

City of Callaway

Florida

Comprehensive Annual Financial Report



September 30, 2014

City of Callaway, Florida

Comprehensive Annual Financial Report Fiscal Year Ended September 30, 2014

Prepared By

**Beverly Waldrip, CPA, Director of Finance
and
J. Michael Fuller, City Manager**

Principal Officials of the City of Callaway, Florida

CITY COMMISSION

Thomas W. Abbott
Mayor

Melba Covey
Commissioner, Ward I

Pamn Henderson
Commissioner, Ward II

Bob Pelletier
Commissioner, Ward III

Ralph L. Hollister
Commissioner, Ward IV

J. Michael Fuller
City Manager

DEPARTMENT HEADS

Sandra B Hirth, City Clerk

David P. Joyner, Jr., Fire Chief

Larry Johnson, Director of Public Works

Beverly Waldrip, CPA, Director of Finance

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
CITY HALL

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

Mayor
Thomas W. Abbott

Commissioners
Melba Covey
Pamela Henderson
Bob Pelletier
Ralph L. Hollister

April 16, 2015

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, 2014, 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, 2013, to September 30, 2014, 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;
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 2 months or 17% of the current fiscal year operating expenditures and transfers out budgeted for the fund. The 2014 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 where residents enjoy a small town atmosphere. It is located east of Panama City 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.

Callaway has pristine waterways, various types of residential areas, and community buildings including a meeting hall and conference center. There are also numerous parks for citizens to enjoy, including a recreational complex which hosts youth activities from T-ball to baseball and soccer. The City provides housing for a large number of personnel and retirees associated with Tyndall Air Force Base. Its close proximity to Tyndall has been a major factor in sustaining our population and that of surrounding communities.

The missions of Tyndall Air Force Base and other nearby military bases continue to serve the region. Major transportation facilities have opened and expanded in recent years. The Port of Panama City has grown and a new international airport recently opened in Bay County. This new facility along with its planned surrounding development is projected to serve as an economic catalyst for our entire region.

Major Initiatives

The City of Callaway Commission enacted a City ad valorem tax beginning in fiscal year 2005. The City's millage rate is lowest in Bay County and has not changed since September of 2008.

A Public Safety Building was constructed for \$2,000,000 in 2009 which houses the City's Fire Department and Law Enforcement provided by the Bay County Sheriff's Department. Financing of the building is the City's only General Fund debt and the balance of \$1,457,692 as of September 30, 2014, is scheduled to be paid off in fiscal year 2043.

In fiscal year 2011, the City completed a major multi-million dollar expansion of the utility infrastructure to improve services to existing utility users to provide services to newly and/or soon to be developed areas. The construction which began in 2007 included a five million gallon ground water storage tank. Costs for the utility expansion were approximately \$6,000,000 under budget. The un-expended debt proceeds are being used to service the project's debt. It is hoped that by the time the unused funds are depleted, the economy will rebound to allow debt servicing for the expansion to be paid from the collection of impact fees.

In or around 1996, the Cities of Callaway, Parker and Springfield along with Bay County created a joint venture to construct and operate the Military Point Advanced Wastewater Treatment facility. Bay County acts as the Operator of the facility. Each partner owns and maintains its own sewer collection system and the joint venture owns and maintains from each master lift station to the treatment plant. During fiscal year 2014, a dispute between Bay County and the City was initiated regarding the responsibility for costs and the remediation method of maintenance issues of a lift station (AWT-2). Negotiations concerning the resolution of this dispute are still in progress.

Operating initiatives during the current fiscal year included:

- *Commission approval of replacement of the City's water meters*
- *completion of a FL Department of Transportation grant for the 11th Street to Highway 22 sidewalk project*
- *commencement of a drainage project funded by a grant in the amount of \$705,218 from the Northwest Florida Water Management District to develop a new stormwater management facility for improved water runoff quality in the St. Andrew Bay Watershed.*
- *implementation of an upgrade to the City's financial software system*
- *the procurement of on-line utility billing payment capability which was implemented after year-end, and*
- *an increase of water service account deposits to \$250 to address utility account bad debt.*

For the Future- The City remains optimistic about its potential for development as economic conditions improve. 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.

The City is in the process of annexing a 243 acre area referred to as Primrose Bay. Including the area to be annexed, planning for development of 1,000 acres in this vicinity is underway. Also additional commerce development and subdivision plans have been received for Commission approval.

The procurement process to replace the City's water system meters with radio read meters is being finalized and this project should be completed during fiscal year 2015. Upon completion, meters can be read by via driving by read routes. The elimination of manual reads will substantially improve the efficiency and time required for our meter reading process. The cost of the meter upgrade is contracted for \$1,682,483.

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, 2013. This was the 21st 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.

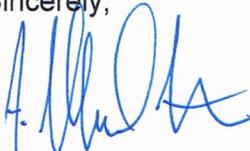
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of the Comprehensive Annual Financial Report could not have been accomplished without the dedicated services of the entire staff of the City Hall and of the departments that provided information. We express our appreciation to all who assisted by contributing to its preparation and to the City Commission for their interest and support in planning and conducting the financial operations of the City.

Appreciation is also expressed to accounting firm of Warren Averett, LLC for their continued assistance and professionalism.

Sincerely,



J. Michael Fuller
City Manager

Sincerely,



Beverly Waldrip, 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, 2013.

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

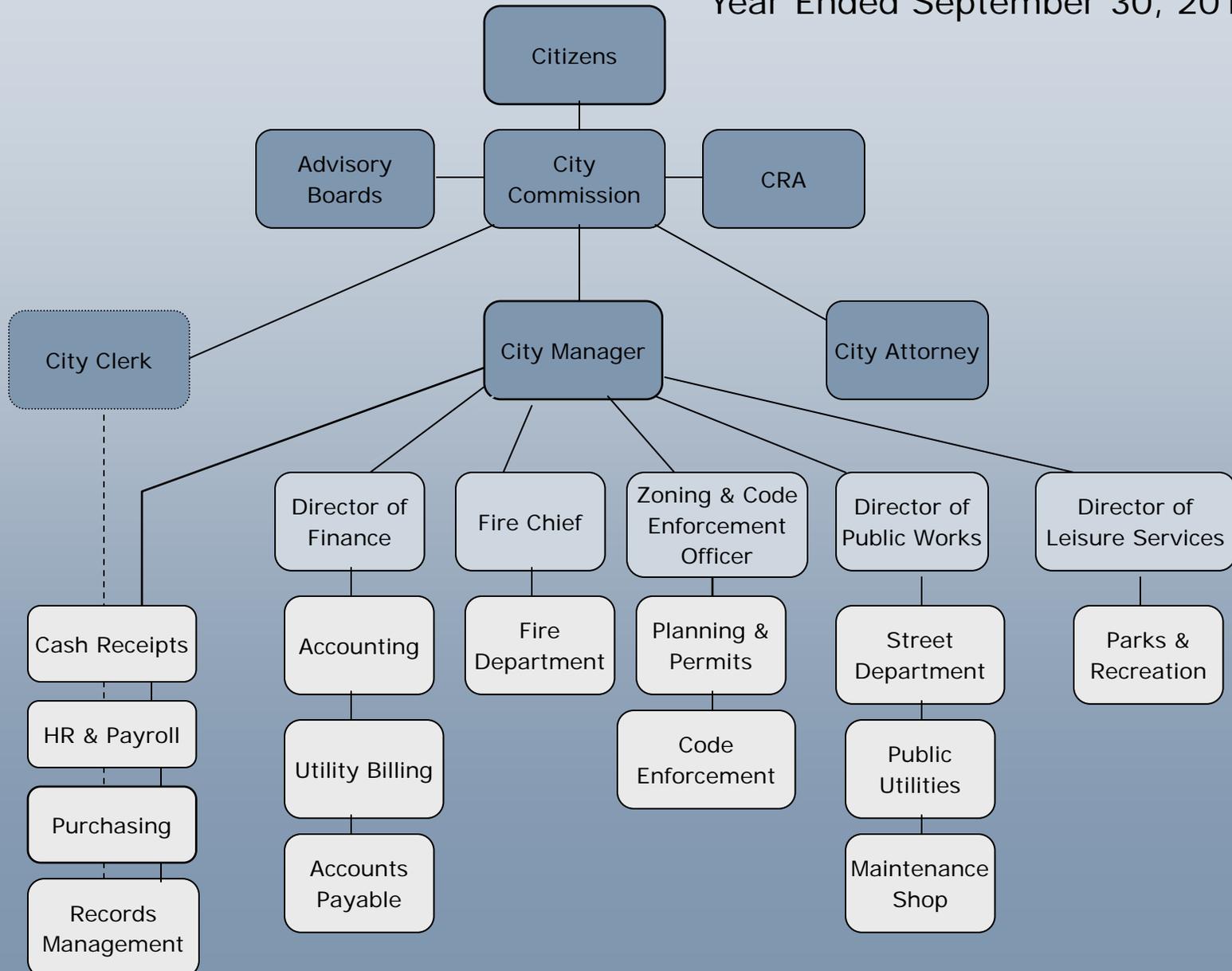
**City of Callaway
Florida**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2013

Executive Director/CEO

The City of Callaway, Florida
 ORGANIZATIONAL CHART
 Year Ended September 30, 2014



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.

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Commission
City of Callaway, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Callaway, Florida, as of and for the year ended September 30, 2014, 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.

Auditors' 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%, 25%, and 2%, 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, 2014, 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, 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 combining and individual non-major fund financial statements 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2015 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

April 16, 2015

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, 2014.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities and deferred inflow of resources by approximately \$32.8 million (net position), and represents an increase of \$1.0 million (or 3.13%) from the prior year. Of this amount, \$11.7 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, \$4.7 million is restricted for future obligations, and \$16.4 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The business-type activities increased \$0.5 million (or 2.48%), and the governmental activities increased \$0.5 million (or 4.77%) during fiscal year 2014.
- The City's governmental funds reported combined ending fund balances of \$3.7 million, an increase of \$598 thousand over the prior year. Approximately \$2.5 million (or 68.8%) 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 58% 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 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, and the CRA is a department of the City.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities of 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 is the only major fund in fiscal year 2014. The Community Redevelopment Fund, Capital Projects Fund, and Debt Service 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 \$32.7 million (net position) for the fiscal year ended 2014, as reported in Table 1.

\$11.7 million (or 36%) 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, 2014 AND 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 3,929,862	\$ 3,391,131	\$ 31,673,093	\$ 32,540,255	\$ 35,602,955	\$ 35,931,386
Capital assets	8,816,759	8,908,824	22,417,801	23,318,401	31,234,560	32,227,225
Total assets	12,746,621	12,299,955	54,090,894	55,858,656	66,837,515	68,158,611
Long-term liabilities outstanding	1,431,692	1,457,692	21,180,044	30,537,297	22,611,736	31,994,989
Other liabilities	340,040	363,793	11,122,312	2,971,024	11,462,352	3,334,817
Total liabilities*	1,771,732	1,821,485	32,302,356	33,508,321	34,074,088	35,329,806
Total deferred inflow of resources*	10,465	13,200	-	-	10,465	13,200
Net position						
Net investment in capital assets	7,359,067	7,426,132	4,381,434	5,399,952	11,740,501	12,826,084
Restricted	355,519	283,579	4,297,483	4,526,241	4,653,002	4,809,820
Unrestricted	3,249,838	2,755,559	13,109,621	12,424,142	16,359,459	15,179,701
Total net position	\$ 10,964,424	\$ 10,465,270	\$ 21,788,538	\$ 22,350,335	\$ 32,752,962	\$ 32,815,605

*prior year amounts have been reclassified based on the adoption of GASB 65

An additional portion of the City's net position \$4.7 million (or 14%) represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net position, \$16.3 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The City's overall financial condition has improved during the year ending September 30, 2014. The overall increase in the City's net position was \$1.0 million (or 3.13%) during fiscal year 2014. Governmental activities increased \$0.5 million, resulting from grant proceeds from a sidewalk project, coupled with increased charges for services and a decrease in expenses. Business-type activities increased \$0.5 million, primarily due to City recognizing utility franchise fees in business-type activities in fiscal year 2014.

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, 2014 AND 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program revenues						
Charges for services	\$ 364,233	\$ 333,037	\$ 7,244,587	\$ 7,487,848	\$ 7,608,820	\$ 7,820,885
Operating grants and contributions	39,644	3,936	-	-	39,644	3,936
Capital grants and contributions	256,459	53,902	121,718	1,426,988	378,177	1,480,890
General revenues						
Property taxes	1,022,354	1,037,464	-	-	1,022,354	1,037,464
Other taxes	3,655,933	4,239,333	813,761	-	4,469,694	4,239,333
Other revenue	14,640	660,908	60,492	154,105	75,132	815,013
TOTAL REVENUES	5,353,263	6,328,580	8,240,558	9,068,941	13,593,821	15,397,521
EXPENSES						
Primary government						
General government	797,130	935,860	-	-	797,130	935,860
Public safety	2,340,818	2,300,597	-	-	2,340,818	2,300,597
Highways and streets	721,899	869,349	-	-	721,899	869,349
Maintenance	129,116	117,759	-	-	129,116	117,759
Culture and recreation	785,034	810,040	-	-	785,034	810,040
Debt service interest	80,112	112,647	-	-	80,112	112,647
Business-type activities						
Water	-	-	2,992,779	3,002,667	2,992,779	3,002,667
Sewer	-	-	4,173,902	4,316,635	4,173,902	4,316,635
Solid waste	-	-	547,459	578,697	547,459	578,697
TOTAL EXPENSES	4,854,109	5,146,252	7,714,140	7,897,999	12,568,249	13,044,251
CHANGE IN NET POSITION	499,154	1,182,328	526,418	1,170,942	1,025,572	2,353,270
NET POSITION AT BEGINNING OF YEAR, RESTATED	10,465,270	9,282,942	21,262,120	21,179,393	31,727,390	30,462,335
NET POSITION AT END OF YEAR	\$ 10,964,424	\$ 10,465,270	\$ 21,788,538	\$ 22,350,335	\$ 32,752,962	\$ 32,815,605

FINANCIAL IMPACTS

NORMAL IMPACTS

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

Revenues

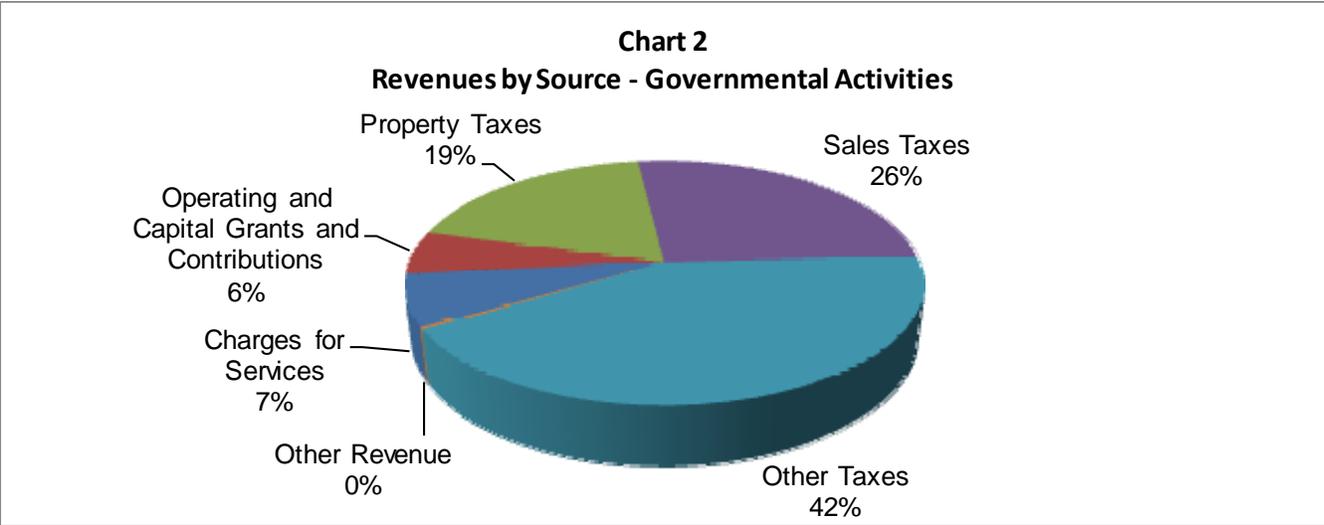
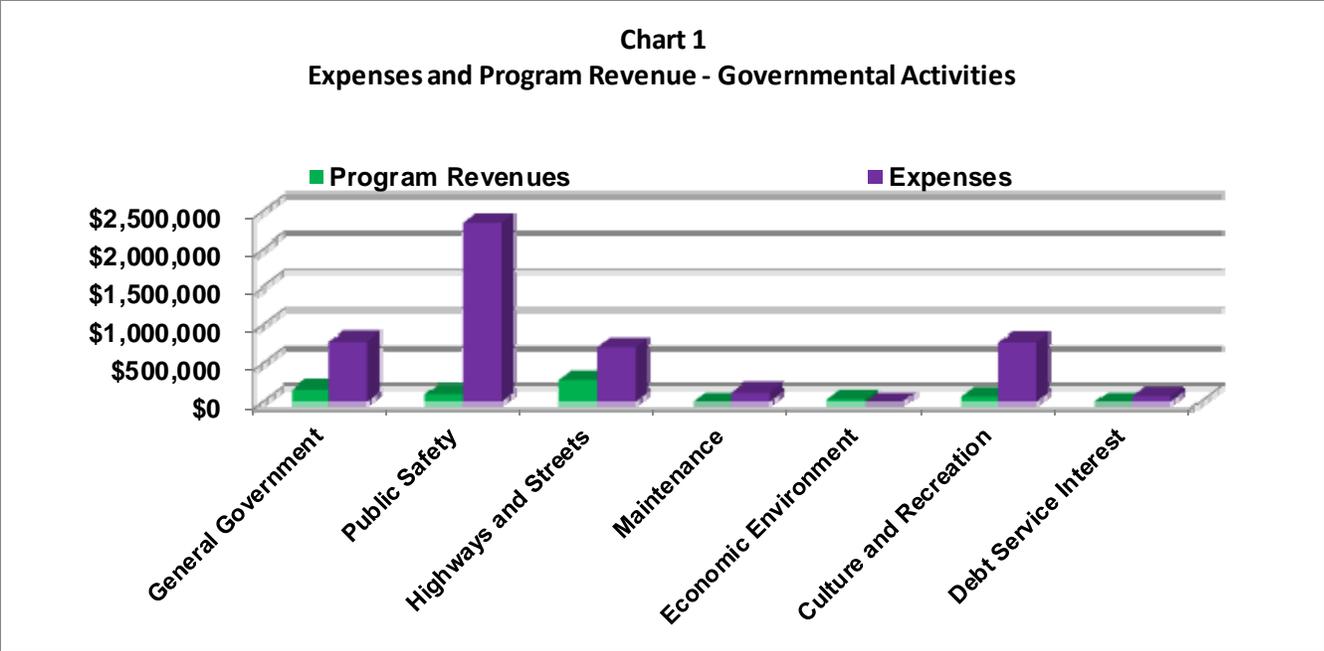
- **Economic Condition:** This can reflect a declining, stable, or growing economic environment and has a substantial impact on property, sales, gas or other tax revenue.
- **Commission Approved Rate Adjustments:** While certain tax rates are set by statute, the City Commission has significant authority to impose and periodically adjust rates (water, wastewater, impact fees, recreation user fees, etc.).
- **Changing Patterns in Intergovernmental Grant Revenue** (both recurring and nonrecurring): 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

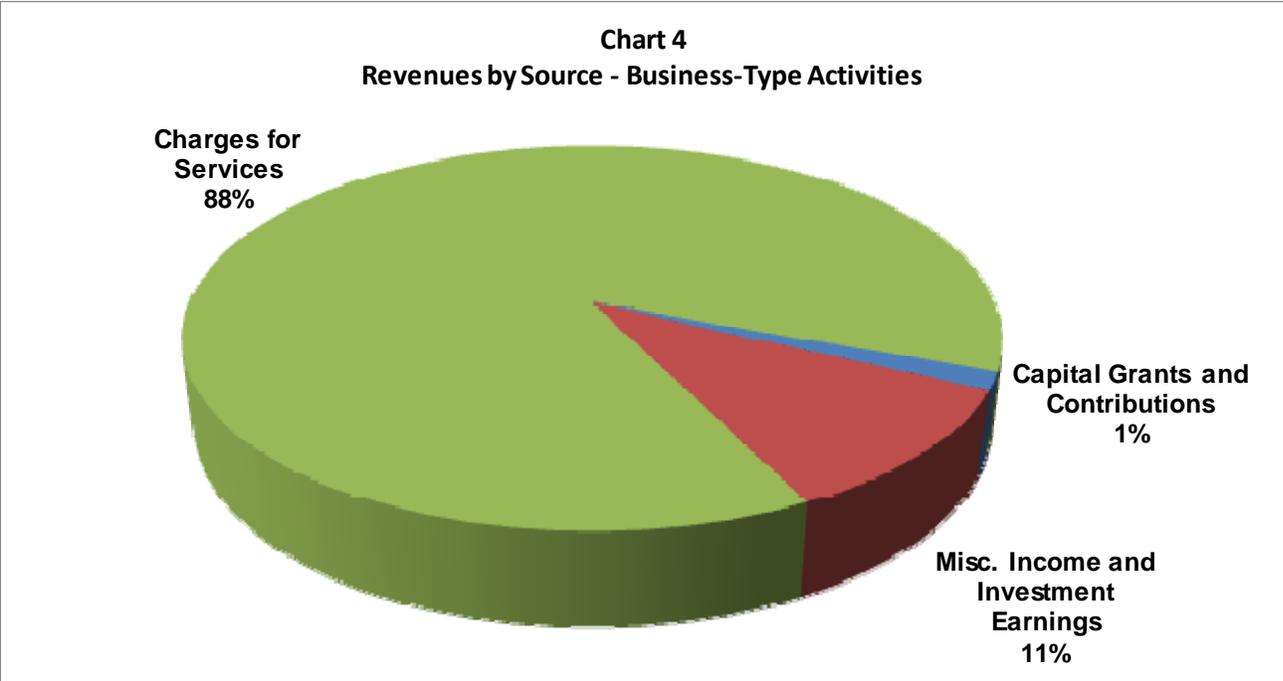
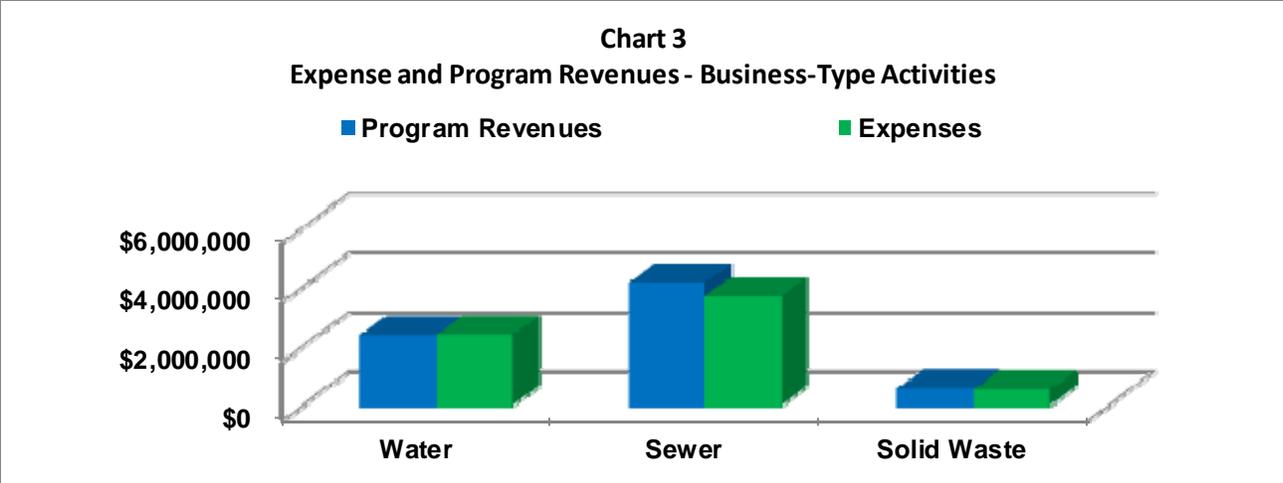
- Capital grants and contributions revenue increased by \$202 thousand primarily due to grant funding related to the 11th Street to Highway 22 sidewalk project.
- Other taxes decreased \$583 thousand, which can be attributed primarily to the City recognizing the utility franchise fees in the business-type activities instead of the governmental activities starting in fiscal year 2014.
- Other revenue decreased \$646 thousand, which can be attributed primarily to a legal settlement reached during fiscal year 2013. This settlement also resulted in a significant decrease in legal fees when compared to fiscal year 2013, which is the primary reason for the \$141 thousand decrease in general government expenses.
- Highways and streets expenses decreased primarily due to decreased payroll expenses as well as significant asphalt repairs in the prior year.



Business-Type Activities

The net position from business-type activities increased \$0.5 million (or 2.48%).

- Charges for services for business-type activities decreased by \$243 thousand due to decreased water/sewer consumption. Consequently, total expenses for all business type activities decreased \$184 thousand.
- Capital grants and contributions decreased by \$1.3 million, resulting primarily from prior year capital contribution revenue resulting from new utility customers from the newly acquired Sandy Creek development.
- Other taxes increased \$814 thousand due to the City recognizing the utility franchise fees in the business-type activities instead of the governmental activities starting in fiscal year 2014.



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 \$3.7 million, an increase of \$597.6 thousand in comparison with the prior year. Approximately \$2.5 million of fund balance (or 69%) 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
- Assigned – fiscal year 2015 budget appropriations

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 \$3.7 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 58% of the total General Fund expenditures, while total fund balance represents 82% of that same amount.

During the current fiscal year, the fund balance of the City's General Fund increased by \$582.4 thousand. Key factors are as follows:

- Licenses, fees and permits revenue decreased \$680 thousand due to the City recognizing the utility franchise fees in the business-type activities instead of the governmental activities starting in fiscal year 2014. In addition, miscellaneous revenue decreased \$615 thousand because the City obtained a substantial settlement in the prior year related to the Deepwater Horizon Oil Spill.
- Although revenues decreased, the decrease in expenditures was substantially more. Overall, expenditures decreased by \$1.6 million, which relates to a \$1.4 million decrease in debt service expenditures compared to the prior year along with \$131 thousand decrease in capital outlay expenditures.

The Community Redevelopment Fund has a total fund balance of \$117 thousand, all of which is restricted at September 30, 2014. The Community Redevelopment Fund fund balance increased \$10 thousand due to less general government expenditures 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 \$13.1 million at the end of the year; of that, the Water Fund amounted to \$2.2 million, the Sewer Fund totaled \$10.1 million (which includes the \$5.4 million investment in the Military Point Advanced Wastewater Treatment joint venture) and the Solid Waste Fund was \$785 thousand. Net position for proprietary funds increased \$0.5 million during fiscal year 2014. 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 4% from budgeted expenditures in part as a result of payroll expenditures being less than budgeted amounts.

The budgets for the highways and streets and maintenance functions were decreased during the year ended September 30, 2014 due to lower payroll expenditures than had been originally budgeted. In addition, the capital outlay expenditures budget was increased during the fiscal year to account for some of the capital outlay purchases in 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, 2014, amounts to \$31.2 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 \$990 thousand (or 3.17%) with an overall 1.01% decrease for governmental activities, and a 3.86% decrease for business-type activities, all of which is summarized as follows:

Table 3
CITY OF CALLAWAY, FLORIDA
CAPITAL ASSETS
(net of depreciation)
AS OF SEPTEMBER 30, 2014 AND 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 847,869	\$ 846,594	\$ 177,428	\$ 177,428	\$ 1,025,297	\$ 1,024,022
Construction in progress	51,343	-	-	-	51,343	-
Buildings	3,273,125	3,385,612	1,975,484	2,151,931	5,248,609	5,537,543
Improvements other than buildings	4,285,910	4,168,528	20,023,495	20,656,791	24,309,405	24,825,319
Vehicles	208,401	297,741	156,903	198,383	365,304	496,124
Machinery and equipment	68,946	120,115	84,491	133,868	153,437	253,983
Software	81,165	90,234	-	-	81,165	90,234
Total	\$ 8,816,759	\$ 8,908,824	\$ 22,417,801	\$ 23,318,401	\$ 31,234,560	\$ 32,227,225

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 \$32.1 million. The debt amount represents notes payable and revenue bonds payable secured by specified revenue sources and equipment. The City defeased a bond that had a balance of \$5.3 million with a refunding note during the year in order to take advantage of more favorable interest rates. Additional details on this defeasance can be found in Note 9 of the financial statements.

Table 4
CITY OF CALLAWAY, FLORIDA
LONG-TERM DEBT OUTSTANDING
AS OF SEPTEMBER 30, 2014 AND 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Notes payable	\$ -	\$ -	\$ 8,859,095	\$ 4,501,237	\$ 8,859,095	\$ 4,501,237
Revenue bonds payable	1,457,692	1,482,692	21,768,581	27,680,006	23,226,273	29,162,698
Total	\$ 1,457,692	\$ 1,482,692	\$ 30,627,676	\$ 32,181,243	\$ 32,085,368	\$ 33,663,935

Principal repayments during the year for governmental activities were \$25,000, and \$1,553,567 for business-type activities (net of the defeasance noted in the preceding paragraph). Revenue bonds payable in the business-type activities includes an unamortized bond premium in the amount of \$11,357.

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

The City remains optimistic about its potential for development as economic conditions improve. 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 mills (1.31 mills) below the municipal average for Bay County). Despite continued declines in property values, our budget for next year projects only a \$6,455 decrease in property tax revenues.

Overall general fund revenues for the coming year are expected to increase 6.65% and general fund expenditures are projected to increase 16.97%. Revenues in the water and sewer funds are budgeted to increase 5.69% and expenditures are projected to increase 19.62%.

Included in the budget approved by the City for the upcoming year is the use of unrestricted fund reserves of \$488,289 the general fund and \$1,425,864 for the water and sewer funds.

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>.

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**CITY OF CALLAWAY, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and cash equivalents	\$ 3,006,415	\$ 7,435,806	\$ 10,442,221
Receivables, net	146,290	804,607	950,897
Due from other governments	227,247	-	227,247
Due from joint venture	-	576,207	576,207
Prepaid items	19,501	2,991	22,492
Inventory, at cost	44,368	-	44,368
Restricted assets			
Cash and cash equivalents	486,041	7,683,914	8,169,955
Capital assets			
Non-depreciable/amortizable	899,212	177,428	1,076,640
Depreciable/amortizable, net	7,917,547	22,240,373	30,157,920
Other assets			
Capital contributions receivable, non-current	-	906,567	906,567
Note receivable - joint venture	-	8,859,095	8,859,095
Investment in joint venture	-	5,403,906	5,403,906
TOTAL ASSETS	12,746,621	54,090,894	66,837,515
LIABILITIES			
Accounts payable	118,909	619,451	738,360
Accrued payroll liabilities	72,786	19,268	92,054
Accrued interest payable	5,066	-	5,066
Due to joint venture	-	97,666	97,666
Due to other governments	30,133	240	30,373
Payable from restricted assets			
Customer deposits	-	690,338	690,338
Accrued interest payable	-	185,649	185,649
Non-current liabilities			
Due within one year			
Notes payable	-	1,144,465	1,144,465
Revenue bonds payable	26,000	588,537	614,537
Accrued compensated absences	87,146	62,068	149,214
Due in more than one year			
Notes payable, net	-	7,714,630	7,714,630
Revenue bonds payable, net	1,431,692	21,180,044	22,611,736
TOTAL LIABILITIES	1,771,732	32,302,356	34,074,088
DEFERRED INFLOW OF RESOURCES			
Local business taxes received in advance	10,465	-	10,465
NET POSITION			
Net investment in capital assets	7,359,067	4,381,434	11,740,501
Restricted			
Debt service	86,922	1,532,298	1,619,220
Capital improvements/extensions	-	2,765,185	2,765,185
Impact fees	151,714	-	151,714
Redevelopment	116,883	-	116,883
Unrestricted	3,249,838	13,109,621	16,359,459
TOTAL NET POSITION	\$ 10,964,424	\$ 21,788,538	\$ 32,752,962

See notes to the financial statements.

**CITY OF CALLAWAY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Function/program activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental Activities							
General government	\$ 797,130	\$ 163,791	\$ 300	\$ -	\$ (633,039)	\$ -	\$ (633,039)
Public safety	2,340,818	109,527	-	-	(2,231,291)	-	(2,231,291)
Highways and streets	721,899	32,263	-	240,307	(449,329)	-	(449,329)
Maintenance	129,116	-	-	-	(129,116)	-	(129,116)
Economic environment	-	-	39,344	-	39,344	-	39,344
Culture and recreation	785,034	58,652	-	16,152	(710,230)	-	(710,230)
Debt service interest	80,112	-	-	-	(80,112)	-	(80,112)
Total governmental activities	4,854,109	364,233	39,644	256,459	(4,193,773)	-	(4,193,773)
Business-type activities							
Water	2,992,779	2,374,145	-	70,534	-	(548,100)	(548,100)
Sewer	4,173,902	4,297,429	-	51,184	-	174,711	174,711
Solid Waste	547,459	573,013	-	-	-	25,554	25,554
Total business-type activities	7,714,140	7,244,587	-	121,718	-	(347,835)	(347,835)
Total primary government	\$ 12,568,249	\$ 7,608,820	\$ 39,644	\$ 378,177	\$ (4,193,773)	\$ (347,835)	\$ (4,541,608)
General revenues							
Taxes							
Property taxes					\$ 1,022,354	\$ -	\$ 1,022,354
Municipal revenue sharing					584,089	-	584,089
Sales taxes					1,400,929	-	1,400,929
Utility service taxes					1,622,733	-	1,622,733
Franchise taxes					-	813,761	813,761
Tax increments for redevelopment districts					29,932	-	29,932
Other					18,250	-	18,250
Gain (loss) on sale of assets					6,582	7,634	14,216
Miscellaneous					3,974	4,018	7,992
Investment earnings					4,084	48,840	52,924
Total general revenues					4,692,927	874,253	5,567,180
Change in net position					499,154	526,418	1,025,572
Net position at beginning of year, restated					10,465,270	21,262,120	31,727,390
Net position at end of year					\$ 10,964,424	\$ 21,788,538	\$ 32,752,962

See notes to the financial statements.

**CITY OF CALLAWAY, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2014**

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,887,838	\$ 118,577	\$ 3,006,415
Receivables, net	146,290	-	146,290
Due from other funds	48,476	-	48,476
Due from other governments	172,222	55,025	227,247
Inventory, at cost	44,368	-	44,368
Prepaid items	19,501	-	19,501
Restricted assets		-	-
Cash and cash equivalents	486,041	-	486,041
TOTAL ASSETS	<u>\$ 3,804,736</u>	<u>\$ 173,602</u>	<u>\$ 3,978,338</u>
LIABILITIES			
Accounts payable	\$ 110,666	\$ 8,243	\$ 118,909
Accrued payroll liabilities	72,786	-	72,786
Due to other governments	30,133	-	30,133
Due to other funds	-	48,476	48,476
Total liabilities	<u>213,585</u>	<u>56,719</u>	<u>270,304</u>
DEFERRED INFLOW OF RESOURCES			
Local business taxes received in advance	<u>10,465</u>	<u>-</u>	<u>10,465</u>
FUND BALANCE			
Nonspendable			
Prepaid items	19,501	-	19,501
Inventory	44,368	-	44,368
Restricted			
Bond covenants	86,922	-	86,922
Impact fees	151,714	-	151,714
Redevelopment	-	116,883	116,883
Committed			
Park fees	62,161	-	62,161
Stormwater fees	185,244	-	185,244
Assigned			
Fiscal year 2015 budget appropriations	488,289	-	488,289
Unassigned	2,542,487	-	2,542,487
Total fund balances	<u>3,580,686</u>	<u>116,883</u>	<u>3,697,569</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	<u>\$ 3,804,736</u>	<u>\$ 173,602</u>	<u>\$ 3,978,338</u>

See notes to the financial statements.

**CITY OF CALLAWAY, FLORIDA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

Fund balance, total governmental funds (page 18) \$ 3,697,569

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	899,212	
Governmental depreciable assets	15,351,606	
Less accumulated depreciation	<u>(7,434,059)</u>	
		8,816,759

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

Revenue bonds payable	(1,457,692)	
Accrued interest	(5,066)	
Compensated absences	<u>(87,146)</u>	
		<u>(1,549,904)</u>

Net position of governmental activities (page 16) \$ 10,964,424

See notes to the financial statements.

**CITY OF CALLAWAY, FLORIDA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 2,901,944	\$ 15,409	\$ 2,917,353
License, fees, and permits	168,781	-	168,781
Intergovernmental	1,767,267	275,112	2,042,379
Charges for services	133,521	-	133,521
Fines	2,685	-	2,685
Miscellaneous	104,821	14	104,835
Total revenues	<u>5,079,019</u>	<u>290,535</u>	<u>5,369,554</u>
EXPENDITURES			
Current			
General government	684,007	19,615	703,622
Public safety	2,197,380	-	2,197,380
Highways and streets	669,377	-	669,377
Maintenance	116,700	-	116,700
Culture and recreation	605,121	-	605,121
Capital outlay	115,426	273,163	388,589
Debt service			
Principal	-	25,000	25,000
Interest	-	66,184	66,184
Total expenditures	<u>4,388,011</u>	<u>383,962</u>	<u>4,771,973</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>691,008</u>	<u>(93,427)</u>	<u>597,581</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	108,604	108,604
Transfers out	(108,604)	-	(108,604)
Total other financing sources (uses)	<u>(108,604)</u>	<u>108,604</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	582,404	15,177	597,581
FUND BALANCE AT BEGINNING OF YEAR	<u>2,998,282</u>	<u>101,706</u>	<u>3,099,988</u>
FUND BALANCE AT END OF YEAR	<u>\$ 3,580,686</u>	<u>\$ 116,883</u>	<u>\$ 3,697,569</u>

See notes to the 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
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Net change in fund balance - governmental funds (page 20) \$ 597,581

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

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

Expenditures for capital assets	388,589	
Less current year depreciation/amortization	<u>(464,363)</u>	(75,774)

Proceeds received for disposals of capital assets are shown as income in the governmental financial statements and a gain or loss is reported in the Statement of Activities.

Disposals of capital assets	(62,400)	
Accumulated depreciation/amortization associated with disposals	<u>46,109</u>	(16,291)

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.

Change in accrued interest	72	
Principal payments	25,000	
Amortization of bond issue costs	<u>(14,000)</u>	11,072

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>(17,434)</u>
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Change in net position of governmental activities (page 17)		<u><u>\$ 499,154</u></u>
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See notes to the financial statements.

**CITY OF CALLAWAY, FLORIDA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 2,711,136	\$ 2,711,136	\$ 2,901,944	\$ 190,808
Licenses, fees, and permits	130,000	130,000	168,781	38,781
Intergovernmental	1,665,800	1,665,800	1,767,267	101,467
Charges for services	151,227	151,227	133,521	(17,706)
Fines	2,500	2,500	2,685	185
Miscellaneous	65,280	65,280	104,821	39,541
Total revenues	<u>4,725,943</u>	<u>4,725,943</u>	<u>5,079,019</u>	<u>353,076</u>
EXPENDITURES				
Current				
General government	1,125,271	735,113	684,007	51,106
Public safety	2,198,650	2,198,650	2,197,380	1,270
Highways and streets	978,795	906,997	669,377	237,620
Maintenance	193,930	112,604	116,700	(4,096)
Culture and recreation	659,231	650,535	605,121	45,414
Capital outlay	-	25,822	115,426	(89,604)
Total expenditures	<u>5,155,877</u>	<u>4,629,721</u>	<u>4,388,011</u>	<u>241,710</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(429,934)</u>	<u>96,222</u>	<u>691,008</u>	<u>594,786</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	439,934	(108,570)	(108,604)	(34)
NET CHANGE IN FUND BALANCE	10,000	(12,348)	582,404	594,752
FUND BALANCE AT BEGINNING OF YEAR	<u>-</u>	<u>12,348</u>	<u>2,998,282</u>	<u>2,985,934</u>
FUND BALANCE AT END OF YEAR	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 3,580,686</u>	<u>\$ 3,580,686</u>

See notes to the financial statements.

**CITY OF CALLAWAY, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2014**

	Business-Type Activities			Total
	Major Funds		Non-Major Fund	
	Water Fund	Sewer Fund	Solid Waste Fund	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,254,025	\$ 4,417,429	\$ 764,352	\$ 7,435,806
Receivables, net				
Accounts	234,077	396,508	48,953	679,538
Capital contributions	-	125,069	-	125,069
Prepaid items	2,991	-	-	2,991
Due from joint venture	-	576,207	-	576,207
Total current assets	2,491,093	5,515,213	813,305	8,819,611
Non-current assets				
Restricted assets				
Cash and cash equivalents	3,411,045	4,272,869	-	7,683,914
Capital assets				
Non-depreciable/amortizable	113,083	64,345	-	177,428
Depreciable/amortization, net	13,143,668	8,994,822	101,883	22,240,373
Total capital assets	13,256,751	9,059,167	101,883	22,417,801
Other assets				
Capital contributions receivable	-	906,567	-	906,567
Notes receivable - joint venture	-	8,859,095	-	8,859,095
Investment in joint venture	-	5,403,906	-	5,403,906
Total other assets	-	15,169,568	-	15,169,568
Total non-current assets	16,667,796	28,501,604	101,883	45,271,283
TOTAL ASSETS	\$ 19,158,889	\$ 34,016,817	\$ 915,188	\$ 54,090,894

See notes to the financial statements.

**CITY OF CALLAWAY, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION - CONTINUED
 SEPTEMBER 30, 2014**

	Business-Type Activities			Total
	Major Funds		Non-Major Fund	
	Water Fund	Sewer Fund	Solid Waste Fund	
LIABILITIES				
Current liabilities				
Accounts payable	\$ 243,500	\$ 367,955	\$ 7,996	\$ 619,451
Accrued liabilities				
Compensated absences	16,937	32,071	13,060	62,068
Wages	7,662	4,081	7,525	19,268
Due to joint venture	-	97,666	-	97,666
Due to other governments	240	-	-	240
Notes payable	-	1,144,465	-	1,144,465
Revenue bonds payable	288,720	299,817	-	588,537
Payable from restricted assets				
Customer deposits	690,338	-	-	690,338
Accrued interest payable	100,102	85,547	-	185,649
Total current liabilities	1,347,499	2,031,602	28,581	3,407,682
Non-current liabilities				
Notes payable, net	-	7,714,630	-	7,714,630
Revenue bonds payable, net	11,682,664	9,497,380	-	21,180,044
Total non-current liabilities	11,682,664	17,212,010	-	28,894,674
TOTAL LIABILITIES	13,030,163	19,243,612	28,581	32,302,356
NET POSITION				
Net investment in capital assets	2,800,214	1,479,337	101,883	4,381,434
Restricted				
Debt service/bond covenants	799,699	732,599	-	1,532,298
Impact fees	306,059	2,459,126	-	2,765,185
Unrestricted	2,222,754	10,102,143	784,724	13,109,621
TOTAL NET POSITION	\$ 6,128,726	\$ 14,773,205	\$ 886,607	\$ 21,788,538

See notes to the financial statements.

**CITY OF CALLAWAY, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Business-Type Activities			Total
	Major Funds		Non-Major Fund	
	Water Fund	Sewer Fund	Solid Waste Fund	
OPERATING REVENUES				
Charges for services	\$ 2,374,144	\$ 4,143,109	\$ 573,013	\$ 7,090,266
OPERATING EXPENSES				
Personal services	565,108	649,497	291,246	1,505,851
Operating	1,401,470	2,563,661	233,660	4,198,791
Depreciation/amortization expense	425,837	458,490	22,553	906,880
Total operating expenses	2,392,415	3,671,648	547,459	6,611,522
OPERATING INCOME (LOSS)	(18,271)	471,461	25,554	478,744
NON-OPERATING REVENUES (EXPENSES)				
Interest expense	(600,367)	(502,252)	-	(1,102,619)
Equity earnings in joint venture	-	154,319	-	154,319
Gain (loss) on disposal of capital assets	2,410	4,467	757	7,634
Interest income	4,657	60,064	1,278	65,999
Change in fair value of investments	(8,196)	(8,961)	-	(17,157)
Franchise fees	488,257	325,504	-	813,761
Miscellaneous	-	-	4,019	4,019
Total non-operating revenues (expenses)	(113,239)	33,141	6,054	(74,044)
INCOME (LOSS) BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(131,510)	504,602	31,608	404,700
Capital grants and contributions	70,534	51,184	-	121,718
CHANGE IN NET POSITION	(60,976)	555,786	31,608	526,418
NET POSITION AT BEGINNING OF YEAR, RESTATED	6,189,702	14,217,419	854,999	21,262,120
NET POSITION AT END OF YEAR	\$ 6,128,726	\$ 14,773,205	\$ 886,607	\$ 21,788,538

See notes to the financial statements.

**CITY OF CALLAWAY, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Business-Type Activities			
	Major Funds		Non-Major Fund	Total
	Water Fund	Sewer Fund	Solid Waste Fund	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 2,471,452	\$ 4,523,560	\$ 570,946	\$ 7,565,958
Payments to suppliers	(1,248,731)	(2,511,334)	(238,542)	(3,998,607)
Payments to employees	(574,040)	(650,291)	(287,927)	(1,512,258)
Miscellaneous income	-	-	4,019	4,019
Net cash provided by operating activities	<u>648,681</u>	<u>1,361,935</u>	<u>48,496</u>	<u>2,059,112</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisitions of capital assets	-	(6,280)	-	(6,280)
Proceeds from capital contributions	70,534	51,184	-	121,718
Proceeds from franchise fees	488,257	325,504	-	813,761
Proceeds from disposal of capital assets	2,410	4,467	757	7,634
Principal paid on revenue bonds and notes payable	(277,495)	(290,082)	-	(567,577)
Interest paid on bonds, loans, and leases payables	(609,959)	(513,435)	-	(1,123,394)
Net cash provided by (used in) capital and related financing activities	<u>(326,253)</u>	<u>(428,642)</u>	<u>757</u>	<u>(754,138)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment earnings (losses)	<u>(3,539)</u>	<u>51,103</u>	<u>1,278</u>	<u>48,842</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	318,889	984,396	50,531	1,353,816
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,346,181</u>	<u>7,705,902</u>	<u>713,821</u>	<u>13,765,904</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,665,070</u>	<u>\$ 8,690,298</u>	<u>\$ 764,352</u>	<u>\$ 15,119,720</u>

See notes to the financial statements.

**CITY OF CALLAWAY, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS - CONTINUED
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Business-Type Activities			
	Major Funds		Non-Major Fund	Total
	Water Fund	Sewer Fund	Solid Waste Fund	
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF				
Current assets	\$ 2,254,025	\$ 4,417,429	\$ 764,352	\$ 7,435,806
Restricted assets	3,411,045	4,272,869	-	7,683,914
Total cash and cash equivalents	<u>\$ 5,665,070</u>	<u>\$ 8,690,298</u>	<u>\$ 764,352</u>	<u>\$ 15,119,720</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (18,271)	\$ 471,461	\$ 25,554	\$ 478,744
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	425,837	458,490	22,553	906,880
Miscellaneous revenue	-	-	4,019	4,019
Decrease (increase) in assets:				
Receivables	(77,085)	109,279	(2,067)	30,127
Due from joint venture	-	271,172	-	271,172
Increase (decrease) in liabilities:				
Customer deposits	174,393	-	-	174,393
Accounts payable	155,916	52,327	(4,882)	203,361
Accrued wages	338	(4,608)	4,670	400
Compensated absences	(9,270)	3,814	(1,351)	(6,807)
Due to other governments	(3,177)	-	-	(3,177)
Net cash provided by operating activities	<u>\$ 648,681</u>	<u>\$ 1,361,935</u>	<u>\$ 48,496</u>	<u>\$ 2,059,112</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS				
Equity earnings in joint venture	<u>\$ -</u>	<u>\$ 154,319</u>	<u>\$ -</u>	<u>\$ 154,319</u>

See notes to the financial statements.

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF CITY

Description of City

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:

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.

As of September 30, 2014, the City of Callaway had one component unit, as defined by GASB No. 61, which has been presented in the financial statements of the primary government using the blended presentation method, and is presented as a governmental fund type with a fiscal year end of September 30. The Callaway Community Redevelopment Agency (Agency) was formed to prepare a community redevelopment plan for a designated geographic area within the City of Callaway, Florida. 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. The Agency functions as a department of the City of Callaway, Florida. City management has operational and fiscal responsibility for the Agency's activities.

CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF CITY – CONTINUED

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.

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.

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.

Licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and thus 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.

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF CITY – CONTINUED

Measurement Focus and Basis of Accounting – Continued

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, 2014
Levy Date	November 1, 2014
Due Date	November 1, 2014
Delinquent Date	April 1, 2015

Discounts of 1% are granted for each month taxes are paid prior to March 2015.

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.

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.

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.

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF CITY – CONTINUED

Basis of Presentation - Continued

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.

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 fund:

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

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.

Assets, Liabilities, Deferred Outflows/Inflows of Resources 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.

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.

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF CITY –
CONTINUED**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity –
Continued**

Deposits and Investments - Continued

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.

The City's cash and investment pool and certain individual funds participate in the Local Government Surplus Trust Fund - Florida PRIME, 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.

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 THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF CITY –
CONTINUED**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources 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.

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.

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF CITY – CONTINUED

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity – Continued

Capital Assets

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. The City allows a maximum of no more than 240 hours for annual leave accumulation as of December 31st of any given year. 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, 2014 will be used within one year; therefore, compensated absences are reported as current liabilities in these financial statements.

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-week notice, an employee will be paid for accumulated annual leave, but all accumulated sick leave will be forfeited.

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF CITY – CONTINUED

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity – Continued

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. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expenses as incurred.

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.

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, 2014, 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 – 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, deposits, prepaid items, and advances to other funds.

Restricted – 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.

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF CITY –
CONTINUED**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity –
Continued**

Classification of Fund Balance - Continued

Committed – includes fund balance amounts that can be used only for the specific purposes that are internally imposed by a formal action (a Resolution) of the government'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 – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Intent is 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. This indicates that resources in these funds are, at a minimum, intended to be used for the purposes of that fund. The City Commission has not authorized a specific party to assign fund balance. The City Commission may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's budget.

Unassigned – includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

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 17%, or a two-month reserve amount, 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 Positions

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At this time, the City has no transactions that meet the definition of deferred outflows of resources.

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF CITY – CONTINUED

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity – Continued

Deferred Outflows/Inflows of Resources - Continued

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City currently has one item that qualifies for reporting in this category which relates to fiscal year 2015 business tax payments received by the City in advance.

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.

Subsequent Events

Subsequent events were evaluated through April 16, 2015, which is the date the financial statements were available to be issued.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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 multiyear 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, based on a policy change in FY14, sets the legal level of budgetary control at the line item (account) level for each department. Only City Commission can approve budget amendments for each department's expenditure line items; however in the case of an emergency, the City Manager can exceed expenditures in department line items and retrospectively present the amendment to the Commission. The Schedule of Expenditures by Department is presented following the notes to the financial statements to demonstrate compliance with the previous City policy which required budget approvals at the total department level. The City issues a separate budgetary report to demonstrate compliance with the new policy due to the exceptionally low level at which budgetary control has been set.

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets - Continued

If, during the fiscal year, additional revenue becomes available for appropriations in excess of those estimated in the budget, the City 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 City 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.

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 commitments 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.

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.

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.

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments

At September 30, 2014 the City held the following investments, (which are considered cash equivalents for reporting purposes) not subject to interest rate risk.

	Fair Value
Regions Trust Cash Sweep	\$ 4,391,817
Money Market Funds	239,926
	\$ 4,631,743

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.

Interest Rate Risk - The City also maintains \$9,978 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, 2014, is 39 days. Next interest rate reset dates for floating rate securities are used in the calculation of the WAM.

Custodial Credit Risk - 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, 2014, the City did not hold any investments that were considered to be a concentration credit risk.

4. RECEIVABLES

Current receivables at September 30, 2014, were as follows:

	Governmental Activities		Business-Type Activities			Total
	General Fund	Capital Projects	Water Fund	Sewer Fund	Solid Waste Fund	
Accounts	\$ 147,560	\$ -	\$ 243,266	\$ 414,917	\$ 51,465	\$ 857,208
Less allowance for doubtful accounts	(1,270)	-	(9,189)	(18,409)	(2,512)	(31,380)
Capital contributions, current	-	-	-	125,069	-	125,069
Receivables, net	146,290	-	234,077	521,577	48,953	950,897
Due from other governments	172,222	55,025	-	-	-	227,247
Total	\$ 318,512	\$ 55,025	\$ 234,077	\$ 521,577	\$ 48,953	\$ 1,178,144

CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

4. RECEIVABLES – CONTINUED

Due from Other Governments

All amounts due from other governments in the General Fund relate to 1/2 cent sales tax, communications service tax, local option fuel tax, and other intergovernmental revenue. Amounts due from other governments in the Capital Projects Fund relate to receivables from the Florida Department of Transportation.

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, 2014, the capital contributions receivable totaled \$1,031,636, 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 \$906,567 has been presented as an other asset at September 30, 2014.

CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

5. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	\$ 846,594	\$ 1,275	\$ -	\$ 847,869
Construction in progress	-	51,343	-	51,343
Total capital assets not being depreciated/amortized	846,594	52,618	-	899,212
Capital assets being depreciated/amortized				
Buildings	4,085,141	-	-	4,085,141
Improvements other than buildings	7,244,992	326,371	-	7,571,363
Vehicles	832,934	-	(27,369)	805,565
Machinery and equipment	2,821,622	-	(35,031)	2,786,591
Software	93,346	9,600	-	102,946
Total capital assets being depreciated/amortized	15,078,035	335,971	(62,400)	15,351,606
Less accumulated depreciation/amortization				
Buildings	(699,529)	(112,487)	-	(812,016)
Improvements other than buildings	(3,076,464)	(208,989)	-	(3,285,453)
Vehicles	(535,193)	(73,049)	11,078	(597,164)
Machinery and equipment	(2,701,507)	(51,169)	35,031	(2,717,645)
Software	(3,112)	(18,669)	-	(21,781)
Total accumulated depreciation/amortization	(7,015,805)	(464,363)	46,109	(7,434,059)
Total capital assets being depreciated/amortized, net	8,062,230	(128,392)	(16,291)	7,917,547
Governmental activities, net	\$ 8,908,824	\$ (75,774)	\$ (16,291)	\$ 8,816,759

CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

5. CHANGES IN CAPITAL ASSETS – CONTINUED

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Business-type activities				
Capital assets not being depreciated/amortized				
Land	\$ 177,428	\$ -	\$ -	\$ 177,428
Construction in progress	-	-	-	-
Total capital assets not being depreciated/amortized	<u>177,428</u>	<u>-</u>	<u>-</u>	<u>177,428</u>
Capital assets being depreciated/amortized				
Buildings and improvements	5,710,362	-	-	5,710,362
Utility system	23,903,473	6,280	-	23,909,753
Vehicles	1,464,845	-	-	1,464,845
Machinery and equipment	1,260,749	-	-	1,260,749
Total capital assets being depreciated/amortized	<u>32,339,429</u>	<u>6,280</u>	<u>-</u>	<u>32,345,709</u>
Less accumulated depreciation/amortization				
Buildings and improvements	(3,558,431)	(176,447)	-	(3,734,878)
Utility system	(3,246,682)	(639,576)	-	(3,886,258)
Vehicles	(1,266,462)	(41,480)	-	(1,307,942)
Machinery and equipment	(1,126,881)	(49,377)	-	(1,176,258)
Total accumulated depreciation/amortization	<u>(9,198,456)</u>	<u>(906,880)</u>	<u>-</u>	<u>(10,105,336)</u>
Total capital assets being depreciated/amortized, net	<u>23,140,973</u>	<u>(900,600)</u>	<u>-</u>	<u>22,240,373</u>
Business-type activities, net	<u><u>\$ 23,318,401</u></u>	<u><u>\$ (900,600)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 22,417,801</u></u>

Depreciation/Amortization Expense by Function

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

Governmental activities	
General government	\$ 76,074
Public safety	143,438
Highways and streets	52,522
Maintenance	12,416
Parks and recreation	179,913
Total depreciation/amortization expense - governmental activities	<u>\$ 464,363</u>
Business-type activities	
Water	\$ 425,837
Sewer	458,490
Solid waste	22,553
Total depreciation/amortization expense - business-type activities	<u>\$ 906,880</u>

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

5. CHANGES IN CAPITAL ASSETS – CONTINUED

Open Commitments on Construction Projects

The City has construction projects as of September 30, 2014, as referenced below. The remaining amounts on those projects at year-end are as follows:

Project	Contract Amount	Expended to Date	Remaining Commitment
<i>Governmental Activities</i>			
Lance St. Pridgen St. Project	\$ 705,218	\$ 30,901	\$ 674,317
7th Street Sidewalk Project	20,457	19,686	771
Drainage project	98,513	2,974	95,539
Totals	<u>\$ 824,188</u>	<u>\$ 53,561</u>	<u>\$ 770,627</u>

6. PENSION PLAN

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 THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

6. PENSION PLAN – 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 on the following page.

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.

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:	Contribution Rates (10/1/13 - 6/30/14)	Contribution Rates (7/1/14 - 9/30/14)
Regular	9.95%	10.37%
Special Risk - Regular	22.06%	22.82%
Senior Management Service Class	21.31%	24.14%
Elected Officials	36.03%	46.24%
Deferred Retirement Option Plan (DROP)	12.84%	12.28%

The City's contributions for years ended September 30, 2014, 2013, and 2012 totaled \$248,171, \$212,802, and \$187,404, respectively, and are equal to the required contributions for the year. The covered payroll for the years ended September 30, 2014, 2013, and 2012 was \$2,397,284, \$2,682,017 and \$2,746,578, respectively.

CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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.

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.

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, 2014.

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.

9. LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

Long-term debt activity for the year ended September 30, 2014, is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Revenues bonds payable	\$ 1,482,692	\$ -	\$ (25,000)	\$ 1,457,692	\$ 26,000
Compensated absences	69,712	107,965	(90,531)	87,146	87,146
Total governmental activities	\$ 1,552,404	\$ 107,965	\$ (115,531)	\$ 1,544,838	\$ 113,146
Business-type activities					
Revenue bonds payable	\$ 27,651,224	\$ -	\$ (5,894,000)	\$ 21,757,224	\$ 588,537
Add unamortized bond issuance premium	28,782	-	(17,425)	11,357	-
Notes payable	4,501,237	5,327,500	(969,642)	8,859,095	1,144,465
Compensated absences	68,875	51,176	(57,983)	62,068	62,068
Total business-type activities	\$ 32,250,118	\$ 5,378,676	\$ (6,939,050)	\$ 30,689,744	\$ 1,795,070

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

9. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding

	Current	Long-Term	Total
GOVERNMENTAL ACTIVITIES			
<i>Revenue Bond Payable</i>			
<p>\$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.</p>	\$ 26,000	\$ 1,431,692	\$ 1,457,692
<i>Accrued Compensated Absences</i>			
<p>Total long-term portion of accumulated, vested annual and sick leave for governmental fund types</p>	87,146	-	87,146
TOTAL GOVERNMENTAL ACTIVITIES	\$ 113,146	\$ 1,431,692	\$ 1,544,838
BUSINESS-TYPE ACTIVITIES			
<i>Revenue Bonds</i>			
<p>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, 2014, 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.</p>	\$ 465,000	\$ 18,625,000	\$ 19,090,000
<p>Plus unamortized bond premium</p>	-	11,357	11,357
	465,000	18,636,357	19,101,357
<p>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.</p>	50,037	2,116,278	2,166,315

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

9. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	Current	Long-Term	Total
<i>Revenue Bonds - Continued</i>			
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.	73,500	427,409	500,909
Total revenue bonds	588,537	21,180,044	21,768,581
<i>Notes 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 obligators. 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.	789,465	2,944,130	3,733,595
Military Point Advanced Wastewater Treatment Facility. The interest rate is 3.31% per annum. The loans are collateralized by assets and the anticipated net system revenues of the MPAWTF. The note was used to defease Series 2004 Revenue Bonds.	355,000	4,770,500	5,125,500
Total notes payable	1,144,465	7,714,630	8,859,095
<i>Accrued Compensated Absences</i>			
Accumulated, vested annual compensation for Enterprise Funds	62,068	-	62,068
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 1,440,070	\$ 24,124,174	\$ 30,689,744
GRAND TOTAL LONG-TERM DEBT			\$ 32,234,582

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

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

9. LONG-TERM DEBT – CONTINUED

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding except accrued and annual leave as of September 30, 2014, are as follows:

Year Ending September 30	Governmental Activities		Business-Type Activities			
	Revenue Bonds		Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 26,000	\$ 63,757	\$ 588,535	\$ 1,102,942	\$ 1,144,465	\$ 272,142
2016	28,000	62,620	610,607	1,076,466	1,178,910	237,766
2017	29,000	61,395	633,308	1,048,229	1,213,994	202,349
2018	30,000	60,126	660,869	1,019,231	1,250,240	165,866
2019	31,000	58,813	2,581,027	922,427	842,485	128,287
2020-2024	179,000	272,279	3,353,409	4,000,540	2,232,000	397,468
2025-2029	221,000	229,580	4,120,000	3,082,550	997,001	50,528
2030-2034	274,000	176,905	5,310,000	1,888,950	-	-
2035-2039	340,000	111,410	3,899,469	416,325	-	-
2040-2043	299,692	31,598	-	-	-	-
Total	<u>\$ 1,457,692</u>	<u>\$ 1,128,483</u>	<u>\$ 21,757,224</u>	<u>\$ 14,557,660</u>	<u>\$ 8,859,095</u>	<u>\$ 1,454,406</u>

Defeasance

On June 17, 2014, the City and Bay County, Florida, defeased \$10,655,000 of outstanding 2004 refunding bonds by placing the proceeds of new debt (2014 Series Refunding Note Payable) in an irrevocable trust to provide for all future debt service payments on the 2004 refunding bonds. The liability for the new debt and the related bond proceeds and deferred loss were contributed to the Military Point Advanced Wastewater Treatment Facility by the City and Bay County, Florida. The 2004 refunding bonds were fully redeemed on September 1, 2014. The City is the obligor for one-half of the liability related to these refunding bonds. This transaction resulted in a total economic gain of \$651,743, of which \$325,872 is applicable towards the City.

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, 2014, totaled \$2,586,175.

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, 2014 totaled \$33,111,008.

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

11. INTERFUND TRANSFERS

The composition of interfund balances as of September 30, 2014, is as follows:

Transfers Out	Transfers In		Total
	Capital Projects Fund	Debt Service Fund	
General Fund	\$ 17,420	\$ 91,184	\$ 108,604

Transfers of \$91,184 out of the General Fund to the Debt Service Fund represent amounts for debt principal and interest payments. Transfers of \$17,420 out of the General Fund to the Capital Projects Fund represent amounts for capital outlay expenditures related primarily to software upgrades.

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 Bay County, Florida 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, 2014. 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, 2014, the City's portion of the equity of the venture was \$5,403,906. Complete financial statements for the joint venture, may be obtained from the operator at P.O. Box 2269, Panama City, Florida 32402.

As of September 30, 2014, the City owes the joint venture \$97,666, for transferred collection systems and a segregation line, and the joint venture owes the City \$576,207, 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 \$8,859,095 at September 30, 2014 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 \$8,859,095 at September 30, 2014.

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

12. JOINT VENTURE - CONTINUED

Condensed financial statements from the MPAWTF are as follows:

**Statement of Net Position
For the Year Ended September 30, 2014**

Assets		
Current assets		\$ 10,023,740
Noncurrent assets		<u>22,215,167</u>
Total assets		<u>32,238,907</u>
Deferred outflows		
Deferred loss on bond refunding		<u>985,671</u>
Liabilities		
Current liabilities		3,670,961
Noncurrent liabilities		<u>16,534,715</u>
Total liabilities		<u>20,205,676</u>
Net position		<u><u>\$ 13,018,902</u></u>

**Statement of Activities
For the Year Ended September 30, 2014**

Operating revenues		\$ 7,227,131
Operating expenses		<u>5,215,161</u>
Operating income		2,011,970
Non-operating revenues (expenses), net		<u>(812,508)</u>
Net income before distribution to owners		1,199,462
Distribution to owners		<u>1,761,098</u>
Change in net position		(561,636)
Net position, beginning of year, as restated		<u>13,580,538</u>
Net position, end of year		<u><u>\$ 13,018,902</u></u>

The City of Callaway's investment in joint venture decreased in the amount of \$325,213, derived as follows:

Share of net income		\$ 649,146
Restatement		(183,902)
Distribution to owners		(518,619)
Increase in reserve requirements		<u>(271,838)</u>
Decrease in investment in joint venture		<u><u>\$ (325,213)</u></u>

**CITY OF CALLAWAY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014**

13. COMMITMENTS AND CONTINGENCIES

Dispute over Emergency Repairs

The City and Bay County, Florida are engaged in a pre-suit dispute resolution process that is currently in mediation. The dispute involves emergency repairs made to a sewer lift station that is part of the operation MPAWTF. MPAWTF is operated by Bay County, Florida. Bay County, Florida has presented an invoice of \$469,259 to the City for the repairs; however the City has not recorded this liability as it does not believe it is responsible for these repair costs. Any potential liability to the City as of the date this report is not determinable since it is dependent on the outcome of mediation.

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 ending 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.

14. CHANGE IN ACCOUNTING PRINCIPLE - RESTATEMENT OF NET POSITION

The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), effective for reporting periods beginning after December 15, 2012. The statement amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The impact of the City's adoption of GASB 65 in 2014 requires the City to restate the beginning net position in the business-type activities statement of activities and the proprietary funds statement of revenues, expenses, and changes in net position in the amount of the deferred charges related to debt issuance costs of previously issued bonds payable. The City's beginning net position was decreased \$1,088,215, restated to \$21,262,120, and resulted in the removal of bond issuance costs, previously reported as an asset.

15. UPCOMING GASB PRONOUNCEMENT TO BE ADOPTED

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.68 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, 2014 was funded at 86.6%. The City will be required to record its proportionate share of the unfunded liability, if such liability exists, with the adoption of these statements.

16. SUBSEQUENT EVENTS

City Commission approved a contract for water system radio read meters in December 2014. The final contract amount is \$1,682,483.

**CITY OF CALLAWAY, FLORIDA
GENERAL FUND
SCHEDULE OF EXPENDITURES BY DEPARTMENT -
BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Legislative	\$ 83,354	\$ 47,526	\$ 29,634	\$ 17,892
Executive	193,103	60,699	61,005	(306)
Financial and administrative	141,691	56,904	56,129	775
Legal counsel	85,000	37,172	64,027	(26,855)
Comprehensive planning and code enforcement	283,102	283,102	243,561	39,541
Other general governmental services	339,021	266,836	246,776	20,060
Law enforcement	1,346,026	1,346,026	1,345,898	128
Fire control	852,624	852,624	851,482	1,142
Highways and streets	978,795	906,997	669,377	237,620
Maintenance	193,930	112,604	116,700	(4,096)
Leisure services	659,231	659,231	613,422	45,809
TOTAL GENERAL FUND EXPENDITURES BY DEPARTMENT	<u>\$ 5,155,877</u>	<u>\$ 4,629,721</u>	<u>\$ 4,298,011</u>	<u>\$ 331,710</u>

**CITY OF CALLAWAY, FLORIDA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2014**

	<u>Special Revenue Fund</u>			Total Nonmajor Governmental Funds
	<u>Community Redevelopment</u>	<u>Capital Projects</u>	<u>Debt Service</u>	
ASSETS				
Cash and cash equivalents	\$ 118,577	\$ -	\$ -	\$ 118,577
Due from other governments	-	55,025	-	55,025
TOTAL ASSETS	<u>\$ 118,577</u>	<u>\$ 55,025</u>	<u>\$ -</u>	<u>\$ 173,602</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 1,019	\$ 7,224	\$ -	\$ 8,243
Due to other funds	675	47,801	-	48,476
Total liabilities	<u>1,694</u>	<u>55,025</u>	<u>-</u>	<u>56,719</u>
Fund balance				
Restricted Redevelopment	<u>116,883</u>	<u>-</u>	<u>-</u>	<u>116,883</u>
Total fund balances	<u>116,883</u>	<u>-</u>	<u>-</u>	<u>116,883</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 118,577</u>	<u>\$ 55,025</u>	<u>\$ -</u>	<u>\$ 173,602</u>

**CITY OF CALLAWAY, FLORIDA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Special Revenue Fund</u>			Total Nonmajor Governmental Funds
	<u>Community Redevelopment</u>	<u>Capital Projects</u>	<u>Debt Service</u>	
REVENUES				
Taxes	\$ 15,409	\$ -	\$ -	\$ 15,409
Intergovernmental	14,523	260,589	-	275,112
Miscellaneous	14	-	-	14
Total revenues	<u>29,946</u>	<u>260,589</u>	<u>-</u>	<u>290,535</u>
EXPENDITURES				
Current				
General government	19,615	-	-	19,615
Capital outlay	-	273,163	-	273,163
Debt service				
Principal	-	-	25,000	25,000
Interest	-	-	66,184	66,184
Total expenditures	<u>19,615</u>	<u>273,163</u>	<u>91,184</u>	<u>383,962</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>10,331</u>	<u>(12,574)</u>	<u>(91,184)</u>	<u>(93,427)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	17,420	91,184	108,604
NET CHANGE IN FUND BALANCE	10,331	4,846	-	15,177
FUND BALANCE AT BEGINNING OF YEAR	<u>106,552</u>	<u>(4,846)</u>	<u>-</u>	<u>101,706</u>
FUND BALANCE AT END OF YEAR	<u>\$ 116,883</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,883</u>

**CITY OF CALLAWAY, FLORIDA
COMMUNITY REDEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 15,409	\$ 15,409	\$ 15,409	\$ -
Intergovernmental	24,997	24,997	14,523	(10,474)
Miscellaneous	87	87	14	(73)
Total revenues	<u>40,493</u>	<u>40,493</u>	<u>29,946</u>	<u>(10,547)</u>
EXPENDITURES				
Current				
General government	<u>40,493</u>	<u>40,493</u>	<u>19,615</u>	<u>20,878</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>10,331</u>	<u>10,331</u>
NET CHANGE IN FUND BALANCE	-	-	10,331	10,331
FUND BALANCE AT BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>106,552</u>	<u>106,552</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 116,883</u></u>	<u><u>\$ 116,883</u></u>

**CITY OF CALLAWAY, FLORIDA
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 260,589	\$ 260,589
EXPENDITURES				
Capital outlay	-	-	273,163	(273,163)
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>-</u>	<u>-</u>	<u>(12,574)</u>	<u>(12,574)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	17,420	17,420
NET CHANGE IN FUND BALANCE	-	-	4,846	4,846
FUND BALANCE AT BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>(4,846)</u>	<u>(4,846)</u>
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF CALLAWAY, FLORIDA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Miscellaneous	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Debt service				
Principal	25,000	25,000	25,000	-
Interest	83,570	83,570	66,184	17,386
Total expenditures	<u>108,570</u>	<u>108,570</u>	<u>91,184</u>	<u>17,386</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(108,570)</u>	<u>(108,570)</u>	<u>(91,184)</u>	<u>17,386</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>108,570</u>	<u>108,570</u>	<u>91,184</u>	<u>(17,386)</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE AT BEGINNING OF YEAR	-	-	-	-
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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.

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>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>	<u>2014</u>
Governmental activities										
Net investment in capital assets	\$ 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	\$ 7,359,067
Restricted	-	-	-	-	98,312	119,116	439,994	250,830	283,579	355,519
Unrestricted	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	3,249,838
Total governmental activities net assets	<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>	<u>\$ 10,964,424</u>
Business-type activities										
Net investment in capital assets	\$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	\$ 4,381,434
Restricted	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	4,297,483
Unrestricted	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	13,109,621
Total business-type activities net assets	<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>	<u>\$ 21,788,538</u>
Primary government										
Net investment in capital assets	\$ 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	\$ 11,740,501
Restricted	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	4,653,002
Unrestricted	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	16,359,459
Total primary government net assets	<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>	<u>\$ 32,752,962</u>

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

FINANCIAL TRENDS - Table 2

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities										
General government	\$ 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	\$ 797,130
Public safety	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	2,340,818
Highways and streets	1,108,681	1,110,675	1,044,888	1,217,346	1,131,209	918,502	725,828	864,132	869,349	721,899
Maintenance	110,487	129,386	157,516	172,458	164,932	166,980	156,977	117,596	117,759	129,116
Economic environment	-	-	-	-	-	-	316,056	433,436	-	-
Parks and recreation	618,329	746,788	891,384	943,321	935,027	905,750	858,207	839,514	810,040	785,034
Interest on long-term debt	105,963	91,070	71,421	118,029	146,045	154,141	143,685	133,574	112,647	80,112
Total governmental activities expenses	<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>	<u>4,854,109</u>
Business-type activities										
Water	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	2,992,779
Sewer	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	4,173,902
Solid waste	398,035	508,373	472,302	477,296	401,935	408,089	420,763	496,297	578,697	547,459
Total business-type activities expenses	<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>	<u>7,714,140</u>
Total primary government expenses	<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>	<u>\$ 12,568,249</u>
Program Revenues										
Governmental activities										
Charges for services										
General government	\$ 129,034	\$ 127,626	\$ 144,299	\$ 140,517	\$ 136,832	\$ 109,118	\$ 143,777	\$ 182,801	\$ 179,349	\$ 163,791
Public safety	57,068	74,132	74,132	77,839	93,416	90,108	94,613	99,344	104,311	109,527
Highways and streets	-	-	-	-	12,813	8,799	-	-	5,866	32,263
Parks and recreation	2,500	2,510	29,887	40,519	34,203	40,567	41,157	36,676	43,511	58,652
Operating grants and contributions	-	-	-	-	-	-	319,215	434,915	3,936	39,644
Capital grants and contributions	129,211	-	-	-	317,500	-	18,735	235,093	53,902	256,459
Total governmental activities program revenues	<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>	<u>660,336</u>
Business-type activities										
Charges for services										
Water	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	2,374,145
Sewer	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	4,297,429
Solid waste	440,574	413,017	424,797	535,519	553,196	558,376	554,724	555,626	559,394	573,013
Operating grants and contributions	-	-	3,694	-	-	154,176	151,146	-	-	-
Capital grants and contributions	-	-	-	-	-	-	-	314,961	1,426,988	121,718
Total business-type activities program revenues	<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>	<u>7,366,305</u>
Total primary government program revenues	<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>	<u>\$ 8,026,641</u>

Continued...

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

FINANCIAL TRENDS - Table 2

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net (Expenses) Revenues										
Governmental activities	\$ (4,299,190)	\$ (4,859,557)	\$ (5,379,330)	\$ (5,795,080)	\$ (5,464,129)	\$ (5,667,132)	\$ (5,016,777)	\$ (4,460,414)	\$ (4,460,414)	\$ (4,193,773)
Business-type activities	1,856,543	5,200,244	1,002,210	306,037	931,337	373,322	(121,848)	(882,641)	(882,641)	(347,835)
Total primary government net expense	<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>\$ (5,343,055)</u>	<u>\$ (4,541,608)</u>
General Revenues and Other Changes in Net Assets										
Governmental activities										
Taxes										
Utility	\$ 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	\$ 1,622,733
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	1,022,354
Franchise taxes**	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	29,932
Local option gas tax	251,418	251,277	248,106	242,438	252,604	257,779	210,226	205,119	257,743	238,607
Half cent sales tax	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	1,162,322
Intergovernmental	664,670	733,985	585,862	538,737	533,331	619,134	535,787	541,797	562,553	584,089
Total taxes	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	4,660,037
Miscellaneous revenues	476,728	100,743	82,032	170,120	45,053	38,804	38,318	63,227	81,728	28,806
Interest earnings	55,495	97,535	124,401	140,079	65,294	18,226	4,855	4,872	4,180	4,084
Special Item	-	-	-	-	-	-	-	-	575,000	-
Transfers	100,000	150,000	180,000	185,000	185,000	151,500	-	-	-	-
Total governmental activities	<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>	<u>4,692,927</u>
Business-type activities										
Interest earnings	137,894	223,026	337,350	768,681	186,808	182,842	76,547	91,661	130,178	48,840
Miscellaneous revenues	-	7,674	1,349	(145,218)	(118,740)	420,999	409,220	548,179	23,927	11,652
Transfers	(100,000)	(150,000)	(180,000)	(185,000)	(185,000)	(151,500)	-	-	-	-
Franchise taxes**	-	-	-	-	-	-	-	-	-	813,761
Total business-type activities	<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>	<u>874,253</u>
Total primary government	<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>	<u>\$ 5,567,180</u>
Change in Net Assets										
Governmental activities	\$ 1,022,144	\$ 614,630	\$ 131,124	\$ 117,175	\$ 284,124	\$ 21,016	\$ 410,432	\$ 772,943	\$ 1,182,328	\$ 499,154
Business-type activities	1,894,437	5,280,944	1,160,909	744,500	814,405	825,663	363,919	(242,801)	1,170,942	526,418
Total primary government	<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>	<u>\$ 1,025,572</u>

* Formerly included in General Government Program Revenues as Occupational Licenses

** Recorded in Business-Type activities in fiscal year 2014.

FINANCIAL TRENDS - Table 3

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

	<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>	<u>2014</u>
Function/Program										
Governmental activities										
General government	\$ 129,034	\$ 127,626	\$ 144,299	\$ 140,517	\$ 136,832	\$ 109,118	\$ 143,777	\$ 182,801	\$ 179,349	\$ 163,791
Public safety	57,068	74,132	74,132	77,839	93,416	90,108	94,613	99,344	104,311	109,527
Highways and streets	-	-	-	-	12,813	8,799	-	-	5,866	32,263
Parks and recreation	2,500	2,510	29,887	40,519	34,203	40,567	41,157	36,676	43,511	58,652
Grants and contributions	129,211	-	-	-	317,500	-	337,950	670,008	57,838	296,103
Subtotal governmental activities	<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>	<u>660,336</u>
Business-type activities										
Water	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	2,374,145
Sewer	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	4,297,429
Solid waste	440,574	413,017	424,797	535,519	553,196	558,376	554,724	555,626	559,394	573,013
Grants and contributions	-	-	3,694	-	-	154,176	151,146	314,961	1,426,988	121,718
Subtotal business-type activities	<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>	<u>7,366,305</u>
Total primary government	<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>	<u>\$ 8,026,641</u>

FINANCIAL TRENDS - Table 4

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

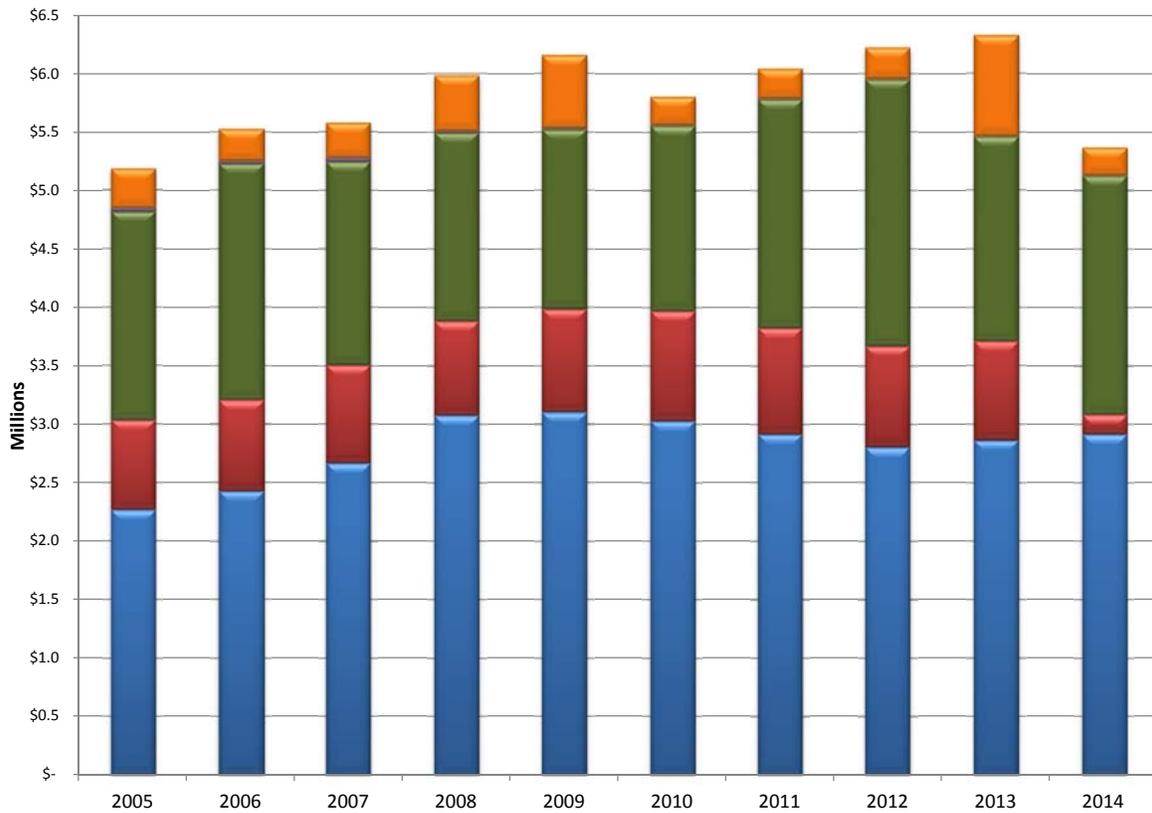
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
Nonspendable	\$ 76,869	\$ 152,009	\$ 108,168	\$ 113,919	\$ 174,380	\$ 187,221	\$ 135,645	\$ 139,541	\$ 171,564	\$ 63,869
Restricted	-	-	-	-	98,312	126,232	147,288	159,130	177,027	238,636
Committed	27,469	51,583	42,049	64,605	34,227	7,116	19,251	90,425	169,601	247,405
Assigned	-	-	-	-	-	-	-	645,528	-	488,289
Unassigned	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	2,542,487
Total General Fund	<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>	<u>3,580,686</u>
Community Redevelopment Fund										
Restricted	-	-	-	210,108	259,529	245,015	292,706	91,700	106,552	116,883
Other Governmental Funds										
Assigned, reported in										
Debt Service	-	-	-	-	-	-	-	-	-	-
Capital Projects	1,781	-	-	1,153,036	-	-	-	-	-	-
Unassigned, reported in										
Capital Projects	-	-	-	-	-	-	-	-	(4,846)	-
Total Other Governmental Funds	<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>	<u>-</u>
TOTAL GOVERNMENTAL FUNDS	<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>	<u>\$ 3,697,569</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

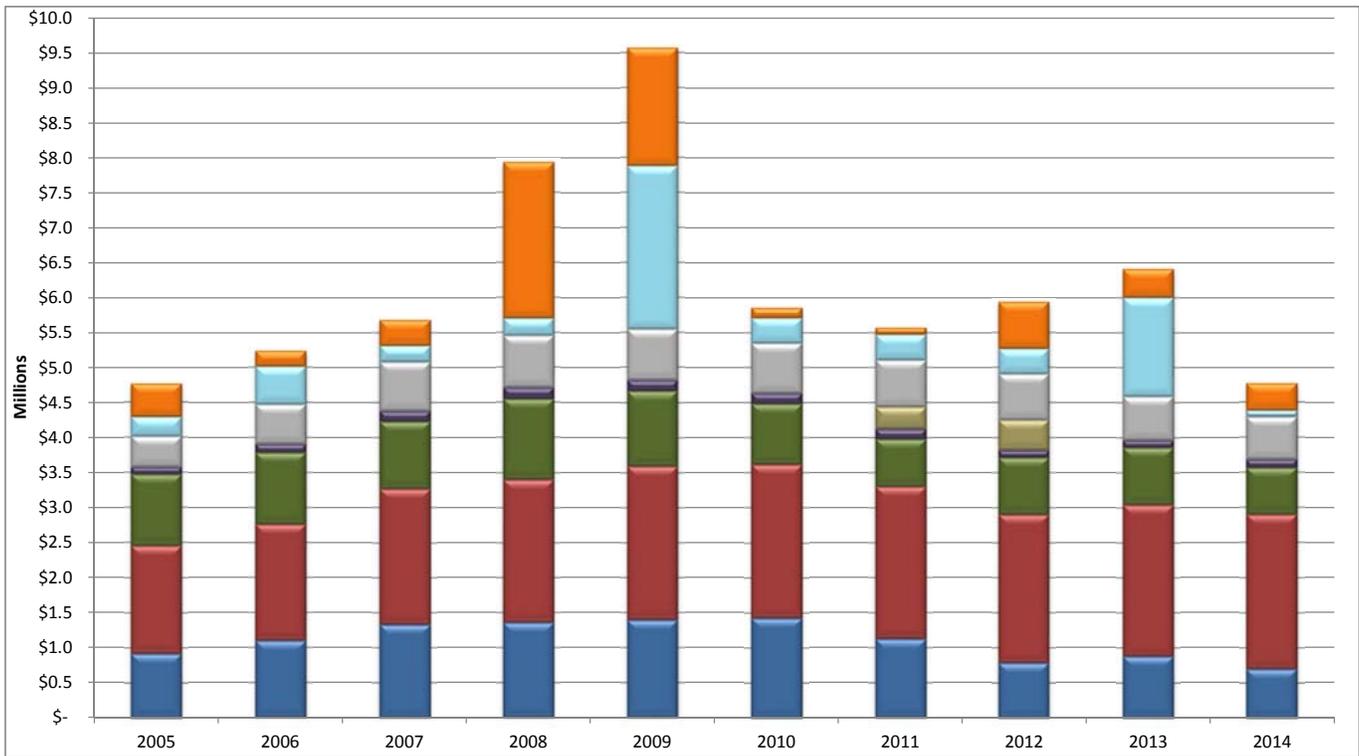
FYE Sept. 30	Taxes	Licenses, Fees and Permits	Inter- Governmental	Fines and Forfeitures	Debt Service	Charges for Services and Misc.	Total
2005	2,268,419	766,412	1,783,145	29,113	-	337,853	5,184,942
2006	2,429,402	778,766	2,021,088	20,336	-	274,397	5,523,989
2007	2,668,730	838,938	1,739,762	31,685	-	300,255	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	2,863,785	848,470	1,749,675	3,672	-	862,978	6,328,580
2014	2,917,353	168,781	2,042,379	2,685	-	238,356	5,369,554



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	Maintenance	Economic Environment	Parks and Recreation	Debt Service	Capital Outlay	Total
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
2014	703,622	2,197,380	669,377	116,700	-	605,121	91,184	388,589	4,771,973



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

	<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>	<u>2014</u>
Revenues over (under) expenditures	\$ 495,229	\$ 288,127	\$ (109,893)	\$ (2,026,115)	\$ (3,481,787)	\$ (55,374)	\$ 469,455	\$ 285,222	\$ (88,200)	\$ 597,581
Other financing sources (uses)										
State grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers in	366,833	707,572	541,757	3,482,548	2,970,426	514,419	363,000	375,516	1,495,964	108,604
Transfer out to Capital Projects Fund	-	(18,344)	(129,778)	(2,972,829)	(381,791)	-	-	-	-	(17,420)
Transfer out to Debt Service Fund	(266,833)	(539,228)	(231,979)	(248,390)	(2,335,525)	(362,919)	(363,000)	(375,516)	(1,495,964)	(91,184)
Proceeds from long-term financing	275,000	-	-	2,444,500	2,000,000	-	-	-	-	-
Total other financing sources (uses)	<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>	<u>-</u>
Net change in fund balances	<u>\$ 870,229</u>	<u>\$ 438,127</u>	<u>\$ 70,107</u>	<u>\$ 679,714</u>	<u>\$ (1,228,677)</u>	<u>\$ 96,126</u>	<u>\$ 469,455</u>	<u>\$ 285,222</u>	<u>\$ (88,200)</u>	<u>\$ 597,581</u>
Debt service amounts included in expenditures										
Principal	\$ 168,654	\$ 448,158	\$ 170,300	\$ 174,745	\$ 2,157,044	\$ 208,778	\$ 219,565	\$ 230,449	\$ 1,289,757	\$ 25,000
Interest	105,963	91,070	61,679	73,645	178,481	154,141	143,435	132,589	120,443	66,184
	<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>	<u>\$ 91,184</u>
		(see note)			(see note)				(see note)	
Debt Service as a % of noncapital expenditures	6.4%	10.7%	4.4%	4.6%	29.6%	6.8%	7.1%	6.9%	23.5%	2.0%

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

	<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>	<u>2014</u>
Utility Tax	\$ 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	\$ 1,622,733
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	1,052,286
Franchise Tax*	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	18,250
Local Option Gas Tax	251,418	251,277	248,106	242,438	252,604	257,779	210,226	205,119	257,743	238,607
1/2 cent Sales Tax	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	1,162,322
Intergovernmental	664,670	733,985	585,862	538,737	533,331	619,134	535,787	541,797	562,553	584,089
Total Tax Revenues	<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>	<u>\$ 4,678,287</u>

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.

*Recorded as Enterprise Fund revenue in fiscal year 2014.

**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 Ten Fiscal Years

<u>Fiscal Year Ended September 30</u>	<u>Assessed Value</u>			<u>Less Tax-Exempt Property</u>	<u>Net Taxable Value</u>	<u>Total Direct Tax Rate</u>	<u>Taxable Assessed Value as % of Tax Rate</u>
	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Property</u>				
2005	\$ 486,161	\$ 19,181	\$ 505,342	\$ (150,431)	\$ 354,911	\$ 2.00	70.23%
2006	575,551	19,181	594,732	(183,873)	410,859	2.00	69.08%
2007	762,706	19,051	781,757	(256,217)	525,540	2.00	67.23%
2008	907,839	19,102	926,941	(312,888)	614,053	2.00	66.25%
2009	900,806	22,158	922,964	(357,965)	564,999	2.25	61.22%
2010	852,463	23,224	875,687	(332,324)	543,363	2.25	62.05%
2011	708,617	22,178	730,795	(202,886)	527,909	2.25	72.24%
2012	680,357	20,765	701,122	(199,391)	501,731	2.25	71.56%
2013	664,687	19,248	683,935	(199,458)	484,477	2.25	70.84%
2014	652,278	20,909	673,187	(198,500)	474,686	2.25	70.51%

Source: Bay County Property Appraiser

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>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>	<u>2014</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	\$ 4.1620	\$ 3.7915	\$ 3.6500	\$ 3.6500	\$ 3.6500	\$ 3.6500	\$ 3.6500	\$ 3.6500	\$ 4.6500
Mosquito Control	0.1852	0.1852	0.1525	0.1525	0.1525	0.1525	0.1525	0.1525	0.1525	0.2000
Total Overlapping Rate for Bay County	\$ 5.8472	\$ 4.3472	\$ 3.9440	\$ 3.8025	\$ 4.8500					
Bay County School Districts	\$ 7.9350	\$ 6.8080	\$ 6.4710	\$ 6.7630	\$ 7.6230	\$ 7.4030	\$ 7.1180	\$ 6.8580	\$ 6.7610	\$ 6.8890
NWFL Water Mgmt. District	\$ 0.0500	\$ 0.0500	\$ 0.0450	\$ 0.0450	\$ 0.0450	\$ 0.0045	\$ 0.0040	\$ 0.0040	\$ 0.0040	\$ 0.0390

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 Ten Years Ago*

<u>Taxpayer</u>	<u>2014</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 East, LP	\$ 8,912	1	1.90%	\$ 8,275	1	2.01%
HCI Bridge Harbor, LLC	7,104	2	1.51%			
Avenue 12 Holdings, LP	4,402	3	0.94%			
Pine Terrace Investors, LLC	3,338	4	0.71%			
Value Place PC FL E-Callaway	3,279	5	0.70%			
SHRI Ganesh Enterprises, Inc.	3,238	6	0.69%			
P & N Callaway, LLC	2,711	7	0.58%	1,929	8	0.47%
Regions Bank	2,668	8	0.57%			
Formation Portfolio I, LLC	2,484	9	0.53%	2,937	4	0.71%
RBC Real Estate Finance	2,369	10	0.50%			
PCB East Bay				5,024	2	1.22%
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>\$ 40,505</u>		<u>8.63%</u>	<u>\$ 31,192</u>		<u>7.59%</u>
Total Taxable Value	<u>\$ 469,196</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

City of Callaway, Florida
PROPERTY TAX LEVIES AND COLLECTIONS (UNAUDITED) REVENUE CAPACITY - Table 12
Last Ten Fiscal Years*

City's Fiscal Year	Tax Year	Taxes Levied for the Fiscal Year* (Original Levy)			Collected within the Fiscal Year of the Levy**			Total Collections to Date		
		Original Levy	Adjustments	Total Adjusted Levy	Amount	% of Original Levy	Collections in Subsequent Years	Amount	% of Original Levy	
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	96%	2,278	1,090,548	96%	
2013	2012	1,099,906	(9,907)	1,089,999	1,053,971	96%	2,422	1,056,393	96%	
2014	2013	1,070,631	1,937	1,072,568	1,033,239	97%	4,747	1,037,986	97%	

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 mils. 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 Ten Fiscal Years

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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	\$ 2,286,867
Connection, reset and reactivation fees	14,376	16,770	16,945	18,816	20,590	19,970	30,242	28,851	23,906	34,210
Late fees	37,527	40,007	43,266	46,402	49,658	51,519	48,250	47,774	45,814	45,438
Tap fees	4,981	6,506	7,916	3,950	2,760	2,528	1,850	680	700	560
Other utility income	40,630	32,449	49,901	22,092	14,679	11,312	22,908	18,614	4,831	3,611
Miscellaneous income	-	750	-	765	7,949	9,509	8,999	4,624	10,052	3,458
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>	<u>\$ 2,374,144</u>
Average # of Meters 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>	<u>\$ 9,276</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>	<u>\$ 438,174</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>	<u>\$ 3,936</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	\$ 11.37
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	3.81
Base Rate Charge Outside City Limits	9.23	9.46	10.15	11.68	12.56	12.87	13.19	13.52	13.86	14.21
Usage Fee per 1,000 Gallons Outside City Limits	3.10	3.18	3.40	3.91	4.21	4.32	4.43	4.54	4.65	4.76

** 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 Ten Fiscal Years

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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	\$ 4,039,891
Connection, reset and reactivation fees	800	-	210	17,545	17,984	18,207	19,229	20,303	20,097	19,029
Late fees	63,399	70,801	74,572	82,586	86,666	89,461	85,624	80,888	78,518	81,024
Tap fees	8,100	11,693	2,937	4,902	2,950	2,243	2,450	400	1,240	200
Miscellaneous income	2,470	5,999	502	254	1,373	3,374	11,553	3,908	5,499	2,965
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>	<u>\$ 4,143,109</u>
Average # of Meters 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>	<u>\$ 7,517</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>	<u>\$ 376,741</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>	<u>\$ 4,177</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	\$ 32.69
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	3.97
Base Rate Charge Outside City Limits	29.89	30.64	30.64	35.24	36.11	37.02	37.95	38.89	39.86	40.86
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	4.96

* 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			
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
2014	1,457,692	-	-	21,757,224	-	8,859,095	32,074,011	0.48%	2,238

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.

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>
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
2014	1,457,692	14,332	101.71

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

*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.

DEBT CAPACITY - Table 17

**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	
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%
2014	N/A	N/A	45,551	45,551	465,000	974,517	1,439,517	3%

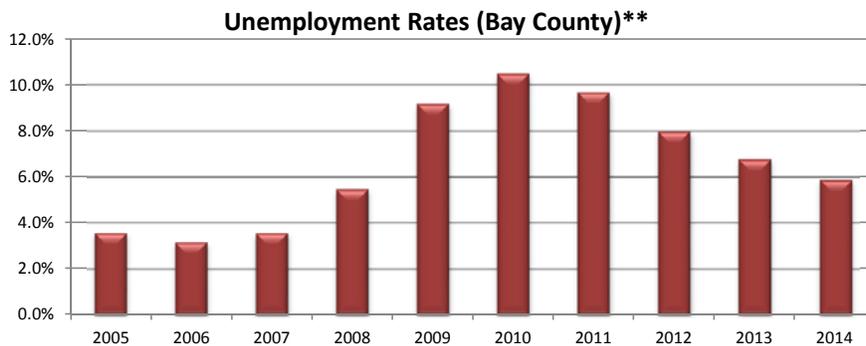
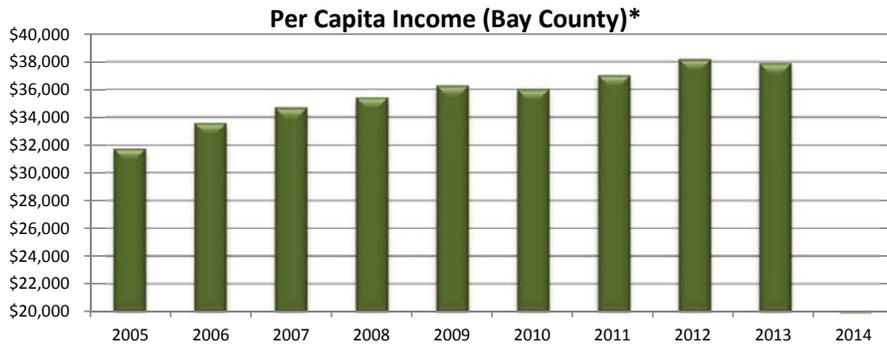
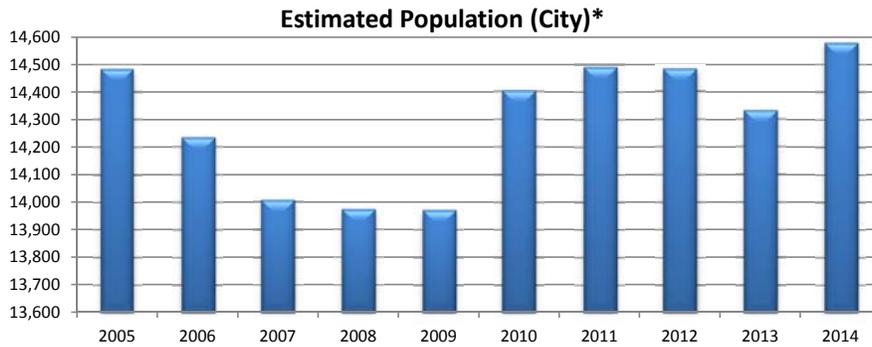
Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

- (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)**
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	14,332	169,866	6,634,581	37,915	6.8%
2014	14,581	170,781	NA	NA	5.9%



* Source: Florida Legislature Office of Economic and Demographic Research

** Source: Bureau of Labor Statistics

N/A - Information not yet available

DEMOGRAPHIC AND ECONOMIC INFORMATION – Table 19

**City of Callaway, Florida
MISCELLANEOUS STATISTICAL 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	5,333 (Source: U.S. Census Bureau, 2009-2013 five year American Community Survey)	
Elections	Registered Voters – 8,604 (Source: Bay County Supervisor of Elections Office)	
Population	<p>Total Population - 14,405 (U.S. Census Bureau, 2010 Census)</p> <p>Estimated population as of 4/1/14 – 14,581 (The Florida Legislature Office of Economic & Demographic Research)</p>	

DEMOGRAPHIC AND ECONOMIC INFORMATION – Table 19

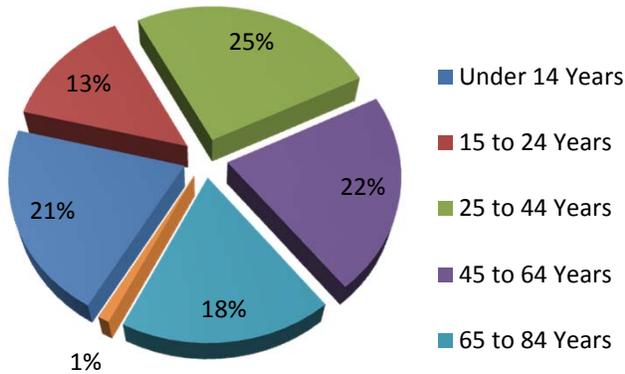
**City of Callaway, Florida
MISCELLANOUS STATISTCAL DATA (UNAUDITED)**

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 companies which are permitted 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>

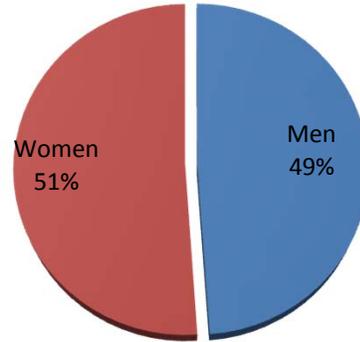
DEMOGRAPHIC AND ECONOMIC INFORMATION – Table 19

**City of Callaway, Florida
MISCELLANEOUS STATISTICAL DATA (UNAUDITED)**

Total Population by Age

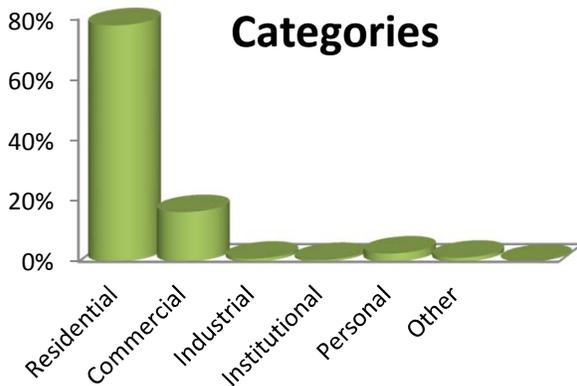


Total Population by Gender



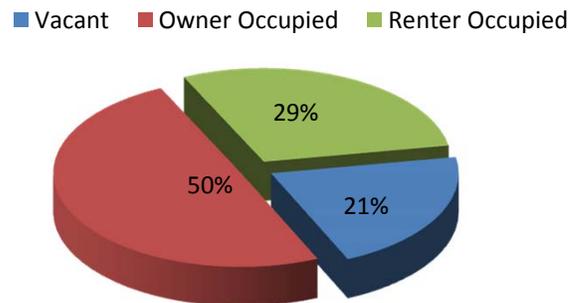
Source: U.S. Census - 2009-2013 American Community Survey 5-Year Estimates

Callaway Real Property Categories



Source: Florida Department of Revenue

Callaway Residential Housing Units



Source: U.S. Census - 2009-2013 American Community Survey 5-Year Estimates

DEMOGRAPHIC AND ECONOMIC INFORMATION - Table 20

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

<u>Taxpayer</u>	<u>2014</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	75	3	3.71%			
City of Callaway	68	4	3.36%	86	3	4.25%
Days Inn	65	5	3.21%			
McDonald's (Tyndall Pkwy)	56	6	2.77%			
Applebee's	52	7	2.57%	56	4	2.77%
Sonny's BBQ	40	8	1.98%			
Sonic	38	9	1.88%	30	9	1.48%
BCL Civil Contractors	37	10	1.83%			
Dairy Queen	37	10	1.83%			
Waste Management				40	7	1.98%
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>944</u>		<u>46.64%</u>	<u>853</u>		<u>42.14%</u>
Total City Employment*	<u>2,024</u>			<u>2,024</u>		

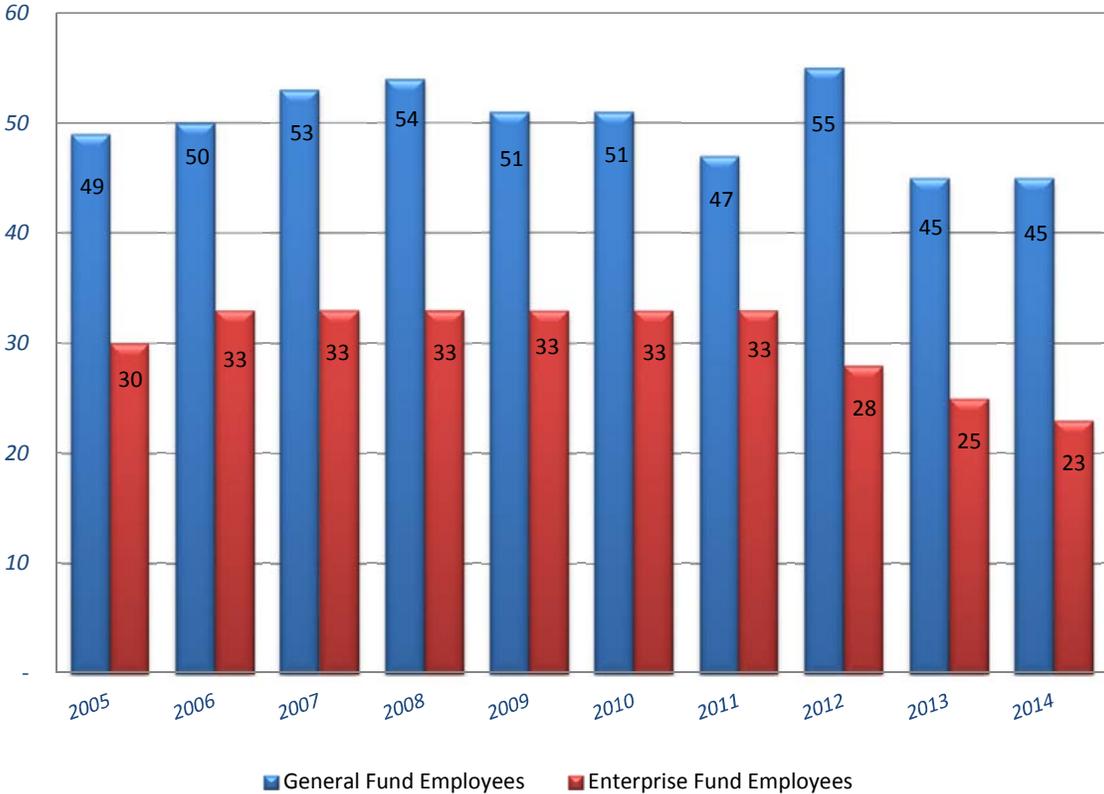
Source: As reported to City on Business License Tax Applications

*U.S. Census Bureau for 2007

**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>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>	<u>2014</u>
General Government	12	12	14	14	14	14	13	16	15	14
Fire	13	13	14	14	15	15	13	15	13	12
Streets	13	13	13	13	9	9	9	13	9	9
Maintenance	3	3	3	3	3	3	3	3	3	3
Parks & Recreation	8	9	9	10	10	10	9	8	5	7
Water	11	13	14	13	13	13	13	12	10	8
Sewer	13	14	13	14	15	15	16	11	10	10
Solid Waste	6	6	6	6	5	5	4	5	5	5
Total	79	83	86	87	84	84	80	83	70	68

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 Nine Fiscal Years**

Function/Program	Fiscal Year								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government									
Building Permits Issued (including New, Remodels and Additions)	114	91	73	42	25	34	26	57	39
Business Licenses Issued	389	484	381	292	331	324	395	397	354
Police									
Sworn Deputies	15	15	15	16	16	16	16	16	16
Calls for Service	12,852	13,084	13,009	13,707	13,457	12,715	12,662	10,737	12,914
Citations & Infractions	1,207	1,373	680	606	1,600	307	338	291	920
Arrests	879	1,116	905	932	687	833	940	785	2,257
Fire									
Full-time Certified Firefighters	13	14	14	14	15	14	15	13	15
Firefighters also Certified as EMT or Paramedic	4	7	11	12	12	14	14	13	12
Emergency Responses	501	522	680	1,182	1,457	1,437	1,700	2,069	2,531
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	6
Recreational (sports) Facilities	2	2	2	2	2	2	2	2	2
Conference/Community Centers	2	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	13,706
Water									
Average number of meters per month	7,461	7,584	7,627	7,773	7,796	7,822	7,930	8,077	9,276
Total annual gallons billed (in thousands)	512,897	503,159	464,036	455,789	429,046	445,939	409,319	391,721	438,174
Base Rate Charge*	\$ 7.57	\$ 8.12	\$ 9.34	\$ 10.05	\$ 10.30	\$ 10.56	\$ 10.82	\$ 11.09	\$ 11.37
Usage fee per 1,000 gallons*	\$ 2.54	\$ 2.72	\$ 3.13	\$ 3.37	\$ 3.45	\$ 3.54	\$ 3.63	\$ 3.72	\$ 3.81
Sewer									
Average number of meters per month	6,083	6,173	6,193	6,292	6,333	6,359	6,451	6,546	7,517
Total annual gallons billed (in thousands)	411,957	399,695	381,922	378,549	359,955	356,329	345,258	354,608	376,741
Base Rate Charge*	\$ 24.51	\$ 24.51	\$ 28.19	\$ 28.89	\$ 29.61	\$ 30.35	\$ 31.11	\$ 31.89	\$ 32.69
Usage fee per 1,000 gallons*	\$ 2.97	\$ 2.97	\$ 3.42	\$ 3.51	\$ 3.60	\$ 3.69	\$ 3.78	\$ 3.87	\$ 3.97
Solid Waste									
Average number of customers per month	5,744	5,815	5,820	5,896	5,916	5,928	5,929	5,926	5,427
Total annual tonnage (hailed to landfill and grinder)	8,006	4,896	3,475	4,590	6,372	4,397	4,716	5,148	NA
Rate of Flat Monthly Fee*	\$ 5.65	\$ 5.65	\$ 7.35	\$ 7.54	\$ 7.54	\$ 7.73	\$ 7.92	\$ 7.92	\$ 7.92

Sources: Various City departments.

NA - Not Available

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

OPERATING INFORMATION - Table 23

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

Function/Program	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government										
Administration Building (City Hall)	1	1	1	1	1	1	1	1	1	1
Modular Office Building (Planning)	-	-	-	1	1	1	1	1	1	1
Records Storage Building	1	1	1	1	1	1	1	1	1	1
Laserfiche Records System	1	1	1	1	1	1	1	1	1	1
Computer File Server	1	1	2	2	2	2	2	3	3	3
Video Surveillance System	-	-	-	-	-	-	1	1	1	1
Public Safety										
Fire Station w/crew quarters & equip. bays	1	1	1	1	1	1	1	1	1	1
Fire Engines	4	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	1
Law Enforcement Sub-station (office)	1	1	1	1	1	1	1	1	1	1
Law Enforcement Patrol Units (equipped)*	14	15	15	15	15	19	16	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	84.1
Street Lights	60	61	61	60	72	72	73	73	73	73
Traffic Signals	9	9	9	9	9	9	9	9	9	9
Maintenance										
Shop Building	1	1	1	1	1	1	1	1	1	1
Service Truck	1	1	1	1	1	1	1	1	1	1
Fuel Inventory/Usage Tracking System	1	1	1	1	1	1	1	1	1	1
Fuel Tanks (above ground)	2	2	2	2	2	2	2	2	2	2
Parks & Recreation										
Public Parks	6	6	6	6	6	6	6	6	6	6
Community/Conference Centers	2	2	2	2	2	2	2	2	2	2
Boat Ramp	1	1	1	1	1	1	1	1	1	1
Baseball/Softball Fields	8	10	10	10	10	10	10	10	10	10
Football/Soccer Fields	5	5	5	7	7	7	7	7	7	7
Tennis Courts	2	2	2	2	2	2	2	2	2	2
Basketball Court	1	1	1	1	1	1	1	1	1	1
Walking Trails	3	3	3	3	4	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	8,077
Auto-read meters included						1,048	1,050	1,265	1,320	1,769
Active Fire Hydrants (approx.)	350	350	400	396	418	470	470	470	470	675
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	2.13812
Lift stations in city	32	32	33	33	33	35	37	37	37	37
Vac-Con Trucks	2	2	2	2	2	2	2	2	2	2
Cues Camera-Equipped Truck	1	1	2	2	2	1	1	1	1	1
Solid Waste										
Trash Collection Trucks	3	4	4	4	4	4	4	4	4	4
Tub grinder	1	1	1	1	1	-	-	-	-	-

Source: Various City Departments

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

To the Honorable Mayor and City Commission
City of Callaway, Florida

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, 2014, and the related notes to the financial statements, which collectively comprise the City of Callaway, Florida's basic financial statements and have issued our report thereon dated April 16, 2015.

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, 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's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weakness and significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a material weakness. [2014-01]

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies. [2014-02, 2014-03, 2014-04, 2014-05 and 2014-06]

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 that would be required to be reported under *Government Auditing Standards*.

City of Callaway, Florida's Response to Findings

City of Callaway, Florida's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. City of Callaway, Florida's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

We also noted certain other matters that we reported to the City of Callaway, Florida, in a separate management letter dated April 16, 2015.


Fort Walton Beach, Florida
April 16, 2015

**CITY OF CALLAWAY, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

2014-1 Monthly Closing Process

Condition

The City's monthly closing process to include preparation and review of bank reconciliations and reconciliation of other material account balances is not completed on a timely basis. Certain reconciliations or parts thereof are complete as of March 31, 2015; however the last month formally closed was September 2014.

Criteria

The City's accounting policy manual, in tandem with a properly designed system of internal controls, require certain control activities such as reconciliations to be accomplished monthly. This allows for the production of accurate monthly reports of operating results and financial position. The City's accounting policy manual requires the production of a monthly balance sheet, revenue analysis, expense vs budget for the month and year to date and bank statement reconciliations for management and elected officials.

Cause

The City has experienced personnel turnover in its finance function. The Finance Director (both previous and current) has been unable to close the month on a timely basis due to numerous factors to include volume of the workload, lack of familiarity with the City's software, and issues stemming from utility billing along with strategic initiatives of management and Commission.

Effect

Not having essential month-end closing procedures performed on a timely basis increases the risk that a material misstatement will not be detected or not detected on a timely basis. Timely closing also allows the production of reports for management and Commission which are used in financial decision making.

Recommendation

We realize steps have been taken to improve work flow and the City intends to implement a lockbox to provide relief for utility cash receipt processing which may result in additional capacity of the current Assistant to the Finance Director. However we recommend consideration of the following:

- The current Assistant to the Finance Director is primarily performing the Utility Billing Supervisor duties. An additional position in the accounting or utility billing function may need to be considered. An alternative would be temporary assistance in the accounting function for a four to six month period of time.
- The development of a formal closing schedule which indicates who is responsible for performing each procedure and when the completion of each procedures is due and accomplished.
- Since the City is already in a position in which the complete financial reporting is several months behind, it is recommended the process is first caught up and then a plan to stay current, including the formal closing schedule, is then implemented.

**CITY OF CALLAWAY, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Management Response

Finance Department staff includes the Director of Finance and the Assistant to the Finance Director. The role of Finance Assistant position is primarily that of the City's Utility Billing Supervisor. The size of the Finance Department is small therefore many duties are combined or assigned to other available City Hall staff. Finance Assistant/Billing Supervisor responsibilities include processing payables, processing monthly pension fund remittances and serving as the on-line bank administration backup. The City Clerk reviews and posts cash receipts; our Records Clerk processes drop-box utility payments; the Human Resources Director enters timesheets, processes payroll, prepares W-2's, and processes payroll withholding and reporting; the Purchasing Agent is tasked with the billing and collection of business license taxes and backs-up customer service representatives receiving utility payments.

Our vacancy in the Director of Finance position at the end of fiscal year 2014, which was filled in November of 2014, significantly contributed to the City's monthly closing process and financial reporting delays. Implementation of new or revised processes and software upgrades also contributed to delayed month-end closings.

Management will address the possibility of adding a position separating accounting and utility billing duties. The addition should eliminate the distribution of accounting duties to other City Hall staff functions, improve internal controls and allow for timely month-end closing procedures and financial reporting. In lieu of being able to implement a permanent solution, management will pursue the use of temporary assistance in order to bring our records up-to-date.

Additionally, management believes that it will be beneficial to develop and document a formal closing schedule and will document the responsibility and timing of monthly procedures in conjunction with bringing the records up-to-date.

2014-2 IT Risk Assessment

Condition

The City does not have a current risk assessment to formally evaluate its IT system to determine potential areas of vulnerability. Further passwords on the City's Windows operating system had not been changed in several years, the password structure lacks complexity requirements, and available updates to the Springbrook financial accounting system are not consistently implemented on a timely basis.

Criteria

The City's accounting policy manual contains limited IT policy to include administrators and authorized users are required to change passwords every 90 days along with a generic requirement for password complexity. Information technology security is a high risk area in the public sector since units of government store sensitive personal data about its citizens, customers and employees. Recent system breaches of various entities illustrate the importance of IT security protocols.

**CITY OF CALLAWAY, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Cause

IT assessments have been previously accomplished on an informal basis by management. Further Springbrook updates are often delayed due to the costs involved with purchasing each update.

Effect

The informal IT assessment is not current and may not be robust enough to address current potential threats. Current Springbrook updates available but not updated on the City system could enhance functionality and security of the system. Compliance of password protocol to City standards is not monitored.

Recommendation

A formal IT risk assessment should be considered by Management. At a minimum a review of the City's current IT policy and compliance with that policy should be undertaken by Management.

Management Response

Management concurs and believes we need to pro-actively address our IT needs and security. We are in the process obtaining a review of the City's software needs and will request approval from the City Commission of a comprehensive IT assessment proposal.

In January of 2015, Springbrook software service packs were brought up-to-date to address technical error messages received. Our service packs are now up-to-date, however the updates did not fix any of the problems being encountered. There are numerous Springbrook software issues outstanding that we are currently working to resolve including processes that have never worked in conjunction with the implementation of on-line utility payments, in November of 2013. On-going Springbrook software issues take up limited staff time and keeping the system up-to-date is cost prohibitive since additional charges and/or annual maintenance fees are required in order to receive any general process or report updates or to implement improved utilization. The City continues to attempt resolution of un-resolved software issues with Springbrook.

2014-3 Utility Billing Exception Reporting

Condition

The City does not have an efficient method to monitor inaccurate meter reads in its utility billing function. Customer service personnel manually scan the proof list to identify meter readings that might contain a possible exception for re-reads.

Criteria

Review of potential inaccurate readings in a utility billing function is an integral control activity part of the overall system of internal control.

Cause

City personnel have attempted to develop an automated report from its billing system, Springbrook, but have not been successful in producing a report that meets their current needs.

**CITY OF CALLAWAY, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Effect

The manual process is time consuming and based on the number of accounts billed on a monthly basis increases the opportunity for unintentional error by overlooking an account that should be re-read under current City policy.

Recommendation

We recommend City personnel work with their software vendor, Springbrook, to produce an automated exception report. An automated report will reduce personnel time to scan the list and will also ensure all accounts falling outside the set parameters are flagged.

Management Response

The City contracted with Springbrook to program a custom misread meters exception report on February 3, 2015. The change to standard report will allow us to compare current reads to prior month reads instead of comparing them to reads from the same month of the prior year. Our costs include a charge of \$450 to edit the report and an increase of \$126 per year in maintenance charges. We have received notification that the report edit is ready for us to download.

2014-4 Segregation of Duties Surrounding Cash Disbursements

Condition

The City's payroll and disbursement processes lack proper segregation of duties.

Criteria

Proper segregation of duties should be in place so that no single employee is handling one of the following functions: (1) custody of assets; (2) record keeping, (3) authorization; and (4) reconciliation.

Cause

Duties surrounding payroll and the disbursement process are not properly segregated. For payroll, one individual maintains and updates the payroll master file, prepares and records the payroll, and has the ability to release direct deposit funds from the bank. For the disbursement process, signed checks go back to the individual who prepared the checks for signature prior to mailing. This individual also has access to the disbursement module.

Effect

Inadequate segregation of duties increases the risk that a material misstatement due to error or fraud could go undetected by management.

Recommendation

Payroll

An individual not associated with payroll processing should maintain personnel records including the employee master file in the Springbrook system. A member of management should review and approve (with evidence of approval) the payroll register associated with each payroll run prior to payroll being processed. Upon management approval, an employee not involved in the processing of payroll should be authorized to release the funds.

Disbursements

Signed checks for disbursements should be mailed by an employee that does not have access to the disbursement module in the City's accounting system.

**CITY OF CALLAWAY, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Management Response

The ability to segregate duties is limited due to the number of people available. Currently, there is no other staff to assign payroll processing duties to. To the extent possible, duties are segregated to serve as a check and balance and to maintain the best control system possible. Maintaining controls became more challenging due to our recent vacancy in the Director of Finance position.

To address the lack of segregation surrounding cash disbursement processes:

- The Director of Finance will document the review and approval of payroll registers before they are processed.
- Authorization to release direct deposit funds from the bank by the individual preparing payroll will be removed.
- The responsibility of mailing signed disbursement checks will be assigned to an individual without access to the disbursement module in the City's accounting system.

2014-5 Written Policies and Procedures

Condition

The City's Accounting Policy and Procedure Manual and the Utility Billing Policy need to be updated to reflect policy changes as well as the current staffing configuration. Updates to the Accounting Policy and Procedures Manual and Utility Billing Policy Manual were last made on August 9, 2011 and June 12, 2012, respectively.

Criteria

In a properly designed system of internal controls written policies and procedures should be kept current; ideally updated on an annual basis.

Cause

The City has not dedicated resources to keep the manuals current.

Effect

City employees may not have a complete understanding of all policy; particularly new hires.

Recommendation

The accounting and billing policies should be updated to reflect current policy and processes. On-going the documents should be reviewed and updated on an annual basis.

Management Response

Management concurs that approved policy changes have not been incorporated into the City's Accounting Policy and Procedure Manual and the Utility Billing Policy Manual. Recent turnover in management, changes to the staffing configuration and the lack of staff resources have contributed to the deferred updates. Management will dedicate resources needed to bring manuals up-to-date and assign responsibility and due dates for maintaining updates going forward.

2014-6 Internal Budget Policy Non-Compliance

Condition

Certain line item expenditures for the year to date period ended September 30, 2014 exceeded the approved budget for that line item. While the City was out of compliance with internal policy; total expenditures did not exceed budgeted amounts as it relates to compliance with Florida Statutes.

**CITY OF CALLAWAY, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Criteria

The City, based on a policy change in FY 14, sets the legal level of budgetary control at the line item (account) level for each department.

Cause

The Accounting Policy and Procedure Manual was not updated to reflect this change. This coupled with changes in finance personnel near year end contributed to the cause.

Effect

The City was out of compliance with its internal budget policies.

Recommendation

City management should update its documented policies for legislative actions of the Commission and ensure compliance of internal policy in the future.

Management Response

The change in policy to set the legal level of budgetary control at the line item was mandated by the Commission in August of 2014. Budget transfers needed to cover expenditures in excess of line item budgets were approved by the City Commission after the date of the policy change. However, line item budgets, not amended for transactions completed prior to the policy change resulted in our non-compliance. Un-intended effects of maintaining a line item level of budgetary control can include an increase to the amount of work and time required for staff to make purchases and complete projects efficiently. This level of control also tends to encourage the posting of transactions to accounts based on the remaining budget which can result in the loss of conformity and comparability of historical financial information.

Expenditures that are not subject to purchase order software edits that limit commitments to the amount of line-item budgets will require manual review to adhere to the policy. Personnel budget overages may not be possible to prevent. Given these challenges, management will update the policy manual and establish procedures in conjunction with month-end closing procedures to ensure future compliance.

**INDEPENDENT ACCOUNTANTS' REPORT ON AN EXAMINATION OF
COMPLIANCE REQUIREMENTS IN ACCORDANCE WITH CHAPTER
10.550, RULES OF THE AUDITOR GENERAL**

To the Honorable Mayor and City Commission
City of Callaway, Florida

We have examined the City of Callaway, Florida's (the City) compliance with Florida Statute 218.415 with regards to the investments for the year ended September 30, 2014.

Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City of Callaway, Florida complied, in all material respects, with Florida Statute 218.415 with regards to the investments for the year ended September 30, 2014.


Fort Walton Beach, Florida
April 16, 2015

MANAGEMENT LETTER

To the Honorable Mayor and City Commission
City of Callaway, Florida

Report on the Financial Statements

We have audited the financial statements of the City of Callaway, Florida (the City), as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated April 16, 2015.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*.

Other Reports and Schedule

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Schedule of Findings; and Responses; and Independent Accountants' Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports and schedule, which are dated April 16, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Tabulation of Uncorrected Audit Findings			
Description	Current Year Finding #	2012-13 FY Finding #	2011-12 FY Finding #
Written Control Risk Assessment ¹	2014-07	2012-ML-02	2012-ML-02

Official Title and Legal Authority

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

Financial Condition

Section 10.554(1)(i)5.a., *Rules of the Auditor General*, requires that we report the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.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's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Annual Financial Report

Section 10.554(1)(i)5.b., *Rules of the Auditor General*, requires that we report the results of our determination as to whether the annual financial report for the City, for the fiscal year ended September 30, 2014, 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, 2014. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

Section 10.554(1)(i)5.d., *Rules of the Auditor General*, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we determined that all special district component units provided the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Other Matters

Section 10.554(1)(i)2., *Rules of Auditor General*, requires that we address in the management letter any recommendations to improve financial management. These recommendations are addressed under the headings "Prior Year Findings".

PRIOR YEAR COMMENT

2014 – 07: WRITTEN CONTROL RISK ASSESSMENT

Prior Year Comment Summarized

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.

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. City Management is not certain when this objective can be achieved due to the priority of other projects.

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

Purpose of this Letter

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

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

Warren Averett, LLC
Fort Walton Beach, Florida
April 16, 2015