

# City of Chipley

## FINANCIAL STATEMENTS

For the Year Ended September 30, 2014



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## **INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and Members  
of the City Council  
City of Chipley, 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 Chipley, Florida (the "City"), 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.

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 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, the aggregate remaining fund information, and the non-major Natural Gas proprietary fund of the City as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund and Chipley Redevelopment Agency for the year then ended in conformity 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 the management's discussion and analysis and schedule of funding progress on pages 4-10 and page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by *Rules of the Florida Auditor General 10.550*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards and state financial assistance 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 schedule of expenditures of

federal awards and state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2014, on our consideration of the City of Chipley, 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 the City of Chipley, Florida's internal control over financial reporting and compliance.

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

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

June 4, 2015

## City of Chipley Management's Discussion and Analysis

The City of Chipley's management's discussion and analysis (MD&A) is designed to assist the reader in the focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent year challenges), identify any material deviations from the financial plan (the approved budget), and identify fund issues or concerns.

Since the Management Discussion and Analysis is designed to present an overview of the City's current year's activities, resulting changes and currently known facts as well as the financial activities for the two fiscal years ended September 30, 2013 and September 30, 2014 please read in conjunction with the City's financial statements (beginning on page 11).

### ***City Highlights***

- The City was awarded a \$1,500,000 Statewide Surface Water Restoration and Wastewater Project Grant by the Florida Department of Environmental Protection. The funds are being used toward the construction of a drinking water well, drinking water elevated tank, drinking water line extension, wastewater line extension and waste water lift station.
- The City was awarded a \$440,000 Water Supply Development Community Assistance Grant by the Northwest Florida Water Management District. The funds are being used toward the construction of a drinking water well.
- The City was awarded a \$259,954 Local Agency Program Grant by the Florida Department of Transportation. The funds are being used to construct .888 miles of sidewalks on 7<sup>th</sup> Street from South Boulevard to U.S. Highway 90, Sinclair Street from South Boulevard to Forrest Drive and Third Street from Pine Avenue to South Boulevard.

### ***Overview of the Financial Statements***

This annual report consists of the MD&A, the basic financial statements and the notes to the financial statements. The basic financial statements include two kinds of statements that present different views of the City:

1. Government-Wide Financial Statements (Reporting the City as a whole)
2. Fund Financial Statements (Reporting the City's major funds)

The government-wide and the fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, parks and recreation, public works and general administrative services are classified as governmental activities. The City's water, sewer, natural gas and sanitation services are classified as business-type activities.

### ***Government-Wide Financial Statements***

The government-wide financial statements focus on both long-term and short-term information about the City's overall financial status in a manner similar to those of a private-sector business. The statements include a Statement of Net Position and a Statement of Activities.

## City of Chipley Management's Discussion and Analysis

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over the resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental and proprietary. Traditional users of governmental financial statements will find the fund financial statements' presentation more familiar.

### ***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 the City's near-term requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, readers may better understand the long-term impact of the City's near-term financing decisions.

The City maintains two major governmental funds and information on these two funds is presented in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances.

The City adopts an annual appropriated budget for its General Fund. Budgetary comparison statements have been provided for this fund to demonstrate compliance with the budget and are presented as part of the fund financial statements on page 17.

The governmental fund financial statements can be found on pages 13 – 16 of this report.

## City of Chipley Management's Discussion and Analysis

### ***Proprietary Funds***

The City maintains three major enterprise funds which are proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the governmental-wide financial statements. The City uses enterprise funds to account for its water, sewer and sanitation. The proprietary fund statement provides the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements can be found on pages 19 – 22 of this report.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They can be found on pages 23 – 46 of this report.

### ***Government-Wide Financial Analysis***

This section is used to present condensed financial information from the government-wide statements that compares the current year to the prior year.

### ***Statement of Net Position***

The following schedule reflects the condensed Statement of Net Position:

	<b>Governmental Activities</b>		
	<b>2014</b>	2013	Change
<b>Assets</b>			
Current and other assets	\$ 2,938,271	\$ 3,128,633	\$ (190,362)
Capital assets, net	<b>5,194,613</b>	5,276,175	(81,562)
<b>Total assets</b>	<b>8,132,884</b>	8,404,808	(271,924)
<b>Liabilities</b>			
Current liabilities	<b>247,841</b>	376,997	(129,156)
Noncurrent liabilities	<b>1,204,309</b>	1,215,071	(10,762)
<b>Total liabilities</b>	<b>1,452,150</b>	1,592,068	(139,918)
<b>Deferred Inflows of Resources</b>			
Unavailable revenue – occupational licenses	<b>32,726</b>	33,498	(772)
<b>Net Position</b>			
Net investment in capital assets	<b>4,343,674</b>	4,374,945	(31,271)
Restricted	<b>1,441,010</b>	1,369,816	71,194
Unrestricted	<b>863,324</b>	1,034,481	(171,157)
<b>Total net position</b>	<b>\$ 6,648,008</b>	\$ 6,779,242	\$ (131,234)

**City of Chipley**  
**Management's Discussion and Analysis**

	<b>Business-type Activities</b>		
	<b>2014</b>	2013	Change
<b>Assets</b>			
Current and other assets	\$ 2,467,879	\$ 2,655,269	\$ (187,390)
Capital assets, net	<b>38,757,733</b>	39,899,885	(1,142,152)
<b>Total assets</b>	<b>41,225,612</b>	42,555,154	(1,329,542)
<b>Liabilities</b>			
Current liabilities	<b>400,017</b>	304,441	95,576
Noncurrent liabilities	<b>8,867,205</b>	14,998,374	(6,131,169)
<b>Total liabilities</b>	<b>9,267,222</b>	15,302,815	(6,035,593)
<b>Net Position</b>			
Net investment in capital assets	<b>30,094,026</b>	25,085,443	5,008,583
Restricted	<b>1,021,768</b>	1,343,704	(321,936)
Unrestricted	<b>842,596</b>	823,192	19,404
<b>Total net position</b>	<b>\$ 31,958,390</b>	\$ 27,252,339	\$ 4,706,051

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities at the close of the fiscal year by \$6.6 million for governmental activities and \$32 million for business-type activities.

The largest component (\$34.4 million) of the City's net assets as of September 30, 2014, reflects its investment in capital assets (i.e. land, infrastructure, buildings, equipment and others), less any related debt outstanding to acquire or construct the assets. The City uses these capital assets to provide services to the citizens and businesses in the City. Restricted net assets are the next largest component, totaling \$2.4 million as of September 30, 2014. Restricted net assets represent resources that are subject to external restrictions.

***Statement of Activities***

The following schedule summarizes revenues and expenses comparing the current year to the prior year, as derived from the government-wide Statement of Activities. Increases and decreases in net assets measure whether the City's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities decreased \$131 thousand, or less than 2.0 percent, and the net assets of the business-type activities increased by \$4.7 million or greater than 17.0 percent. The business-type activities increase was due primarily to non-reoccurring state capital grants of \$5,795,167.

**City of Chipley**  
**Management's Discussion and Analysis**

<i>For the years ended September 30,</i>	<b>Governmental Activities</b>		
	<b>2014</b>	2013	Change
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 121,348	\$ 134,687	\$ (13,339)
Operating grants and contributions	773,223	796,508	(23,285)
Capital grants and contributions	189,824	309,297	(119,473)
General revenues			
Taxes	1,593,305	1,546,646	46,659
Investment earnings	3,132	3,688	(556)
Other	71,951	166,259	(94,308)
<b>Total revenues</b>	<b>2,752,783</b>	2,957,085	(204,302)
<b>Expenses</b>			
Governmental activities			
General government	815,554	797,568	17,986
Public safety	1,108,607	1,088,334	20,273
Public works	506,147	627,030	(120,883)
Cemetery and grounds	208,444	209,439	(995)
Culture and recreation	203,480	186,998	16,482
Interest	41,785	47,665	(5,880)
<b>Total expenses</b>	<b>2,884,017</b>	2,957,034	(73,017)
Excess revenues over (under) expenses	(131,234)	51	(131,285)
<b>Net Position – beginning</b>	<b>6,779,242</b>	6,779,191	51
<b>Net Position – ending</b>	<b>\$ 6,648,008</b>	\$ 6,779,242	\$ (131,234)

<i>For the years ended September 30,</i>	<b>Business-type Activities</b>		
	<b>2013</b>	2012	Change
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 2,841,532	\$ 2,732,341	\$ 109,191
Capital grants and contributions	5,795,167	765,420	5,029,747
General revenues			
Investment earnings	5,251	7,164	(1,913)
Other	196,293	35,353	160,940
<b>Total revenues</b>	<b>8,838,243</b>	3,540,278	5,297,965

**City of Chipley**  
**Management's Discussion and Analysis**

**Expenses**

Business-type activities			
Water	<b>738,114</b>	666,645	71,469
Sewer	<b>2,240,443</b>	2,194,489	45,954
Sanitation	<b>705,885</b>	670,791	35,094
Natural gas	<b>447,750</b>	382,232	65,518
<b>Total expenses</b>	<b>4,132,192</b>	3,914,157	218,035
Excess revenues over (under) expenses	<b>4,706,051</b>	(373,879)	5,079,930
<b>Net Position – beginning</b>	<b>27,252,339</b>	27,656,780	(404,441)
Prior Period Adjustment	-	(30,562)	30,562
<b>Net Position – as restated</b>	<b>31,958,390</b>	27,626,218	4,332,172
<b>Net Position – ending</b>	<b>\$ 31,958,390</b>	\$ 27,252,339	\$ 4,706,051

***Individual Fund Analysis***

This section provides analysis of the balances and transactions of individual funds. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The general fund is reported as a major governmental fund. The general fund is the general operating fund of the City. All general tax revenue and other receipts that are not required either legally or by generally accepted accounting principles to be accounted for in other funds are accounted for in the general fund. As of the end of the fiscal year 2014, the City's general fund reported a fund balance of \$1,890,480. The restricted portion of this fund balance is \$904,784, the committed portion is \$51,725, the assigned portion is \$3,682 and the unassigned portion is \$930,289.

The community redevelopment agency fund is reported as a major governmental fund. The community redevelopment agency is a separate legal entity, but it is required to be included in the City's reporting because of the significance of the financial relationships with the City. As of the end of the fiscal year 2014, the community redevelopment agency fund reported a restricted fund balance of \$414,465.

As of the end of the fiscal year 2014, the City's other governmental funds (non-major funds) reported a restricted fund balance of \$121,761 and a committed fund balance of \$8,747.

***General Fund Budgetary Variances***

Over the course of the year, the City Council revised the City budget. These budget amendments represent increases in appropriations to prevent budget overruns. The reasons for significant changes to the budget are for projects, which are funded with grant proceeds or in some cases, with loan proceeds.



## City of Chipley Management's Discussion and Analysis

### ***Capital Asset and Long-Term Debt***

During fiscal year 2014, the City invested \$297,449 in capital assets. Approximately \$157,167 of these capital expenditures were funded with federal government grants.

Additional information about the City's capital assets can be obtained in Note 6 of the City's notes to the financial statements.

### ***Next Year's Budgets and Rates***

The City's general fund is expected to continue as it has, with no additional revenues being expected at this time.

The City's business-type activities are expected to continue as they have with only an annual Consumer Price Index (CPI) increase in rates.

### ***Contacting the City's Financial Management***

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Chipley, Post Office Box 1007, Chipley, Florida 32428.

**City of Chipley**  
**Statement of Net Position**  
**September 30, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,585,970	\$ 848,197	\$ 2,434,167
Investments	51,726	-	51,726
Receivables, net	169,886	323,053	492,939
Due from other governments	9,031	45,167	54,198
Internal balances	100,000	(100,000)	-
Restricted cash	793,121	390,365	1,183,486
Restricted investments	3,300	961,097	964,397
Land held for resale	225,237	-	225,237
Capital assets, not being depreciated	986,934	657,915	1,644,849
Capital assets being depreciated, net	4,207,679	38,099,818	42,307,497
<b>Total assets</b>	<b>8,132,884</b>	<b>41,225,612</b>	<b>49,358,496</b>
<b>Liabilities</b>			
Accounts payable	70,763	125,564	196,327
Accrued payroll liabilities	174,092	46,653	220,745
Other liabilities	-	2,038	2,038
Payable from restricted assets			
Accrued interest	2,986	13,679	16,665
Customer deposits	-	212,083	212,083
Long-term liabilities			
Portion due or payable within one year			
Notes payable	17,143	632,289	649,432
Bonds payable	24,279	94,200	118,479
Portion due or payable after one year			
Compensated absences	353,370	203,498	556,868
Notes payable	17,285	5,684,618	5,701,903
Bonds payable	792,232	2,252,600	3,044,832
<b>Total liabilities</b>	<b>1,452,150</b>	<b>9,267,222</b>	<b>10,719,372</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - occupational licenses	32,726	-	32,726
<b>Net Position</b>			
Net investment in capital assets	4,343,674	30,094,026	34,437,700
Restricted	1,441,010	1,021,768	2,462,778
Unrestricted	863,324	842,596	1,705,920
<b>Total net position</b>	<b>\$ 6,648,008</b>	<b>\$ 31,958,390</b>	<b>\$ 38,606,398</b>

*The accompanying footnotes are an integral part of these financial statements.*

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

Functions/Programs	Expenses	Charges for Services	Program Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities:</b>			
General government	\$ 815,554	\$ 47,309	\$ 508,729
Public safety	1,108,607	41,915	98,561
Public works	506,147	-	161,966
Cemetery and grounds	208,444	8,000	-
Culture and recreation	203,480	24,124	3,967
Interest	41,785	-	-
Total governmental activities	2,884,017	121,348	773,223
<b>Business-type Activities:</b>			
Water	738,114	593,212	-
Sewer	2,240,443	1,113,003	-
Sanitation	705,885	701,249	-
Natural gas	447,750	434,068	-
Total business-type activities	4,132,192	2,841,532	-
Total primary government	\$ 7,016,209	\$ 2,962,880	\$ 773,223

**General Revenues**

Taxes:

Ad valorem tax

Sales taxes

Utility taxes

Other taxes

Interest income

Miscellaneous

Gain on disposal of assets

Total general revenues

Change in net position

**Net Position - beginning**

**Net Position - ending**

*The accompanying footnotes are an integral part of these financial statements.*

Revenues Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
\$ 77,393	\$ (182,123)	\$ -	\$ (182,123)
-	(968,131)	-	(968,131)
112,431	(231,750)	-	(231,750)
-	(200,444)	-	(200,444)
-	(175,389)	-	(175,389)
-	(41,785)	-	(41,785)
189,824	(1,799,622)	-	(1,799,622)
45,167	-	(99,735)	(99,735)
5,750,000	-	4,622,560	4,622,560
-	-	(4,636)	(4,636)
-	-	(13,682)	(13,682)
5,795,167	-	4,504,507	4,504,507
\$ 5,984,991	(1,799,622)	4,504,507	2,704,885
	836,282	-	836,282
	111,368	-	111,368
	593,594	-	593,594
	52,061	-	52,061
	3,132	5,251	8,383
	71,026	194,981	266,007
	925	1,312	2,237
	1,668,388	201,544	1,869,932
	(131,234)	4,706,051	4,574,817
	6,779,242	27,252,339	34,031,581
	\$ 6,648,008	\$ 31,958,390	\$ 38,606,398

**City of Chipley**  
**Balance Sheet – Governmental Funds**  
**September 30, 2014**

	<b>General Fund</b>	<b>Chipley Redevelopment Agency</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,577,223	\$ -
Investments	51,726	-
Receivables, net	165,532	4,354
Due from other governments	9,031	-
Interfund receivables	100,000	-
Restricted cash	264,529	410,131
Restricted investments	-	-
<b>Total assets</b>	<b>\$ 2,168,041</b>	<b>\$ 414,485</b>
<b>Liabilities and Fund Balances</b>		
Liabilities		
Accounts payable	\$ 70,743	\$ 20
Salaries and benefits payable	174,092	-
<b>Total liabilities</b>	<b>244,835</b>	<b>20</b>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue - occupational license	32,726	-
Fund balances		
Restricted	904,784	414,465
Committed	51,725	-
Assigned	3,682	-
Unassigned	930,289	-
<b>Total fund balances</b>	<b>1,890,480</b>	<b>414,465</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 2,168,041</b>	<b>\$ 414,485</b>

*The accompanying footnotes are an integral part of these financial statements.*

Other Governmental Funds	Total Governmental Funds
\$ 8,747	\$ 1,585,970
-	51,726
-	169,886
-	9,031
-	100,000
118,461	793,121
3,300	3,300
<hr/>	
\$ 130,508	\$ 2,713,034
<hr/>	
\$ -	\$ 70,763
-	174,092
<hr/>	
-	244,855
<hr/>	
-	32,726
<hr/>	
121,761	1,441,010
8,747	60,472
-	3,682
-	930,289
<hr/>	
130,508	2,435,453
<hr/>	
\$ 130,508	\$ 2,713,034
<hr/>	

**City of Chipley**

**Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Position  
September 30, 2014**

Differences in amounts reported for governmental activities in the Statement of Net Position:

Total fund balance - governmental funds	\$ 2,435,453
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	5,194,613
Certain assets held for resale are not current financial resources and therefore are not reported in the governmental funds.	225,237
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	(353,370)
Long-term liabilities applicable to the governmental activities are not due and payable in the current period and therefore are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds but is recognized when the expenditure is due. These balances consist of:	
Accrued interest on debt	(2,986)
Bonds, notes and leases payable	(850,939)
<hr/>	
<b>Net position of governmental activities in the Statement of Net Position</b>	<b>\$ 6,648,008</b>
<hr/>	

*The accompanying footnotes are an integral part of these financial statements.*

**City of Chipley**

**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2014**

	<b>General Fund</b>	<b>Chipley Redevelopment Agency</b>
<b>Revenues</b>		
Taxes	\$ 1,995,635	\$ -
Licenses and permits	46,310	-
Fines, forfeitures and penalties	27,949	-
Intergovernmental	250,906	129,454
Charges for services	24,124	-
Interest	2,305	807
Miscellaneous	260,424	-
<b>Total revenues</b>	<b>2,607,653</b>	<b>130,261</b>
<b>Expenditures</b>		
General government	607,914	55,600
Public safety	1,051,314	-
Public works	612,810	-
Cemetery and grounds	208,450	-
Culture and recreation	174,399	-
Debt service, principal	-	-
Debt service, interest	-	-
<b>Total expenditures</b>	<b>2,654,887</b>	<b>55,600</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>(47,234)</b>	<b>74,661</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	-	-
Transfers out	(114,590)	-
Debt proceeds	29,082	-
Proceeds from sale of assets	925	-
<b>Total other financing sources (uses)</b>	<b>(84,583)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(131,817)</b>	<b>74,661</b>
<b>Fund Balances - Beginning</b>	<b>2,022,297</b>	<b>339,804</b>
<b>Fund Balances - Ending</b>	<b>\$ 1,890,480</b>	<b>\$ 414,465</b>

*The accompanying footnotes are an integral part of these financial statements.*

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 1,995,635
-	46,310
-	27,949
-	380,360
-	24,124
19	3,131
14,294	274,718
<hr/>	<hr/>
14,313	2,752,227
<hr/>	<hr/>
-	663,514
11,023	1,062,337
-	612,810
-	208,450
-	174,399
79,373	79,373
42,133	42,133
<hr/>	<hr/>
132,529	2,843,016
<hr/>	<hr/>
(118,216)	(90,789)
<hr/>	<hr/>
114,590	114,590
-	(114,590)
-	29,082
-	925
<hr/>	<hr/>
114,590	30,007
<hr/>	<hr/>
(3,626)	(60,782)
<hr/>	<hr/>
134,134	2,496,235
<hr/>	<hr/>
\$ 130,508	\$ 2,435,453

**City of Chipley**

**Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds to the  
Statement of Activities  
For the Year Ended September 30, 2014**

Differences in amounts reported for governmental activities in the Statement of Activities:

Net change in fund balances - total governmental funds: \$ (60,782)

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. 196,992

Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Net Position. (278,190)

The undepreciated cost of capital assets disposed of during the year is expensed in the Statement of Activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (364)

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. (39,529)

Compensated absences 348

Accrued interest expense

Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. (29,082)

Debt proceeds 79,373

Repayment of debt

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Change in net position of governmental activities \$ (131,234)

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**City of Chipley**

**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual – General Fund**  
**For the Year Ended September 30, 2014**

	Original Budget	Final Budget	Actual Amounts	Variance with Budget - Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 2,018,322	\$ 2,068,001	\$ 1,995,635	\$ (72,366)
Licenses and permits	50,000	50,000	46,310	(3,690)
Intergovernmental	433,969	436,247	250,906	(185,341)
Charges for services	28,000	28,000	24,124	(3,876)
Fines and forfeitures	19,605	35,013	27,949	(7,064)
Interest	2,500	2,500	2,305	(195)
Miscellaneous	226,686	276,851	260,424	(16,427)
<b>Total revenues</b>	<b>2,779,082</b>	<b>2,896,612</b>	<b>2,607,653</b>	<b>(288,959)</b>
<b>Expenditures</b>				
General government	562,976	631,304	607,914	23,390
Public safety	1,017,895	1,082,545	1,051,314	31,231
Public works	748,352	791,796	612,810	178,986
Cemetery and grounds	233,350	234,350	208,450	25,900
Culture and recreation	167,330	175,607	174,399	1,208
<b>Total expenditures</b>	<b>2,729,903</b>	<b>2,915,602</b>	<b>2,654,887</b>	<b>260,715</b>
<b>Excess of Revenues Over</b>				
<b>Expenditures</b>	<b>49,179</b>	<b>(18,990)</b>	<b>(47,234)</b>	<b>(28,244)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	57,730	96,817	-	(96,817)
Transfers out	(161,710)	(161,710)	(114,590)	47,120
Debt proceeds	-	29,082	29,082	-
Sale of capital assets	-	-	925	925
<b>Total other financing sources (uses)</b>	<b>(103,980)</b>	<b>(35,811)</b>	<b>(84,583)</b>	<b>(48,772)</b>
<b>Net change in fund balances</b>	<b>(54,801)</b>	<b>(54,801)</b>	<b>(131,817)</b>	<b>(77,016)</b>
<b>Fund Balances - beginning</b>	<b>2,022,297</b>	<b>2,022,297</b>	<b>2,022,297</b>	<b>-</b>
<b>Fund Balances - ending</b>	<b>\$ 1,967,496</b>	<b>\$ 1,967,496</b>	<b>\$ 1,890,480</b>	<b>\$ (77,016)</b>

*The accompanying footnotes are an integral part of these financial statements.*

**City of Chipley**

**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual – Chipley Redevelopment Agency**  
**For the Year Ended September 30, 2014**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Budget - Positive (Negative)</b>
<b>Revenues</b>				
Intergovernmental	\$ 136,267	\$ 136,267	\$ 129,454	\$ (6,813)
Interest	1,300	1,300	807	(493)
<b>Total revenues</b>	<b>137,567</b>	<b>137,567</b>	<b>130,261</b>	<b>(7,306)</b>
<b>Expenditures</b>				
General government	82,766	82,766	55,600	27,166
<b>Excess of Revenues Over Expenditures</b>				
	54,801	54,801	74,661	19,860
Net change in fund balances	54,801	54,801	74,661	19,860
<b>Fund Balances - beginning</b>	<b>339,804</b>	<b>339,804</b>	<b>339,804</b>	<b>-</b>
<b>Fund Balances - ending</b>	<b>\$ 394,605</b>	<b>\$ 394,605</b>	<b>\$ 414,465</b>	<b>\$ 19,860</b>

*The accompanying footnotes are an integral part of these financial statements.*

**City of Chipley**  
**Statement of Net Position – Proprietary Funds**  
**September 30, 2014**

	<b>Business-Type</b>	
	<b>Water</b>	<b>Sewer</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 764	\$ 285,323
Accounts receivable, net	71,907	124,719
Due from other governmentals	45,167	-
Restricted assets:		
Cash and cash equivalents	115,580	215,996
Investments	-	961,097
<b>Total current assets</b>	<b>233,418</b>	<b>1,587,135</b>
Non-current assets		
Land and construction in progress	67,767	575,298
Capital assets, net of depreciation	3,369,679	34,368,610
<b>Total non-current assets</b>	<b>3,437,446</b>	<b>34,943,908</b>
<b>Total assets</b>	<b>3,670,864</b>	<b>36,531,043</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	42,135	81,419
Accrued payroll liabilities	16,459	19,716
Other accrued liabilities	-	-
Interfund payables	53,000	47,000
<b>Total current liabilities</b>	<b>111,594</b>	<b>148,135</b>
Current liabilities payable from restricted assets		
Accrued interest	388	13,148
Notes payable, current portion	31,420	577,960
Bonds payable, current portion	1,800	92,400
<b>Total current liabilities payable from restricted assets</b>	<b>33,608</b>	<b>683,508</b>
Noncurrent liabilities		
Compensated absences	78,066	65,663
Customer deposits	69,619	86,273
Notes payable	785,511	4,851,550
Bonds payable	113,800	2,138,800
<b>Total noncurrent liabilities</b>	<b>1,046,996</b>	<b>7,142,286</b>
<b>Total liabilities</b>	<b>1,192,198</b>	<b>7,973,929</b>
<b>Net Position</b>		
Net investment in capital assets	2,504,915	27,283,198
Restricted	43,678	978,090
Unrestricted (deficit)	(69,927)	295,826
<b>Total net position</b>	<b>\$ 2,478,666</b>	<b>\$ 28,557,114</b>

*The accompanying footnotes are an integral part of these financial statements.*

**Activities**

		<b>Non-Major Fund</b>			
<b>Sanitation</b>		<b>Natural Gas</b>		<b>Total</b>	
\$	469,745	\$	92,365	\$	848,197
	78,907		47,520		323,053
	-		-		45,167
	29,783		29,006		390,365
	-		-		961,097
	578,435		168,891		2,567,879
	10,350		4,500		657,915
	98,944		262,585		38,099,818
	109,294		267,085		38,757,733
	687,729		435,976		41,325,612
	1,469		541		125,564
	3,875		6,603		46,653
	-		2,038		2,038
	-		-		100,000
	5,344		9,182		274,255
	143		-		13,679
	22,909		-		632,289
	-		-		94,200
	23,052		-		740,168
	22,415		37,354		203,498
	29,736		26,455		212,083
	47,557		-		5,684,618
	-		-		2,252,600
	99,708		63,809		8,352,799
	128,104		72,991		9,367,222
	38,828		267,085		30,094,026
	-		-		1,021,768
	520,797		95,900		842,596
\$	559,625	\$	362,985	\$	31,958,390

**City of Chipley**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended September 30, 2014**

	<b>Business-Type</b>	
	<b>Water</b>	<b>Sewer</b>
<b>Operating Revenues</b>		
Charges for services	\$ 593,212	\$ 1,113,003
Miscellaneous revenue	26,143	167,510
<b>Total operating revenues</b>	<b>619,355</b>	<b>1,280,513</b>
<b>Operating Expenses</b>		
Salaries and benefits	355,564	417,541
Services and supplies	249,289	460,586
Other expenses	9,455	11,410
Depreciation	118,665	1,080,308
<b>Total operating expenses</b>	<b>732,973</b>	<b>1,969,845</b>
<b>Operating Income (Loss)</b>	<b>(113,618)</b>	<b>(689,332)</b>
<b>Non-Operating Revenues (Expenses)</b>		
Grant revenue	45,167	5,750,000
Interest income	15	4,317
Interest expense	(5,141)	(270,598)
Gain (loss) on disposal of assets	(1,133)	225
<b>Total non-operating revenues (expenses)</b>	<b>38,908</b>	<b>5,483,944</b>
<b>Income (Loss) Before Transfers</b>	<b>(74,710)</b>	<b>4,794,612</b>
Transfers in	-	-
<b>Change in net position</b>	<b>(74,710)</b>	<b>4,794,612</b>
<b>Total Net Position - beginning</b>	<b>2,553,376</b>	<b>23,762,502</b>
<b>Total Net Position - ending</b>	<b>\$ 2,478,666</b>	<b>\$ 28,557,114</b>

*The accompanying footnotes are an integral part of these financial statements.*

**Activities**

		<b>Non-Major Fund</b>			
<b>Sanitation</b>		<b>Natural Gas</b>		<b>Total</b>	
\$	701,249	\$	434,068	\$	2,841,532
	-		1,328		194,981
	701,249		435,396		3,036,513
	80,250		136,737		990,092
	601,678		286,024		1,597,577
	2,420		4,476		27,761
	18,953		20,513		1,238,439
	703,301		447,750		3,853,869
	(2,052)		(12,354)		(817,356)
	-		-		5,795,167
	758		161		5,251
	(2,584)		-		(278,323)
	(1,387)		3,607		1,312
	(3,213)		3,768		5,523,407
	(5,265)		(8,586)		4,706,051
	-		-		-
	(5,265)		(8,586)		4,706,051
	564,890		371,571		27,252,339
\$	559,625	\$	362,985	\$	31,958,390

**City of Chipley**  
**Statement of Cash Flows – Proprietary Funds**  
**For the Year Ended September 30, 2014**

	<u>Business-Type</u>	
	Water	Sewer
<b>Cash Flows From Operating Activities</b>		
Receipts from customers, users and others	\$ 618,588	\$ 1,279,608
Payments to suppliers	(314,874)	(534,233)
Payments to employees	(254,200)	(301,512)
Net cash provided by (used in) operating activities	49,514	443,863
<b>Cash Flows From Non-Capital Financing Activities</b>		
Loan payments to other funds	38,000	(3,750)
Loan proceeds from other funds	(45,167)	-
Net cash used in non-capital financing activities	(7,167)	(3,750)
<b>Cash Flows From Capital and Related Financing Activities</b>		
Grant revenue	45,167	5,750,000
Purchases and construction of capital assets	(52,850)	(15,955)
Principal paid on capital debt	(33,121)	(6,254,626)
Gain (loss) on sale of capital assets	(1,132)	226
Interest paid on capital debt	(5,141)	(111,288)
Net cash used in capital and related financing activities	(47,077)	(631,643)
<b>Cash Flows From Investing Activities</b>		
Interest and dividends	15	4,317
Sale of investments	-	311,282
Net cash provided by investing activities	15	315,599
Net increase (decrease) in cash and cash equivalents	(4,715)	124,069
<b>Cash and Cash Equivalents - beginning</b>	121,059	377,250
<b>Cash and Cash Equivalents - ending</b>	\$ 116,344	\$ 501,319

*The accompanying footnotes are an integral part of these financial statements.*

**Activities**

		<b>Non-Major Fund</b>			
<b>Sanitation</b>		<b>Natural Gas</b>		<b>Total</b>	
\$	701,076	\$	415,927	\$	3,015,199
	(602,762)		(290,023)		(1,741,892)
	(78,265)		(131,333)		(765,310)
	20,049		(5,429)		507,997
	-		-		34,250
	-		-		(45,167)
	-		-		(10,917)
	-		-		5,795,167
	(22,298)		(28,872)		(97,677)
	(2,584)		3,608		(6,310,045)
			-		2,702
			-		(119,013)
	(24,882)		(25,264)		(728,866)
	758		163		5,253
	-		-		311,282
	758		163		316,535
	(4,075)		(30,530)		84,749
	503,603		151,901		1,153,813
\$	499,528	\$	121,371	\$	1,238,562

-Continued-

**City of Chipley**  
**Statement of Cash Flows – Proprietary Funds (Continued)**  
**For the Year Ended September 30, 2014**

	<u>Business-Type</u>	
	<u>Water</u>	<u>Sewer</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities</b>		
<b>Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ (113,618)	\$ (689,332)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	118,665	1,080,308
Changes in operating assets and liabilities:		
Accounts receivable	(2,696)	(5,093)
Accounts payable	36,298	50,227
Accrued payroll liabilities	1,367	2,206
Other accrued liabilities	(15)	(3,719)
Compensated absences	7,584	5,078
Customer deposits	1,929	4,188
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 49,514</b>	<b>\$ 443,863</b>

*The accompanying footnotes are an integral part of these financial statements.*

**Activities**

		<b>Non-Major Fund</b>			
<b>Sanitation</b>		<b>Natural Gas</b>	<b>Total</b>		
\$	(2,052)	\$	(12,354)	\$	(817,356)
	18,953		20,513		1,238,439
	(1,713)		(18,724)		(28,226)
	1,193		-		87,718
	505		(20)		4,058
	143		477		(3,114)
	1,480		5,424		19,566
	1,540		(745)		6,912
\$	20,049	\$	(5,429)	\$	507,997

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

The financial statements of the City of Chipley, Florida (the “City”), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the City’s basic financial statements.

***Reporting Entity***

The City of Chipley, Florida (the “City”), located in Washington County, was incorporated in 1901 pursuant to 5077-1901 Laws of Florida. The City is a political subdivision of the State of Florida and operates under an elected City Council. The City provides police and fire protection, general government, recreation, and public works services to its residents. In addition, the City provides water, sewer, natural gas and sanitation services. The financial statements of the City include the funds required to account for those financial activities, which are related to the City and are controlled by or dependent upon the City’s legislative body. The definition of the reporting entity, pursuant to Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600, is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. Is also financially accountable for a legally separate agency if their officials appoint a voting majority of that agency’s governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and so data from these units are combined with data of the primary government. Each blended component unit has a year-end of September 30. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. The City has no discretely presented component units.

***Related Organization***

**Chipley Housing Authority (the “Authority”)** – This Authority was created by the City pursuant to Florida Statutes with commissioners of the Authority being appointed by the City Council. Operations are administered by the Authority and financed with Federal funds and rentals. Outstanding debt of the Authority is not an obligation of the City and the City does not exercise budgetary control. Based on these factors, the Authority is not included in the City’s financial statements.

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

***Blended Component Units***

**Chipley Redevelopment Agency (the “Agency”)** – This Agency was created by the City pursuant to State Statutes with commissioners of the Agency being the City Council Members. During 1997, the City passed an ordinance establishing a separate board for the Agency. Operations are administered by the Council appointed board and are financed with city and county funds. The City includes the operations of the Agency in its annual budget for the General Fund. The Agency is reported as a governmental fund type.

**Chipley Volunteer Fire Department (the “Department”)** – This is a nonprofit organization which is funded primarily by city funds and some public donations. Operations are administered by the Department. The City includes the operations of the Department in its annual budget for the General Fund. The Department is reported as a governmental fund type.

***Government-wide and Fund Financial Statements***

The basic financial statements consist of the government-wide financial statements and fund financial statements. Government-wide financial statements are comprised of the statement of net position and the statement of changes in net position which reports information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Fiduciary funds of the government are eliminated from this presentation since these resources are not available for general government funding purposes. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues are classified into three categories: charges for services, operating grants and contributions, and capital grants and contributions. Charges for services refer to direct recovery from customers for services rendered. Grants and contributions refer to revenues restricted for specific programs whose use may be restricted further to operational or capital items. The general revenues section displays revenue collected that helps support all functions of government and contribute to the change in the net assets for the fiscal year. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The fund financial statements follow and report additional and detailed information about operations for major funds individually and nonmajor funds in the aggregate for governmental and fiduciary funds. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentations.

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

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or within sixty days after year-end. 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. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

In applying the susceptibility-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e., revocable only for failure to comply with prescribed compliance requirements, such as with equal employment opportunity. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criterion.

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 Water, Sewer, Sanitation and Natural Gas Departments are charges to customers for sales and services. Operating expenses for the 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions 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.

The following are reported as major governmental funds:

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

**General Fund** – This is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Chipley Redevelopment Agency** – This is a blended component unit of the City. It is a separate legal entity required to be included in the City’s reporting entity because of the significance of their operating or financial relationships with the City. The City has elected to treat the redevelopment agency as a major fund meeting the requirements of Section 163.387(8) Florida Statutes.

The City reports the following major proprietary funds:

**Water Fund** – This fund accounts for all activity related to providing water services to its citizens.

**Sewer Fund** – This fund accounts for all activity related to providing sewer services to its citizens.

**Sanitation Fund** – This fund accounts for all activity related to providing sanitation services to its citizens.

***Cash and Cash Equivalents***

Cash and cash equivalents represent cash on hand, demand deposits and short-term investments with an original maturity date within three months of the date acquired by the government. Investments are stated at cost or amortized cost.

***Accounts Receivable - Proprietary Fund***

Provisions for uncollectible utilities charges are charged to revenues in amounts sufficient to maintain the allowance at a level considered adequate to cover current losses. The City grants credit to customers who use its various services, substantially all of whom are local residents or businesses.

***Restricted Assets***

Certain assets of the general fund, debt service fund, and enterprise funds are required by resolution to be set aside and used for specific purposes; thus, they are not available for general operating purposes. It is the City’s policy to use restricted assets before unrestricted assets when both are available to fund specific expenditures.

***Capital Assets***

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost with the exception of buildings, sidewalks, lighting, and

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

infrastructure. Building with an original cost of \$50,000 or more, sidewalks and lighting with an original cost of \$25,000 or more, and infrastructure with an original cost of \$500,000 or more, are reported at historical cost or estimated historical cost. Donated capital assets are recorded at fair market value as of the date of donation. The City has not reported infrastructure acquired prior to October 1, 2003. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are expensed as incurred. Interest incurred during the construction phase on loans obtained for long-term construction projects are capitalized into the cost of the asset.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Buildings	20 – 50 years
Water and sewer system	15 – 50 years
Improvements	10 – 20 years
Machinery and equipment	5 – 10 years
Other infrastructure	10 – 50 years

***Interfund Receivables and Payables***

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

***Compensated Absences***

Vacation pay policies allow an employee to accumulate up to a maximum of 240 hours of unused vacation time, which will be paid to the employee in the event of termination of employment. Sick pay policies allow an employee to accumulate up to a maximum of 800 hours of unused sick leave which will be paid, at 5% per year of service, to the employee in the event of termination of employment.

All leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts in the government-wide statements consists of unpaid, accumulated annual leave balances. The estimated current portion of the liability for vested vacation and sick leave benefits attributable to the City’s governmental fund is recorded as an expenditure and liability in the General Fund. The non-current portion for governmental funds is maintained separately and represents a reconciling item between the fund and governmental-wide presentations. The amount attributable to the enterprise funds are charged to expense and a corresponding liability in the applicable fund.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 fund type statement of net position. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts 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.

***Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of net 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City had no item that qualified for reporting in this category.

In addition to liabilities, the statement of net 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 and so will not be recognized as an inflow of resources (revenue) until that time. The unavailable revenue from occupational licenses qualifies for reporting in this category.

***Net Position and Fund Equity***

Net position is reported on the government-wide financial statements and is required to be classified for accounting and reporting purposes into the following net asset categories:

*Net Investment in Capital Assets* – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Any significant unspent proceeds at year-end related to capital assets are reported as restricted funds.

*Restricted* – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

*Unrestricted* – Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the City Council.

**City of Chipley**  
**Notes to Financial Statements**

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

Fund balances are reported in the fund financial statements in two major categories: nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. The City had no nonspendable fund balances at year-end.

In addition to the nonspendable fund balance, spendable fund balances are reported based on a hierarchy of spending constraints:

*Restricted* – Fund balances that are constrained by external parties, constitutional provisions or enabling legislation. The City’s restricted fund balance primarily includes federal, state, and local grant funds that are for a stated purpose per the grant agreements, taxes for road and bridge maintenance and repairs, and cash and investments set aside for debt service.

*Committed* – Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The City’s committed fund balances consist of funds for the operation of the cemetery and volunteer fire department.

*Assigned* – Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The City’s assigned fund balances classified as assigned are for the operations of the City’s jail and fire department.

*Unassigned* – Fund balances of the general fund that are not constrained for any particular purpose.

In governmental funds, the City's policy is to first apply expenditures toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

The City’s reported governmental fund balance at September 30, 2014 is comprised of the following:

	<b>General Fund</b>	<b>Chipley Redevelop- ment Agency</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Restricted:</b>				
Capital improvements	\$ 904,784	\$ -	\$ -	\$ 904,784
Debt service	-	-	121,761	121,761
Economic development	-	414,465	-	414,465
<b>Committed:</b>				
Cemetery	51,725	-	-	51,725
Volunteer Fire Department	-	-	8,747	8,747
<b>Assigned:</b>				
Recreation	3,682	-	-	3,682
Unassigned	930,289	-	-	930,289
	<b>\$ 1,890,480</b>	<b>\$ 414,465</b>	<b>\$ 130,508</b>	<b>\$ 2,435,453</b>

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

***Tax Revenue***

The City's ad valorem taxes are assessed by the Washington County Property Appraiser and collected by the Washington County Tax Collector in accordance with Florida Statutes. The City retains the right and duty to set millage rates. Property taxes are not recorded as receivables at September 30 because, though legally assessed as of January 1, they are not due and payable until after the close of the fiscal year ended the following September 30.

The current property tax calendar is as follows:

Lien date:	January 1, 2013
Levy date:	November 1, 2013
Due date:	March 31, 2014
Delinquent date:	April 1, 2014

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

Revenue recognition criteria for property taxes under GASB requires that only property taxes expected to be collected within 60 days of the current period be accrued. Property taxes which are uncollectible as of the end of the fiscal year are generally immaterial in amount and highly susceptible to uncollectibility; therefore, they are not recorded as a receivable at year end.

***Management Estimates and Assumptions***

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 vary from estimates used.

***Recent Accounting Pronouncements***

Recently Issued and Adopted

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. It requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the

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

reduction in its guaranteed liabilities, and also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This Statement was effective for reporting periods beginning after June 15, 2013, and the provisions of this Statement are required to be applied retroactively, with the exception of disclosures related to cumulative amounts paid or received in relation to a financial guarantee. The City implemented GASB Statement No. 70 for the year ended September 30, 2014. There was no impact on these financial statements as a result of the implementation of GASB Statement No. 70.

Recently Issued

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement. The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The calculation of pension contributions is unaffected by the change. However, when adopted will result in the restatement of the City's Fiscal Year 2014 government-wide financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for each of its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement. Management has not yet determined the financial statement impact of the pronouncement.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term "government combinations" is used to refer to a variety of arrangements including mergers and acquisitions. Mergers include combinations of legally separate entities

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

without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services. Management has not yet determined the financial statement impact of the pronouncement.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*—an amendment of GASB Statement No. 68 amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Management has not yet determined the financial statement impact of the pronouncement.

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

***Budgetary Information***

Each year formal budgets are legally adopted and amended as required by the City Council for all funds. Management can approve transfers within government function categories only. Transfers of appropriations or revisions between government function categories require the approval of the council. The level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the government function category level.

The budget for each fund is adopted on the modified accrual basis of accounting consistent with GAAP. Encumbrances outstanding at year-end represent the estimated amounts of expenditures ultimately to be paid on goods on order or unperformed contracts in process at year-end. Because appropriations lapse at year-end, it is the City’s policy to close encumbrances at year-end and to re-encumber those amounts, as needed, at the beginning of the next budget cycle.

**NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS**

Cash and cash equivalents represent cash on hand as well as demand deposits, investments and certificates of deposit with original maturities of three months or less. Investments are comprised of certificates of deposit and U.S. Treasury notes with original maturities greater than three months.

The City’s investment policies are designed with the intent of ensuring the City’s funds are invested in a manner that complies with Florida Statutes. Pursuant to Florida Statute 218.415 and the City’s investment policy, the City may invest surplus funds in:

**NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)**

- The Local Government Surplus Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes.
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- Savings accounts in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes.
- Certificates of deposit in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes.
- Direct obligations of the U.S. Treasury.
- Federal agencies and instrumentalities.

The City maintains its deposits with “Qualified Public Depositories” as defined in chapter 280, Florida Statutes. All Qualified Public Depositories must place with the Treasurer of the State of Florida, securities which have a market value equal to 50% of all public funds on deposit at the end of each month in excess of any applicable deposit insurance. In the event of default by a Qualified Public Depository, the State Treasurer will pay public depositors all losses. Losses in excess of insurance and collateral will be paid through assessments between all Qualified Public Depositories.

***Custodial Credit Risk - Deposits***

Under Florida Statute 280 and the federal deposit insurance program, all the City’s deposits are fully insured or collateralized with collateral held by the State Treasurer.

***Investments***

Investments were comprised of the following reported at fair value September 30, 2014:

	<b>Business-type Activities</b>
<hr/>	
<b><i>Restricted</i></b>	
Certificates of deposit	\$ 231,026
US Treasury bill maturing 3/5/2015	730,071
	<hr/>
	\$ 961,097
	<hr/>

***Custodial Credit Risk – Investments***

Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The City has investments held by counterparty(s), or by their respective trust departments not in the City’s name. Consequently, these investments are exposed to custodial credit risk. The City has no policy on custodial credit risk.

**NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)**

The City also invested funds in the Florida State Board of Administration Local Government Surplus funds Trust Fund (Florida PRIME). The Local Government Surplus Funds Trust fund is a "2a-7 like" pool and, therefore, the City's pool account balance (amortized cost) is used as the fair value for financial reporting consistent with GASB 31. The securities lending cash collateral investments are recorded at fair value, since SEC Rule 2a-7 does not impose the same maturity limitations and other constraints for collateral investments. The fair value of commercial paper is estimated at amortized cost since quoted prices are not available. At September 30, 2014, the fair value and the carrying value of these funds was \$2,713,705. The funds are carried as cash on the balance sheet in the amount of \$2,380,709, and as restricted cash of \$332,996 at September 30, 2014. The local government surplus investment pool is not rated by a nationally recognized statistical rating agency as of September 30, 2014.

The Local Government Surplus Funds Trust Fund is governed by Ch. 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration. Additional information and investment policies regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration at [www.sbafla.com/prime](http://www.sbafla.com/prime).

The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7 fund.

***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributable to the quantity of the government's investment in a single issuer. Investments in single issuers that equal or exceed 5% of total investments have a reportable concentration of credit risk. Credit quality risk results from potential default of investments that are not financially sound. The City limited its concentration of credit risk by only investing in government guaranteed notes and FDIC or other insured accounts.

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has limited its interest rate risk by investing in low risk instruments with a maturity of 60 months or less. At September 30, 2014, the City held the following investments:

Investment Type	Fair Value	Purchase Date to Maturity			
		0 – 1 Year	1 – 2 Years	2 – 3Years	3 – 5 Years
Certificates of Deposit	\$ 286,052	\$ 261,956	\$ 13,014	\$ 11,082	\$ -
US Treasury Bill	730,071	730,071	-	-	-
	\$ 1,016,123	\$ 992,027	\$ 13,014	\$ 11,082	\$ -

**City of Chipley**  
**Notes to Financial Statements**

**NOTE 4 – RECEIVABLES**

Receivables as of year-end in the aggregate including the applicable allowances for uncollectible accounts are as follows:

***Governmental Funds***

	<b>General Fund</b>	<b>Chipley Redevelopment Agency</b>
Taxes	\$ 83,067	\$ -
Franchise fees	27,974	-
Contract services	11,666	-
Revolving loan receivable	-	4,354
Other	42,825	-
	<b>\$ 165,532</b>	<b>\$ 4,354</b>

***Proprietary Funds***

	<b>Water</b>	<b>Sewer</b>	<b>Sanitation</b>	<b>Non-major Natural Gas</b>
Accounts – utility billings	\$ 72,168	\$ 125,163	\$ 79,164	\$ 40,369
Allowance for doubtful accounts	(261)	(444)	(281)	(142)
Other	-	-	24	7,293
	<b>\$ 71,907</b>	<b>\$ 124,719</b>	<b>\$ 78,907</b>	<b>\$ 47,520</b>

**NOTE 5 – INTERFUND BALANCES**

Interfund balances are generally used to meet cash demands necessary to pay operating expenditures. These amounts should be repaid during the next fiscal year. The composition of interfund balances as of September 30, 2014 is shown below:

***Interfund Receivables and Payables***

	<b>Payable Fund</b>		<b>Total</b>
	<b>Water</b>	<b>Sewer</b>	
<b>Receivable Fund</b>			
General	\$ 53,000	\$ 47,000	\$ 100,000

***Interfund Transfers***

	<b>Transfer In Debt Service</b>
<b>Transfers Out</b>	
General	\$ 114,590

**City of Chipley**  
**Notes to Financial Statements**

**NOTE 6 – CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 921,335	\$ 35,757	\$ -	\$ 957,092
Construction in progress	228,143	113,421	311,722	29,842
<b>Total capital assets not being depreciated</b>	<b>\$ 1,149,478</b>	<b>\$ 149,178</b>	<b>\$ 311,722</b>	<b>\$ 986,934</b>
Capital assets being depreciated:				
Furniture and equipment	\$ 2,166,654	\$ 47,814	\$ 21,863	\$ 2,192,605
Improvements other than buildings	1,585,203	311,722	-	1,896,925
Buildings	4,593,674	-	-	4,593,674
<b>Total capital assets being depreciated</b>	<b>8,345,531</b>	<b>359,536</b>	<b>21,863</b>	<b>8,683,204</b>
Less accumulated depreciation for:				
Furniture and equipment	1,913,339	84,570	21,498	1,976,411
Improvements other than buildings	603,213	69,243	-	672,456
Buildings	1,702,281	124,377	-	1,826,658
<b>Total accumulated depreciation</b>	<b>4,218,833</b>	<b>278,190</b>	<b>21,498</b>	<b>4,475,525</b>
<b>Total capital assets being depreciated, net</b>	<b>\$ 4,126,698</b>	<b>\$ 81,346</b>	<b>\$ 365</b>	<b>\$ 4,207,679</b>
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land and construction in progress	\$ 612,748	\$ 45,167	\$ -	\$ 657,915
Capital assets being depreciated:				
Building and plant	\$ 47,383,811	\$ -	\$ 5,605	\$ 47,378,206
Equipment and vehicles	2,308,602	55,290	20,426	2,343,466
<b>Total capital assets being depreciated</b>	<b>49,692,413</b>	<b>55,290</b>	<b>26,031</b>	<b>49,721,672</b>
Less accumulated depreciation for:				
Building and plant	8,850,948	1,127,070	1,436	9,976,582
Equipment and vehicles	1,554,328	111,369	20,425	1,645,272
<b>Total accumulated depreciation</b>	<b>10,405,276</b>	<b>1,238,439</b>	<b>21,861</b>	<b>11,621,854</b>
<b>Total capital assets, being depreciated, net</b>	<b>\$ 39,287,137</b>	<b>\$ (1,183,149)</b>	<b>\$ 4,170</b>	<b>\$ 38,099,818</b>

**City of Chipley**  
**Notes to Financial Statements**

**NOTE 6 – CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions as follows:

<b>Governmental Activities</b>	
General government	\$ 144,351
Public safety	44,113
Public works	55,236
Cemetery and grounds	5,409
Culture and recreation	29,081
<hr/>	
Total depreciation expense - governmental activities	<u>\$ 278,190</u>
<b>Business-Type Activities</b>	
Water	\$ 118,665
Sewer	1,080,308
Sanitation	18,953
Natural Gas	20,513
<hr/>	
Total depreciation expense - business-type activities	<u>\$ 1,238,439</u>

**NOTE 7 – LONG-TERM DEBT**

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental Activities:</b>					
Revenue bonds	\$ 878,569	\$ -	\$ 62,058	\$ 816,511	\$ 24,279
Notes and leases	22,661	29,082	17,315	34,428	17,143
Compensated absences	313,841	39,529	-	353,370	-
<hr/>					
Total	\$ 1,215,071	\$ 68,611	\$ 79,373	\$ 1,204,309	\$ 41,422
<hr/>					
<b>Business-Type Activities:</b>					
Revenue bonds	\$ 2,435,700	\$ -	\$ 88,900	\$ 2,346,800	\$ 94,200
Notes and leases	12,378,742	-	6,061,835	6,316,907	632,289
Compensated absences	183,932	19,566	-	203,498	-
<hr/>					
Total	\$ 14,998,374	\$ 19,566	\$ 6,150,735	\$ 8,867,205	\$ 726,489

**City of Chipley**  
**Notes to Financial Statements**

**NOTE 7 – LONG-TERM DEBT (Continued)**

Debt service requirements on long-term debt at September 30, 2014 are as follows:

***Governmental Activities***

Fiscal Year Ending September 30,	Revenue Bonds		Notes and Leases	
	Principal	Interest	Principal	Interest
2015	\$ 24,279	\$ 38,736	\$ 17,143	\$ 901
2016	16,720	37,619	17,285	467
2017	17,182	36,780	-	-
2018	18,665	35,966	-	-
2019	19,172	35,080	-	-
2020-2024	110,343	160,986	-	-
2025-2029	140,146	132,019	-	-
2030-2034	172,336	95,769	-	-
2035-2039	211,063	51,474	-	-
2040-2042	86,605	6,904	-	-
<b>Total</b>	<b>\$ 816,511</b>	<b>\$ 631,333</b>	<b>\$ 34,428</b>	<b>\$ 1,368</b>

***Business-Type Activities***

Fiscal Year Ending September 30,	Revenue Bonds		Notes and Leases	
	Principal	Interest	Principal	Interest
2015	\$ 94,200	\$ 112,486	\$ 632,289	\$ 191,717
2016	98,300	107,905	792,751	170,760
2017	102,700	103,091	806,969	153,413
2018	107,000	98,082	796,842	138,294
2019	112,600	92,837	811,023	124,990
2020-2024	648,000	376,606	1,333,204	429,016
2025-2029	474,400	227,334	480,583	120,008
2030-2034	443,900	119,041	474,724	51,786
2035-2039	230,100	34,670	157,101	21,262
2040-2044	29,000	5,477	31,421	338
2045-2046	6,600	295	-	-
<b>Total</b>	<b>\$ 2,346,800</b>	<b>\$ 1,277,824</b>	<b>\$ 6,316,907</b>	<b>\$ 1,401,584</b>

**City of Chipley**  
**Notes to Financial Statements**

**NOTE 7 – LONG-TERM DEBT (Continued)**

**Notes Payable**

Notes and leases payable at September 30, 2014 are comprised of the following:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
<b>First Federal Bank of Florida</b> – A note payable in annual installments of \$8,108 including interest at 3.00%. The note matures on September 15, 2016 and is secured by equipment.	\$ 15,241	\$ -
<b>Capital City Bank</b> – A note payable in annual installments of \$9,936 including interest at 2.27%. The note matures on September 15, 2016 and is secured by assignment of non-ad valorem revenues.	19,187	-
<b>Florida Department of Transportation</b> – A non-interest bearing unsecured note entered into to fund the cost of relocating water utilities. The note is payable in annual principal installments of \$31,420 through maturity in 2040.	-	816,931
<b>Capital City Bank</b> – A note payable in annual installments of \$24,740 including interest at 2.60%. The note matures on September 1, 2017 and is secured by equipment.	-	70,466
<b>Leasing 2, Inc.</b> – A lease-purchase agreement for the purchase of equipment. The lease is payable in annual lease payments of \$36,976 through March 15, 2015. The future minimum lease payments remaining under the lease total \$36,976. The liability is carried at the present value of the remaining future minimum lease payments. The title to the equipment will vest with the City of Chipley upon expiration of the lease and payment of all remaining lease payments. The cost of the asset acquired under this lease was \$222,000 with accumulated amortization at September 30, 2014 of \$125,800 which is included in accumulated depreciation.	-	35,221
<b>Florida Department of Environmental Protection</b> – A note payable under a Clean Water State Revolving Fund (SRF) Loan Agreement awarded January 2006 to fund sewer system upgrades. The loan is payable in		

**NOTE 7 – LONG-TERM DEBT (Continued)**

semi-annual principal and interest installments of \$566,940 through 2016, decreasing to \$411,939 through 2026, and decreasing to \$36,938 through 2040. Interest accrues at rates ranging from 1.81% to 1.87% based on the dates of the various loan awards which comprise the total loan. Annual payments of \$750,000 are scheduled to be made from the Disadvantaged Small Community Grant to reduce the local share necessary to service the debt until all remaining funding under the agreement has been exhausted. These payments are currently scheduled to end in 2027.

	-		5,394,289
	\$	34,428	\$ 6,316,907

***Bonds Payable***

Bonds payable at September 30, 2014 are comprised of the following:

		<b>Governmental Activities</b>
<b>City of Chipley Public Improvement Revenue Bonds – 2002A Series</b> , authorized and issued \$546,000, interest at 4.75%, principal and interest payable annually on September 1, collateralized by pledge of solid waste disposal system revenues. Bonds are held by the U.S. Department of Agriculture, Rural Development.		457,511
<b>City of Chipley Public Improvement Revenue Bonds – 2002B Series</b> , authorized and issued \$87,000, interest at 4.875%, principal and interest payable annually on September 1, collateralized by pledge of solid waste disposal system revenues. Bonds are held by the U.S. Department of Agriculture, Rural Development.		8,000
<b>City of Chipley Public Improvement Revenue Bonds – 2003 Series</b> , authorized and issued \$400,000, interest at 4.675%, principal and interest payable annually on September 1, collateralized by pledge of solid waste disposal system net revenues and revenues from an interlocal agreement with Washington County, Florida. The interlocal agreement specifies that Washington County will share equally with the City the full repayment of the bonds and will pay to the City, in equal installments, a sum equal to one-half of the annual bond payment. Bonds are held by the U.S. Department of Agriculture, Rural Development.		351,000
<b>Total</b>	<b>\$</b>	<b>816,511</b>

**City of Chipley**  
**Notes to Financial Statements**

**NOTE 7 – LONG-TERM DEBT (Continued)**

	<b>Business-Type Activities</b>
<b>Water and Sewer Revenue Bonds – 1986 Series</b> , authorized and issued \$1,379,200, interest at 5.00%, principal and interest payable annually on September 1, collateralized by net revenues of the system. Bonds are held by the U.S. Department of Agriculture, Rural Development.	\$ 670,200
<b>Water and Sewer Revenue Bonds – 1994 Series A</b> , authorized and issued \$851,000, interest at 5.00%, principal and interest payable annually on September 1, collateralized by net revenues of the system. Bonds are held by the U.S. Department of Agriculture, Rural Development.	609,700
<b>Water and Sewer Revenue Bonds – 1994 Series B</b> , authorized and issued \$143,400, interest at 5.00%, principal and interest payable annually on September 1, with principal payments beginning in 1996, collateralized by net revenues of the system. Bonds are held by the U.S. Department of Agriculture, Rural Development.	102,700
<b>Water and Sewer Revenue Bonds – 1999 Series</b> , authorized and issued \$1,068,600, interest at 4.50%, principal and interest payable annually on September 1, collateralized by net revenues of the system. Bonds are held by the U.S. Department of Agriculture, Rural Development.	848,600
<b>Water and Sewer Revenue Bonds – 2006 Series</b> , authorized and issued \$128,900, interest at 4.375%, principal and interest payable annually on September 1, collateralized by net revenues of the system. Bonds are held by the U.S. Department of Agriculture, Rural Development.	115,600
<b>Total</b>	<b>\$ 2,346,800</b>

**NOTE 8 – PLEDGED REVENUES**

The City has pledged future water and sewer system net revenues to repay \$3,163,311 in revenue bonds issued in 1986, 1994, 1998, 2001, 2003, and 2006. Proceeds from the bonds were used for capital improvements and rehabilitation or expansion of the City's water and sewer systems. Principal and interest on the bonds are payable through 2045, solely from the water and sewer system net revenues and an interlocal agreement with Washington County in which the City agreed to pay half of the debt service related to the portion of the debt which financed the construction of a library. Annual principal and interest on the bonds are expected to require approximately 66 percent of such net revenues. Principal and interest paid for the current year and total customer net revenues were \$267,916 and \$407,279, respectively.

**NOTE 9 – MAJOR SUPPLIER**

All natural gas sold by the natural gas fund is purchased from a single supplier, Florida Gas Utility. Purchases totaled \$241,038. Florida Gas Utility is currently the City’s sole supplier of natural gas.

**NOTE 10 – RESTRICTED NET POSITION**

Restricted net position is comprised of the following at September 30, 2014:

	<b>Governmental</b>	<b>Business-Type</b>
Restricted to capital improvements	\$ 904,784	\$ 43,678
Restricted to debt service	121,761	978,090
Restricted to economic development	414,465	-
	<b>\$ 1,441,010</b>	<b>\$ 1,021,768</b>

**NOTE 11 – INTEREST EXPENSE**

Interest expense incurred for business-type activities for the year ended September 30, 2014 was \$278,323, all of which was charged to non-operating expenses. Cash paid for interest was \$281,891 and there was no interest capitalized for the year ended September 30, 2014.

**NOTE 12 – DEFINED BENEFIT PENSION PLAN**

Substantially all full-time City employees are participants in the Florida Retirement System (the System), a defined benefit, cost-sharing, multiple-employer public retirement system which is controlled by the State Legislature and administered by the State of Florida, Department of Administration, Division of Retirement. The plan covers full time employees of various governmental units within the State of Florida. Accordingly, the actuarial information and related disclosures attributable to the City’s employees are not determinable.

The System's funding policy provides for monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due based upon plan assumptions (see rates below). Level percentages of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial cost method. If an unfunded actuarial liability reemerges, future plan benefit changes, assumption changes, and methodology changes are amortized within 30 years using level percentage of payroll amounts. Only gains reserved for rate stabilization will be amortized on a rolling 10% basis, as a level dollar amount.

The System provides for those employees hired prior to July 1, 2011 for vesting of benefits after 6 years of creditable service. Normal retirement benefits are available to employees who retire at or after age 62 with 6 or more years of service. Early retirement is available after 6 years of service

**NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)**

with a 5% reduction of benefits for each year prior to the normal retirement age. For those employees hired on or after July 1, 2011, the System provides for vesting of benefits after eight years of creditable service. Normal retirement benefits are available to these employees who retire at or after age 65 with eight years of service with a 5% reduction of benefits each year. Retirement benefits are based upon age, average compensation, and years-of-service credit where average compensation is computed as the average of an individual's five highest years of earnings,

Participating employer contributions are based upon state-wide rates established by the State of Florida. These rates applied to employee salaries at year end are as follows: regular employees- 7.37%, special risk employees-19.82%, DROP Program-12.28%, senior management-21.14%, and elected officials-43.24%.

The City's contributions to the System for the years ended September 30, 2014, 2013, and 2012, were \$220,620, \$144,629, and \$119,351, respectively, and equal to the actuarially determined contributions for each year. For the year ended September 30, 2014, the City's total payroll was \$1,852,546 and the total covered payroll was \$1,769,799.

The City has no responsibility to the System other than to make the periodic payments required by State Statutes. Ten year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2014 Comprehensive Annual Financial Report. The Florida Division of Retirement issues a publicly available financial report that includes financial statements and required supplemental information. The report may be obtained by writing Florida Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000.

**NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

In accordance with Section 112.081 of the Florida Statutes, the City provides postretirement health insurance to employees who retire from the City and wish to remain on the City's health plan. The retired employees reimburse the City for the actual premium cost, including the portion that previously would have been paid by the City during employment. Expenses for postretirement health care benefits are recognized as paid and there is no advance funding on the part of the City.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans*, requires specific accruals and disclosures for all governmental employers who provide other postemployment benefits for which the employer pays all or a part of the cost of the benefits, such as the postretirement health care plan discussed above. GASB Statement No. 45 improves financial reporting and disclosure by matching the cost of postemployment benefits with the periods when the related services are received by the employer, by providing information about accrued liabilities for promised benefits related to past services and the extent those liabilities have been funded and by providing valuable information about demands on future employer cash flows.

**NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)**

**Plan Description** - The City of Chipley has previously established and maintains an employee group medical insurance plan that it makes available to eligible retirees in accordance with State of Florida law and City ordinance. The medical plan is a single-employer, experience rate insurance plan that provides medical benefits to eligible retirees and their eligible dependents. The post-retirement benefit portion of this benefit plan refers to the medical benefits applicable to current and future retirees and their eligible dependents used for the purpose of this valuation.

As of the valuation date, the total number of participating eligible retirees and dependents used for the medical plan was 1. The City currently determines the eligibility, benefit provisions and changes to those provisions applicable to retirees in accordance with applicable City ordinances, federal and state laws.

***Actuarial Valuation as of September 30, 2014***

Summary of Employer Census Data

Number of active members	40
Number of retired members	-0-
Number of spouses receiving benefits	1

**Funded Status and Funding Progress** - As of September 30, 2014, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$62,977, and the actuarial value of present assets was \$ -0-, resulting in an unfunded actuarial accrued liability of \$62,977. The covered payroll (annual payroll of active participating employees) was \$1,408,096 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.47%.

**Annual OPEB Cost and Net OPEB Obligation** - The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions*. The ARC, which represents a level of funding that is paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for postemployment health care benefits.

**City of Chipley**  
**Notes to Financial Statements**

**NOTE 13 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)**

<b><i>Fiscal Year Ending September 30, 2014</i></b>	<b>Amount</b>
Annual required contribution	\$ 11,894
Service cost	62,977
Amortization of unfunded actuarial accrued liability	62,977
Annual OPEB cost	11,894
Contribution toward the OPEB cost in fiscal year 2014	(8,722)
Increase in Net OPEB obligation	3,172
Net OPEB obligation, beginning of year	-
<b>Net OPEB obligation, end of year</b>	<b>\$ 3,172</b>

Actuarial Method and Assumptions Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The City's OPEB actuarial valuation using information as of September 30, 2014 employed the projected unit cost method to estimate the unfunded actuarial accrued liability as of September 30, 2014 and to estimate the City's 2014 annual required contribution. Although the OPEB liability is currently unfunded, the actuarial assumption included a 4.5% discount rate. The actuarial assumptions also included a health care cost trend level 5.00% for medical. The economic rates are based on an assumed long-term medical inflation rate of 5.00% per annum. The amortization period used to determine amortization costs for the initial unfunded actuarial accrued liability is a level period for 30 years on an open basis.

**NOTE 14 – COMMITMENTS AND CONTINGENCIES**

***Commitments***

**Disadvantaged Small Community Grant** – A grant with the Florida Department of Environmental Protection (FLDEP) funding the cost of sewer improvements in the amount of \$28,279,095. As of September 30, 2014, the City had received \$15,758,978 in project funding of which \$8,375,000 had been applied to reduce debt owed to FLDEP. The remaining amount under this agreement as of September 30, 2014 totaled \$4,145,117, was paid in March of 2015 and applied to the FLDEP note payable, which had an outstanding balance of \$5,394,289 at September 30, 2014.

**NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)**

**Litigation** - The City is involved in several litigations and claims arising in the ordinary course of operations. In the opinion of management, the range of potential recoveries or liabilities would not materially affect the financial position of the City at September 30, 2014. Accordingly, no accruals for loss contingency have been made in the accompanying financial statements.

**Grants** – Grant funds received and disbursed by the City are for specific purposes and are subject to review by grantor agencies. Such reviews may result in requests for reimbursements due to disallowed expenditures. Based upon experience, the City does not believe that such disallowance, if any, would have a material effect on the financial position of the City. As of September 30, 2014, there were no questioned or disallowed costs as a result of reviews by grantor agencies in process or completed.

**Construction Commitments** –The City had open contract commitments for construction of water and sewer improvements as of September 30, 2014, as follows:

Contract amounts	\$	1,940,000
Amount expended through September 30, 2014		45,167
<hr/>		
Remaining commitment on contract	\$	1,894,833
<hr/>		

**NOTE 15 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, worker’s compensation claims, errors and omissions, and natural disasters for which the City carries commercial insurance. The City purchases commercial insurance for the risks of losses to which it is exposed. Policy limits and deductibles are reviewed annually by management and established at amounts to provide reasonable protection from significant financial loss. Settlements have not exceeded insurance coverage for any of the prior three fiscal years.

**NOTE 16 – SUBSEQUENT EVENTS**

During February of 2015, the State of Florida Department of Transportation issued forgiveness of the unpaid balance and any accrued and outstanding interest related to the loan in the amount of \$816,511 as of September 30, 2014. There will be no continued performance by either party related to this loan.

See Note 14 for additional subsequent event information.

**City of Chipley**  
**Post-Employment Benefits Plan Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded Actuarial Liabilities (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
9/30/2014	\$ -	\$ 62,977	\$ 62,977	0.00%	\$ 1,408,096	4.47%

**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**

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

We have audited, in accordance with the 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 the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Chipley, Florida (the "City") 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, and have issued our report thereon dated June 4, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **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.

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

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

June 4, 2015

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

Honorable Mayor and Members of  
The City Council  
City of Chipley, Florida

**Report on Compliance for Each Major State Project**

We have audited the City of Chipley, Florida's (the "City") compliance with the types of compliance requirements described in the Department of Financial Services' *State Projects Compliance Supplement* that could have a direct and material effect on each of the City's major state projects for the year ended September 30, 2014. The City's major state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state projects.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Auditor General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major State Project***

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended September 30, 2014.

## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with Chapter 10.550, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

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

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

June 4, 2015

City of Chipley

**Schedule of Expenditures of Federal Awards and State Financial Assistance  
For the Year Ended September 30, 2014**

Federal/State Agency Pass-Through Entity Federal Program/State Project	CFDA CSFA Number	Grant I.D. Number	Expenditures
<b>Federal Highway Administration</b>			
Passed through State of Florida Department of Transportation			
Highway Planning and Construction	20.205	425739-2-38-01	\$ 24,062
Highway Planning and Construction	20.205	425739-1-58-01	88,368
<b>U.S. Department of Justice</b>			
Passed through Florida Department of Law Enforcement			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-JAGD-WASH-2- E6-069	1,001
<b>Total Expenditures of Federal Awards</b>			<b>\$ 113,431</b>
<b>Florida Department of Environmental Protection</b>			
Florida Financially Disadvantaged Small Community Grant			
Statewide Surface Water Restoration and Wastewater Projects	37.075	576120	\$ 5,750,000
	37.039	LP67010	45,167
<b>Total Expenditures of State Financial Assistance</b>			<b>\$ 5,795,167</b>

**City of Chipley**

**Notes to Schedule of Expenditures of Federal Awards and State  
Financial Assistance**

**For the Year Ended September 30, 2014**

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

The accounting policies and presentation of the Schedule of Expenditures of Federal Awards (SEFA) for the City have been designed to conform to generally accepted accounting principles as applicable to governmental units, including the reporting and compliance requirements contained in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and 10.550 Rules of the Florida Auditor General.

***Reporting Entity***

The reporting entity consists of the City of Chipley, Florida as detailed in Note 1 of the financial statements.

***Basis of Accounting***

The SEFA was prepared using the modified accrual basis of accounting. The modified accrual basis of accounting differs from the full accrual basis of accounting in that expenditures for federal property and equipment are expensed when incurred, rather than being capitalized and depreciated over their useful lives, which conforms to the basis of reporting to grantors for reimbursement under the terms of the City's federal grants.

**NOTE 2 – ENVIRONMENTAL PROTECTION AGENCY LOAN**

The City was awarded funding for various improvements to the sewer system through a federal loan program funded by the Environmental Protection Agency and passed through the Florida Department of Environmental Protection. The nature of the loan award and the remaining unpaid principal balance for the loan is as follows:

Program Description	CFDA No.	Pass-through Grantor No.	Balance at September 30, 2014
<b>Florida Department of Environmental Protection –</b> A loan obtained to cover the expenses of sewer rehabilitation and upgrades, payable semiannually effective September 2010. Interest at rates ranging from 1.81% to 1.87% began to accrue upon due date of first principal payment.	66.458	DP 576150	\$ 5,394,289

**City of Chipley**  
**Schedule of Findings and Questioned Costs**  
**Relating to State Financial Assistance**  
**For the Year Ended September 30, 2014**

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Any material weakness(es) identified?  yes  no
- Any significant deficiencies identified not considered to be material weaknesses?  yes  none reported

Any noncompliance material to financial statements noted?  yes  no

**State Awards**

Internal control over major state projects:

- Any material weakness(es) identified?  yes  no
- Any significant deficiencies identified not considered to be material weaknesses?  yes  none reported

Type of auditors' report issued on compliance for major state projects: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Rule 10.557 of the Florida Auditor General?  yes  no

Identification of major state projects:

<u>CSFA Number(s)</u>	<u>Name of State Project</u>
37.075	Disadvantaged Small Community Grant
Dollar threshold used to distinguish between type A and type B projects?	\$ 300,000

**Section II – Financial Statements Findings**

None

**Section III – Major State Projects Findings and Questioned Costs**

The audit did not disclose any audit findings required to be reported pursuant to Section 10.557, Rules of the Auditor General. (Section 10.554(1)(l)1.f, Rules of the Auditor General)

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to State projects.

No Corrective Action Plan is required because there were no findings required to be reported under the Florida Single Audit Act.

**INDEPENDENT AUDITOR'S REPORT ON AN EXAMINATION  
CONDUCTED IN ACCORDANCE WITH AICPA PROFESSIONAL STANDARDS,  
SECTION 601, REGARDING COMPLIANCE REQUIREMENTS IN ACCORDANCE  
WITH CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

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

We have examined the compliance of the City of Chipley, Florida (the "City") with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during 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 complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.

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

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

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

June 4, 2015

## **MANAGEMENT LETTER**

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

### **Report on the Financial Statements**

We have audited the financial statements of the City of Chipley, Florida (the "City") as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated June 4, 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 Florida 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 the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance, Schedule of Findings and Questioned Costs; and Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated June 4, 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 audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

### **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. This information is 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(8), 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.

## **Other Matters**

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

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

## **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, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

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

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

June 4, 2015