

City of Chipley

Financial Statements

For The Year Ended September 30, 2013

**City of Chipley
Table of Contents
September 30, 2013**

	Page
INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS	1 – 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 – 9
BASIC FINANCIAL STATEMENTS	
Government Wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Chipley Redevelopment Agency	17
Statement of Net Position – Proprietary Funds	18 – 19
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21 – 22
Notes to Financial Statements	23 – 44
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress for Retirement Systems of Florida	45
COMPLIANCE SECTION	
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 <u>Government Auditing Standards</u>	46 – 47

City of Chipley
Table of Contents (Continued)
September 30, 2013

	<u>Page</u>
Independent Auditors' Report on Compliance for Each Major State Project and on Internal Control over Compliance required by OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General	48 – 49
Schedule of Expenditures of Federal Awards and State Financial Assistance	50
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance	51
Schedule of Findings and Questioned Costs	52 – 53
MANAGEMENT LETTER	54 – 56

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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.

Basis for Qualified Opinion

As discussed in Note 17 to the financial statements, the City has not measured and recognized the cost of future benefits to be provided from its postretirement health insurance plan. Accounting principles generally accepted in the United States of America (GAAP) require that those future liabilities be reported on the Statement of Net Position and in a Schedule of Funding Progress and the annual costs associated with the plan be recorded on the Statement of Activities. The amount by which this departure from GAAP would affect the long-term liabilities, net position and expenses of the governmental activities, the business-type activities, and related funds is not readily determinable.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities and proprietary funds of the City as of September 30, 2013, and the changes in financial position thereof and where applicable, cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining governmental fund information of the City as of September 30, 2013, and the respective changes in financial position and, 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 4-9 and page 45 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 *Audits of States, Local Governments, and Non-Profit Organizations*, 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 28, 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 28, 2014

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, 2012 and September 30, 2013 please read in conjunction with the City's financial statements (beginning on page 10).

City Highlights

The City was awarded a \$388,852 Local Agency Program Grant during a prior fiscal year by the State of Florida Department of Transportation. The Chipley Sidewalk Enhancement Project started during the current fiscal year and the funds are being used to construct 1.705 miles of sidewalks on East Boulevard, Pecan Street and Orange Street from South Boulevard to U.S. Highway 90.

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.

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 position is 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.

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 by utilizing information presented in both sets of financial statements.

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 each major governmental fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with the budget and are presented as part of the fund financial statements on pages 16 and 17.

The governmental fund financial statements can be found on pages 12 – 15.

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 government-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 18 – 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 – 44 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 as of September 30, 2013 and 2012:

	Governmental Activities		
	2013	2012	Change
Assets			
Current and other assets	\$ 3,128,633	\$ 2,721,344	\$ 407,289
Capital assets, net	5,276,175	5,538,724	(262,549)
Total assets	8,404,808	8,260,068	144,740
Liabilities			
Current liabilities	446,475	315,019	131,456
Noncurrent liabilities	1,145,593	1,165,858	(20,265)
Total liabilities	1,592,068	1,480,877	111,191
Deferred Inflows of Resources			
Unavailable revenue – occupational licenses	33,498	-	33,498
Net Position			
Net investment in capital assets	4,374,945	4,316,356	58,589
Restricted	1,369,816	1,208,903	160,913
Unrestricted	1,034,481	1,253,932	(219,451)
Total net position	\$ 6,779,242	\$ 6,779,191	\$ 51
Business-type Activities			
	2013	2012	Change
Assets			
Current and other assets	\$ 2,655,269	\$ 2,932,392	\$ (277,123)
Capital assets, net	39,899,885	40,995,811	(1,095,926)
Total assets	42,555,154	43,928,203	(1,373,049)
Liabilities			
Current liabilities	1,409,190	1,385,686	23,504
Noncurrent liabilities	13,893,625	14,885,737	(992,112)
Total liabilities	15,302,815	16,271,423	(968,608)
Net Position			
Net investment in capital assets	25,085,443	25,243,745	(158,302)
Restricted	1,343,704	1,654,930	(311,226)
Unrestricted	823,192	758,105	65,087
Total net position	\$ 27,252,339	\$ 27,656,780	\$ (404,441)

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities at the close of the fiscal year by \$6.8 million for governmental activities and \$27.3 million for business-type activities.

The largest component (\$29.5 million) of the City's net position as of September 30, 2013, reflects its net investment in capital assets (ie. land, infrastructure, buildings, equipment and others), less depreciation and 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 position is the next largest component, totaling \$2.7 million as of September 30, 2013. Restricted net position represents 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 position of the governmental activities increased minimally or less than 1.0 percent, and the net position of the business-type activities decreased by \$374 thousand or less than 2.0 percent.

<i>For the years ended September 30,</i>	Governmental Activities		
	2013	2012	Change
Revenues			
Program revenues			
Charges for services	\$ 134,687	\$ 139,670	\$ (4,983)
Operating grants and contributions	796,508	962,798	(166,290)
Capital grants and contributions	309,297	90,981	218,316
General revenues			
Taxes	1,546,646	1,597,081	(50,435)
Investment earnings	3,688	10,357	(6,669)
Other	166,259	164,576	1,683
Total revenues	2,957,085	2,965,463	(8,378)
Expenses			
Governmental activities			
General government	797,568	751,402	46,166
Public safety	1,088,334	1,008,188	80,146
Public works	627,030	526,970	100,060
Cemetery and grounds	209,439	251,214	(41,775)
Culture and recreation	186,998	198,451	(11,453)
Interest	47,665	50,063	(2,398)
Total expenses	2,957,034	2,786,288	170,746
Excess revenues over (under) expenses	51	179,175	(179,124)
Net Position – beginning	6,779,191	6,600,016	179,175
Net Position – ending	\$ 6,779,242	\$ 6,779,191	\$ 51

<i>For the years ended September 30,</i>	Business-type Activities		
	2013	2012	Change
Revenues			
Program revenues			
Charges for services	\$ 2,732,341	\$ 2,775,752	\$ (43,411)
Capital grants and contributions	765,420	1,024,954	(259,534)
General revenues			
Investment earnings	7,164	6,642	522
Other	35,353	31,633	3,720
Total revenues	3,540,278	3,838,981	(298,703)
Expenses			
Business-type activities			
Water	666,645	642,132	24,513
Sewer	2,194,489	2,187,419	7,070
Sanitation	670,791	659,620	11,171
Natural gas	382,232	357,938	24,294
Total expenses	3,914,157	3,847,109	67,048
Excess revenues over (under) expenses	(373,879)	(8,128)	(365,751)
Net Position – beginning	27,656,780	27,664,908	(8,128)
Prior Period Adjustment	(30,562)	-	(30,562)
Net Position – as restated	27,626,218	27,664,908	(38,690)
Net Position – ending	\$ 27,252,339	\$ 27,656,780	\$ (404,441)

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 2013, the City's general fund reported a fund balance of \$2,022,297. The committed portion of this fund balance is \$42,067 and the unassigned portion is \$1,075,564.

The Chipley 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 2013, the community redevelopment agency fund reported a restricted fund balance of \$339,804.

As of the end of the fiscal year 2013, the City's other governmental funds (non-major funds) reported a restricted fund balance of \$128,657 and a committed fund balance of \$5,477.

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.

Capital Asset and Long-Term Debt

During fiscal year 2013, the City invested nearly \$405,000 in capital assets. Approximately \$228,000 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.

BASIC FINANCIAL STATEMENTS

City of Chipley
Statement of Net Position
September 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,778,468	\$ 811,370	\$ 2,589,838
Investments	42,068	-	42,068
Receivables, net	180,872	294,827	475,699
Due from other governments	112,656	-	112,656
Internal balances	65,750	(65,750)	-
Restricted cash	716,882	342,443	1,059,325
Restricted investments	6,700	1,272,379	1,279,079
Land held for resale	225,237	-	225,237
Capital assets, not being depreciated	1,149,478	612,748	1,762,226
Capital assets being depreciated, net	4,126,697	39,287,137	43,413,834
Total assets	8,404,808	42,555,154	50,959,962
Liabilities			
Accounts payable	204,946	37,845	242,791
Accrued payroll liabilities	168,717	42,595	211,312
Other liabilities	-	1,583	1,583
Payable from restricted assets			
Accrued interest	3,334	17,247	20,581
Customer deposits	-	205,171	205,171
Long-term liabilities			
Portion due or payable within one year			
Notes payable	7,420	1,015,849	1,023,269
Bonds payable	62,058	88,900	150,958
Portion due or payable after one year			
Compensated absences	313,841	183,932	497,773
Notes payable	15,241	11,362,893	11,378,134
Bonds payable	816,511	2,346,800	3,163,311
Total liabilities	1,592,068	15,302,815	16,894,883
Deferred Inflows of Resources			
Unavailable revenue - occupational licenses	33,498	-	33,498
Net Position			
Net investment in capital assets	4,374,945	25,085,443	29,460,388
Restricted	1,369,816	1,343,704	2,713,520
Unrestricted	1,034,481	823,192	1,857,673
Total net position	\$ 6,779,242	\$ 27,252,339	\$ 34,031,581

See accompanying notes to financial statements.

City of Chipley
Statement of Activities
For the Year Ended September 30, 2013

Functions/Programs	Expenses	Charges for Services	Program Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 797,568	\$ 48,728	\$ 537,619
Public safety	1,088,334	49,476	97,907
Public works	627,030	-	154,779
Cemetery and grounds	209,439	14,410	-
Culture and recreation	186,998	22,073	6,203
Interest	47,665	-	-
Total governmental activities	2,957,034	134,687	796,508
Business-type Activities:			
Water	666,645	598,955	-
Sewer	2,194,489	1,101,851	-
Sanitation	670,791	694,490	-
Natural gas	382,232	337,045	-
Total business-type activities	3,914,157	2,732,341	-
Total primary government	\$ 6,871,191	\$ 2,867,028	\$ 796,508

General Revenues

Taxes:

Ad valorem tax

Sales taxes

Utility taxes

Other taxes

Interest income

Miscellaneous

Transfers

Total general revenues

Change in net position

Net Position - beginning, as originally stated

Prior Period Adjustment

Net Position - beginning, as restated

Net Position - ending

See accompanying notes to financial statements.

Revenues Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
\$ 81,154	\$ (130,067)	\$ -	\$ (130,067)
-	(940,951)	-	(940,951)
228,143	(244,108)	-	(244,108)
-	(195,029)	-	(195,029)
-	(158,722)	-	(158,722)
-	(47,665)	-	(47,665)
309,297	(1,716,542)	-	(1,716,542)
15,420	-	(52,270)	(52,270)
750,000	-	(342,638)	(342,638)
-	-	23,699	23,699
-	-	(45,187)	(45,187)
765,420	-	(416,396)	(416,396)
<u>\$ 1,074,717</u>	<u>(1,716,542)</u>	<u>(416,396)</u>	<u>(2,132,938)</u>
	837,848	-	837,848
	108,993	-	108,993
	545,214	-	545,214
	54,591	-	54,591
	3,688	7,164	10,852
	177,059	24,553	201,612
	(10,800)	10,800	-
	1,716,593	42,517	1,759,110
	51	(373,879)	(373,828)
	6,779,191	27,656,780	34,435,971
	-	(30,562)	(30,562)
	6,779,191	27,626,218	34,405,409
	\$ 6,779,242	\$ 27,252,339	\$ 34,031,581

**City of Chipley
Balance Sheet
Governmental Funds
September 30, 2013**

	General Fund	Chipley Redevelopment Agency
Assets		
Cash and cash equivalents	\$ 1,772,991	\$ -
Investments	42,068	-
Receivables, net	160,838	20,034
Due from other governments	112,656	-
Interfund receivables	65,750	-
Restricted cash	275,133	319,792
Restricted investments	-	-
Total assets	\$ 2,429,436	\$ 339,826
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 204,924	\$ 22
Salaries and benefits payable	168,717	-
Total liabilities	373,641	22
Deferred Inflows of Resources		
Unavailable revenue - occupational license	33,498	-
Fund balances		
Restricted	904,666	339,804
Committed	42,067	-
Unassigned	1,075,564	-
Total fund balances	2,022,297	339,804
Total liabilities, deferred inflows of resources and fund balances	\$ 2,429,436	\$ 339,826

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 5,477	\$ 1,778,468
-	42,068
-	180,872
-	112,656
-	65,750
121,957	716,882
6,700	6,700
<u>\$ 134,134</u>	<u>\$ 2,903,396</u>
\$ -	\$ 204,946
-	168,717
-	373,663
-	33,498
128,657	1,373,127
5,477	47,544
-	1,075,564
<u>134,134</u>	<u>2,496,235</u>
<u>\$ 134,134</u>	<u>\$ 2,903,396</u>

City of Chipley

**Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2013**

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

Total fund balance - governmental funds	\$ 2,496,235
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	5,276,175
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.	(313,841)
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	(3,334)
Bonds, notes and leases payable	(901,230)
Net position of governmental activities in the statement of net position	\$ 6,779,242

See accompanying notes to financial statements.

City of Chipley
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2013

	General Fund	Chipley Redevelopment Agency
Revenues		
Taxes	\$ 1,962,096	\$ -
Licenses and permits	47,664	-
Fines, forfeitures and penalties	39,413	-
Intergovernmental	378,681	135,745
Charges for services	22,073	-
Interest	2,569	1,099
Miscellaneous	368,462	-
Total revenues	2,820,958	136,844
Expenditures		
General government	588,105	69,052
Public safety	973,715	-
Public works	813,357	-
Cemetery and grounds	209,439	-
Culture and recreation	155,825	-
Debt service, principal	-	-
Debt service, interest	-	-
Total expenditures	2,740,441	69,052
Excess (Deficiency) of Revenues over Expenditures	80,517	67,792
Other Financing Sources (Uses)		
Transfers in	-	-
Transfers out	(158,842)	-
Total other financing sources (uses)	(158,842)	-
Net change in fund balances	(78,325)	67,792
Fund Balances - Beginning	2,100,622	272,012
Fund Balances - Ending	\$ 2,022,297	\$ 339,804

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 1,962,096
-	47,664
-	39,413
-	514,426
-	22,073
20	3,688
10,063	378,525
<hr/>	<hr/>
10,083	2,967,885
<hr/>	<hr/>
-	657,157
13,358	987,073
-	813,357
-	209,439
-	155,825
95,902	95,902
47,874	47,874
<hr/>	<hr/>
157,134	2,966,627
<hr/>	<hr/>
(147,051)	1,258
<hr/>	<hr/>
148,042	148,042
-	(158,842)
<hr/>	<hr/>
148,042	(10,800)
<hr/>	<hr/>
991	(9,542)
<hr/>	<hr/>
133,143	2,505,777
<hr/>	<hr/>
\$ 134,134	\$ 2,496,235
<hr/> <hr/>	<hr/> <hr/>

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, 2013**

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

Net change in fund balances - total governmental funds: \$ (9,542)

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. 264,888

Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Net Position. (302,199)

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.

Compensated absences (49,207)

Accrued interest expense 209

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.

Repayment of debt 95,902

Change in net position of governmental activities \$ 51

See accompanying notes to financial statements.

City of Chipley

**Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget and Actual - General Fund
For the Year Ended September 30, 2013**

	Original Budget	Final Budget	Actual Amounts	Variance with Budget - Positive (Negative)
Revenues				
Taxes	\$ 2,023,064	\$ 2,025,864	\$ 1,962,096	\$ (63,768)
Licenses and permits	55,000	55,000	47,664	(7,336)
Intergovernmental	919,334	399,790	378,681	(21,109)
Charges for services	30,000	30,000	22,073	(7,927)
Fines and forfeitures	23,600	52,398	39,413	(12,985)
Interest	2,000	2,500	2,569	69
Miscellaneous	345,047	374,339	368,462	(5,877)
Total revenues	3,398,045	2,939,891	2,820,958	(118,933)
Expenditures				
General government	586,048	618,178	588,105	30,073
Public safety	923,418	991,476	973,715	17,761
Public works	1,354,852	827,407	813,357	14,050
Cemetery and grounds	251,950	224,950	209,439	15,511
Culture and recreation	169,275	171,775	155,825	15,950
Total expenditures	3,285,543	2,833,786	2,740,441	93,345
Excess of Revenues Over Expenditures	112,502	106,105	80,517	(25,588)
Other Financing Sources (Uses)				
Transfers in	3,750	38,994	-	(38,994)
Transfers out	(79,262)	(195,062)	(158,842)	36,220
Total other financing sources (uses)	(75,512)	(156,068)	(158,842)	(2,774)
Net change in fund balances	36,990	(49,963)	(78,325)	(28,362)
Fund Balances - beginning	2,100,622	2,100,622	2,100,622	-
Fund Balances - ending	\$ 2,137,612	\$ 2,050,659	\$ 2,022,297	\$ (28,362)

See accompanying notes to 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, 2013**

	Original Budget	Final Budget	Actual Amounts	Variance with Budget - Positive (Negative)
Revenues				
Intergovernmental	\$ 133,017	\$ 135,747	\$ 135,745	\$ (2)
Interest	1,700	1,700	1,099	(601)
Total revenues	134,717	137,447	136,844	(603)
Expenditures				
General government	85,585	85,585	69,052	16,533
Total expenditures	85,585	85,585	69,052	16,533
Excess of Revenues Over Expenditures				
	49,132	51,862	67,792	15,930
Net change in fund balances	49,132	51,862	67,792	15,930
Fund Balances - beginning	272,012	272,012	272,012	-
Fund Balances - ending	\$ 321,144	\$ 323,874	\$ 339,804	\$ 15,930

See accompanying notes to financial statements.

**City of Chipley
Statement of Net Position
Proprietary Funds
September 30, 2013**

	Business-Type	
	Water	Sewer
Assets		
Current assets		
Cash and cash equivalents	\$ 10,024	\$ 201,931
Accounts receivable, net	69,211	119,626
Restricted assets:		
Cash and cash equivalents	111,035	175,319
Investments	-	1,272,379
Total current assets	190,270	1,769,255
Non-current assets		
Land	22,600	575,298
Capital assets, net of depreciation	3,480,662	35,432,963
Total non-current assets	3,503,262	36,008,261
Total assets	\$ 3,693,532	\$ 37,777,516

See accompanying notes to financial statements.

Activities

Sanitation		Non-Major Fund Natural Gas		Total	
\$	476,520	\$	122,895	\$	811,370
	77,194		28,796		294,827
	27,083		29,006		342,443
	-		-		1,272,379
<hr/>		<hr/>		<hr/>	
	580,797		180,697		2,721,019
<hr/>		<hr/>		<hr/>	
	10,350		4,500		612,748
	119,284		254,228		39,287,137
<hr/>		<hr/>		<hr/>	
	129,634		258,728		39,899,885
<hr/>		<hr/>		<hr/>	
\$	710,431	\$	439,425	\$	42,620,904

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City of Chipley
Statement of Net Position
Proprietary Funds (Continued)
September 30, 2013

	Business-Type	
	Water	Sewer
Liabilities		
Current liabilities		
Accounts payable	\$ 5,837	\$ 31,192
Accrued payroll liabilities	15,092	17,509
Other accrued liabilities	23	-
Interfund payables	15,000	50,750
<hr/>		
Total current liabilities	35,952	99,451
<hr/>		
Current liabilities payable from restricted assets		
Accrued interest	380	16,867
Notes payable, current portion	31,420	962,101
Bonds payable, current portion	1,700	87,200
<hr/>		
Total current liabilities payable from restricted assets	33,500	1,066,168
<hr/>		
Noncurrent liabilities		
Compensated absences	70,482	60,585
Customer deposits	67,690	82,085
Notes payable	816,932	10,475,525
Bonds payable	115,600	2,231,200
<hr/>		
Total noncurrent liabilities	1,070,704	12,849,395
<hr/>		
Total liabilities	1,140,156	14,015,014
<hr/>		
Net Position		
Net investment in capital assets	2,537,610	22,252,235
Restricted	48,269	1,295,435
Unrestricted (deficit)	(32,503)	214,832
<hr/>		
Total net position	\$ 2,553,376	\$ 23,762,502
<hr/> <hr/>		

See accompanying notes to financial statements.

Activities

		Non-Major Fund			
Sanitation		Natural Gas		Total	
\$	276	\$	540	\$	37,845
	3,370		6,624		42,595
	-		1,560		1,583
	-		-		65,750
<hr/>		<hr/>		<hr/>	
	3,646		8,724		147,773
<hr/>		<hr/>		<hr/>	
	-		-		17,247
	22,328		-		1,015,849
	-		-		88,900
<hr/>		<hr/>		<hr/>	
	22,328		-		1,121,996
<hr/>		<hr/>		<hr/>	
	20,935		31,930		183,932
	28,196		27,200		205,171
	70,436		-		11,362,893
	-		-		2,346,800
<hr/>		<hr/>		<hr/>	
	119,567		59,130		14,098,796
<hr/>		<hr/>		<hr/>	
	145,541		67,854		15,368,565
<hr/>		<hr/>		<hr/>	
	36,870		258,728		25,085,443
	-		-		1,343,704
	528,020		112,843		823,192
<hr/>		<hr/>		<hr/>	
\$	564,890	\$	371,571	\$	27,252,339

City of Chipley

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2013

	Business-Type	
	Water	Sewer
Operating Revenues		
Charges for services	\$ 598,955	\$ 1,101,851
Miscellaneous revenue	16,896	6,646
Total operating revenues	615,851	1,108,497
Operating Expenses		
Salaries and benefits	305,722	382,321
Services and supplies	219,165	371,303
Other expenses	15,877	15,492
Depreciation	120,681	1,083,449
Total operating expenses	661,445	1,852,565
Operating Income (Loss)	(45,594)	(744,068)
Non-Operating Revenues (Expenses)		
Grant revenue	15,420	750,000
Interest income	56	5,772
Interest expense	(5,201)	(341,926)
Total non-operating revenues (expenses)	10,275	413,846
Income (Loss) Before Transfers	(35,319)	(330,222)
Transfers in	10,800	-
Change in net position	(24,519)	(330,222)
Net Position - Beginning, as originally stated	2,586,679	24,114,502
Prior Period Adjustment	(8,784)	(21,778)
Net Position - Beginning, as restated	2,577,895	24,092,724
Total Net Position - ending	\$ 2,553,376	\$ 23,762,502

See accompanying notes to financial statements.

Activities		
Sanitation	Non-Major Fund Natural Gas	Total
\$ 694,490	\$ 337,045	\$ 2,732,341
-	1,011	24,553
694,490	338,056	2,756,894
75,404	143,722	907,169
577,842	215,362	1,383,672
2,625	5,180	39,174
13,934	17,967	1,236,031
669,805	382,231	3,566,046
24,685	(44,175)	(809,152)
-	-	765,420
1,000	337	7,165
(985)	-	(348,112)
15	337	424,473
24,700	(43,838)	(384,679)
-	-	10,800
24,700	(43,838)	(373,879)
540,190	415,409	27,656,780
-	-	(30,562)
540,190	415,409	27,626,218
\$ 564,890	\$ 371,571	\$ 27,252,339

City of Chipley
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2013

	Business-Type	
	Water	Sewer
Cash Flows From Operating Activities		
Receipts from customers, users and others	\$ 658,187	\$ 1,114,771
Payments to suppliers	(336,634)	(461,755)
Payments to employees	(232,264)	(288,645)
<hr/>		
Net cash provided by (used in) operating activities	89,289	364,371
<hr/>		
Cash Flows From Non-Capital Financing Activities		
Loan payments to other funds	(77,000)	(3,750)
Loan proceeds from other funds	10,800	-
<hr/>		
Net cash used in non-capital financing activities	(66,200)	(3,750)
<hr/>		
Cash Flows From Capital and Related Financing Activities		
Grant revenue	15,420	750,000
Purchases and construction of capital assets	-	(14,991)
Principal paid on capital debt	(33,120)	(1,027,829)
Proceeds from capital debt	-	-
Interest paid on capital debt	(5,201)	(341,926)
<hr/>		
Net cash used in capital and related financing activities	(22,901)	(634,746)
<hr/>		
Cash Flows From Investing Activities		
Interest and dividends	52	5,775
Sale of investments	-	311,372
<hr/>		
Net cash provided by investing activities	52	317,147
<hr/>		
Net increase (decrease) in cash and cash equivalents	240	43,022
<hr/>		
Cash and Cash Equivalents - beginning	120,819	334,228
<hr/>		
Cash and Cash Equivalents - ending	\$ 121,059	\$ 377,250
<hr/>		

See accompanying notes to financial statements.

Activities

		Non-Major Fund			
Sanitation		Natural Gas		Total	
\$	812,076	\$	334,094	\$	2,919,128
	(697,682)		(220,769)		(1,716,840)
	(72,413)		(137,205)		(730,527)
<hr/>					
	41,981		(23,880)		471,761
<hr/>					
	-		-		(80,750)
	-		-		10,800
<hr/>					
	-		-		(69,950)
<hr/>					
	-		-		765,420
	(116,519)		(8,593)		(140,103)
	(23,755)		-		(1,084,704)
	116,519		-		116,519
	(985)		-		(348,112)
<hr/>					
	(24,740)		(8,593)		(690,980)
<hr/>					
	1,002		336		7,165
	-		-		311,372
<hr/>					
	1,002		336		318,537
<hr/>					
	18,243		(32,137)		29,368
	485,360		184,038		1,124,445
<hr/>					
\$	503,603	\$	151,901	\$	1,153,813
<hr/> <hr/>					

-Continued-

City of Chipley
Statement of Cash Flows
Proprietary Funds (Continued)
For the Year Ended September 30, 2013

	Business-Type	
	Water	Sewer
Reconciliation of Operating Income (Loss) to		
Net Cash Provided by (Used In) Operating		
Activities		
Cash Provided by Operating Activities		
Operating income (loss)	\$ (45,598)	\$ (744,068)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	120,681	1,083,449
Changes in operating assets and liabilities:		
Accounts receivable	42,306	4,757
Accounts payable	(36,926)	10,172
Accrued payroll liabilities	2,692	3,506
Other accrued liabilities	23	(995)
Compensated absences	6,076	6,032
Customer deposits	35	1,518
Net cash provided by (used in) operating activities	\$ 89,289	\$ 364,371

See accompanying notes to financial statements

Activities

Sanitation		Non-Major Fund Natural Gas		Total
\$	24,685	\$	(44,176)	\$ (809,157)
	13,934		17,967	1,236,031
	187		(1,945)	45,305
	(695)		(304)	(27,753)
	654		1,089	7,941
	-		78	(894)
	2,337		5,428	19,873
	879		(2,017)	415
\$	41,981	\$	(23,880)	\$ 471,761

NOTE

- 1 Summary of Significant Accounting Policies
- 2 Stewardship, Compliance, and Accountability
- 3 Cash, Cash Equivalents, and Investments
- 4 Receivables
- 5 Interfund Balances
- 6 Capital Assets
- 7 Long-Term Debt
- 8 Pledged Revenues
- 9 Major Supplier
- 10 Restricted Net Position
- 11 Interest Expense
- 12 Cash Flow Information – Enterprise Funds
- 13 Defined Benefit Pension Plan
- 14 Commitments and Contingencies
- 15 Risk Management
- 16 Subsequent Events
- 17 Postemployment Benefits Other Than Pension Benefits
- 18 Prior Period Adjustment

Notes To Financial Statements

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.

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.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fund includes 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:

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 significances of their operating or financial relationships with the City. The City has elected to treat the redevelopment agency as a major fund so that the requirements of Section 163.387(8) of the Florida Statutes will be met.

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.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 has no fund balances classified as committed.

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.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013 is comprised of the following:

	General Fund	Chipley Redevelop- ment Agency	Other Governmental Funds	Total Governmental Funds
Restricted:				
Capital improvements	\$ 629,534	\$ -	\$ -	\$ 629,534
Debt service	-	-	128,657	128,657
Economic development	275,132	339,804	-	614,936
Committed:				
Cemetery	42,067	-	-	42,067
Volunteer Fire Department	-	-	5,477	5,477
Unassigned	1,075,568	-	-	1,075,568
	\$ 2,022,301	\$ 339,804	\$ 134,134	\$ 2,496,239

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:

Assessment date:	January 1, 2012
Levy date:	November 1, 2012
Due date:	March 31, 2013
Lien date:	April 1, 2013

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.

Notes To Financial Statements

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

The City implemented the following GASB statements during the fiscal year ended September 30, 2013:

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain FASB and American Institute of Certified Public Accountants' ("AICPA") accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB Statement No. 62 also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides guidance for certain items formerly classified as assets and liabilities. GASB Concepts Statement 4 redefines these as "deferred outflows of resources" (formerly assets) and "deferred inflows of resources" (formerly liabilities). Each new category must have its own Statement of Net Position section. GASB 63 also requires that the last line of the statements formerly called "Net assets" now be titled "Net position" to reflect the new classifications. In addition, "Capital assets, net of debt" will now be titled "Net investments in capital assets" in order to properly present the total of these items. Other than the new classifications and titles, this Statement only addresses upfront payments of service concession arrangements and the deferral of annual changes in the fair value of derivatives as items to be reclassified as either a deferred outflow or deferred inflow.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement provides more guidance for the items listed in GASB 63, and adds additional changes. It requires that statements avoid use of the word "deferred" except as it relates to items that are deferred outflows or are deferred inflows. It addresses the calculation of a deferred outflow or inflow for refunding of debt. For nonexchange transactions like grants, amounts received before the time period of eligibility are treated as deferred inflows. This Statement also addresses taxes received prior to the period to which they relate. GASB 65 also requires debt issuance costs to be expensed in the period that the debt was issued. In the past, these costs were amortized over the life of the issue. The effects of this change are required to be disclosed on the statements in the period it is implemented. Losses on debt refundings are not expensed, but rather, are treated as deferred outflows. For operating leases, any initial direct costs are recognized in the period incurred, instead of being amortized over the life of the lease. When an asset is recorded in governmental fund statements, but the revenue is not available until a future period, a deferred inflow is reported until the revenue becomes available.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 66, *Technical Corrections-2012-an Amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010.

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:

- 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.

Notes To Financial Statements

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

- 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, 2013:

	Governmental Activities	Business-type Activities
<i>Unrestricted</i>		
Certificates of deposit	\$ 42,068	\$ -
<i>Restricted</i>		
Certificates of deposit	\$ 6,700	\$ 227,628
US Treasury note	-	1,044,751
	\$ 6,700	\$ 1,272,379

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.

The City also invested funds in the Florida State Board of Administration Local Government Surplus funds Trust Fund (Florida PRIME) and Fund B. 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

Notes To Financial Statements

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

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, 2013, the fair value and the carrying value of these funds was \$2,457,503. The funds are carried as cash on the balance sheet in the amount of \$2,202,492, and as restricted cash of \$255,011 at September 30, 2013. The local government surplus investment pool is not rated by a nationally recognized statistical rating agency as of September 30, 2013.

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.

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.

Fund B is accounted for as a fluctuating net asset value (NAV) pool. At September 30, 2013, the fair value and the carrying value of these funds was \$14,043 and reported as cash of \$9,038 and as restricted cash of \$5,005.

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, 2013, 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	\$ 276,396	\$ 276,396	\$ -	\$ -	-
US Treasury Note	1,044,751	1,044,751	-	-	-
	\$ 1,321,147	\$ 1,321,147	\$ -	\$ -	-

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

	General Fund	Chipley Redevelopment Agency
Taxes	\$ 75,434	\$ -
Franchise fees	23,731	-
Contract services	11,666	-
Revolving loan receivable	-	20,034
Other	50,007	-
	\$ 160,838	\$ 20,034

Proprietary Funds

	Water	Sewer	Sanitation	Non-major Natural Gas
Accounts – utility billings	\$ 69,845	\$ 120,600	\$ 78,034	\$ 29,117
Allowance for doubtful accounts	(767)	(1,339)	(865)	(321)
Other	133	365	25	-
	\$ 69,211	\$ 119,626	\$ 77,194	\$ 28,796

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, 2013 is shown below:

Interfund Receivables and Payables

Receivable Fund	Payable Fund	Amount
General	Water	\$ 15,000
General	Sewer	50,750
		\$ 65,750

Interfund Transfers

	Transfers In		
	Water	Debt Service	Total
Transfers Out			
General	\$ 10,800	\$ 148,042	\$ 158,842

Notes To Financial Statements

NOTE 6 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 897,835	\$ 23,500	\$ -	\$ 921,335
Construction in progress	-	228,143	-	228,143
Total capital assets not being depreciated	\$ 897,835	\$ 251,643	\$ -	\$ 1,149,478
Capital assets being depreciated:				
Furniture and equipment	\$ 2,153,409	\$ 13,245	\$ -	\$ 2,166,654
Improvements other than buildings	1,585,203	-	-	1,585,203
Buildings	4,593,674	-	-	4,593,674
Total capital assets being depreciated	8,332,286	13,245	-	8,345,531
Less accumulated depreciation for:				
Furniture and equipment	1,790,550	122,789	-	1,913,339
Improvements other than buildings	548,180	55,033	-	603,213
Buildings	1,577,904	124,377	-	1,702,281
Total accumulated depreciation	3,916,634	302,199	-	4,218,833
Total capital assets being depreciated, net	\$ 4,415,652	\$ (288,955)	\$ -	\$ 4,126,697
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 612,748	\$ -	\$ -	\$ 612,748
Capital assets being depreciated:				
Building and plant	\$ 47,375,216	\$ 8,595	\$ -	\$ 47,383,811
Equipment and vehicles	2,177,092	131,510	-	2,308,602
Total capital assets being depreciated	49,552,308	140,105	-	49,692,413
Less accumulated depreciation for:				
Building and plant	7,723,809	1,127,139	-	8,850,948
Equipment and vehicles	1,445,436	108,892	-	1,554,328
Total accumulated depreciation	9,169,245	1,236,031	-	10,405,276
Total capital assets, being depreciated, net	\$ 40,383,063	\$ (1,095,926)	\$ -	\$ 39,287,137

Notes To Financial Statements

NOTE 6 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 107,102
Public safety	114,505
Public works	41,816
Cemetery and grounds	7,603
Culture and recreation	31,173
<hr/>	
Total depreciation expense - governmental activities	\$ 302,199
<hr/>	
Business-Type Activities	
Water	\$ 120,681
Sewer	1,083,449
Sanitation	13,934
Natural Gas	17,967
<hr/>	
Total depreciation expense - business-type activities	\$ 1,236,031

NOTE 7 – LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
Revenue bonds	\$ 937,326	\$ -	\$ 58,757	\$ 878,569	\$ 62,058
Notes and leases	59,805	-	37,144	22,661	7,420
Compensated absences	264,634	49,207	-	313,841	-
<hr/>					
Total	\$ 1,261,765	\$ 49,207	95,901	\$ 1,215,071	\$ 69,478
<hr/>					
Business-Type Activities:					
Revenue bonds	\$ 2,521,600	\$ -	\$ 85,900	\$ 2,435,700	\$ 88,900
Notes and leases	13,261,027	116,519	998,804	12,378,742	1,015,849
Compensated absences	164,059	19,873	-	183,932	-
<hr/>					
Total	\$ 15,946,686	\$ 136,392	\$ 1,084,704	\$ 14,998,374	\$ 1,104,749

Notes To Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

Debt service requirements on long-term debt at September 30, 2013 are as follows:

Governmental Activities

Fiscal Year Ending September 30,	Revenue Bonds		Notes and Leases	
	Principal	Interest	Principal	Interest
2014	\$ 62,058	\$ 41,791	\$ 7,420	\$ 688
2015	24,279	38,736	7,643	465
2016	16,720	37,619	7,598	236
2017	17,182	36,780	-	-
2018	18,665	35,966	-	-
2019-2023	105,425	165,949	-	-
2024-2028	133,466	138,386	-	-
2029-2033	165,696	103,629	-	-
2034-2038	202,211	61,065	-	-
2039-2042	132,867	13,203	-	-
Total	\$ 878,569	\$ 673,124	\$ 22,661	\$ 1,389

Business-Type Activities

Fiscal Year Ending September 30,	Revenue Bonds		Notes and Leases	
	Principal	Interest	Principal	Interest
2014	\$ 88,900	\$ 116,827	\$ 1,015,849	\$ 211,166
2015	94,200	112,486	1,035,293	191,717
2016	98,300	107,905	1,018,179	170,760
2017	102,700	103,091	915,700	153,413
2018	107,000	98,082	717,005	138,294
2019-2023	618,700	406,776	3,780,339	495,550
2024-2028	528,800	252,878	2,756,919	164,684
2029-2033	480,300	141,926	468,927	57,560
2034-2038	276,100	47,088	498,888	27,594
2039-2043	27,800	6,720	171,643	2,012
2044-2046	12,900	873	-	-
Total	\$ 2,435,700	\$ 1,394,652	\$12,378,742	\$ 1,612,750

Notes Payable

Notes and leases payable at September 30, 2013 are comprised of the following:

	Governmental Activities	Business-Type Activities
Bank of Chipley – 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.	\$ 22,661	\$ -

Notes To Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

	Governmental Activities	Business-Type Activities
<p>Florida Department of Transportation – 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.</p>	-	848,352
<p>Capital City Bank – 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.</p>	-	92,764
<p>Leasing 2, Inc. – 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 \$110,928. 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, 2012 of \$81,400 which is included in accumulated depreciation.</p>	-	68,771
<p>Florida Department of Environmental Protection – 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 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.</p>	-	11,368,855
	\$ 22,661	\$ 12,378,742

Notes To Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

Bonds Payable

Bonds payable at September 30, 2013 are comprised of the following:

	Governmental Activities
City of Chipley Public Improvement Revenue Bonds – 1995 Series , authorized and issued \$500,000, interest at 5.00%, principal and interest payable annually on September 1, collateralized by pledge of franchise fees and public service taxes. Bonds are held by the U.S. Department of Agriculture, Rural Development.	\$ 39,200
City of Chipley Public Improvement Revenue Bonds – 2002A Series , 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.	466,369
City of Chipley Public Improvement Revenue Bonds – 2002B Series , 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.	16,000
City of Chipley Public Improvement Revenue Bonds – 2003 Series , 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.	357,000
Total	\$ 878,569

	Business-Type Activities
Water and Sewer Revenue Bonds – 1986 Series , 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.	\$ 716,200
Water and Sewer Revenue Bonds – 1994 Series A , 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.	628,700

Notes To Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

<p>Water and Sewer Revenue Bonds – 1994 Series 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.</p>	<p>105,900</p>
<p>Water and Sewer Revenue Bonds – 1999 Series, 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.</p>	<p>867,600</p>
<p>Water and Sewer Revenue Bonds – 2006 Series, 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.</p>	<p>117,300</p>
<p>Total</p>	<p>\$ 2,435,700</p>

NOTE 8 – PLEDGED REVENUES

The City has pledged future franchise fees and public service taxes to repay \$83,285 in revenue bonds issued in 1995. Proceeds from the bonds were used for public improvements. Principal and interest on the bonds are payable through 2014. Annual principal and interest on the bonds are expected to require approximately 8% of such revenues. Principal and interest paid in the current year and total related revenues were \$41,100 and \$545,214, respectively

The City has pledged future water and sewer system net revenues to repay \$5,339,885 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 63 percent of such net revenues. Principal and interest paid for the current year and total customer net revenues were \$268,724 and \$425,861, 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 \$179,369. Florida Gas Utility is currently the City's sole supplier of natural gas.

Notes To Financial Statements

NOTE 10 – RESTRICTED NET POSITION

Restricted net position is comprised of the following at September 30, 2013:

	Governmental	Business-Type
Restricted to capital improvements	\$ 904,667	\$ 132,402
Restricted to debt service	125,323	1,211,302
Restricted to economic development	339,826	-
	\$ 1,369,816	\$ 1,343,704

NOTE 11 – INTEREST EXPENSE

Interest expense incurred for business-type activities for the year ended September 30, 2013 was \$348,112, all of which was charged to non-operating expenses. Cash paid for interest was \$349,112 and there was no interest capitalized for the year ended September 30, 2013.

NOTE 12 – CASH FLOW INFORMATION – ENTERPRISE FUNDS

Non-cash investing and capital financing activities for the years ended September 30, 2013 totaled \$116,519.

NOTE 13 – 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 System provides retirement, disability, or death benefits to 335,000 retirees or their beneficiaries, 41,000 Deferred Retirement Option Program (DROP) participants and offers a wide range of information services to 625,000 non-retired members 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 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

Notes To Financial Statements

NOTE 13 – DEFINED BENEFIT PENSION PLAN (Continued)

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-6.95%, special risk employees-19.06%, DROP Program-12.84%, senior management-18.31%, and elected officials-33.03%.

The City's contributions to the System for the years ended September 30, 2013, 2012, and 2011, were \$144,629, \$119,351, and \$214,152, respectively, and equal to the actuarially determined contributions for each year. For the year ended September 30, 2013, the City's total payroll was \$1,781,768 and the total covered payroll was \$1,685,284.

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, 2013 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 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, 2013, the City had received \$15,758,978 in project funding and \$2,625,000 had been applied to reduce debt service owed to FLDEP. The remaining amount under this agreement as of September 30, 2013 totaled \$9,895,117 and will be applied to reduce debt service due to FLDEP in the amount of \$750,000 annually through 2027.

Litigation - The City is a defendant in various claims and lawsuits. No determination can be made as to the outcome of these cases at this time. However, management intends to vigorously defend these cases.

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, 2013, there were no questioned or disallowed costs as a result of reviews by grantor agencies in process or completed.

Notes To Financial Statements

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

Construction Commitments –The City had open contract commitments for sidewalk construction as of September 30, 2013, as follows:

Contract amounts	\$	357,471
Amount expended through September 30, 2013		228,143
<hr/>		
Remaining commitment on contract	\$	129,328

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

Subsequent events have been evaluated through June 28, 2014, the date these financial statement were available to be issued, and no event was deemed to warrant disclosure.

NOTE 17 – 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.

The City did not implement GASB Statement No. 45 or obtain the actuarial calculation necessary to determine the amounts to report in the accompanying financial statements. The potential liability was not determined and has not been reflected in the accompanying Statement of Net Position and the annual costs associated with the plan have also not been reflected in the accompanying Statement of Activities.

Notes To Financial Statements

NOTE 18 – PRIOR PERIOD ADJUSTMENT

As discussed in Note 1, the implementation of GASB Statement No. 65 required that debt issuance costs, with the exception of prepaid insurance costs, be recognized as an expense in the period incurred. The cumulative effect of applying this statement retroactively was a decrease in net position in the amount of \$30,562.

City of Chipley
Required Supplementary Information
Schedule of Funding Progress for Retirement Systems of Florida
September 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liabilities (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/2009*	\$118,764,692	\$136,375,597	\$17,610,905	87.09%	26,573,196	66.27%
07/01/2010**	\$120,929,666	\$139,652,377	\$18,722,711	86.59%	25,765,362	72.67%
07/01/2011	\$126,078,053	\$145,034,475	\$18,956,422	86.93%	25,686,138	73.80%
07/01/2012	\$127,891,781	\$148,049,596	\$20,157,815	86.38%	24,491,371	82.31%
07/01/2013	\$131,680,615	\$154,125,953	\$22,445,338	85.44%	24,568,642	91.36%

* As reported in July 1, 2009, actuarial valuation report, before impact of House Bill 479 (2009).

** As reported in July 1, 2010, actuarial valuation report, before impact of Senate Bill 2100 (2011).

COMPLIANCE SECTION

**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, 2013, 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 28, 2014. The report on the financial position and the changes in financial position of the governmental activities, business-type activities, and proprietary funds of the City was qualified because the City has not measured and recognized the cost of future benefits to be provided from its postretirement health insurance plan. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency described as item 2012-01 in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

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

The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and accordingly, we express no opinion on them.

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 28, 2014

**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, 2013. 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 and 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, 2013.

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 28, 2014

City of Chipley
Schedule of Expenditures of Federal Awards
and State Financial Assistance
For the Year Ended September 30, 2013

Federal/State Agency Pass-Through Entity Federal Program/State Project	CFDA CSFA Number	Grant I.D. Number	Expenditures
Federal Highway Administration			
Passed through State of Florida Department of Transportation			
Highway Planning and Construction	20.205	425739-2-38-01	\$ 4,790
Highway Planning and Construction	20.205	425739-1-58-01	\$ 214,453
Highway Planning and Construction	20.205	425739-1-38-01	\$ 8,900
U.S. Department of Justice			
Passed through Florida Department of Law Enforcement			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-JAGD-WASH-1-D8-041	1,002
Total Expenditures for Federal Awards			\$ 229,145
Florida Department of Environmental Protection			
Florida Financially Disadvantaged Small Community Grant			
	37.075	576120	750,000
Total Expenditures for State Financial Assistance			\$ 750,000

City of Chipley

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

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*.

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, 2013
Florida Department of Environmental Protection – 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	\$ 11,368,855

City of Chipley
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Modified

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 programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major state projects:

CSFA Number(s)	Name of State Project
37.075	Disadvantaged Small Community Grant
Dollar threshold used to distinguish between type A and type B projects? \$ 225,000	

Section II – Financial Statements Findings

Item 2012-01 - Accounting for Other Postemployment Benefits (Repeat)

Condition - The City did not implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

Criteria - Accounting principles generally accepted in the United States of America (GAAP) require that the unfunded post-employment benefits ("OPEB") liability be reported on the statement of net assets and the annual costs associated with the plan be recorded on the statement of activities. Additional information is also required to be presented in the notes to the financial statements and as required supplemental information.

Cause – The City's management was unaware of the requirement in Section 112-0801 of the Florida Statutes which requires municipalities participating in the Florida Retirement System to offer retirees the opportunity to continue to participate in the City's health insurance plan after they have separated from service. As a result, the City did not determine and therefore did not report all required OPEB information in the accompanying financial statements.

City of Chipley
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Effect - The finding could result in material misstatements to the government-wide and proprietary fund financial statements and has resulted in qualification of the auditors' opinion on the financial statements.

Recommendation - The City should obtain the necessary actuarial information and report the related liability and annual cost in the City's financial statements as required by GAAP.

Views of Responsible Officials and Planned Corrective Action – Management intends to obtain the necessary actuarial valuation study in time to comply with the provisions of GASB 45 prior to issuance of its financial statements for the year ended September 30, 2014.

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.

MANAGEMENT LETTER

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

We have audited the financial statements of the City of Chipley, Florida (the "City") as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated June 28, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.550, Rules of the Auditor General. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major State Project and on Internal Control over Compliance in Accordance with Chapter 10.550 Rules of the Florida Auditor General and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated June 28, 2014 should be considered in conjunction with this management letter.

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

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not 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 except as noted below under the heading Prior Year Findings and Recommendations.

Prior Year Findings and Recommendations

Item 2012-01 - Accounting for Other Postemployment Benefits

Condition - The City did not implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

Criteria - Accounting principles generally accepted in the United States of America (GAAP) require that the unfunded post-employment benefits ("OPEB") liability be reported on the statement of net assets and the annual costs associated with the plan be recorded on the statement of activities. Additional information is also required to be presented in the notes to the financial statements and as required supplemental information.

Cause – The City’s management was unaware of the requirement in Section 112-0801 of the Florida Statutes which requires municipalities participating in the Florida Retirement System to offer retirees the opportunity to continue to participate in the City’s health insurance plan after they have separated from service. As a result, the City did not determine and therefore did not report all required OPEB information in the accompanying financial statements.

Views of Responsible Officials and Planned Corrective Action – Management intends to obtain the necessary actuarial valuation study in time to comply with the provisions of GASB 45 prior to issuance of its financial statements for the year ended September 30, 2014.

Management intends to obtain the necessary actuarial valuation study in time to comply with the provisions of GASB 45 prior to issuance of its financial statements for the year ended September 30, 2014.

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. These recommendations are noted above in Section 10.554(1)(i)1 under prior year findings and recommendations.

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

Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements.

Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

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

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 28, 2014



City of Chipley

1442 Jackson Avenue
Post Office Box 1007
Chipley, Florida 32428

(850) 638-6350 Fax: (850) 638-6353

June 27, 2014

Carr, Riggs & Ingram, LLC
Post Office Box 311070
Enterprise, Alabama 36331

Dear Sir or Madam:

With reference to your audit report on the City of Chipley for the fiscal year ending September 30, 2013, the audit findings have been reviewed and the findings are acknowledged. A response to the findings, as listed on the "Schedule of Findings and Questioned Costs, Section II – Financial Statement Findings" is submitted.

Section II – Financial Statement Findings

Item 2012-01 Accounting for Other Postemployment Benefits (Repeat)

Condition: The City did not implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

Response: The City was unaware of the requirement in F.S. 112.0801 which requires municipalities participating in the Florida Retirement System to offer retirees the opportunity to continue to participate in the City's health insurance plan after they have separated from service. As a result, the City did not report all required OPEB information in the accompanying financial statements. The City plans to obtain the necessary actuarial valuation study in time to comply with the provisions of GASB 45 prior to issuance of its financial statements for the year ended September 30, 2014.

Thank you for your assistance during the audit.

Sincerely,

Patrice A. Yates
Assistant City Administrator/City Clerk