual proceeds received by the City were approximately \$447,695, net of legal fees. These amounts have been recognized on the Statement of Activities as a special item and on the Statement of Revenues, Expenditures, and Changes in Fund Balance as miscellaneous revenues.

City of Callaway, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 15 - GASB PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED

New GASB Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The City is currently evaluating the effects of this statement on its financial statements.

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 position, 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 position, 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, 2013 was funded at 85.9%. 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
NOTES TO FINANCIAL STATEMENTS
September 30, 2013

NOTE 16 - SUBSEQUENT EVENT

Sidewalk Project

In January 2014, the City began a project to construct about a mile of sidewalk. This project is expected to cost approximately \$235,000 to be funded using money from the Florida Department of Transportation Local Agency Program (LAP). The estimated completion date on this project is May 2014.

City of Callaway, Florida

General Fund - Expenditures by Department

Budget (GAAP Basis) and Actual

Combining and Individual Fund Statements

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

Combining statements are presented when there is more than one fund of a given fund type.

GOVERNMENTAL FUNDS - COMBINING STATEMENTS AND BUDGET AND ACTUAL SCHEDULES

Special Revenue Fund (Non-Major)

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 financial resources to be used for the repayment of debt.

Capital Projects Fund (Non-Major)

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).

City of Callaway, Florida
GENERAL FUND
SCHEDULE OF EXPENDITURES BY DEPARTMENT -
BUDGET (GAAP BASIS) AND ACTUAL
Year Ended September 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Legislative	\$ 46,803	\$ 47,093	\$ 46,512	\$ 581
Executive	115,366	105,877	105,741	136
Financial and administrative	61,864	82,491	72,459	10,032
Legal counsel	45,847	164,759	148,036	16,723
Comprehensive planning and code enforcement	258,940	258,940	257,239	1,701
Other general governmental services	276,258	269,937	219,205	50,732
Law enforcement	1,313,166	1,313,238	1,313,205	33
Fire control	899,948	1,151,385	1,106,369	45,016
Highways and streets	1,076,734	977,832	834,867	142,965
Maintenance	114,918	115,184	110,568	4,616
Leisure services	<u>709,991</u>	<u>663,523</u>	<u>626,215</u>	<u>37,308</u>
Total General Fund Expenditures by Department	<u>\$ 4,919,835</u>	<u>\$ 5,150,259</u>	<u>\$ 4,840,416</u>	<u>\$ 309,843</u>

City of Callaway, Florida
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2013

	<u>Special Revenue Fund</u>		<u>Total Non-Major Governmental Funds</u>
	<u>Community Redevelopment</u>	<u>Capital Projects</u>	
ASSETS			
Cash and cash equivalents	\$ 114,403	\$ -	\$ 114,403
Due from other funds	<u>47</u>	<u>-</u>	<u>47</u>
TOTAL ASSETS	<u>\$ 114,450</u>	<u>\$ -</u>	<u>\$ 114,450</u>
LIABILITIES AND FUND BALANCE			
Accounts payable	\$ 1,250	\$ -	\$ 1,250
Due to other funds	<u>6,648</u>	<u>4,846</u>	<u>11,494</u>
Total liabilities	<u>7,898</u>	<u>4,846</u>	<u>12,744</u>
Fund balance			
Restricted			
Redevelopment	106,552	-	106,552
Unassigned	<u>-</u>	<u>(4,846)</u>	<u>(4,846)</u>
Total fund balance	<u>106,552</u>	<u>(4,846)</u>	<u>101,706</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 114,450</u>	<u>\$ -</u>	<u>\$ 114,450</u>

City of Callaway, Florida
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended September 30, 2013

	<u>Special Revenue Fund</u>		<u>Total Non-Major Governmental Funds</u>
	<u>Community Redevelopment</u>	<u>Capital Projects</u>	
REVENUES			
Taxes	\$ 20,872	\$ -	\$ 20,872
Intergovernmental	33,040	36,435	69,475
Miscellaneous	59	-	59
TOTAL REVENUES	<u>53,971</u>	<u>36,435</u>	<u>90,406</u>
EXPENDITURES			
Current			
General government	39,119	-	39,119
Capital outlay	-	127,045	127,045
TOTAL EXPENDITURES	<u>39,119</u>	<u>127,045</u>	<u>166,164</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>14,852</u>	<u>(90,610)</u>	<u>(75,758)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	85,764	85,764
NET CHANGE IN FUND BALANCE	14,852	(4,846)	10,006
FUND BALANCE - BEGINNING OF YEAR	<u>91,700</u>	<u>-</u>	<u>91,700</u>
FUND BALANCE - END OF YEAR	<u>\$ 106,552</u>	<u>\$ (4,846)</u>	<u>\$ 101,706</u>

City of Callaway, Florida
COMMUNITY REDEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended September 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 22,769	\$ 20,960	\$ 20,872	\$ (88)
Intergovernmental	<u>33,040</u>	<u>33,040</u>	<u>33,040</u>	<u>-</u>
TOTAL REVENUES	<u>55,809</u>	<u>54,000</u>	<u>53,912</u>	<u>(88)</u>
EXPENDITURES				
Current				
General government	<u>138,873</u>	<u>145,700</u>	<u>39,119</u>	<u>106,581</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(83,064)</u>	<u>(91,700)</u>	<u>14,793</u>	<u>106,493</u>
NET CHANGE IN FUND BALANCE	(83,064)	(91,700)	14,793	106,493
FUND BALANCE - BEGINNING OF YEAR	<u>83,064</u>	<u>91,700</u>	<u>91,700</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,493</u>	<u>\$ 106,493</u>

City of Callaway, Florida
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended September 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXPENDITURES				
Current				
Principal	\$ 801,439	\$ 1,545,390	\$ 1,289,757	\$ 255,633
Interest	<u>66,744</u>	<u>120,000</u>	<u>120,443</u>	<u>(443)</u>
TOTAL EXPENDITURES	<u>868,183</u>	<u>1,665,390</u>	<u>1,410,200</u>	<u>255,190</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(868,183)</u>	<u>(1,665,390)</u>	<u>(1,410,200)</u>	<u>255,190</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>868,183</u>	<u>1,665,390</u>	<u>1,410,200</u>	<u>(255,190)</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>

City of Callaway, Florida
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended September 30, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental	\$ 78,000	\$ 47,355	\$ 36,435	\$ (10,920)
Miscellaneous	<u>-</u>	<u>-</u>	<u>59</u>	<u>59</u>
EXPENDITURES				
Capital outlay	<u>194,138</u>	<u>158,968</u>	<u>127,045</u>	<u>31,923</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(116,138)</u>	<u>(111,613)</u>	<u>(90,551)</u>	<u>21,062</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>116,138</u>	<u>111,613</u>	<u>85,764</u>	<u>(25,849)</u>
NET CHANGE IN FUND BALANCE	-	-	(4,787)	(4,787)
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,787)</u>	<u>\$ (4,787)</u>

III. STATISTICAL SECTION

This section of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

	<u>Tables</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	1 - 7
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property taxes and water and sewer charges.	8 - 14
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.*	15 - 17
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and help make comparisons over time and with other governments.	18 - 20
Operating Information These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and activities it performs.	21 - 23

Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. Many of the schedules offer comparisons retroactive to fiscal year 2004, which is the year in which the City implemented GASB Statement 34. The City first levied ad valorem taxes beginning with the fiscal year ending 2005; therefore, any schedules relating to those revenues are only presented retroactively to that year.

Note: The City has no direct and overlapping debt related to governmental activities.

* Florida Statutes and the Charter of the City of Callaway set no legal debt margin. The City has not had any general bonded debt, supported by property taxes, in the last ten fiscal years.

FINANCIAL TRENDS - Table 1

**City of Callaway, Florida
NET POSITION BY COMPONENT (UNAUDITED)
Last Ten Years
(accrual basis of accounting)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Governmental activities										
Invested in capital assets, net of related debt	\$ 4,746,156	\$ 4,883,908	\$ 4,788,414	\$ 4,859,182	\$ 5,004,857	\$ 5,820,843	\$ 5,748,338	\$ 5,678,129	\$ 6,173,625	\$ 7,426,132
Restricted	-	-	-	-	-	98,312	119,116	439,994	250,830	283,579
Unrestricted	1,446,171	2,047,590	2,757,714	2,818,070	2,789,570	2,159,396	2,232,113	2,391,876	2,858,487	2,755,559
Total governmental activities net assets	<u>\$ 6,192,327</u>	<u>\$ 6,931,498</u>	<u>\$ 7,546,128</u>	<u>\$ 7,677,252</u>	<u>\$ 7,794,427</u>	<u>\$ 8,078,551</u>	<u>\$ 8,099,567</u>	<u>\$ 8,509,999</u>	<u>\$ 9,282,942</u>	<u>\$ 10,465,270</u>
Business-type activities										
Invested in capital assets, net of related debt	\$3,898,860	\$4,417,472	\$7,587,634	\$ 11,445,202	\$ 12,676,120	\$ 10,579,282	\$ 8,071,857	\$ 7,018,204	\$ 6,254,985	\$ 5,399,952
Restricted	2,492,639	2,772,775	3,830,294	2,588,102	4,352,690	4,663,285	3,167,213	3,275,642	3,365,666	4,526,241
Unrestricted	3,945,917	5,041,607	6,094,870	4,190,277	2,389,397	4,990,045	9,819,205	11,128,348	11,558,742	12,424,142
Total business-type activities net assets	<u>\$ 10,337,416</u>	<u>\$ 12,231,854</u>	<u>\$ 17,512,798</u>	<u>\$ 18,223,581</u>	<u>\$ 19,418,207</u>	<u>\$ 20,232,612</u>	<u>\$ 21,058,275</u>	<u>\$ 21,422,194</u>	<u>\$ 21,179,393</u>	<u>\$ 22,350,335</u>
Primary government										
Invested in capital assets, net of related debt	\$ 8,645,016	\$ 9,301,380	\$ 12,376,048	\$ 16,304,384	\$ 17,680,977	\$ 16,400,125	\$ 13,820,195	\$ 12,696,333	\$ 12,428,610	\$ 12,826,084
Restricted	2,492,639	2,772,775	3,830,294	2,588,102	4,352,690	4,761,597	3,286,329	3,715,636	3,616,496	4,809,820
Unrestricted	5,392,088	7,089,197	8,852,584	7,008,347	5,178,967	7,149,441	12,051,318	13,520,224	14,417,229	15,179,701
Total primary government net assets	<u>\$ 16,529,743</u>	<u>\$ 19,163,352</u>	<u>\$ 25,058,926</u>	<u>\$ 25,900,833</u>	<u>\$ 27,212,634</u>	<u>\$ 28,311,163</u>	<u>\$ 29,157,842</u>	<u>\$ 29,932,193</u>	<u>\$ 30,462,335</u>	<u>\$ 32,815,605</u>

Note: The City began to report accrual information upon the implementation of GASB Statement 34 in fiscal year 200.

City of Callaway, Florida
CHANGES IN NET POSITION
(UNAUDITED)
Last Ten Fiscal Years
(accrual basis of accounting)

FINANCIAL TRENDS - Table 2

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Expenses										
Governmental activities										
General government	\$ 1,127,043	\$ 1,064,373	\$ 1,249,361	\$ 1,481,783	\$ 1,510,725	\$ 1,428,755	\$ 1,473,421	\$ 1,155,767	\$ 837,397	\$ 935,860
Public safety	1,390,078	1,609,170	1,736,545	1,980,656	2,092,076	2,252,925	2,296,930	2,277,754	2,223,594	2,300,597
Highways and streets	789,075	1,108,681	1,110,675	1,044,888	1,217,346	1,131,209	918,502	725,828	864,132	869,349
Maintenance	101,494	110,487	129,386	157,516	172,458	164,932	166,980	156,977	117,596	117,759
Economic environment	-	-	-	-	-	-	-	316,056	433,436	-
Parks and recreation	404,902	618,329	746,788	891,384	943,321	935,027	905,750	858,207	839,514	810,040
Interest on long-term debt	115,609	105,963	91,070	71,421	118,029	146,045	154,141	143,685	133,574	112,647
Total governmental activities expenses	<u>3,928,201</u>	<u>4,617,003</u>	<u>5,063,825</u>	<u>5,627,648</u>	<u>6,053,955</u>	<u>6,058,893</u>	<u>5,915,724</u>	<u>5,634,274</u>	<u>5,449,243</u>	<u>5,146,252</u>
Business-type activities										
Water	1,670,782	1,608,129	1,633,827	1,839,575	2,560,264	2,137,414	2,414,822	2,773,062	3,105,426	3,002,667
Sewer	3,037,035	2,933,595	2,809,862	2,934,665	3,458,947	3,514,294	3,378,613	3,700,790	4,197,623	4,316,635
Solid waste	343,104	398,035	508,373	472,302	477,296	401,935	408,089	420,763	496,297	578,697
Total business-type activities expenses	<u>5,050,921</u>	<u>4,939,759</u>	<u>4,952,062</u>	<u>5,246,542</u>	<u>6,496,507</u>	<u>6,053,643</u>	<u>6,201,524</u>	<u>6,894,615</u>	<u>7,799,346</u>	<u>7,897,999</u>
Total primary government expenses	<u>\$ 8,979,122</u>	<u>\$ 9,556,762</u>	<u>\$ 10,015,887</u>	<u>\$ 10,874,190</u>	<u>\$ 12,550,462</u>	<u>\$ 12,112,536</u>	<u>\$ 12,117,248</u>	<u>\$ 12,528,889</u>	<u>\$ 13,248,589</u>	<u>\$ 13,044,251</u>
Program Revenues										
Governmental activities										
Charges for services										
General government	\$ 189,537	\$ 129,034	\$ 127,626	\$ 144,299	\$ 140,517	\$ 136,832	\$ 109,118	\$ 143,777	\$ 182,801	\$ 179,349
Public safety	30,000	57,068	74,132	74,132	77,839	93,416	90,108	94,613	99,344	104,311
Highways and streets	-	-	-	-	-	12,813	8,799	-	-	5,866
Parks and recreation	2,500	2,500	2,510	29,887	40,519	34,203	40,567	41,157	36,676	43,511
Operating grants and contributions	-	-	-	-	-	-	-	319,215	434,915	3,936
Capital grants and contributions	281,697	129,211	-	-	-	317,500	-	18,735	235,093	53,902
Total governmental activities program revenues	<u>503,734</u>	<u>317,813</u>	<u>204,268</u>	<u>248,318</u>	<u>258,875</u>	<u>594,764</u>	<u>248,592</u>	<u>617,497</u>	<u>988,829</u>	<u>390,875</u>
Business-type activities										
Charges for services										
Water	1,710,312	2,088,317	4,224,080	2,094,382	2,198,987	2,210,074	2,190,347	2,316,974	2,250,585	2,278,329
Sewer	3,440,033	4,267,411	5,515,209	3,725,879	4,068,038	4,221,710	3,671,947	3,749,923	3,795,533	4,650,125
Solid waste	413,150	440,574	413,017	424,797	535,519	553,196	558,376	554,724	555,626	559,394
Operating grants and contributions	-	-	-	3,694	-	-	154,176	151,146	-	-
Capital grants and contributions	-	-	-	-	-	-	-	-	314,961	1,426,988
Total business-type activities program revenues	<u>5,563,495</u>	<u>6,796,302</u>	<u>10,152,306</u>	<u>6,248,752</u>	<u>6,802,544</u>	<u>6,984,980</u>	<u>6,574,846</u>	<u>6,772,767</u>	<u>6,916,705</u>	<u>8,914,836</u>
Total primary government program revenues	<u>\$ 6,067,229</u>	<u>\$ 7,114,115</u>	<u>\$ 10,356,574</u>	<u>\$ 6,497,070</u>	<u>\$ 7,061,419</u>	<u>\$ 7,579,744</u>	<u>\$ 6,823,438</u>	<u>\$ 7,390,264</u>	<u>\$ 7,905,534</u>	<u>\$ 9,305,711</u>

Continued...

City of Callaway, Florida
CHANGES IN NET POSITION
(UNAUDITED)
Last Ten Fiscal Years
(accrual basis of accounting)

FINANCIAL TRENDS - Table 2

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net (Expenses) Revenues										
Governmental activities	\$ (3,424,467)	\$ (4,299,190)	\$ (4,859,557)	\$ (5,379,330)	\$ (5,795,080)	\$ (5,464,129)	\$ (5,667,132)	\$ (5,016,777)	\$ (4,460,414)	\$ (4,755,377)
Business-type activities	512,574	1,856,543	5,200,244	1,002,210	306,037	931,337	373,322	(121,848)	(882,641)	1,016,837
Total primary government net expense	<u>\$ (2,911,893)</u>	<u>\$ (2,442,647)</u>	<u>\$ 340,687</u>	<u>\$ (4,377,120)</u>	<u>\$ (5,489,043)</u>	<u>\$ (4,532,792)</u>	<u>\$ (5,293,810)</u>	<u>\$ (5,138,625)</u>	<u>\$ (5,343,055)</u>	<u>\$ (3,738,540)</u>
General Revenues and Other Changes in Net Assets										
Governmental activities										
Taxes										
Utility	\$ 1,297,389	\$ 1,332,022	\$ 1,396,072	\$ 1,409,598	\$ 1,464,255	\$ 1,482,732	\$ 1,566,607	\$ 1,537,085	\$ 1,482,510	\$ 1,526,782
Ad valorem	-	684,979	782,053	1,011,027	1,347,625	1,348,637	1,185,386	1,226,369	1,133,056	1,091,376
Franchise Taxes	587,440	637,547	675,419	715,528	728,667	813,069	867,255	829,005	730,848	706,002
Business license tax*	-	-	-	-	21,775	21,580	19,561	17,415	22,653	20,864
Local option gas tax	247,720	251,418	251,277	248,106	242,438	252,604	257,779	210,226	205,119	257,743
Half cent sales tax	1,105,139	1,118,475	1,287,103	1,153,900	1,073,559	1,000,953	963,896	1,028,149	1,049,275	1,111,477
Intergovernmental	542,829	664,670	733,985	585,862	538,737	533,331	619,134	535,787	541,797	562,553
Total taxes	<u>3,780,517</u>	<u>4,689,111</u>	<u>5,125,909</u>	<u>5,124,021</u>	<u>5,417,056</u>	<u>5,452,906</u>	<u>5,479,618</u>	<u>5,384,036</u>	<u>5,165,258</u>	<u>5,276,797</u>
Miscellaneous revenues	52,369	476,728	100,743	82,032	170,120	45,053	38,804	38,318	63,227	81,728
Interest earnings	35,702	55,495	97,535	124,401	140,079	65,294	18,226	4,855	4,872	4,180
Transfers	-	100,000	150,000	180,000	185,000	185,000	151,500	-	-	575,000
Total governmental activities	<u>3,868,588</u>	<u>5,321,334</u>	<u>5,474,187</u>	<u>5,510,454</u>	<u>5,912,255</u>	<u>5,748,253</u>	<u>5,688,148</u>	<u>5,427,209</u>	<u>5,233,357</u>	<u>5,937,705</u>
Business-type activities										
Interest earnings	136,690	137,894	223,026	337,350	768,681	186,808	182,842	76,547	91,661	130,178
Miscellaneous revenues	-	-	7,674	1,349	(145,218)	(118,740)	420,999	409,220	548,179	23,927
Transfers	-	(100,000)	(150,000)	(180,000)	(185,000)	(185,000)	(151,500)	-	-	-
Total business-type activities	<u>136,690</u>	<u>37,894</u>	<u>80,700</u>	<u>158,699</u>	<u>438,463</u>	<u>(116,932)</u>	<u>452,341</u>	<u>485,767</u>	<u>639,840</u>	<u>154,105</u>
Total primary government	<u>\$ 4,005,278</u>	<u>\$ 5,359,228</u>	<u>\$ 5,554,887</u>	<u>\$ 5,669,153</u>	<u>\$ 6,350,718</u>	<u>\$ 5,631,321</u>	<u>\$ 6,140,489</u>	<u>\$ 5,912,976</u>	<u>\$ 5,873,197</u>	<u>\$ 6,091,810</u>
Change in Net Assets										
Governmental activities	\$ 444,121	\$ 1,022,144	\$ 614,630	\$ 131,124	\$ 117,175	\$ 284,124	\$ 21,016	\$ 410,432	\$ 772,943	\$ 1,182,328
Business-type activities	649,264	1,894,437	5,280,944	1,160,909	744,500	814,405	825,663	363,919	(242,801)	1,170,942
Total primary government	<u>\$ 1,093,385</u>	<u>\$ 2,916,581</u>	<u>\$ 5,895,574</u>	<u>\$ 1,292,033</u>	<u>\$ 861,675</u>	<u>\$ 1,098,529</u>	<u>\$ 846,679</u>	<u>\$ 774,351</u>	<u>\$ 530,142</u>	<u>\$ 2,353,270</u>

* Formerly included in General Government Program Revenues as Occupational Licenses
Note: The City began to report accrual information upon the implementation of GASB Statement 34 in fiscal year 2004.

FINANCIAL TRENDS - Table 3

**City of Callaway, Florida
PROGRAM REVENUES BY FUNCTION/PROGRAM (UNAUDITED)
Last Ten Fiscal Years
(accrual basis of accounting)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Function/Program										
Governmental activities										
General government	\$ 189,537	\$ 129,034	\$ 127,626	\$ 144,299	\$ 140,517	\$ 136,832	\$ 109,118	\$ 143,777	\$ 182,801	\$ 179,349
Public safety	30,000	57,068	74,132	74,132	77,839	93,416	90,108	94,613	99,344	104,311
Highways and streets	-	-	-	-	-	12,813	8,799	-	-	5,866
Parks and recreation	2,500	2,500	2,510	29,887	40,519	34,203	40,567	41,157	36,676	43,511
Grants and contributions	281,697	129,211	-	-	-	317,500	-	337,950	670,008	57,838
Subtotal governmental activities	<u>503,734</u>	<u>317,813</u>	<u>204,268</u>	<u>248,318</u>	<u>258,875</u>	<u>594,764</u>	<u>248,592</u>	<u>617,497</u>	<u>988,829</u>	<u>390,875</u>
Business-type activities										
Water	1,710,312	2,088,317	4,224,080	2,094,382	2,198,987	2,210,074	2,190,347	2,316,974	2,250,585	2,278,329
Sewer	3,440,033	4,267,411	5,515,209	3,725,879	4,068,038	4,221,710	3,671,947	3,749,923	3,795,533	4,650,125
Solid waste	413,150	440,574	413,017	424,797	535,519	553,196	558,376	554,724	555,626	559,394
Grants and contributions	-	-	-	3,694	-	-	154,176	151,146	314,961	1,426,988
Subtotal business-type activities	<u>5,563,495</u>	<u>6,796,302</u>	<u>10,152,306</u>	<u>6,248,752</u>	<u>6,802,544</u>	<u>6,984,980</u>	<u>6,574,846</u>	<u>6,772,767</u>	<u>6,916,705</u>	<u>8,914,836</u>
Total primary government	<u>\$ 6,067,229</u>	<u>\$ 7,114,115</u>	<u>\$ 10,356,574</u>	<u>\$ 6,497,070</u>	<u>\$ 7,061,419</u>	<u>\$ 7,579,744</u>	<u>\$ 6,823,438</u>	<u>\$ 7,390,264</u>	<u>\$ 7,905,534</u>	<u>\$ 9,305,711</u>

Note: The City began to report accrual information upon the implementation of GASB Statement 34 in fiscal year 2004.

FINANCIAL TRENDS - Table 4

**City of Callaway, Florida
FUND BALANCES - GOVERNMENTAL FUNDS (UNAUDITED)
Last Ten Fiscal Years**

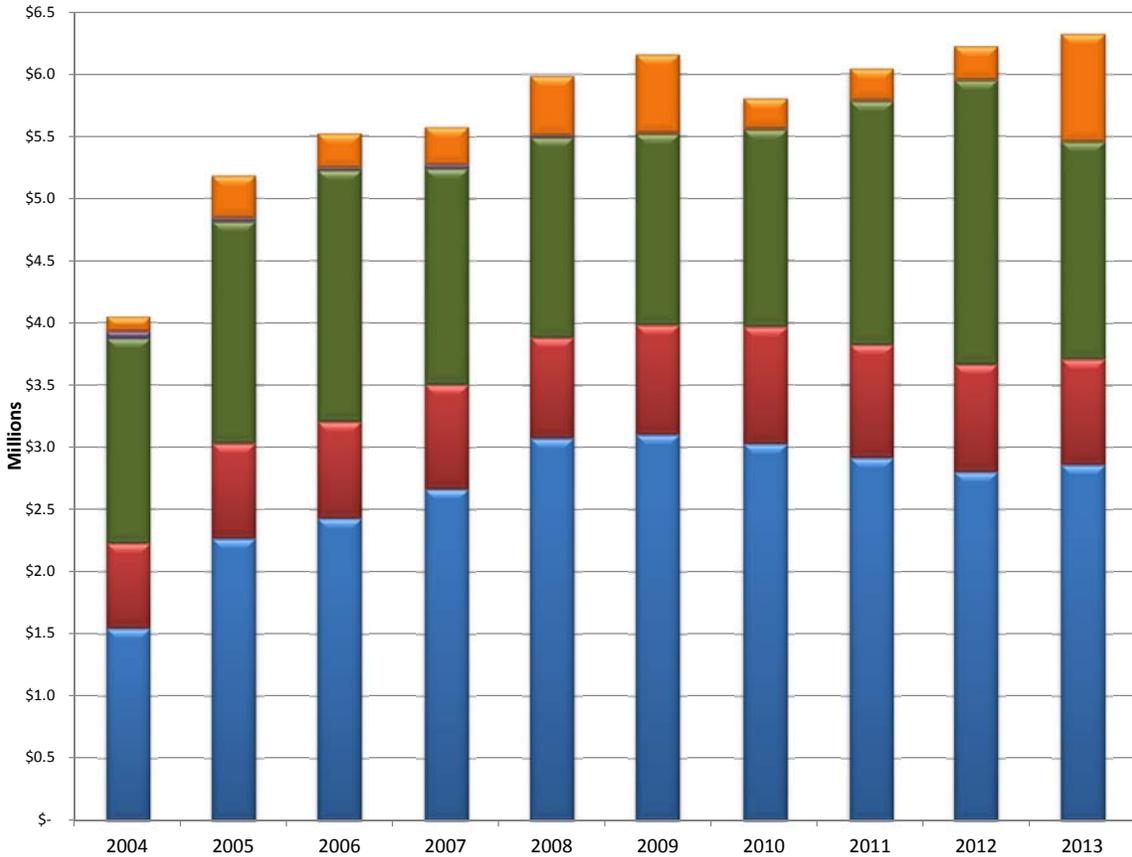
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Fund										
Nonspendable	\$ 52,360	\$ 76,869	\$ 152,009	\$ 108,168	\$ 113,919	\$ 174,380	\$ 187,221	\$ 135,645	\$ 139,541	\$ 171,564
Restricted	-	-	-	-	-	98,312	126,232	147,288	159,130	177,027
Committed	2,025	27,469	51,583	42,049	64,605	34,227	7,116	19,251	90,425	169,601
Assigned	-	-	-	-	-	-	-	-	645,528	-
Unassigned	1,382,221	2,210,281	2,612,648	2,736,130	2,024,393	1,770,936	1,867,926	2,308,076	2,061,864	2,480,090
Total General Fund	<u>1,436,606</u>	<u>2,314,619</u>	<u>2,816,240</u>	<u>2,886,347</u>	<u>2,202,917</u>	<u>2,077,855</u>	<u>2,188,495</u>	<u>2,610,260</u>	<u>3,096,488</u>	<u>2,998,282</u>
Community Redevelopment Fund										
Restricted	-	-	-	-	210,108	259,529	245,015	292,706	91,700	106,552
Other Governmental Funds										
Assigned, reported in										
Debt Service	7,784	-	-	-	-	-	-	-	-	-
Capital Projects	1,781	1,781	-	-	1,153,036	-	-	-	-	-
Unassigned, reported in										
Capital Projects	-	-	-	-	-	-	-	-	-	(4,846)
Total Other Governmental Funds	<u>9,565</u>	<u>1,781</u>	<u>-</u>	<u>-</u>	<u>1,153,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,846)</u>
TOTAL GOVERNMENTAL FUNDS	<u>\$ 1,446,171</u>	<u>\$ 2,316,400</u>	<u>\$ 2,816,240</u>	<u>\$ 2,886,347</u>	<u>\$ 3,566,061</u>	<u>\$ 2,337,384</u>	<u>\$ 2,433,510</u>	<u>\$ 2,902,966</u>	<u>\$ 3,188,188</u>	<u>\$ 3,099,988</u>

Beginning with Fiscal Year 2011, the City began classifying fund balance by the new categories established by GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The requirements of this Statement became effective for financial statement periods beginning after June 15, 2010. For consistency purposes, prior period balances have been restated, using the same categories.

FINANCIAL TRENDS - Table 5

**City of Callaway, Florida
FUND REVENUES BY SOURCE - GOVERNMENTAL FUNDS (UNAUDITED)
Last Ten Fiscal Years**

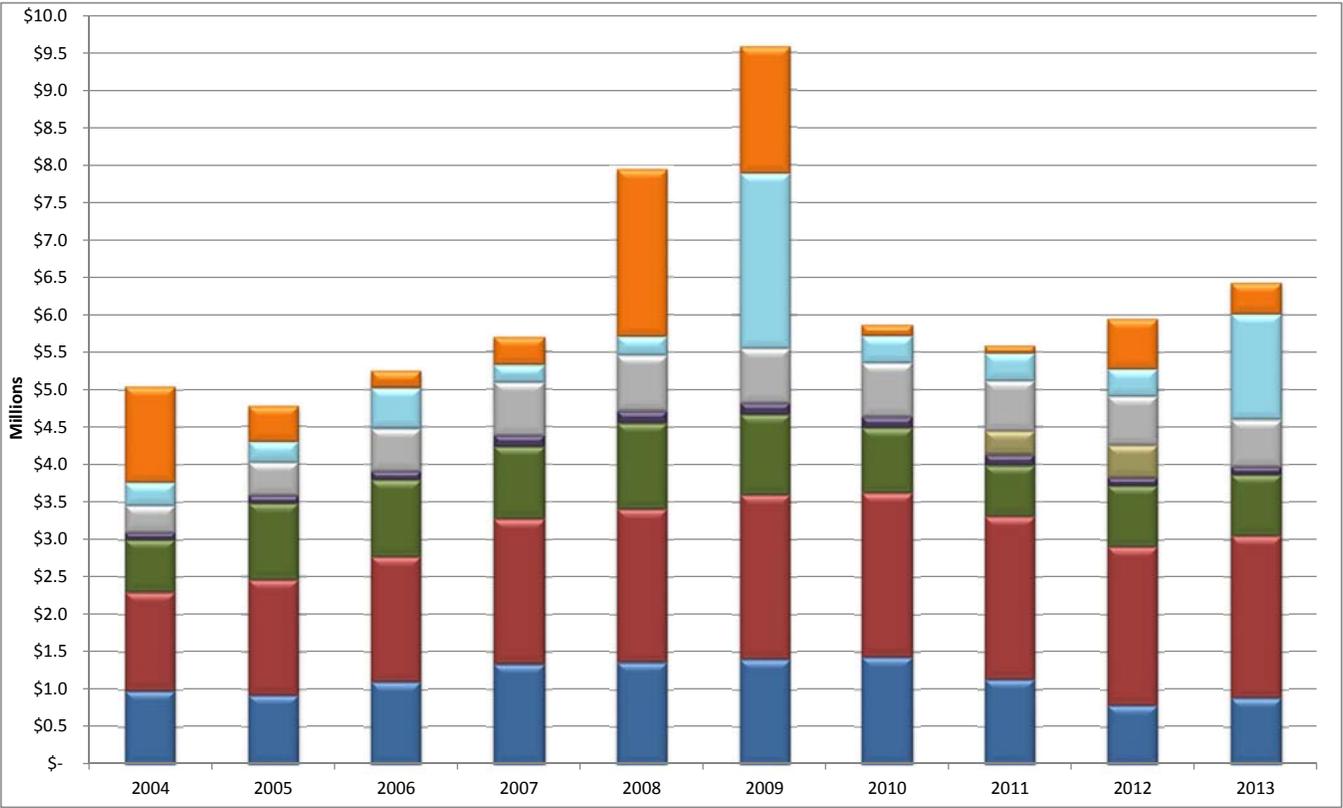
FYE Sept. 30	Taxes	Licenses, Fees and Permits	Inter- Governmental	Fines and Forfeitures	Debt Service	Charges for Services and Misc.	Total
2004	\$ 1,545,109	\$ 684,777	\$ 1,647,968	\$ 53,294	\$ -	\$ 119,247	\$ 4,050,395
2005	2,268,419	766,412	1,783,145	29,113	-	337,853	5,184,942
2006	2,429,402	778,766	2,021,088	20,336	-	274,397	5,523,989
2007	2,668,730	838,938	1,739,762	31,685	-	300,255	5,579,370
2008	3,076,094	807,794	1,612,596	14,984	-	476,493	5,987,961
2009	3,105,553	882,104	1,536,182	8,686	-	628,775	6,161,300
2010	3,029,334	942,608	1,585,064	5,834	-	242,397	5,805,237
2011	2,915,841	910,784	1,957,218	5,723	-	255,142	6,044,708
2012	2,803,195	867,583	2,283,722	1,842	-	270,234	6,226,576
2013	2,863,726	848,470	1,749,675	3,672	-	863,037	6,328,580



FINANCIAL TRENDS - Table 6

**City of Callaway, Florida
FUND EXPENDITURES BY FUNCTION - GOVERNMENTAL FUNDS (UNAUDITED)
Last Ten Fiscal Years**

FYE Sept. 30	General Government	Public Safety	Highways and Streets	Maintenanc e	Economic Environmen t	Parks and Recreation	Debt Service	Capital Outlay	Total
2004	\$ 981,530	\$ 1,315,675	\$ 701,859	\$ 94,961	\$ -	\$ 359,395	\$ 306,157	\$ 1,280,593	\$ 5,040,170
2005	920,486	1,535,257	1,019,569	104,939	-	437,687	274,617	476,363	4,768,918
2006	1,101,179	1,664,077	1,025,918	122,382	-	564,038	539,228	226,117	5,242,939
2007	1,335,586	1,935,721	963,718	150,365	-	702,957	231,979	369,097	5,689,423
2008	1,363,967	2,042,168	1,147,111	162,487	-	742,760	248,390	2,232,005	7,938,888
2009	1,399,817	2,199,048	1,069,251	155,518	-	726,742	2,335,525	1,689,076	9,574,977
2010	1,430,377	2,190,601	869,574	150,061	-	712,638	362,919	144,441	5,860,611
2011	1,131,304	2,174,026	680,575	142,768	316,056	668,665	363,000	98,859	5,575,253
2012	788,349	2,116,358	816,712	104,011	433,436	652,697	363,038	666,753	5,941,354
2013	886,316	2,162,630	815,883	104,616	-	626,215	1,410,200	410,920	6,416,780



City of Callaway, Florida
OTHER FINANCING SOURCES (USES)
AND NET CHANGE IN FUND BALANCES -
GOVERNMENTAL FUNDS (UNAUDITED)
Last Ten Fiscal Years

FINANCIAL TRENDS - Table 7

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Revenues over (under) expenditures	\$ (949,544)	\$ 495,229	\$ 288,127	\$ (109,893)	\$ (2,026,115)	\$ (3,481,787)	\$ (55,374)	\$ 469,455	\$ 285,222	\$ (88,200)
Other financing sources (uses)										
State grants	\$ 281,696	-	-	-	-	-	-	-	-	-
Transfers in	593,215	366,833	707,572	541,757	3,482,548	2,970,426	514,419	363,000	375,516	1,495,964
Transfer out to Capital Projects Fund	(287,058)	-	(18,344)	(129,778)	(2,972,829)	(381,791)	-	-	-	-
Transfer out to Debt Service Fund	(306,157)	(266,833)	(539,228)	(231,979)	(248,390)	(2,335,525)	(362,919)	(363,000)	(375,516)	(1,495,964)
Proceeds from long-term financing	-	275,000	-	-	2,444,500	2,000,000	-	-	-	-
Total other financing sources (uses)	<u>281,696</u>	<u>375,000</u>	<u>150,000</u>	<u>180,000</u>	<u>2,705,829</u>	<u>2,253,110</u>	<u>151,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	\$ (667,848)	\$ 870,229	\$ 438,127	\$ 70,107	\$ 679,714	\$ (1,228,677)	\$ 96,126	\$ 469,455	\$ 285,222	\$ (88,200)
Debt service amounts included in expenditures										
Principal	\$ 190,548	\$ 168,654	\$ 448,158	\$ 170,300	\$ 174,745	\$ 2,157,044	\$ 208,778	\$ 219,565	\$ 230,449	\$ 1,289,757
Interest	115,609	105,963	91,070	61,679	73,645	178,481	154,141	143,435	132,589	120,443
	<u>\$ 306,157</u>	<u>\$ 274,617</u>	<u>\$ 539,228</u>	<u>\$ 231,979</u>	<u>\$ 248,390</u>	<u>\$ 2,335,525</u>	<u>\$ 362,919</u>	<u>\$ 363,000</u>	<u>\$ 363,038</u>	<u>\$ 1,410,200</u>
			(see note)			(see note)				(see note)
Debt Service as a % of noncapital expenditures	8.1%	6.4%	10.7%	4.4%	4.6%	29.6%	6.8%	7.1%	6.9%	23.5%

Note: In fiscal year 2006, the City made an early payoff of a note payable which had a balance of \$268,810 at the beginning of the fiscal year.
In fiscal year 2009, the City refinanced a \$2,000,000 bond anticipation note with a long-term bond payable to USDA.
In fiscal year 2013, the City made an early payoff of 2 notes payable and a \$427,695 early principal reduction in another.

REVENUE CAPACITY - Table 8

**City of Callaway, Florida
TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS (UNAUDITED)
Last Ten Fiscal Years**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Utility Tax	\$ 1,297,389	\$ 1,332,022	\$ 1,396,072	\$ 1,409,598	\$ 1,464,255	\$ 1,482,732	\$ 1,566,607	\$ 1,537,085	\$ 1,482,510	\$ 1,526,782
Ad valorem Tax*	-	684,979	782,053	1,011,027	1,347,625	1,348,637	1,185,386	1,226,369	1,133,056	1,091,376
Franchise Tax	587,440	637,547	675,419	715,528	728,667	813,069	867,255	829,005	730,848	706,002
Business License Tax**	-	-	-	-	21,775	21,580	19,561	17,415	22,653	20,864
Local Option Gas Tax	247,720	251,418	251,277	248,106	242,438	252,604	257,779	210,226	205,119	257,743
1/2 cent Sales Tax	1,105,139	1,118,475	1,287,103	1,153,900	1,073,559	1,000,953	963,896	1,028,149	1,049,275	1,111,477
Intergovernmental	542,829	664,670	733,985	585,862	538,737	533,331	619,134	535,787	541,797	562,553
Total Tax Revenues	\$ 3,780,517	\$ 4,689,111	\$ 5,125,909	\$ 5,124,021	\$ 5,417,056	\$ 5,452,906	\$ 5,479,618	\$ 5,384,036	\$ 5,165,258	\$ 5,276,797

Note: For consistency and comparison purposes, prior year revenues have been reclassified to the program activity classifications used in presenting the current year's revenues.

*The City levied its first ad valorem tax beginning with the fiscal year ending in 2005.

**Prior to fiscal year 2008, these were classified as Occupational Licenses.

REVENUE CAPACITY - Table 9

**City of Callaway, Florida
 ASSESSED VALUE AND TAXABLE VALUE OF PROPERTY (UNAUDITED)
 (IN THOUSANDS OF DOLLARS)
 Last Nine Fiscal Years***

Fiscal Year Ended September 30	Assessed Value			Less Tax-Exempt Property	Net Taxable Value	Total Direct Tax Rate	Taxable Assessed Value as % of Tax Rate
	Real Property	Personal Property	Total Property				
2005	\$ 575,551	\$ 19,181	\$ 594,732	\$ (183,873)	\$ 410,859	\$ 2.00	69.08%
2006	762,706	19,051	781,757	(256,217)	525,540	2.00	67.23%
2007	907,839	19,102	926,941	(312,888)	614,053	2.00	66.25%
2008	900,806	22,158	922,964	(357,965)	564,999	2.25	61.22%
2009	852,463	23,224	875,687	(332,324)	543,363	2.25	62.05%
2010	708,617	22,178	730,795	(202,886)	527,909	2.25	72.24%
2011	680,357	20,765	701,122	(199,391)	501,731	2.25	71.56%
2012	668,896	19,248	688,144	(199,264)	488,880	2.25	71.04%
2013	653,038	20,909	673,947	(198,465)	475,482	2.25	70.55%

Source: Bay County Property Appraiser

*The City levied its first ad valorem tax beginning with the fiscal year ending in 2005

REVENUE CAPACITY - Table 10

City of Callaway, Florida
DIRECT AND OVERLAPPING PROPERTY TAX RATES (UNAUDITED)
(RATE PER \$1,000 OF ASSESSED VALUE)
Last Ten Tax Years

<u>Taxing Authority</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
City of Callaway - Basic Rate	\$ 2.0000	\$ 2.0000	\$ 2.0000	\$ 2.0000	\$ 2.2500	\$ 2.2500	\$ 2.2500	\$ 2.2500	\$ 2.2500	\$ 2.2500
City of Callaway - Total Rate	\$ 2.0000	\$ 2.0000	\$ 2.0000	\$ 2.0000	\$ 2.2500					
Bay County Overlapping Rates										
General	\$ 5.6620	\$ 5.6620	\$ 4.1620	\$ 3.7915	\$ 3.6500	\$ 3.6500	\$ 3.6500	\$ 3.6500	\$ 3.6500	\$ 3.6500
Mosquito Control	0.1852	0.1852	0.1852	0.1525	0.1525	0.1525	0.1525	0.1525	0.1525	0.1525
Total Overlapping Rate for Bay County	\$ 5.8472	\$ 5.8472	\$ 4.3472	\$ 3.9440	\$ 3.8025					
Bay County School Districts	\$ 8.1480	\$ 7.9350	\$ 6.8080	\$ 6.4710	\$ 6.7630	\$ 7.6230	\$ 7.4030	\$ 7.1180	\$ 6.8580	\$ 6.7610
NWFL Water Mgmt. District	\$ 0.0500	\$ 0.0500	\$ 0.0500	\$ 0.0450	\$ 0.0450	\$ 0.0450	\$ 0.0045	\$ 0.0040	\$ 0.0040	\$ 0.0040

Source: Bay County Tax Collector

REVENUE CAPACITY - Table 11

**City of Callaway, Florida
TOP TEN PROPERTY TAXPAYERS (UNAUDITED)
(IN THOUSANDS OF DOLLARS)
Current Year and Eight Years Ago***

<u>Taxpayer</u>	<u>2013</u>			<u>2005</u>		
	<u>Taxable Value</u>	<u>Rank</u>	<u>% of Total Taxable Value</u>	<u>Taxable Value</u>	<u>Rank</u>	<u>% of Total Taxable Value</u>
Wal-Mart Stores	\$ 9,373	1	1.97%	\$ 8,275	1	2.01%
HCI Bridge Harbor, LLC	7,331	2	1.54%			
Centennial Bank	5,094	3	1.07%			
Avenue 12 Holdings, LP	4,478	4	0.94%			
AGBL Panama City Owners LLC	3,274	5	0.69%			
SHRI Ganesh Enterprises, Inc.	3,261	6	0.69%			
TriTex Real Estate Advisors	3,027	7	0.64%			
PCB East Bay	2,856	8	0.60%	5,024	2	1.22%
Regions Bank	2,763	9	0.58%			
P & N Callaway, LLC	2,733	10	0.57%	1,929	8	0.47%
Formation Portfolio I, LLC				2,937	4	0.71%
Bay Front Dev. Co., Inc.				2,226	5	0.54%
Callaway Bayou Land Holdings				2,086	6	0.51%
Callaway Plaza LLC				2,958	3	0.72%
Feltman, James W				1,968	7	0.48%
Kenneth Storey - Trustee				1,908	9	0.46%
Wal-Mart Stores, Inc.				1,881	10	0.46%
Total of Top Ten Taxpayers	<u>\$ 44,190</u>		<u>9.29%</u>	<u>\$ 31,192</u>		<u>7.59%</u>
Total Taxable Value	<u>\$ 475,482</u>			<u>\$ 410,859</u>		

Source: Bay County Property Appraiser

* The City levied its first ad valorem tax beginning with the fiscal year ending in 2005

REVENUE CAPACITY - Table 12

**City of Callaway, Florida
PROPERTY TAX LEVIES AND COLLECTIONS (UNAUDITED)
Last Nine Fiscal Years***

<u>City's Fiscal Year</u>	<u>Tax Year</u>	<u>Taxes Levied for the Fiscal Year* (Original Levy)</u>	<u>Adjustments</u>	<u>Total Adjusted Levy</u>	<u>Collected within the Fiscal Year of the Levy**</u>		<u>Total Collections to Date</u>		
					<u>Amount</u>	<u>% of Original Levy</u>	<u>Collections in Subsequent Years</u>	<u>Amount</u>	<u>% of Original Levy</u>
2005	2004	\$ 709,813	\$ (220)	\$ 709,593	\$ 684,714	96%	\$ 637	\$ 685,352	97%
2006	2005	821,549	594	822,143	784,597	96%	982	785,579	96%
2007	2006	1,050,846	43	1,050,889	1,011,029	96%	538	1,011,567	96%
2008	2007	1,228,406	3,663	1,232,069	1,187,963	97%	1,664	1,189,627	97%
2009	2008	1,271,539	3,320	1,274,859	1,211,330	95%	22,335	1,233,665	97%
2010	2009	1,222,965	4,554	1,227,519	1,183,266	97%	1,812	1,185,078	97%
2011	2010	1,192,833	3,616	1,196,449	1,151,621	97%	1,894	1,153,515	97%
2012	2011	1,129,691	2,094	1,131,785	1,088,270	97%	2,278	1,090,548	96%
2013	2012	1,100,566	2,165	1,102,731	1,053,971	96%	2,422	1,056,393	96%

Source: Bay County Tax Collector's Office

* The City levied its first property tax beginning with the fiscal year ending September 30, 2005 with millage rate of 2.0000 mills. Property taxes become due and payable on November 1 of each year. A four percent discount is allowed if the taxes are paid in November with the discount declining each month thereafter. Accordingly, all taxes collected will not be 100% of the amount levied.

** Taxes become delinquent April 1 each year and tax certificates for the full amount of any unpaid taxes must be sold no later than June 1 of each year. Proceeds of tax certificates are included in this column.

REVENUE CAPACITY - Table 13

**City of Callaway, Florida
REVENUE CAPACITY INFORMATION FOR WATER FUND (UNAUDITED)
Last Nine Fiscal Years**

	Fiscal Year								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating Revenue*									
Water charges	\$1,629,488	\$1,752,381	\$1,864,661	\$2,016,657	\$2,084,558	\$2,092,002	\$2,204,724	\$2,150,041	\$2,193,026
Connection, reset and reactivation fees	14,376	16,770	16,945	18,816	20,590	19,970	30,242	28,851	23,906
Late fees	37,527	40,007	43,266	46,402	49,658	51,519	48,250	47,774	45,814
Tap fees	4,981	6,506	7,916	3,950	2,760	2,528	1,850	680	700
Other utility income	40,630	32,449	49,901	22,092	14,679	11,312	22,908	18,614	4,831
Miscellaneous income	-	750	-	765	7,949	9,509	8,999	4,624	10,052
Total Operating Revenue	<u>\$1,727,002</u>	<u>\$1,848,863</u>	<u>\$1,982,689</u>	<u>\$2,108,682</u>	<u>\$2,180,194</u>	<u>\$2,186,840</u>	<u>\$2,316,973</u>	<u>\$2,250,584</u>	<u>\$2,278,329</u>
Average # of Accounts per Month	<u>\$ 7,153</u>	<u>\$ 7,461</u>	<u>\$ 7,584</u>	<u>\$ 7,627</u>	<u>\$ 7,773</u>	<u>\$ 7,796</u>	<u>\$ 7,822</u>	<u>\$ 7,930</u>	<u>\$ 8,077</u>
Total Annual # of Gallons Billed (in thousands)	<u>\$ 429,898</u>	<u>\$ 512,897</u>	<u>\$ 503,159</u>	<u>\$ 464,036</u>	<u>\$ 455,789</u>	<u>\$ 429,046</u>	<u>\$ 445,939</u>	<u>\$ 409,319</u>	<u>\$ 391,721</u>
Average # of Gallons per Month per Account	<u>\$ 5,008</u>	<u>\$ 5,729</u>	<u>\$ 5,529</u>	<u>\$ 5,070</u>	<u>\$ 4,886</u>	<u>\$ 4,586</u>	<u>\$ 4,751</u>	<u>\$ 4,301</u>	<u>\$ 4,042</u>
Service Billing Rates**									
Base Rate Charge Inside City Limits	\$ 7.38	\$ 7.57	\$ 8.12	\$ 9.34	\$ 10.05	\$ 10.30	\$ 10.56	\$ 10.82	\$ 11.09
Usage Fee per 1,000 Gallons Inside City Limits	2.48	2.54	2.72	3.13	3.37	3.45	3.54	3.63	3.72
Base Rate Charge Outside City Limits	9.23	9.46	10.15	11.68	12.56	12.87	13.19	13.52	13.86
Usage Fee per 1,000 Gallons Outside City Limit:	3.10	3.18	3.40	3.91	4.21	4.32	4.43	4.54	4.65

** Rates in effect as of September 30 of each year. Charges are prorated during the initial and final month of service.

REVENUE CAPACITY - Table 14

**City of Callaway, Florida
REVENUE CAPACITY INFORMATION FOR SEWER FUND (UNAUDITED)
Last Nine Fiscal Years**

	Fiscal Year								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating Revenue									
Sewer charges	\$ 2,948,081	\$ 3,049,712	\$ 3,066,181	\$ 3,456,333	\$ 3,499,247	\$ 3,555,293	\$ 3,631,067	\$ 3,690,034	\$ 3,856,602
Connection, reset and reactivation fees	800	-	210	17,545	17,984	18,207	19,229	20,303	20,097
Late fees	63,399	70,801	74,572	82,586	86,666	89,461	85,624	80,888	78,518
Tap fees	8,100	11,693	2,937	4,902	2,950	2,243	2,450	400	1,240
Miscellaneous income	2,470	5,999	502	254	1,373	3,374	11,553	3,908	5,499
Total Operating Revenue	<u>\$ 3,022,850</u>	<u>\$ 3,138,205</u>	<u>\$ 3,144,402</u>	<u>\$ 3,561,620</u>	<u>\$ 3,608,220</u>	<u>\$ 3,668,578</u>	<u>\$ 3,749,923</u>	<u>\$ 3,795,533</u>	<u>\$ 3,961,956</u>
Average # of Accounts per Month	<u>\$ 5,807</u>	<u>\$ 6,083</u>	<u>\$ 6,173</u>	<u>\$ 6,193</u>	<u>\$ 6,292</u>	<u>\$ 6,333</u>	<u>\$ 6,359</u>	<u>\$ 6,451</u>	<u>\$ 6,546</u>
Total Annual # of Gallons Billed (in thousands)	<u>\$ 371,291</u>	<u>\$ 411,957</u>	<u>\$ 399,695</u>	<u>\$ 381,922</u>	<u>\$ 378,549</u>	<u>\$ 359,955</u>	<u>\$ 356,329</u>	<u>\$ 345,258</u>	<u>\$ 354,608</u>
Average # of Gallons per Month per Account	<u>\$ 5,328</u>	<u>\$ 5,644</u>	<u>\$ 5,396</u>	<u>\$ 5,139</u>	<u>\$ 5,014</u>	<u>\$ 4,736</u>	<u>\$ 4,670</u>	<u>\$ 4,460</u>	<u>\$ 4,514</u>
Service Billing Rates*									
Base Rate Charge Inside City Limits	\$ 23.91	\$ 24.51	\$ 24.51	\$ 28.19	\$ 28.89	\$ 29.61	\$ 30.35	\$ 31.11	\$ 31.89
Usage Fee per 1,000 Gallons Inside City Limits	2.90	2.97	2.97	3.42	3.51	3.60	3.69	3.78	3.87
Base Rate Charge Outside City Limits	29.89	30.64	30.64	35.24	36.11	37.02	37.95	38.89	39.86
Usage Fee per 1,000 Gallons Outside City Limits	3.63	3.71	3.71	4.28	4.39	4.50	4.61	4.73	4.84

* Rates in effect as of September 30 of each year. Charges are prorated during the initial and final month of service.

DEBT CAPACITY - Table 15

**City of Callaway, Florida
RATIOS OF OUTSTANDING DEBT BY TYPE (UNAUDITED)
Last Ten Fiscal Years**

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	% of Personal Income*	Per Capita*
	Revenue Bonds	Capital Leases	Note Payable	Revenue Bonds	Capital Leases	Note Payable			
2004	\$ 1,648,791	\$ 181,217	\$ -	\$ 7,850,000	\$ -	\$ 10,631,483	\$ 20,311,491	0.47%	\$ 1,393
2005	1,552,223	115,320	268,810	7,417,500	-	9,926,080	19,279,933	0.41%	1,326
2006	1,427,060	61,135	-	7,185,000	127,936	9,312,560	18,113,691	0.35%	1,251
2007	1,299,476	18,419	-	27,498,368	98,331	8,681,618	37,596,212	0.68%	2,641
2008	1,143,150	-	2,444,500	27,238,437	67,193	8,032,756	38,926,036	0.69%	2,779
2009	3,023,769	-	406,837	29,357,324	34,444	7,365,463	40,187,837	0.69%	2,876
2010	2,854,655	-	367,807	28,992,560	-	6,679,214	38,894,236	0.65%	2,784
2011	2,675,537	-	327,361	28,510,458	-	5,973,467	37,486,823	0.61%	2,602
2012	2,487,003	-	285,446	27,889,027	-	5,247,666	35,909,142	0.57%	2,478
2013	1,482,692	-	-	27,680,006	-	4,501,237	33,663,935	0.51%	2,325

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. This schedule is presented retroactively to fiscal year ending in 2004, which is the year in which the City implemented GASB34.

N/A = Not yet available.

* See Table 18 for personal income and population data. These ratios are calculated using personal income and population data for the prior calendar year, furnished by the U.S. Census Bureau and the Bureau of Economic Analysis. Additional demographic information can be found later in this section.

DEBT CAPACITY - Table 16

City of Callaway, Florida
RATIOS OF GENERAL BONDED DEBT OUTSTANDING (UNAUDITED)
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Revenue Bonds</u>	<u>Population Estimate*</u>	<u>Per Capita</u>
2004	\$ 1,648,791	14,576	\$ 113.12
2005	1,552,223	14,540	106.76
2006	1,427,060	14,485	98.52
2007	1,299,476	14,236	91.28
2008	1,143,150	14,008	81.61
2009	3,023,769	13,974	216.39
2010	2,854,655	13,972	204.31
2011	2,675,537	14,405	185.74
2012	2,487,003	14,493	171.60
2013	1,482,692	14,484	102.37

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. This schedule is presented retroactively to fiscal year ending in 2004, which is the year in which the City implemented GASB34.

*As published by the Population Division of the U.S. Census Bureau for the prior year. Additional demographic information can be found later in this section.

City of Callaway, Florida
PLEGGED REVENUE COVERAGE -
WATER AND SEWER REVENUE BONDS (UNAUDITED)
Last Ten Fiscal Years

Fiscal Year	Operating Revenue (1)	Less Operating Expenses (2)	Special Cap. Extension Fees (3)	Available Pledged Revenue (Net)	Revenue Bond Debt Service			Coverage
					Principal	Interest (4)	Total Bond Debt. Service	
2004	\$ 5,285,750	\$ 4,344,141	N/A	\$ 941,609	\$ -	\$ -	\$ -	N/A
2005	4,749,852	4,177,890	N/A	571,962	-	-	-	N/A
2006	6,789,026	4,096,716	N/A	2,692,310	-	-	-	N/A
2007	5,127,091	4,287,574	N/A	839,517	-	-	-	N/A
2008	N/A	N/A	-	-	-	1,049,658	1,049,658	0%
2009	N/A	N/A	-	-	-	1,032,450	1,032,450	0%
2010	N/A	N/A	6,875	6,875	349,833	1,438,268	1,788,101	0%
2011	N/A	N/A	56,108	56,108	466,694	1,421,306	1,888,000	3%
2012	N/A	N/A	32,313	32,313	319,000	1,112,092	1,431,092	2%
2013	N/A	N/A	753,998	753,998	471,000	1,115,199	1,586,199	48%

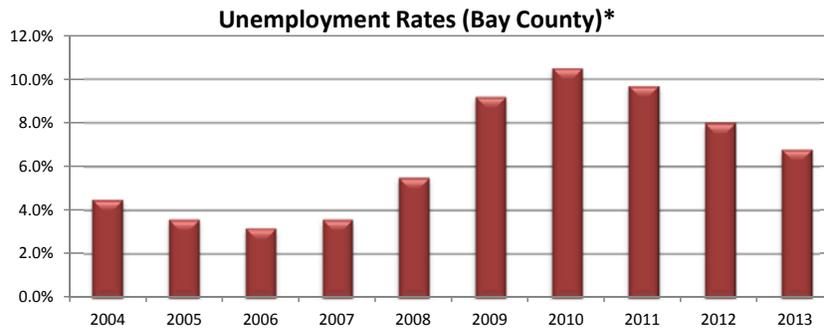
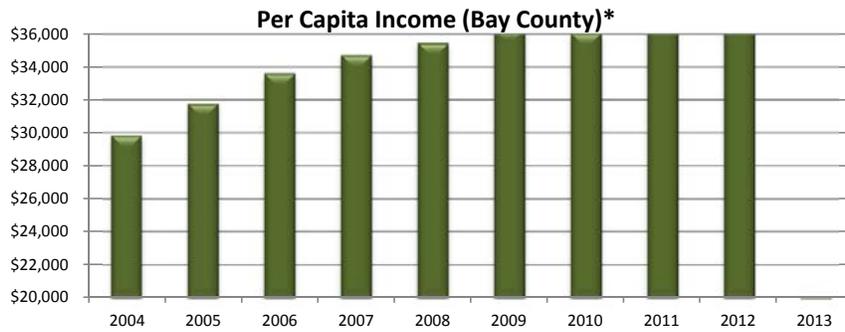
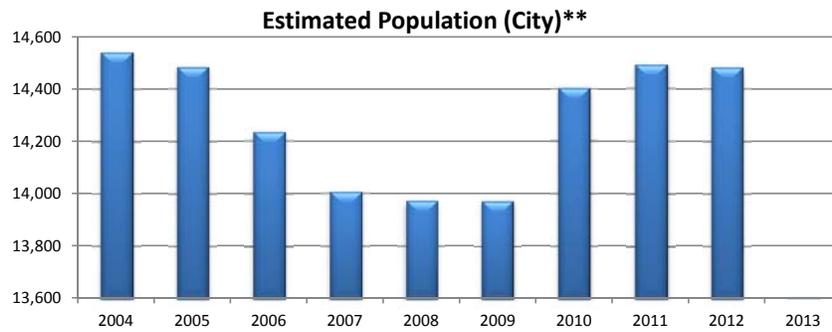
Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

- (1) Operating Revenue for 2007 & prior includes all water and sewer fund operating revenues other than Impact Fees which are not available for debt service.
- (2) Operating Expenses for 2007 & prior include all water and sewer fund operating expenses except depreciation.
- (3) Special Capital Extension Fees are the pledged revenue source for the revenue bonds issued in 2008. No Special Capital Extension Fees were collected in fiscal year 2008-2009. The City has covenanted to budget and appropriate non-ad valorem revenues in amounts sufficient to cure any such shortfall.
- (4) Interest amount is shown prior to adjustment for capitalized interest and premium amortization.

DEMOGRAPHIC AND ECONOMIC INFORMATION - Table 18

**City of Callaway, Florida
DEMOGRAPHIC AND ECONOMIC STATISTICS (UNAUDITED)
Last Ten Fiscal Years**

Fiscal Year	Estimated Population (City)**	Estimated Population (County)*	Personal Income (County) (in thousands)*	Per Capita Income (Bay County)*	Unemployment Rates (Bay County)*
2004	14,540	158,437	\$4,709,361	\$29,836	4.5%
2005	14,485	161,721	\$5,134,996	\$31,779	3.6%
2006	14,236	165,515	\$5,505,901	\$33,613	3.2%
2007	14,008	167,631	\$5,670,237	\$34,723	3.6%
2008	13,974	169,307	\$5,808,336	\$35,459	5.5%
2009	13,972	169,562	\$5,983,630	\$36,316	9.2%
2010	14,405	168,852	\$6,103,056	\$36,050	10.5%
2011	14,493	169,856	\$6,296,304	\$37,068	9.7%
2012	14,484	171,903	\$6,568,180	\$38,209	8.0%
2013	N/A	N/A	N/A	N/A	6.8%



* Source: Florida Legislature Office of Economic and Demographic Research

** Source: U.S. Census Bureau

N/A - Information not yet available

DEMOGRAPHIC AND ECONOMIC INFORMATION – Table 19

**City of Callaway, Florida
MISCELLANOUS STATISTCAL DATA (UNAUDITED)**

Date of Incorporation:	Date Original Charter Adopted:	Date Present Chartered Adopted:
November 18, 1963	July 1, 1964	April 26, 1996
Form of Government	Commissioner/City Manager with mayor elected every four years and commissioners elected for four year overlapping terms. At the first regular meeting following an election, the City Commission appoints one of its members as Mayor Pro Tem. The City Commission at its pleasure appoints a City Manager and a City Clerk.	
Location and Area	<p>The City of Callaway is an urban community in Bay County east of Panama City, in the Panhandle Region of Northwest Florida. Being situated in the northern shores of East Bay, this community is separated from the Gulf of Mexico by East Bay and a peninsula occupied by Tyndall Air Force Base. Two other communities to the west of Callaway, Springfield and Parker, separate it from Panama City.</p> <p>Comprised of an area of approximately twelve square miles, the City of Callaway is served by two major roadways: U.S. 98 on its western boundary and S.R. 22 located in the northern portion of the City.</p>	
Police Protection	The City is served by the Bay County Sheriff's Office by contractual agreement. A substation is located within the City for the benefit of its citizens.	
Fire Protection	The City provides its own fire protection with a paid staff of full-time firefighters, many of which are also certified as Emergency Medical Technicians. The City's Fire Department has also contracted to provide fire protection to some of the unincorporated areas of Bay County.	
Total Households	5,293 (Source: U.S. Dept. of Commerce, 2007-2011)	
Elections	Registered Voters – 8,375 (Source: Bay County Supr. of Elections)	
Population	Total Population - 14,484 (U.S. Census Bureau)	

DEMOGRAPHIC AND ECONOMIC INFORMATION – Table 19

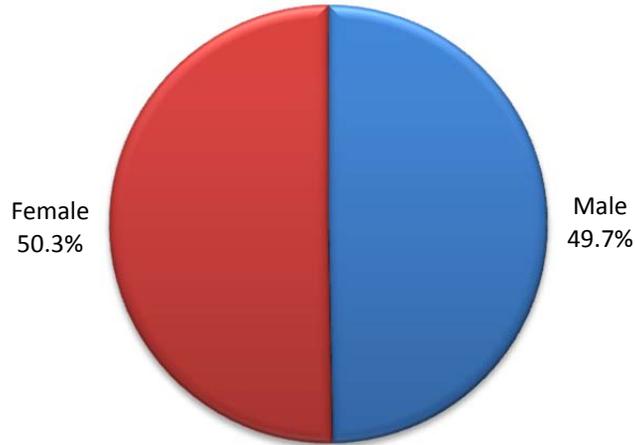
**City of Callaway, Florida
MISCELLANOUS STATISTCAL DATA (UNAUDITED)**

Building Permits	Building permits for the City are issued by an Independent Contractor.
Water System	Water is purchased from Bay County Water System. The City maintains the distribution system.
Sewer System	Wastewater is treated by the Military Point Advanced Wastewater Treatment Facility – a joint venture owned and governed by Bay County, and the cities of Callaway, Parker and Springfield.
Solid Waste Services	The City provides weekly curbside pick-up for non-household trash. There are currently five privately owned companies which are licensed by the City to provide citizens with garbage service for their homes and businesses.
Recreational Parks and Facilities	<p>Arts and Conference Center – Consists of a large auditorium/banquet room, Commission Meeting Room, small meeting room, full service catering kitchen, and an outdoor agricultural/farmers market.</p> <p>Callaway Community Center/Gore Park – Consists of 1 baseball field, 2 baseball/softball fields, 2 tennis courts, 1 basketball court, a clubhouse and public restrooms, a boat ramp with a boat dock, and a picnic area. Paved parking is provided.</p> <p>Callaway Recreational Complex – Consists of 2 t-ball fields, 2 baseball fields and 3 baseball/softball fields, a concession stand with a full service kitchen, bleachers, roadways, 2 batting cages, 3 soccer fields, 1 soccer/football field and a stocked fishing pond.</p> <p>Patterson Park - Consists of large waterfront picnic area with a pathway looping through the park.</p> <p>Collinfurst Square Park - Consists of walking track around a pond and three covered picnic tables.</p> <p>Veterans Park - Consists of exercise/playground facilities for different age groups, including a walking track, picnic pavilion and observation pier overlooking a creek.</p> <p>Brittany Woods Park - Consists of approximately 4 acres of land including a walking track.</p>

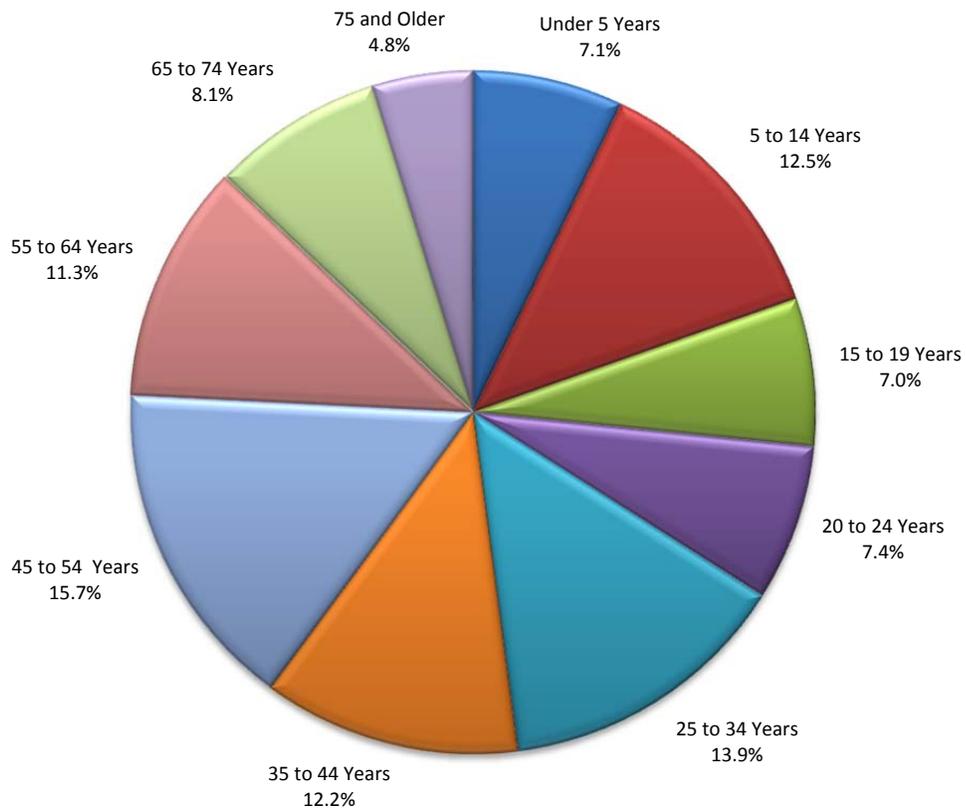
DEMOGRAPHIC AND ECONOMIC INFORMATION – Table 19

**City of Callaway, Florida
MISCELLANOUS STATISTCAL DATA (UNAUDITED)**

**Total Population by Sex
(2010 US Census Bureau Estimates)**



Total Population by Age (2010 Census Bureau Estimates)



DEMOGRAPHIC AND ECONOMIC INFORMATION - Table 20

**City of Callaway, Florida
PRINCIPAL EMPLOYERS (UNAUDITED)
Current and Six Years Ago***

<u>Taxpayer</u>	<u>2013</u>			<u>2007</u>		
	<u>Employees</u>	<u>Rank</u>	<u>% of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>% of Total Employment</u>
Walmart	378	1	18.68%	400	1	19.76%
Emerald Shores Health Care	98	2	4.84%	95	2	4.69%
Cross Construction Services	85	3	4.20%			
City of Callaway	64	4	3.16%	86	3	4.25%
Applebee's	58	5	2.87%	56	4	2.77%
McDonald's (Tyndall Pkwy)	50	6	2.47%			
Waste Management	40	7	1.98%	40	7	1.98%
Sonic	38	8	1.88%	30	9	1.48%
Burger King	37	9	1.83%			
BCL Civil Contractors	37	10	1.83%			
Chik Fil A				34	8	1.68%
Po Folks				40	6	1.98%
Kmart				49	5	2.42%
CVS Pharmacy				23	10	1.14%
Total	<u>885</u>		<u>43.73%</u>	<u>853</u>		<u>42.14%</u>
Total City Employment*	<u>2,024</u>			<u>2,024</u>		

Source: As reported to City on Business License Tax Applications

*U.S. Census Bureau for 2007

OPERATING INFORMATION - Table 21

**City of Callaway, Florida
FULL-TIME EMPLOYEES
BY FUNCTION/PROGRAM (UNAUDITED)
Last Ten Fiscal Years**

<u>Function/Program</u>	<u>Full-time Equivalent Employees as of September 30</u>									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Government	12	12	12	14	14	14	14	13	16	15
Fire	11	13	13	14	14	15	15	13	15	13
Streets	13	13	13	13	13	9	9	9	13	9
Maintenance	3	3	3	3	3	3	3	3	3	3
Parks & Recreation	6	8	9	9	10	10	10	9	8	5
Water	11	11	13	14	13	13	13	13	12	10
Sewer	12	13	14	13	14	15	15	16	11	10
Solid Waste	4	6	6	6	6	5	5	4	5	5
Total	<u>72</u>	<u>79</u>	<u>83</u>	<u>86</u>	<u>87</u>	<u>84</u>	<u>84</u>	<u>80</u>	<u>83</u>	<u>70</u>

Source: Filled positions as of September 30 of each year per City's records. (Includes elected officials)

OPERATING INFORMATION - Table 22

**City of Callaway, Florida
OPERATING INDICATORS BY FUNCTION/PROGRAM
(UNAUDITED)
Last Eight Fiscal Years**

<u>Function/Program</u>	<u>Fiscal Year</u>							
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Government								
Building Permits Issued (including New, Remodels and Additions)	114	91	73	42	25	34	26	57
Business Licenses Issued	389	484	381	292	331	324	395	397
Police								
Sworn Deputies	15	15	15	16	16	16	16	16
Calls for Service	12,852	13,084	13,009	13,707	13,457	12,715	12,662	10,737
Citations & Infractions	1,207	1,373	680	606	1,600	307	338	291
Arrests	879	1,116	905	932	687	833	940	785
Fire								
Full-time Certified Firefighters	13	14	14	14	15	14	15	13
Firefighters also Certified as EMT or Paramedic	4	7	11	12	12	14	14	13
Emergency Responses	501	522	680	1,182	1,457	1,437	1,700	2,069
Streets								
Miles Resurfaced within the city	2.54	2.19	2.20	2.41	0.96	-	-	0.80
Parks & Recreation								
Public Parks	6	6	6	6	6	6	6	6
Recreational (sports) Facilities	2	2	2	2	2	2	2	2
Conference/Community Centers	2	2	2	2	2	2	2	2
Conference Center Admissions	13,211	7,333	10,760	7,786	7,686	8,513	11,278	13,757
Water								
Average number of customers per month	7,461	7,584	7,627	7,773	7,796	7,822	7,930	8,077
Total annual gallons billed (in thousands)	512,897	503,159	464,036	455,789	429,046	445,939	409,319	391,721
Base Rate Charge*	\$ 7.57	\$ 8.12	\$ 9.34	\$ 10.05	\$ 10.30	\$ 10.56	\$ 10.82	\$ 11.09
Usage fee per 1,000 gallons*	\$ 2.54	\$ 2.72	\$ 3.13	\$ 3.37	\$ 3.45	\$ 3.54	\$ 3.63	\$ 3.72
Sewer								
Average number of customers per month	6,083	6,173	6,193	6,292	6,333	6,359	6,451	6,546
Total annual gallons billed (in thousands)	411,957	399,695	381,922	378,549	359,955	356,329	345,258	354,608
Base Rate Charge*	\$ 24.51	\$ 24.51	\$ 28.19	\$ 28.89	\$ 29.61	\$ 30.35	\$ 31.11	\$ 31.89
Usage fee per 1,000 gallons*	\$ 2.97	\$ 2.97	\$ 3.42	\$ 3.51	\$ 3.60	\$ 3.69	\$ 3.78	\$ 3.87
Solid Waste								
Average number of customers per month	5,744	5,815	5,820	5,896	5,916	5,928	5,929	5,926
Total annual tonnage (hailed to landfill and grinder)	8,006	4,896	3,475	4,590	6,372	4,397	4,716	5,148
Rate of Flat Monthly Fee*	\$ 5.65	\$ 5.65	\$ 7.35	\$ 7.54	\$ 7.54	\$ 7.73	\$ 7.92	\$ 7.92

Sources: Various City departments.

* Fees are prorated during initial & final months of service. Rates shown are those in effect as of September 30 of each year for service within the City limits.

OPERATING INFORMATION - Table 23

**City of Callaway, Florida
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
(UNAUDITED)
Last Nine Fiscal Years**

Function/Program	Fiscal Year								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government									
Administration Building (City Hall)	1	1	1	1	1	1	1	1	1
Modular Office Building (Planning)	-	-	-	1	1	1	1	1	1
Records Storage Building	1	1	1	1	1	1	1	1	1
Laserfiche Records System	1	1	1	1	1	1	1	1	1
Computer File Server	1	1	2	2	2	2	2	3	3
Video Surveillance System	-	-	-	-	-	-	1	1	1
Public Safety									
Fire Station w/crew quarters & equip. bays	1	1	1	1	1	1	1	1	1
Fire Engines	4	4	4	4	4	4	4	4	4
Rescue Vehicle w/response equipment	1	1	1	1	1	1	1	-	-
Brush Truck	1	1	1	1	1	1	1	1	1
Law Enforcement Sub-station (office)	1	1	1	1	1	1	1	1	1
Law Enforcement Patrol Units (equipped)*	14	15	15	15	15	19	16	16	16
* Provided by contractual agreement with Bay County Sheriff's Office.									
Highways & Streets									
Street Miles	81	81	81	81	84.1	84.1	84.1	84.1	84.1
Street Lights	60	61	61	60	72	72	73	73	73
Traffic Signals	9	9	9	9	9	9	9	9	9
Maintenance									
Shop Building	1	1	1	1	1	1	1	1	1
Service Truck	1	1	1	1	1	1	1	1	1
Fuel Inventory/Usage Tracking System	1	1	1	1	1	1	1	1	1
Fuel Tanks (above ground)	2	2	2	2	2	2	2	2	2
Parks & Recreation									
Public Parks	6	6	6	6	6	6	6	6	6
Community/Conference Centers	2	2	2	2	2	2	2	2	2
Boat Ramp	1	1	1	1	1	1	1	1	1
Baseball/Softball Fields	8	10	10	10	10	10	10	10	10
Football/Soccer Fields	5	5	5	7	7	7	7	7	7
Tennis Courts	2	2	2	2	2	2	2	2	2
Basketball Court	1	1	1	1	1	1	1	1	1
Walking Trails	3	3	3	3	4	4	4	4	4
Water									
Active water meters, annual average	7,153	7,461	7,584	7,627	7,773	7,796	7,822	7,930	8,077
Auto-read meters included						1,048	1,050	1,265	1,320
Active Fire Hydrants (approx.)	350	350	400	396	418	470	470	470	470
Fieldbook Line Mapping System	-	1	1	1	1	1	1	1	-
Sewer									
Flow Capacity - reserved (Millions of gallons)	2.13812	2.13812	2.13812	2.13812	2.13812	2.13812	2.13812	2.13812	2.13812
Lift stations in city	32	32	33	33	33	35	37	37	37
Vac-Con Trucks	2	2	2	2	2	2	2	2	2
Cues Camera-Equipped Truck	1	1	2	2	2	1	1	1	1
Solid Waste									
Trash Collection Trucks	3	4	4	4	4	4	4	4	4
Tub grinder	1	1	1	1	1	-	-	-	-

IV. COMPLIANCE SECTION

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

City of Callaway, Florida
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FUNDS
RELATED TO THE DEEPWATER HORIZON OIL SPILL
For the Fiscal Year Ended September 30, 2013

<u>Source</u>	<u>Amount Received in the 2012-2013 Fiscal Year</u>	<u>Amount Expended in the 2012-2013 Fiscal Year</u>
British Petroleum:		
Final Settlement Economic and Property Damage Claim	\$ 447,696	\$ 447,696

Note: This does not include funds related to the Deepwater Horizon Oil Spill that are considered Federal awards or State financial assistance. The City is not aware of any funds in FY13 related to the Deepwater Horizon Oil Spill that are considered Federal awards or State financial assistance. The Award Amount was \$575,000; however the City received a net amount of \$447,696 after attorney fees were deducted.

Honorable Mayor and City Commissioners
City of Callaway, Florida

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

We have audited, 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, 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, 2013, which collectively comprise the City of Callaway, Florida's basic financial statements, and have issued our report thereon dated February 26, 2014.

Our report includes a reference to other auditors who audited the financial statements of Military Point Advanced Wastewater Treatment Facility joint venture, as described in our report on City of Callaway, Florida's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

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

Honorable Mayor and City Commission Members
City of Callaway, Florida
Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
Government Auditing Standards (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*.

Purpose of this Report

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

We noted certain matters that we reported to management of the City of Callaway, Florida in a separate letter dated February 26, 2014.

Warren Averett, LLC

Fort Walton Beach, Florida
February 26, 2014

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, 2013, and have issued our report thereon dated February 26, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in those reports and schedule, which are dated February 26, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, *Rules of the Auditor General*, which 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 noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings

Section 10.554(1)(i)(5), *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the 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)6.a., *Rules of the Auditor General*, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Callaway, Florida, did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

Pursuant to Sections 10.554(1)(i)6.c., and 10.556(7), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the City 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.

Section 10.554(1)(i)6.e., *Rules of the Auditor General*, requires a statement be included as to whether or not the local governmental entity complied with State and Federal laws, rules, regulations, contracts, or grant agreements governing the receipt and expenditure of those funds. Funds related to the Deepwater Horizon oil spill may include, but are not limited to, funds received pursuant to Section 288.8017, Florida Statutes, and Public Law 112-141 (33 U.S.C.A. ss. 1321(t)); State or Local grants; and moneys received directly from British Petroleum. The City complied with the agreement regarding the final award for its economic and property damage claim received from British Petroleum.

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 retired debt in the General Fund during FY13 reducing debt service requirements by \$156,345, while maintaining the City's targeted unassigned fund balance. This savings may be redirected to make annual debt payments on behalf of the Water & Sewer Fund if necessary. Bay County raised the amount they charge the City for water and sewer and as a result the City's rates were increased 2.5% for FY14. Further capital contributions earned from the Sandy Creek acquisition allowed for additional pay down of the debt. The City has unspent bond proceeds of \$3,860,000 that can be used to meet upcoming debt service requirements. In addition certain franchise fees have been budgeted to ensure to the benefit of the water and sewer funds in FY14. The General Fund budget still provides for breakeven performance due to expenditure reductions. The City believes this strategy, along with on-going monitoring and oversight, provides a method to pay the debt without relying solely on capital extension fees.

We consider this comment closed but continue to recommend senior management to continuously monitor the debt service requirements, the related revenue and cash flow streams needed to service the debt.

2012-ML-01 ANTI-FRAUD PROGRAM

Prior Year Comment Summarized

The City of Callaway, Florida could strengthen its anti-fraud program by performing periodic documented fraud risk assessments, developing a written fraud response plan, incorporating training for the warning signs for fraud as well as responses and implementing a whistle blower policy.

Status

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 City has a method to capture anonymous concerns and a committee was established to review allegations of fraud and to refer those warranting further investigation to the proper authorities. Fraud risk assessments identified the key areas of cash and physical assets. Management has reviewed and enhanced actual operating procedures in these areas to reduce the potential for fraud.

We consider this comment closed.

2012-ML-02 WRITTEN CONTROL RISK ASSESSMENT

Prior year comment Summarized

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. We recommended documenting control risk assessments to 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.

PRIOR YEAR COMMENTS (CONTINUED)

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

Status

The City of Callaway has been conducting risk assessments for many years without the benefit of the process being formally documented. Management does believe that it is in the best interest of the City to have control risk assessments documented. Management is currently in the process of writing control risk assessment policy and procedures and plan on implementation before the end of this fiscal year.

CURRENT YEAR COMMENTS

2013-ML-01 REVIEW OF BANK STATEMENT RECONCILIATION

Observation

During interim procedures we noted the Director of Finance performs the monthly bank reconciliation's without a formal review and approval by another individual.

Recommendation

We recommend that a member of senior management approve the monthly bank reconciliations. The person responsible for the review should not be part of the cash receipt or disbursement recording function. To be most effective as a control procedure, we recommend that these reconciliations be performed as soon as possible after they are prepared in order to timely and effectively resolve any unrecognized differences.

In addition, we recommend that the reconciliation's be signed and dated as an indication of approval.

Management Response

The City of Callaway implemented a formal review and approval process of monthly bank reconciliations by senior management effective for September 30, 2013 bank reconciliations.

2013-ML-02 SEGREGATION OF DUTIES SURROUNDING PURCHASING CARDS

Observation

During interim procedures we noted the Assistant to the Director of Finance has the ability to record expenditures into the City's accounting system, initiate purchases with a ghost purchasing card, and approve purchasing card purchases.

Recommendation

We recommend the Director of Finance review all transactions initiated using the City's purchasing cards. This monthly review should include comparing the transactions on the purchasing card statements to the actual invoices for propriety. Doing so will assist with properly segregating duties surrounding purchasing cards thus reducing the risk of errors or fraud. We recommend purchases made using the Director of Finance's purchasing card be approved by the City Manager while the purchases made using the City's Manager's purchasing card be approved by the Director of Finance or a member of City Commission.

Honorable Mayor and City Commission Members
City of Callaway, Florida
Management Letter (Continued)

CURRENT YEAR COMMENTS (CONTINUED)

2013-ML-02 SEGREGATION OF DUTIES SURROUNDING PURCHASING CARDS (CONTINUED)

Management Response

The City has implemented procedures for the Director of Finance to review all transactions initiated using the City's purchasing cards. The City Manager approves all purchases made using the Director of Finance's purchasing card and the Director of Finance approves all purchases made using the City Manager's purchasing card.

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.

Warren Averett, LLC

Fort Walton Beach, Florida
February 26, 2014