

City of Chipley

Financial Statements

For The Year Ended September 30, 2012

**City of Chipley
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September 30, 2012**

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

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

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 16 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 Assets 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 assets and expenses of the governmental activities, the business-type activities, and related funds is not readily determinable.

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

In accordance with **Government Auditing Standards**, we have also issued our report dated December 16, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to

provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 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 any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

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

Certified Public Accountants

December 16, 2013

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 individual fund issues or concerns.

Since the MD&A 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, 2011 please read in conjunction with the City's financial statements (beginning on page 9).

City Highlights

- The City was awarded a \$700,000 grant by the State of Florida Department of Economic Opportunity – Community Development Block Grant Program. These funds were used for the construction of a water line project, which was completed during this fiscal year.
- The City was awarded a \$250,000 grant by the State of Florida Department of Agriculture and Consumer Services – Office of Energy. These funds were used for an Energy Efficiency project for the downtown lighting, which was completed during this fiscal year.

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 Assets and a Statement of Activities.

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

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

Fund Financial Statements

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

Governmental Funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term requirements.

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

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

The City adopts an annual appropriated budget for its General Fund. Budgetary comparison statements have been provided for this fund to demonstrate compliance with the budget and are presented as part of the fund financial statements on page 15.

The governmental fund financial statements can be found on pages 11 – 14 of this report.

Proprietary Funds:

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

The proprietary fund financial statements can be found on pages 16 - 20 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 21 - 41 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 Assets

The following schedule reflects the condensed Statement of Net Assets as of September 30, 2012 and 2011:

	Governmental Activities		
	2012	2011	Change
Assets			
Current and other assets	\$ 2,721,345	\$ 2,728,331	\$ (6,986)
Capital assets	5,538,724	5,363,901	174,823
Total assets	8,260,069	8,092,232	167,837
Liabilities			
Current liabilities	315,019	194,620	120,399
Noncurrent liabilities	1,165,858	1,297,596	(131,738)
Total liabilities	1,480,877	1,492,216	(11,339)
Net Assets			
Invested in capital assets, net of related debt	4,316,356	4,311,192	5,164
Restricted	1,208,903	1,399,226	(190,323)
Unrestricted	1,253,933	889,598	364,335
Total net assets	\$ 6,779,192	\$ 6,600,016	\$ 179,176
Business-type Activities			
<hr/>			
	2012	2011	Change
Assets			
Current and other assets	\$ 2,932,392	\$ 2,993,878	\$ (61,486)
Capital assets	40,995,811	41,575,297	(579,486)
Total assets	43,928,203	44,569,175	(640,972)
Liabilities			
Current liabilities	1,385,686	338,516	1,047,170
Noncurrent liabilities	14,885,737	16,565,751	(1,680,014)
Total liabilities	16,271,423	16,904,267	(632,844)
Net Assets			
Invested in capital assets, net of related debt	25,243,745	25,120,958	122,787
Restricted	1,654,930	1,979,744	(324,814)
Unrestricted	758,105	564,206	193,899
Total net assets	\$ 27,656,780	\$ 27,664,908	\$ (8,128)

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities at the close of the fiscal year by \$6.8 million for governmental activities and \$27.7 million for business-type activities.

The largest component (\$29.6 million) of the City's net assets as of September 30, 2012, reflects its investment in capital assets (i.e. land, infrastructure, buildings, equipment and others), less any related debt outstanding to acquire or construct the assets. The city uses these capital assets to provide services to the citizens and businesses in the City. Restricted net assets are the next largest component, totaling \$2.6 million as of September 30, 2012. Restricted net assets represent resources that are subject to external restrictions.

Statement of Activities

The following schedule summarizes revenues and expenses comparing the current year to the prior year, as derived from the government-wide Statement of Activities. Increases and decreases in net assets measure whether the City's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities increased by \$179 thousand or by 1.0 percent, and the net assets of the business-type activities decreased by \$8 thousand or less than 1.0 percent.

<i>For the years ended September 30,</i>	Governmental Activities		
	2012	2011	Change
Revenues			
Program revenues			
Charges for services	\$ 139,670	\$ 140,634	\$ (964)
Operating grants and contributions	962,798	896,717	66,081
Capital grants and contributions	90,981	148,144	(57,163)
General revenues			
Taxes	1,597,081	1,624,616	(27,535)
Investment earnings	10,357	18,686	(8,329)
Other	164,577	165,605	(1,028)
Total revenues	2,965,464	2,994,402	(28,938)
Expenses			
Governmental activities			
General government	751,402	955,295	(203,893)
Public safety	1,008,188	1,000,803	7,385
Public works	526,970	512,767	14,203
Cemetery and grounds	251,214	250,151	1,063
Culture and recreation	198,451	189,164	9,287
Interest	50,063	51,790	(1,727)
Total expenses	2,786,288	2,959,970	(173,682)
Excess revenues over (under) expenses	179,176	34,432	144,744
Net Assets – beginning	6,600,016	6,565,584	34,432
Net Assets - ending	\$ 6,779,192	\$ 6,600,016	\$ 179,176

<i>For the years ended September 30,</i>	Business-type Activities		
	2012	2011	Change
Revenues			
Program revenues			
Charges for services	\$ 2,775,752	\$ 2,953,708	\$ (177,956)
Capital grants and contributions	1,024,954	774,534	250,420
General revenues			
Investment earnings	6,642	6,584	58
Other	31,633	73,714	(42,081)
Total revenues	3,838,981	3,808,540	30,441
Expenses			
Business-type activities			
Water	642,132	622,407	19,725
Sewer	2,187,419	2,178,978	8,441
Sanitation	659,620	656,659	2,961
Natural gas	357,938	478,223	(120,285)
Total expenses	3,847,109	3,936,267	(89,158)
Excess revenues over (under) expenses	(8,128)	(127,727)	119,599
Net Assets – beginning	27,664,908	27,792,635	(127,727)
Net Assets - ending	\$ 27,656,780	\$ 27,664,908	\$ (8,128)

Individual Fund Analysis

This section provides an 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 2012, the City's general fund reported a fund balance of \$2,100,622. The unassigned portion of this fund balance is \$1,242,685.

The community redevelopment agency fund is reported as a major governmental fund. The community redevelopment agency is a separate legal entity, but it is required to be included in the City's reporting because of the significance of the financial relationships with the City. As of the end of the fiscal year 2012, the community redevelopment agency fund reported a restricted fund balance of \$272,012.

As of the end of the fiscal year 2012, the City's other governmental funds (non-major funds) reported restricted fund balance of \$124,371 and committed fund balance of \$8,772.

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 2012, the City invested nearly \$900,000 in capital assets. Approximately \$845,000 of these capital expenditures was 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.

The City's long-term obligations decreased \$655 thousand or by 4 percent for fiscal year 2012. Additional information about the City's long-term debt can be found in Note 7 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 Assets
September 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,460,714	\$ 784,241	\$ 2,244,955
Investments	41,873	-	41,873
Receivables, net	277,796	340,132	617,928
Due from other governments	195,904	-	195,904
Internal balances	146,500	(146,500)	-
Restricted cash	591,658	340,207	931,865
Restricted investments	6,900	1,583,751	1,590,651
Land held for resale	225,237	-	225,237
Bond issue costs, net	-	30,561	30,561
Capital assets, not being depreciated	897,835	612,748	1,510,583
Capital assets being depreciated, net	4,415,652	40,383,063	44,798,715
Total assets	8,260,069	43,928,203	52,188,272
Liabilities			
Accounts payable	44,306	65,599	109,905
Accrued payroll liabilities	138,623	34,653	173,276
Other liabilities	-	1,482	1,482
Deferred revenue	32,639	-	32,639
Payable from restricted assets			
Accrued interest	3,544	18,247	21,791
Customer deposits	-	204,756	204,756
Long-term liabilities			
Portion due or payable within one year			
Notes payable	37,150	975,049	1,012,199
Bonds payable	58,757	85,900	144,657
Portion due or payable after one year			
Compensated absences	264,634	164,059	428,693
Notes payable	22,655	12,285,978	12,308,633
Bonds payable	878,569	2,435,700	3,314,269
Total liabilities	1,480,877	16,271,423	17,752,300
Net Assets			
Invested in capital assets, net of related debt	4,316,356	25,243,745	29,560,101
Restricted	1,208,903	1,654,930	2,863,833
Unrestricted	1,253,933	758,105	2,012,038
Total net assets	\$ 6,779,192	\$ 27,656,780	\$ 34,435,972

See accompanying notes to financial statements.

City of Chipley
Statement of Activities
For the Year Ended September 30, 2012

Functions/Programs	Expenses	Charges for Services	Program Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 751,402	\$ 51,236	\$ 516,492
Public safety	1,008,188	56,625	289,248
Public works	526,970	-	154,212
Cemetery and grounds	251,214	9,600	-
Culture and recreation	198,451	22,209	2,846
Interest	50,063	-	-
Total governmental activities	2,786,288	139,670	962,798
Business-type Activities:			
Water	642,132	639,197	-
Sewer	2,187,419	1,131,961	-
Sanitation	659,620	701,225	-
Natural gas	357,938	303,369	-
Total business-type activities	3,847,109	2,775,752	-
Total primary government	\$ 6,633,397	\$ 2,915,422	\$ 962,798

General Revenues

Taxes:

Ad valorem tax

Sales taxes

Utility taxes

Other taxes

Interest income

Miscellaneous

Gain on sale of assets

Total general revenues

Change in net assets

Net Assets - beginning

Net Assets - ending

See accompanying notes to financial statements.

Revenues Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
\$ 90,981	\$ (92,693)	\$ -	\$ (92,693)
-	(662,315)	-	(662,315)
-	(372,758)	-	(372,758)
-	(241,614)	-	(241,614)
-	(173,396)	-	(173,396)
-	(50,063)	-	(50,063)
90,981	(1,592,839)	-	(1,592,839)
649,954	-	647,019	647,019
375,000	-	(680,458)	(680,458)
-	-	41,605	41,605
-	-	(54,569)	(54,569)
1,024,954	-	(46,403)	(46,403)
\$ 1,115,935	(1,592,839)	(46,403)	(1,639,242)
	859,613	-	859,613
	111,595	-	111,595
	568,834	-	568,834
	57,039	-	57,039
	5,744	6,642	12,386
	164,577	31,633	196,210
	4,613	-	4,613
	1,772,015	38,275	1,810,290
	179,176	(8,128)	171,048
	6,600,016	27,664,908	34,264,924
\$	\$ 6,779,192	\$ 27,656,780	\$ 34,435,972

**City of Chipley
Balance Sheet
Governmental Funds
September 30, 2012**

	General Fund	Chipley Redevelopment Agency
Assets		
Cash and cash equivalents	\$ 1,451,942	\$ -
Investments	41,873	-
Receivables, net	235,828	41,968
Due from other governments	195,904	-
Interfund receivables	146,500	-
Restricted cash	244,143	230,044
Restricted investments	-	-
Total assets	\$ 2,316,190	\$ 272,012
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 44,315	\$ -
Salaries and benefits payable	138,614	-
Deferred revenue	32,639	-
Total liabilities	215,568	-
Fund balances		
Restricted	816,064	272,012
Committed	41,873	-
Unassigned	1,242,685	-
Total fund balances	2,100,622	272,012
Total liabilities and fund balances	\$ 2,316,190	\$ 272,012

See accompanying notes to financial statements.

Other Governmental Funds		Total Governmental Funds	
\$	8,772	\$	1,460,714
	-		41,873
	-		277,796
	-		195,904
	-		146,500
	117,471		591,658
	6,900		6,900
<hr/>		<hr/>	
\$	133,143	\$	2,721,345
<hr/>		<hr/>	
\$	-	\$	44,315
	-		138,614
	-		32,639
<hr/>		<hr/>	
	-		215,568
<hr/>		<hr/>	
	124,371		1,212,447
	8,772		50,645
	-		1,242,685
<hr/>		<hr/>	
	133,143		2,505,777
<hr/>		<hr/>	
\$	133,143	\$	2,721,345
<hr/>		<hr/>	

City of Chipley

**Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
September 30, 2012**

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

Total fund balance - governmental funds	\$ 2,505,777
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds	5,313,487
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	(264,634)
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	(3,544)
Bonds, notes and leases payable	(997,131)
Net Assets of Governmental Activities in the Statement of Net Assets	\$ 6,779,192

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, 2012

	General Fund	Chipley Redevelopment Agency
Revenues		
Taxes	\$ 1,994,259	\$ -
Licenses and permits	50,081	-
Fines, forfeitures and penalties	40,755	-
Intergovernmental	338,403	148,020
Charges for services	22,209	-
Interest	4,166	1,554
Miscellaneous	345,505	-
Total revenues	2,795,378	149,574
Expenditures		
General government	548,289	79,259
Public safety	927,453	-
Public works	691,150	-
Cemetery and grounds	240,382	-
Culture and recreation	165,150	-
Debt service, principal	-	-
Debt service, interest	-	-
Total expenditures	2,572,424	79,259
Excess (Deficiency) of Revenues over Expenditures	222,954	70,315
Other Financing Sources (Uses)		
Transfers in	-	-
Transfers out	(155,710)	-
Debt proceeds	37,125	-
Proceeds from sale of assets	4,613	-
Total other financing sources (uses)	(113,972)	-
Net change in fund balances	108,982	70,315
Fund Balances - Beginning, as originally stated	2,216,877	201,697
Prior Period Adjustment	(225,237)	-
Fund Balances - Beginning, as restated	1,991,640	201,697
Fund Balances - Ending	\$ 2,100,622	\$ 272,012

See accompanying notes to financial statements.

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 1,994,259
-	50,081
-	40,755
-	486,423
-	22,209
24	5,744
15,875	361,380
<hr/>	
15,899	2,960,851
<hr/>	
-	627,548
14,381	941,834
-	691,150
-	240,382
-	165,150
92,703	92,703
50,711	50,711
<hr/>	
157,795	2,809,478
<hr/>	
(141,896)	151,373
<hr/>	
155,710	155,710
-	(155,710)
-	37,125
-	4,613
<hr/>	
155,710	41,738
<hr/>	
13,814	193,111
119,329	2,537,903
-	(225,237)
<hr/>	
119,329	2,312,666
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\$ 133,143	\$ 2,505,777

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, 2012**

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

Net change in fund balances - total governmental funds:	\$	193,111
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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.		249,361
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Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Net Assets.		(299,775)
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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		(19,747)
Accrued interest expense		648

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.		
Debt proceeds		(37,125)
Repayment of debt		92,703

Change in net assets of governmental activities	\$	179,176
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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, 2012**

	Original Budget	Final Budget	Actual Amounts	Variance with Budget - Positive (Negative)
Revenues				
Taxes	\$ 2,065,863	\$ 2,073,413	\$ 1,994,259	\$ (79,154)
Licenses and permits	53,000	53,000	50,081	(2,919)
Intergovernmental	404,721	354,787	338,403	(16,384)
Charges for services	45,000	45,000	22,209	(22,791)
Fines and forfeitures	24,100	53,949	40,755	(13,194)
Interest	6,500	6,500	4,166	(2,334)
Miscellaneous	353,203	360,103	345,505	(14,598)
Total revenues	2,952,387	2,946,752	2,795,378	(151,374)
Expenditures				
General government	550,300	557,916	548,289	9,627
Public safety	888,000	934,349	927,453	6,896
Public works	825,250	777,150	691,150	86,000
Cemetery and grounds	261,200	261,200	240,382	20,818
Culture and recreation	187,600	187,600	165,150	22,450
Total expenditures	2,712,350	2,718,215	2,572,424	145,791
Excess of Revenues Over Expenditures	240,037	228,537	222,954	(5,583)
Other Financing Sources (Uses)				
Transfers in	3,750	15,250	-	(15,250)
Transfers out	(243,787)	(243,787)	(155,710)	88,077
Debt proceeds	-	-	37,125	37,125
Sale of capital assets	-	-	4,613	4,613
Total other financing sources (uses)	(240,037)	(228,537)	(113,972)	114,565
Net change in fund balances	-	-	108,982	108,982
Fund Balances - beginning, restated	1,991,640	1,991,640	1,991,640	-
Fund Balances - ending	\$ 1,991,640	\$ 1,991,640	\$ 2,100,622	\$ 108,982

See accompanying notes to financial statements.

City of Chipley
Statement of Net Assets
Proprietary Funds
September 30, 2012

	Business-Type	
	Water	Sewer
Assets		
Current assets		
Cash and cash equivalents	\$ 11,519	\$ 159,751
Accounts receivable	111,517	124,383
Restricted assets:		
Cash and cash equivalents	109,300	174,480
Investments	-	1,583,751
Total current assets	232,336	2,042,365
Non-current assets		
Bond issue costs, net	8,783	21,778
Land and construction in progress	22,600	575,298
Capital assets, net of depreciation	3,601,342	36,501,421
Total non-current assets	3,632,725	37,098,497
Total assets	\$ 3,865,061	\$ 39,140,862

See accompanying notes to financial statements.

Activities

	Sanitation	Non-Major Fund Natural Gas	Total
\$	458,131	\$ 154,840	\$ 784,241
	77,381	26,851	340,132
	27,228	29,199	340,207
	-	-	1,583,751
	562,740	210,890	3,048,331
	-	-	30,561
	10,350	4,500	612,748
	16,699	263,601	40,383,063
	27,049	268,101	41,026,372
\$	589,789	\$ 478,991	\$ 44,074,703

-Continued-

City of Chipley
Statement of Net Assets
Proprietary Funds (Continued)
September 30, 2012

	Business-Type	
	Water	Sewer
Liabilities		
Current liabilities		
Accounts payable	\$ 42,763	\$ 21,020
Accrued payroll liabilities	12,400	14,002
Other accrued liabilities	-	-
Interfund payables	92,000	54,500
Notes payable	31,420	31,958
<hr/>		
Total current liabilities	178,583	121,480
<hr/>		
Current liabilities payable from restricted assets		
Accrued interest	385	17,862
Notes payable, current portion	-	911,671
Bonds payable, current portion	1,700	84,200
Deposits	67,656	80,568
<hr/>		
Total current liabilities payable from restricted assets	69,741	1,094,301
<hr/>		
Noncurrent liabilities		
Compensated absences	64,406	54,553
Notes payable	848,352	11,437,626
Bonds payable	117,300	2,318,400
<hr/>		
Total noncurrent liabilities	1,030,058	13,810,579
<hr/>		
Total liabilities	1,278,382	15,026,360
<hr/>		
Net Assets		
Invested in capital assets, net of related debt	2,633,953	22,314,642
Restricted net assets	46,333	1,608,597
Unrestricted net assets	(93,607)	191,263
<hr/>		
Total net assets	\$ 2,586,679	\$ 24,114,502
<hr/>		

See accompanying notes to financial statements.

Activities

		Non-Major Fund			
Sanitation		Natural Gas		Total	
\$	971	\$	845	\$	65,599
	2,715		5,536		34,653
	-		1,482		1,482
	-		-		146,500
	-		-		63,378
<hr/>		<hr/>		<hr/>	
	3,686		7,863		311,612
<hr/>		<hr/>		<hr/>	
	-		-		18,247
	-		-		911,671
	-		-		85,900
	27,315		29,217		204,756
<hr/>		<hr/>		<hr/>	
	27,315		29,217		1,220,574
<hr/>		<hr/>		<hr/>	
	18,598		26,502		164,059
	-		-		12,285,978
	-		-		2,435,700
<hr/>		<hr/>		<hr/>	
	18,598		26,502		14,885,737
<hr/>		<hr/>		<hr/>	
	49,599		63,582		16,417,923
<hr/>		<hr/>		<hr/>	
	27,049		268,101		25,243,745
	-		-		1,654,930
	513,141		147,308		758,105
<hr/>		<hr/>		<hr/>	
\$	540,190	\$	415,409	\$	27,656,780

City of Chipley
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2012

	Business-Type	
	Water	Sewer
Operating Revenues		
Charges for services	\$ 639,197	\$ 1,131,961
Miscellaneous revenue	23,749	3,806
Total operating revenues	662,946	1,135,767
Operating Expenses		
Salaries and benefits	308,042	357,239
Services and supplies	214,769	334,325
Other expenses	9,010	14,739
Depreciation	105,069	1,080,786
Total operating expenses	636,890	1,787,089
Operating Income (Loss)	26,056	(651,322)
Non-Operating Revenues (Expenses)		
Grant revenue	649,954	375,000
Interest income	67	4,769
Interest expense	(5,242)	(400,330)
Total non-operating revenues (expenses)	644,779	(20,561)
Change in net assets	670,835	(671,883)
Total Net Assets - beginning	1,915,844	24,786,385
Total Net Assets - ending	\$ 2,586,679	\$ 24,114,502

See accompanying notes to financial statements.

Activities		
Sanitation	Non-Major Fund Natural Gas	Total
\$ 701,225	\$ 303,369	\$ 2,775,752
-	4,078	31,633
701,225	307,447	2,807,385
70,030	139,000	874,311
583,260	197,562	1,329,916
1,241	3,735	28,725
5,089	17,641	1,208,585
659,620	357,938	3,441,537
41,605	(50,491)	(634,152)
-	-	1,024,954
1,281	525	6,642
-	-	(405,572)
1,281	525	626,024
42,886	(49,966)	(8,128)
497,304	465,375	27,664,908
\$ 540,190	\$ 415,409	\$ 27,656,780

City of Chipley
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2012

	Business-Type	
	Water	Sewer
Cash Flows From Operating Activities		
Receipts from customers, users and others	\$ 648,380	\$ 1,135,677
Payments to suppliers	(315,947)	(418,884)
Payments to employees	(224,704)	(275,481)
<hr/>		
Net cash provided by (used in) operating activities	107,729	441,312
<hr/>		
Cash Flows From Non-Capital Financing Activities		
Loan payments to other funds	(75,000)	(3,750)
<hr/>		
Cash Flows From Capital and Related Financing Activities		
Grant revenue	649,954	375,000
Purchases and construction of capital assets	(632,841)	(12,865)
Principal paid on capital debt	(33,021)	(606,932)
Interest paid on capital debt	(5,276)	(401,798)
<hr/>		
Net cash (used in) capital and related financing activities	(21,184)	(646,595)
<hr/>		
Cash Flows From Investing Activities		
Interest and dividends	67	4,769
Sale of investments	-	288,037
<hr/>		
Net cash provided by investing activities	67	292,806
<hr/>		
Net increase (decrease) in cash and cash equivalents	11,612	83,773
<hr/>		
Cash and Cash Equivalents - beginning	109,207	250,458
<hr/>		
Cash and Cash Equivalents - ending	\$ 120,819	\$ 334,231
<hr/> <hr/>		

See accompanying notes to financial statements.

Activities

Sanitation		Non-Major Fund Natural Gas		Total	
\$	702,046	\$	315,514	\$	2,801,617
	(583,720)		(201,424)		(1,519,975)
	(68,772)		(134,358)		(703,315)
	49,554		(20,268)		578,327
	-		-		(78,750)
	-		-		1,024,954
	(6,376)		(8,776)		(660,858)
	-		-		(639,953)
	-		-		(407,074)
	(6,376)		(8,776)		(682,931)
	1,281		525		6,642
	-		-		288,037
	1,281		525		294,679
	44,459		(28,519)		111,325
	440,900		212,558		1,013,123
\$	485,359	\$	184,039	\$	1,124,448

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City of Chipley
Statement of Cash Flows
Proprietary Funds (Continued)
For the Year Ended September 30, 2012

	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)	\$ 26,056	\$ (651,322)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	105,331	1,081,722
Changes in operating assets and liabilities:		
Accounts receivable	(14,259)	(220)
Accounts payable	(21,403)	6,377
Accrued payroll liabilities	1,959	419
Other accrued liabilities	(407)	(234)
Compensated absences	10,759	4,440
Customer deposits	(307)	130
Net cash provided by (used in) operating activities	\$ 107,729	\$ 441,312

See accompanying notes to financial statements.

Activities

Sanitation		Non-Major Fund Natural Gas		Total
\$	41,605	\$	(50,491)	\$ (634,152)
	5,089		17,641	1,209,783
	637		7,927	(5,915)
	781		369	(13,876)
	67		144	2,589
	-		(496)	(1,137)
	1,191		4,498	20,888
	184		140	147
<hr/>				
\$	49,554	\$	(20,268)	\$ 578,327

NOTE

- 1 Summary of Significant Accounting Policies
- 2 Stewardship, Compliance, and Accountability
- 3 Cash, Cash Equivalents, and Investments
- 4 Accounts Receivable
- 5 Interfund Balances
- 6 Capital Assets
- 7 Long-Term Debt
- 8 Pledged Revenues
- 9 Major Supplier
- 10 Restricted Net Assets
- 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 more significant of the government’s accounting policies are described below:

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. 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 assets and the statement of changes in net assets 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 recourses 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major proprietary funds:

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

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

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

Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments represents 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.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Bond Issuance Costs

Bond issue costs are amortized over the term of the bonds using the straight-line method, which is not materially different from the effective interest method. Unamortized bond issue costs are presented in the financial statements as bond issue costs, net.

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 government-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 assets. Bonds payable are reported net of the applicable bond premium or discount.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Net Assets/Fund Equity

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

Invested in Capital Assets, Net of Related Debt – 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 assets by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

Unrestricted – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the City.

Fund equity is reported in the fund financial statement 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. In addition to the nonspendable fund balance, spendable fund balances are reported based on a hierarchy of spending constraints:

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the City Council, the highest level of decision making authority. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used or specific purposes. Under the City's policy, only the Mayor and City Council may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

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.

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund balances consisted of the following at September 30, 2012:

	General Fund	Chipley Redevelop- ment Agency	Other Governmental Funds	Total Governmental Funds
Restricted:				
Capital improvements	\$ 244,143	\$ -	\$ -	\$ 244,143
Debt service	-	-	124,371	124,371
Economic development	571,921	272,012	-	843,933
Committed:				
Cemetery	41,873	-	-	41,873
Volunteer Fire Department	-	-	8,772	8,772
Unassigned	1,242,685	-	-	1,242,685
	\$ 2,100,622	\$ 272,012	\$ 133,143	\$ 2,505,777

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 the balance sheet date.

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)

Reclassifications

Certain reclassifications have been made to the 2011 balances to conform to the 2012 presentation.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Each year formal budgets are legally adopted and amended as required by the City Council for the General Fund. 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 the General 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 with original maturities greater than three months and land held for the purposes of appreciation or income.

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.
- 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.

Notes To Financial Statements

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

Custodial Credit Risk - Deposits

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.

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, 2012:

	Governmental Activities	Business-type Activities
<i>Unrestricted</i>		
Certificates of deposit	\$ 41,873	\$ -
<i>Restricted</i>		
Certificates of deposit	\$ 6,900	\$ 224,040
US Treasury note	-	1,359,711
	\$ 6,900	\$ 1,583,751

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 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, 2012, the fair value and the carrying value of these funds was \$2,105,338. The funds are carried as cash on the balance sheet in the amount of \$1,924,983, and as restricted cash of \$180,355 at September 30, 2012. The local government surplus investment pool is not rated by a nationally recognized statistical rating agency as of September 30, 2012.

Notes To Financial Statements

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

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, 2012, the fair value and the carrying value of these funds was \$30,676 and reported as cash of \$19,743 and as restricted cash of \$10,933.

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, 2012, 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	\$ 272,813	\$ 272,813	\$ -	\$ -	-
US Treasury Note	1,359,711	1,359,711	-	-	-
	\$ 1,632,524	\$ 1,632,524	\$ -	\$ -	-

Notes To Financial Statements

NOTE 4 – ACCOUNTS RECEIVABLE

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	\$ 104,415	\$ -
Franchise fees	48,907	-
Contract services	11,666	-
Contraband/forfeiture	27,808	-
Revolving loan receivable	-	41,968
Interest	10,333	-
Other	32,699	-
	\$ 235,828	\$ 41,968

Proprietary Funds

	Water	Sewer	Sanitation	Non-major Natural Gas
Accounts – utility billings	\$ 75,192	\$ 125,203	\$ 77,758	\$ 26,991
Allowance for doubtful accounts	(475)	(820)	(412)	(140)
Grants	36,800	-	-	-
Other	-	-	35	-
	\$ 111,517	\$ 124,383	\$ 77,381	\$ 26,851

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, 2012 is shown below:

Interfund Receivables and Payables

Receivable Fund	Payable Fund	Amount
General	Water	\$ 92,000
General	Sewer	54,500
		\$ 146,500

Notes To Financial Statements

NOTE 5 – INTERFUND BALANCES (Continued)***Interfund Transfers***

Interfund transfers consisted entirely of transfers from the general fund to the debt service fund for to fund debt service on general long-term debt.

Transfer Out	Transfer In	Amount
General	Debt Service	\$ 155,710

NOTE 6 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 897,835	\$ -	\$ -	\$ 897,835
Construction in progress	60,233	-	60,233	-
Total capital assets not being depreciated	\$ 958,068	\$ -	\$ 60,233	\$ 897,835
Capital assets being depreciated:				
Furniture and equipment	\$ 2,099,318	\$ 54,091	\$ -	\$ 2,153,409
Improvements other than buildings	1,329,700	255,503	-	1,585,203
Buildings	4,593,674	-	-	4,593,674
Total capital assets being depreciated	8,022,692	309,594	-	8,332,286
Less accumulated depreciation for:				
Furniture and equipment	1,648,501	142,049	-	1,790,550
Improvements other than buildings	505,053	43,127	-	548,180
Buildings	1,463,305	114,599	-	1,577,904
Total accumulated depreciation	3,616,859	299,775	-	3,916,634
Total capital assets being depreciated, net	\$ 4,405,833	\$ 9,819	\$ -	\$ 4,415,652

Notes To Financial Statements

NOTE 6 – CAPITAL ASSETS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 612,748	\$ -	\$ -	\$ 612,748
Construction in progress	106,738	625,342	732,080	-
Total capital assets not being depreciated	\$ 719,486	\$ 625,342	\$ 732,080	\$ 612,748
Capital assets being depreciated:				
Building and plant	\$ 46,634,361	\$ 740,855	\$ -	\$ 47,375,216
Equipment and vehicles	2,150,351	26,741	-	2,177,092
Total capital assets being depreciated	48,784,712	767,596	-	49,552,308
Less accumulated depreciation for:				
Building and plant	6,613,666	1,110,143	-	7,723,809
Equipment and vehicles	1,346,994	98,442	-	1,445,436
Total accumulated depreciation	7,960,660	1,208,585	-	9,169,245
Total capital assets, being depreciated, net	\$ 40,824,052	\$ (440,989)	\$ -	\$ 40,383,063
Depreciation expense was charged to functions as follows:				
Governmental Activities				
General government				\$ 104,107
Public safety				120,445
Public works				31,090
Cemetery and grounds				10,832
Culture and recreation				33,301
Total depreciation expense - governmental activities				\$ 299,775
Business-Type Activities				
Water				\$ 105,069
Sewer				1,080,786
Sanitation				5,089
Natural Gas				17,641
Total depreciation expense - business-type activities				\$ 1,208,585

Notes To Financial Statements

NOTE 7 – LONG-TERM DEBT

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
Revenue bonds	\$ 993,899	\$ -	\$ 56,573	\$ 937,326	\$ 58,757
Notes and leases	58,810	37,125	36,130	59,805	37,150
Compensated absences	244,887	19,747	-	264,634	-
Total	\$ 1,297,596	\$ 56,872	\$ 92,703	\$ 1,261,765	\$ 95,907
Business-Type Activities:					
Revenue bonds	\$ 2,603,400	\$ -	\$ 81,800	\$ 2,521,600	\$ 85,900
Notes and leases	13,819,180	-	558,153	13,261,027	975,049
Compensated absences	143,171	20,888	-	164,059	-
Total	\$ 16,565,751	\$ 20,888	\$ 639,953	\$ 15,946,686	\$ 1,060,949

Debt service requirements on long-term debt at September 30, 2012 are as follows:

Governmental Activities

Fiscal Year Ending September 30,	Revenue Bonds		Notes and Leases	
	Principal	Interest	Principal	Interest
2013	\$ 58,757	\$ 44,682	\$ 37,150	\$ 2,245
2014	62,058	41,791	7,420	688
2015	24,279	38,736	7,643	465
2016	16,720	37,619	7,592	236
2017	17,182	36,780	-	-
2018-2022	100,639	170,723	-	-
2023-2027	127,954	144,423	-	-
2028-2032	159,266	111,214	-	-
2033-2037	193,623	70,250	-	-
2038-2042	176,848	21,588	-	-
Total	\$ 937,326	\$ 717,806	\$ 59,805	\$ 3,634

Notes To Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

Business-Type Activities

Fiscal Year Ending September 30,	Revenue Bonds		Notes and Leases	
	Principal	Interest	Principal	Interest
2013	\$ 85,900	\$ 121,018	\$ 975,049	\$ 227,226
2014	88,900	116,827	993,522	208,754
2015	94,200	112,486	1,012,384	189,886
2016	98,300	107,905	994,675	169,524
2017	102,700	103,091	891,677	152,788
2018-2022	589,600	435,556	3,714,427	561,462
2023-2027	581,700	281,084	3,449,410	222,194
2028-2032	458,500	163,779	463,258	63,230
2033-2037	324,600	61,970	492,675	33,810
2038-2042	78,300	10,237	273,950	4,998
2043-2046	18,900	1,718	-	-
Total	\$ 2,521,600	\$ 1,515,671	\$13,261,027	\$ 1,833,872

Notes Payable

Notes and leases payable at September 30, 2012 are comprised of the following:

	Governmental Activities	Business-Type Activities
Capital City Bank – A note payable in annual installments of \$15,386 including interest at 4.69%. The note matures on June 23, 2013 and is secured by equipment.	\$ 14,464	\$ -
Capital City Bank – A note payable in annual installments of \$16,157 including interest at 4.25%. The note matures September 30, 2013 and is secured by equipment.	15,482	-
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.	29,859	-
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.	-	879,772

Notes To Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

	Governmental Activities	Business-Type Activities
<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>	-	100,729
<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>	-	12,280,526
	\$ 59,805	\$ 13,261,027

Bonds Payable

Bonds payable at September 30, 2012 are comprised of the following:

	Governmental Activities
<p>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.</p>	\$ 76,500

Notes To Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

	Governmental Activities
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.	474,826
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.	23,000
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.	363,000
Total	\$ 937,326

	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.	\$ 760,200
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.	646,800
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.	109,000
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.	886,600

Notes To Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

	Governmental Activities
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.	119,000
Total	\$ 2,521,600

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 7% of such revenues. Principal and interest paid in the current year and total related revenues were \$41,100 and \$568,834, respectively

The City has pledged future water and sewer system net revenues to repay \$5,609,118 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 County 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 50 percent of such net revenues. Principal and interest paid for the current year and total customer net revenues were \$269,198 and \$572,122, 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 \$152,918. Florida Gas Utility is currently the City's sole supplier of natural gas.

NOTE 10 – RESTRICTED NET ASSETS

Restricted net assets are comprised of the following at September 30, 2012:

	Governmental	Business-Type
Restricted to capital improvements	\$ 816,064	\$ 127,416
Restricted to debt service	120,827	1,527,514
Restricted to economic development	272,012	-
	\$ 1,208,903	\$ 1,654,930

Notes To Financial Statements

NOTE 11 – INTEREST EXPENSE

Interest expense incurred for business-type activities for the year ended September 30, 2012 was \$405,572, all of which was charged to non-operating expenses. Cash paid for interest was \$403,530 and there was no interest capitalized for the year ended September 30, 2012.

NOTE 12 – CASH FLOW INFORMATION – ENTERPRISE FUNDS

Non-cash investing and capital financing activities for the years ended September 30, 2012 totaled \$37,125.

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 covers over 715,000 full-time employees of various governmental units within the State of Florida. Accordingly, the actuarial information and related disclosures attributable to the City's employees are not determinable.

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

The System provides for those employees hired prior to July 1, 2011 for vesting of benefits after six years of creditable service. Normal retirement benefits are available to employees who retire at or after age 62 with six or more years of service. Early retirement is available after six 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 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. Average compensation is computed as the average of the employee's five highest years of earnings for those enrolled prior to July 1, 2011 or eight years for those enrolled on or after July 1, 2011.

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-5.18%, special risk employees-14.90%, DROP Program-5.44%, senior management-6.30%, and elected officials-5.18%.

The City's contributions to the System for the years ended September 30, 2012, 2011, and 2010, were \$119,351, \$214,152, and \$225,138, respectively, and equal to the actuarially determined contributions for each year. For the year ended September 30, 2012 the City's total payroll was \$1,723,227 and the total covered payroll was \$1,642,635.

Notes To Financial Statements

NOTE 13 – DEFINED BENEFIT PENSION PLAN (Continued)

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, 2012 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

Florida Department of Transportation (FDOT) Sidewalk Enhancement Grant – Phase I of the project in the amount of \$60,233 was completed during the fiscal year ending September 30, 2012.

The second phase in the amount of \$691,332 will be funded by FDOT in the fiscal year ending September 30, 2013.

Disadvantaged Small Community Grant – A grant with the Florida Department of Environmental Protection (FLDEP) funding the cost of sewer improvements in the amount of \$23,884,633. As of September 30, 2012, the City had received \$15,758,978 in project funding and \$1,875,000 had been applied to reduce debt service owed to FLDEP. The remaining amount under this agreement as of September 30, 2012 totaled \$6,250,655 and will be applied to reduce debt service due to FLDEP in the amount of \$750,000 annually through 2027. Subsequent to September 30, 2012, the City received an increase in funding under this agreement. See Note 15 for additional information.

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, 2012, there were no questioned or disallowed costs as a result of reviews by grantor agencies in process or completed.

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.

Notes To Financial Statements

NOTE 16– SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 16, 2013, the date of these financial statements. Effective November 26, 2012, the City received an increase of \$4,394,462 in funding with the Florida Department of Environmental Protection (FLDEP) under its Disadvantaged Small Community Grant. The entire amount of the increase will be applied to debt service owed to FLDEP by the City in future years. See Note 13 “Disadvantaged Small Community Grant” for additional information.

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 Assets and the annual costs associated with the plan have also not been reflected in the accompanying Statement of Activities.

NOTE 18 – PRIOR PERIOD ADJUSTMENT

An error was discovered in the financial statements as of and for the year ended September 30, 2011 which necessitated a prior period adjustment to correctly state beginning fund balance for the general fund for fiscal year 2012. The error was due to donated real estate valued at \$225,237 being reported at the fund level. Accordingly, at September 30, 2011 investments and fund balance for the general fund were overstated by \$225,237. As of September 30, 2012, the donated real estate is reported in other assets for governmental activities in the Statement of Net Assets.

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 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, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 16, 2013.

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

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 12-01 in the accompanying schedule of findings and questioned costs to be a material weakness.

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*.

Pursuant to Chapter 119, Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America requires us to indicate that this report is intended solely for the information and use of management, others within the City, the City Council, and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

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

Certified Public Accountants

December 16, 2013

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

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

Compliance

We have audited the City of Chipley, Florida's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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

Internal Control over Compliance

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

Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Pursuant to Chapter 119, Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America requires us to indicate that this report is intended solely for the information and use of management, others within the City, the City Council, and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

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

Certified Public Accountants

December 16, 2013

City of Chipley
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	CFDA No.	Pass-Through Grantor No.	Expenditures
U.S. Department of Housing and Urban Development			
Passed through Florida Department of Economic Opportunity Community Development Block Grant	14.228	11-DB-L4-02-77-02-N20	\$ 649,954
U.S. Department of Justice			
Passed through Florida Department of Law Enforcement Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-JAGD-WASH-1- C5-090	1,000
U. S. Department of Energy			
Passed through Florida Energy and Climate Commission ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	17473	195,270
Total Federal Expenditures			\$ 846,224

Notes To Schedule of Expenditures of Federal Awards

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, 2012
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	\$ 12,280,526

City of Chipley
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

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

Federal Awards

Internal control over major programs:

- 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: Unqualified

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 programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grant
Dollar threshold used to distinguish between type A and type B programs?	\$ 300,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Section II – Financial Statements Findings

Item 12-01 - 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

City of Chipley
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

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.

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 County'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, 2013.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

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, 2012, and have issued our report thereon dated December 16, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards** issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditors' Report on Compliance with Requirements Applicable to each Major Federal Program and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated December 16, 2013, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which 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 auditors' 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 report.

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 findings and recommendations to improve financial management. In connection with our audit, see item 12-01 in the accompanying schedule of findings and questioned costs.

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 more than inconsequential. In connection with our audit, we did not have any such findings.

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

Section 10.554(1)(i)6., Rules of the Auditor General requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local 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 the conditions described in Section 218.503(1)(e).

Section 10.554(1)(i)7.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, 2012, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2012. In connection with our audit, we determined that these two reports were in agreement

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

December 16, 2013