

City of Chipley

FINANCIAL STATEMENTS

For the Year Ended September 30, 2017



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City of Chipley
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September 30, 2017

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chipley, Florida (the "City"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund and Chipley Redevelopment Agency for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, post-employment benefits plan schedule of funding progress, schedule of employer contributions, Florida Retirement System Pension Plan schedule of employer's proportionate share of net pension liability and schedule of employer contributions, and the Health Insurance Subsidy Program schedule of employer's proportionate share of net pension liability and schedule of employer contributions, on pages 57 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The schedule of expenditures of state financial assistance is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally

accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018, 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, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Chipley, Florida's internal control over financial reporting and compliance.

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

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

Enterprise, Alabama

June 28, 2018

City of Chipley Management's Discussion and Analysis

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

Since the Management Discussion and Analysis is designed to present an overview of the City's current year's activities, resulting changes and currently known facts as well as the financial activities for the two fiscal years ended September 30, 2016 and September 30, 2017 please read in conjunction with the City's financial statements (beginning on page 12).

City Highlights

- The City was awarded a \$1,500,000 Statewide Surface Water Restoration and Wastewater Project Grant by the Florida Department of Environmental Protection during a prior fiscal year. The funds are being used toward the design and construction of a drinking water well, drinking water elevated tank, drinking water line extension, wastewater line extension and wastewater lift station. This project continued during this fiscal year with a scheduled completion date of June 2018.
- The City was awarded a \$440,000 Water Supply Development Community Assistance Grant by the Northwest Florida Water Management District during a prior fiscal year. The funds are being used toward the design and construction of a drinking water well and drinking water line extension. This project continued during this fiscal year with a scheduled completion date of September 2018.
- The City was awarded a \$1,340,534 Petroleum Restoration Program Grant by the Florida Department of Environmental Protection during a prior fiscal year. The funds are being used toward the design and construction of a drinking water well. This project continued during this fiscal year with a scheduled completion date of September 2018.
- The City was awarded a \$407,682 Small County Outreach Program (SCOP) and Rural Areas of Opportunity (RAO) Grant by the Florida Department of Transportation. The funds are being used toward the design, construction and construction engineer inspection (CEI) services for the 5th Street Resurfacing and Drainage Improvements Phase I Project. This project continued during this fiscal year with a scheduled completion date of October 2017.
- The City was awarded a \$2,350,000 Capitalization Loan/Grant for State Revolving Funds by the Florida Department of Environmental Protection during a prior fiscal year. The funds are being used toward the planning and land acquisition for wastewater treatment and disposal. This project continued during this fiscal year with a scheduled completion date of June 2018.
- The City was awarded a \$50,000 Florida Recreation Development Assistance Grant by the Florida Department of Environmental Protection. The funds are being used toward the construction of Pals Park Phase VI Improvements and Renovations. This project continued during this fiscal year with a scheduled completion date of April 2018.
- The City was awarded a \$50,000 Florida Recreation Development Assistance Grant by the Florida Department of Environmental Protection. The funds are being used toward the construction of Pals Park Phase VII Improvements and Renovations. This project continued during this fiscal year with a scheduled completion date of April 2018.
- The City was awarded a \$50,000 Florida Recreation Development Assistance Grant by the Florida Department of Environmental Protection. The funds are being used toward the

City of Chipley Management's Discussion and Analysis

construction of Pals Park Phase VIII Improvements and Renovations. This project has a scheduled completion date of June 2019.

- The City was awarded a \$35,234 Local Agency Program Highway Planning and Construction Grant by the Florida Department of Transportation. The funds are being used toward the design of 5th Street Drainage Improvements. This project continued during this fiscal year with a scheduled completion date of May 2018.
- The City was awarded a \$25,000 Division of Community Development Technical Assistance Grant by the Florida Department of Economic Opportunity. The funds are being used to update the Community Redevelopment Plan for the Community Redevelopment Agency (CRA). This project was completed during this fiscal year.
- The City is currently working on an update to the City Comprehensive Plan in an amount of \$30,000. This project was completed during this fiscal year.
- The City was awarded a \$446,189.00 Small County Outreach Program (SCOP) and Rural Areas of Opportunity (RAO) Grant by the Florida Department of Transportation. The funds are being used toward the design, construction and construction engineer inspection (CEI) services for the 5th Street Resurfacing and Drainage Improvements Phase II Project. This project has a scheduled completion date of December 2018.

Overview of the Financial Statements

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

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

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

Government-Wide Financial Statements

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

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating. The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants.

Fund Financial Statements

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

Governmental Funds

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

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

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

The City adopts an annual appropriated budget for its General Fund. Budgetary comparison statements have been provided for this fund to demonstrate compliance with the budget and are presented as part of the fund financial statements on pages 18 and 19. The governmental fund financial statements can be found on pages 14 – 17 of this report.

Proprietary Funds

The City maintains four major enterprise funds which are proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, sanitation, and natural gas. 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 20 – 23 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 24 – 56 of this report.

City of Chipley
Management's Discussion and Analysis

Government-Wide Financial Analysis

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

Statement of Net Position

The following schedule reflects the condensed Statement of Net Position as of September 30, 2017 and 2016:

	Governmental Activities		
	2017	2016	Change
Assets			
Current and other assets	\$ 3,091,662	\$ 3,076,794	\$ 14,868
Capital assets, net	5,243,170	4,963,937	279,233
Total assets	8,334,832	8,040,731	294,101
Deferred Outflows of Resources			
Deferred outflows related to pensions	873,007	1,093,179	(220,172)
Liabilities			
Current liabilities	494,379	245,431	248,948
Noncurrent liabilities	3,267,143	3,135,351	131,792
Total liabilities	3,761,522	3,380,782	380,740
Deferred Inflows of Resources			
Unavailable revenue - occupational licenses	42,255	56,227	(13,972)
Deferred inflows related to pensions	139,697	323,744	(184,047)
Total deferred inflows of resources	181,952	379,971	(198,019)
Net Position			
Net investment in capital assets	4,399,051	4,188,425	210,626
Restricted	1,635,909	1,457,643	178,266
Unrestricted	(770,595)	(272,911)	(497,684)
Total net position	\$ 5,264,365	\$ 5,373,157	\$ (108,792)

City of Chipley
Management's Discussion and Analysis

	Business-type Activities		
	2017	2016	Change
Assets			
Current and other assets	\$ 2,092,113	\$ 1,469,485	\$ 622,628
Capital assets, net	37,779,146	37,017,305	761,841
Total assets	39,871,259	38,486,790	1,384,469
Deferred Outflows of Resources			
Deferred outflows related to pensions	416,835	514,783	(97,948)
Liabilities			
Current liabilities	1,367,463	444,641	922,822
Noncurrent liabilities	3,706,079	3,939,397	(233,318)
Total liabilities	5,073,542	4,384,038	689,504
Deferred Inflows of Resources			
Deferred inflows related to pensions	79,850	161,728	(81,878)
Net Position			
Net investment in capital assets	35,128,113	34,288,135	839,978
Restricted	263,170	369,210	(106,040)
Unrestricted	(256,581)	(201,538)	(55,043)
Total net position	\$ 35,134,702	\$ 34,455,807	\$ 678,895

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows at the close of the fiscal year by \$5.3 million for governmental activities and \$35.1 million for business-type activities.

The largest component (\$39.5 million) of the City's net assets as of September 30, 2017, 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 \$1.9 million as of September 30, 2017. 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 positions of the governmental activities decreased \$109 thousand, or greater than 3.0 percent, and the net position of the business-type activities increased by \$679 thousand, or greater than 2.5 percent.

City of Chipley
Management's Discussion and Analysis

For the years ended September 30,	Governmental Activities		
	2017	2016	Change
Revenues			
Program revenues			
Charges for services	\$ 105,616	\$ 127,626	\$ (22,010)
Operating grants and contributions	1,008,634	868,843	139,791
Capital grants and contributions	259,853	97,347	162,506
General revenues			
Taxes	1,744,527	1,735,350	9,177
Investment Earnings	16,398	11,052	5,346
Other	44,579	180,132	(135,553)
Total revenues	3,179,607	3,020,350	159,257
Expenses			
Governmental Activities			
General Government	916,171	854,280	61,891
Public Safety	1,246,034	1,189,919	56,115
Public Works	642,712	658,511	(15,799)
Cemetery and Grounds	230,904	221,903	9,001
Culture and Recreation	216,086	225,766	(9,680)
Interest	36,492	37,721	(1,229)
Total expenses	3,288,399	3,188,100	100,299
Excess revenues over (under) expenses	(108,792)	(167,750)	58,958
Net Position - beginning	5,373,157	5,540,907	(167,750)
Net Position - ending	\$ 5,264,365	\$ 5,373,157	\$ (108,792)

For the years ended September 30,	Business-type Activities		
	2017	2016	Change
Revenues			
Program revenues			
Charges for services	\$ 2,813,432	\$ 2,765,773	\$ 47,659
Capital grants and contributions	1,589,876	281,488	1,308,388
General revenues			
Investment Earnings	6,421	4,205	2,216
Other	196,868	83,578	113,290
Total revenues	4,606,597	3,135,044	1,471,553

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

For the years ended September 30,	Business-type Activities		
	2017	2016	Change
Expenses			
Business-type activities			
Water	758,409	763,779	(5,370)
Sewer	2,019,829	2,188,952	(169,123)
Sanitation	692,359	685,739	6,620
Natural Gas	457,105	386,566	70,539
Total expenses	3,927,702	4,025,036	(97,334)
Excess revenues over (under) expenses	678,895	(889,992)	1,568,887
Net Position - beginning	34,455,807	35,345,799	(889,992)
Net Position - ending	\$ 35,134,702	\$ 34,455,807	\$ 678,895

Individual Fund Analysis

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

The general fund is reported as a major governmental fund. The general fund is the general operating fund of the City. All general tax revenue and other receipts that are not required either legally or by generally accepted accounting principles to be accounted for in other funds are accounted for in the general fund. As of the end of the fiscal year 2017, the City's general fund reported a fund balance of \$1,772,545. The restricted portion of this fund balance is \$1,050,375, the committed portion is \$57,867, the assigned portion is \$17,075 and the unassigned portion is \$647,228.

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 2017, the community redevelopment agency fund reported a nonspendable balance of \$65,744 and a restricted fund balance of \$449,176.

As of the end of the fiscal year 2017, the City's other governmental funds (non-major funds) reported a restricted fund balance of \$70,615 and a committed fund balance of \$11,870.

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 2017, the City invested \$2.6 million in capital assets and reduced total debt by \$21 thousand. Approximately \$1.8 million of these capital expenditures were funded with federal and state government grants.

Additional information about the City's capital assets can be obtained in Note 6 and 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.

City of Chipley
Statement of Net Position
For the Year Ended September 30, 2017

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets			
Cash and cash equivalents	\$ 1,075,010	\$ 477,885	\$ 1,552,895
Investments	6,319	-	6,319
Receivables, net	238,357	326,597	564,954
Due from other governments	303,687	1,098,010	1,401,697
Internal balances	467,750	(467,750)	-
Restricted cash	775,302	408,206	1,183,508
Restricted investments	-	209,165	209,165
Land held for resale	225,237	-	225,237
Deposits on land	-	40,000	40,000
Capital assets, not being depreciated	1,337,051	3,048,405	4,385,456
Capital assets being depreciated, net	3,906,119	34,730,741	38,636,860
Total assets	8,334,832	39,871,259	48,206,091
Deferred Outflows of Resources			
Deferred outflows related to pensions	873,007	416,835	1,289,842
Liabilities			
Accounts payable	289,488	891,466	1,180,954
Accrued payroll liabilities	66,607	36,210	102,817
Other liabilities	-	1,603	1,603
Payable from restricted assets			
Accrued interest	2,968	9,761	12,729
Customer deposits	-	225,500	225,500
Long-term liabilities			
Net pension liability	2,088,461	986,645	3,075,106
Other post-employment benefit liability	23,852	5,239	29,091
Portion due or payable within one year			
Compensated absences	98,126	35,764	133,890
Notes payable	18,525	60,159	78,684
Bonds payable	18,665	107,000	125,665
Portion due or payable after one year			
Compensated absences	347,901	190,321	538,222
Notes payable	67,264	579,274	646,538
Bonds payable	739,665	1,944,600	2,684,265
Total liabilities	3,761,522	5,073,542	8,835,064
Deferred Inflows of Resources			
Unavailable revenue - occupational licenses	42,255	-	42,255
Deferred inflows related to pensions	139,697	79,850	219,547
Total deferred inflows of resources	181,952	79,850	261,802
Net Position			
Net investment in capital assets	4,399,051	35,088,113	39,487,164
Restricted	1,635,909	263,170	1,899,079
Unrestricted	(770,595)	(216,581)	(987,176)
Total net position	\$ 5,264,365	\$ 35,134,702	\$ 40,399,067

See accompanying notes to the financial statements.

City of Chipley
Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Charges for Services	Program Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 916,171	\$ 47,331	\$ 528,867
Public safety	1,246,034	33,321	333,782
Public works	642,712	-	141,662
Cemetery and grounds	230,904	6,400	-
Culture and recreation	216,086	18,564	4,323
Interest	36,492	-	-
Total governmental activities	3,288,399	105,616	1,008,634
Business-type Activities:			
Water	758,409	634,460	-
Sewer	2,019,829	1,150,139	-
Sanitation	692,359	705,691	-
Natural gas	457,105	323,142	-
Total business-type activities	3,927,702	2,813,432	-
Total primary government	\$ 7,216,101	\$ 2,919,048	\$ 1,008,634

General Revenues

Taxes:

Ad valorem tax

Sales taxes

Utility taxes

Other taxes

Interest income

Miscellaneous

Rental income

Gain on disposal of assets

Transfers

Total general revenues

Change in net position

Net Position - beginning

Net Position - ending

See accompanying notes to the financial statements.

Revenues	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
\$ 84,920	\$ (255,053)	\$ -	\$ (255,053)
-	(878,931)	-	(878,931)
124,036	(377,014)	-	(377,014)
-	(224,504)	-	(224,504)
50,897	(142,302)	-	(142,302)
-	(36,492)	-	(36,492)
259,853	(1,914,296)	-	(1,914,296)
1,340,727	-	1,216,778	1,216,778
249,149	-	(620,541)	(620,541)
-	-	13,332	13,332
-	-	(133,963)	(133,963)
1,589,876	-	475,606	475,606
<u>\$ 1,849,729</u>	<u>(1,914,296)</u>	<u>475,606</u>	<u>(1,438,690)</u>
	958,116	-	958,116
	125,160	-	125,160
	596,997	-	596,997
	64,254	-	64,254
	16,398	6,421	22,819
	79,019	30,958	109,977
	124,000		124,000
	1,800	5,670	7,470
	(160,240)	160,240	-
	1,805,504	203,289	2,008,793
	(108,792)	678,895	570,103
	5,373,157	34,455,807	39,828,964
	\$ 5,264,365	\$ 35,134,702	\$ 40,399,067

City of Chipley
Balance Sheet – Governmental Funds
September 30, 2017

	General Fund	Community Redevelopment Agency
Assets		
Cash and cash equivalents	\$ 1,063,140	\$ -
Investments	6,319	-
Receivables, net	158,244	80,113
Due from other governments	303,687	-
Interfund receivables	467,750	-
Restricted cash	269,881	434,807
Total assets	\$ 2,269,021	\$ 514,920
Liabilities, Deferred Inflows of Resources and Fund Balances		
Liabilities		
Accounts payable	\$ 289,488	\$ -
Salaries and benefits payable	164,733	-
Total liabilities	454,221	-
Deferred inflows of resources		
Unavailable revenue - occupational license	42,255	-
Fund balances		
Nonspendable	-	65,744
Restricted	1,050,375	449,176
Committed	57,867	-
Assigned	17,075	-
Unassigned	647,228	-
Total fund balances	1,772,545	514,920
Total liabilities, deferred inflows of resources and fund balances	\$ 2,269,021	\$ 514,920

See accompanying notes to the financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 11,870	\$ 1,075,010
-	6,319
-	238,357
-	303,687
-	467,750
70,615	775,303
<hr/>	
\$ 82,485	\$ 2,866,426
<hr/>	
\$ -	\$ 289,488
-	164,733
<hr/>	
-	454,221
<hr/>	
-	42,255
<hr/>	
-	65,744
70,615	1,570,166
11,870	69,737
-	17,075
-	647,228
<hr/>	
82,485	2,369,950
<hr/>	
\$ 82,485	\$ 2,866,426
<hr/>	

City of Chipley
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Position
September 30, 2017

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

Total fund balance - governmental funds	\$	2,369,950
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		5,243,170
Certain assets held for resale are not current financial resources and therefore are not reported in the governmental funds.		225,237
Deferred inflows and outflows related to pension represent an acquisition or consumption of net position, respectively, that applies to a future period and, therefore, are not reported as liabilities or assets in the governmental funds.		
Deferred outflows related to pension		873,007
Deferred inflows related to pension		(139,697)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.		(347,901)
Long-term liabilities, including bonds, notes and leases payable and net pension liability, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds but is recognized when the expenditure is due. These balances consist of:		
Accrued interest on debt		(2,969)
Bonds, notes and leases payable		(844,119)
Net pension liability		(2,088,461)
Net other post-employment benefit liability		(23,852)
Net position of governmental activities in the Statement of Net Position	\$	5,264,365

See accompanying notes to the financial statements.

City of Chipley

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds

For the Year Ended September 30, 2017

	General Fund	Community Redevelopment Agency
Revenues		
Taxes	\$ 2,143,309	\$ -
Licenses and permits	43,692	-
Fines, forfeitures and penalties	18,310	-
Intergovernmental	583,908	149,176
Charges for services	18,564	-
Interest	10,623	5,767
Rental income	124,000	-
Miscellaneous	225,616	-
Total revenues	3,168,022	154,943
Expenditures		
General government	776,801	26,652
Public safety	1,106,587	-
Public works	994,994	-
Cemetery and grounds	231,280	-
Culture and recreation	243,602	-
Debt service, principal	-	-
Debt service, interest	-	-
Total expenditures	3,353,264	26,652
Excess (Deficiency) of Revenues over (under) Expenditures	(185,242)	128,291
Other Financing Sources (Uses)		
Transfers in	-	-
Transfers out	(234,547)	-
Debt proceeds	106,281	-
Proceeds from sale of capital assets	1,800	-
Total other financing sources (uses)	(126,466)	-
Net change in fund balances	(311,708)	128,291
Fund Balances - Beginning	2,084,253	386,629
Fund Balances - Ending	\$ 1,772,545	\$ 514,920

See accompanying notes to the financial statements.

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 2,143,309
-	43,692
-	18,310
-	733,084
-	18,564
8	16,398
-	124,000
15,066	240,682
<u>15,074</u>	<u>3,338,039</u>
-	803,453
14,716	1,121,303
-	994,994
-	231,280
-	243,602
37,673	37,673
36,492	36,492
<u>88,881</u>	<u>3,468,797</u>
<u>(73,807)</u>	<u>(130,758)</u>
74,307	74,307
-	(234,547)
-	106,281
-	1,800
<u>74,307</u>	<u>(52,159)</u>
500	(182,917)
81,985	2,552,867
<u>\$ 82,485</u>	<u>\$ 2,369,950</u>

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, 2017**

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

Net change in fund balances - total governmental funds: \$ (182,917)

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. 563,221

Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Net Position. (283,988)

Certain items reported as expenditures in governmental funds are allocable to future accounting periods and therefore are not reported as expenses in the Statement of Activities. These items include:

Current year increase in pension expense (127,177)
Current year increase in other post-employment benefit expense (1,255)

Increases (decreases) in long-term debt and related items that are not financial resources increase (decrease) net position in the Statement of Net Position. These items include:

Compensated absences (8,069)

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 (106,281)
Repayment of debt 37,674

Change in net position of governmental activities \$ (108,792)

See accompanying notes to the 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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,198,827	\$ 2,198,827	\$ 2,143,309	\$ (55,518)
Licenses and permits	49,000	49,000	43,692	(5,308)
Fines, forfeitures and penalties	22,700	43,763	18,310	(25,453)
Intergovernmental	738,754	1,289,000	583,908	(705,092)
Charges for services	25,000	25,000	18,564	(6,436)
Interest	7,000	7,000	10,623	3,623
Rental income	124,000	124,000	124,000	-
Miscellaneous	450,265	450,265	225,616	(224,649)
Total revenues	3,615,546	4,186,855	3,168,022	(1,018,833)
Expenditures				
General government	759,398	784,398	776,801	7,597
Public safety	1,056,640	1,113,784	1,106,587	7,197
Public works	1,099,583	1,664,872	994,994	669,878
Cemetery and grounds	241,350	241,350	231,280	10,070
Culture and recreation	288,900	340,683	243,602	97,081
Total expenditures	3,445,871	4,145,087	3,353,264	791,823
Excess of Revenues Over (Under)				
Expenditures	169,675	41,768	(185,242)	(227,010)
Other Financing Sources (Uses)				
Transfers in	159,250	159,250	-	(159,250)
Transfers out	(86,156)	(86,156)	(234,547)	(148,391)
Debt proceeds	-	106,281	106,281	-
Sale of capital assets	10,000	10,000	1,800	(8,200)
Total other financing sources (uses)	83,094	189,375	(126,466)	(315,841)
Net change in fund balances	252,769	231,143	(311,708)	(542,851)
Fund Balances - beginning	2,084,253	2,084,253	2,084,253	-
Fund Balances - ending	\$ 2,337,022	\$ 2,315,396	\$ 1,772,545	\$ (542,851)

See accompanying notes to the financial statements.

City of Chipley

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Chipley Redevelopment Agency
For the Year Ended September 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 149,176	\$ 149,176	\$ 149,176	\$ -
Interest	4,000	4,000	5,767	1,767
Total revenues	153,176	153,176	154,943	1,767
Expenditures				
General government	409,948	409,948	26,652	383,296
Excess of Revenues Over (Under)				
Expenditures	(256,772)	(256,772)	128,291	385,063
Fund Balances - beginning	386,629	386,629	386,629	-
Fund Balances - ending	\$ 129,857	\$ 129,857	\$ 514,920	\$ 385,063

See accompanying notes to the financial statements.

City of Chipley
Statement of Net Position – Proprietary Funds
September 30, 2017

	Business-Type	
	Water	Sewer
Assets		
Current assets		
Cash and cash equivalents	\$ 804	\$ 3,070
Accounts receivable, net	79,667	134,058
Due from other governmentals	888,343	209,667
Restricted assets:		
Cash and cash equivalents	135,753	208,414
Investments	-	209,165
Total current assets	1,104,567	764,374
Non-current assets		
Deposits on land	-	40,000
Land and construction in progress	2,025,537	994,835
Capital assets, net of depreciation	3,070,366	31,367,873
Total non-current assets	5,095,903	32,402,708
Total assets	6,200,470	33,167,082
Deferred Outflows of Resources		
Deferred outflows related to pensions	136,805	197,300
Liabilities		
Current liabilities		
Accounts payable	722,757	160,482
Accrued payroll liabilities	14,261	14,009
Other accrued liabilities	-	-
Compensated absences	13,216	12,065
Interfund payables	307,000	55,750
Total current liabilities	1,057,234	242,306
Current liabilities payable from restricted assets		
Accrued interest	788	8,855
Notes payable, current portion	17,428	34,931
Bonds payable, current portion	2,000	105,000
Total current liabilities payable from restricted assets	20,216	148,786
Noncurrent liabilities		
Compensated absences	70,333	64,203
Customer deposits	72,997	91,731
Net pension liability	336,043	451,905
Notes payable	9,232	570,042
Other post-employment benefit liability	1,801	1,989
Bonds payable	107,900	1,836,700
Total noncurrent liabilities	598,306	3,016,570
Total liabilities	1,675,756	3,407,662
Deferred Inflows of Resources		
Deferred inflows related to pensions	24,418	40,061
Net Position		
Net investment in capital assets	4,959,343	29,816,035
Restricted	59,857	203,313
Unrestricted (deficit)	(382,099)	(102,689)
Total net position	\$ 4,637,101	\$ 29,916,659

See accompanying notes to the financial statements.

Activities

	Sanitation	Natural Gas	Total
\$	472,466	\$ 1,545	\$ 477,885
	82,729	30,143	326,597
	-	-	1,098,010
	35,033	29,006	408,206
	-	-	209,165
	590,228	60,694	2,519,863
	-	-	40,000
	10,350	17,683	3,048,405
	92,970	199,532	34,730,741
	103,320	217,215	37,819,146
	693,548	277,909	40,339,009
	33,444	49,286	416,835
	1,792	6,435	891,466
	3,333	4,607	36,210
	-	1,603	1,603
	2,967	7,516	35,764
	-	105,000	467,750
	8,092	125,161	1,432,793
	118	-	9,761
	7,800	-	60,159
	-	-	107,000
	7,918	-	176,920
	15,790	39,995	190,321
	35,033	25,739	225,500
	79,814	118,883	986,645
	-	-	579,274
	488	961	5,239
	-	-	1,944,600
	131,125	185,578	3,931,579
	147,135	310,739	5,541,292
	6,392	8,979	79,850
	95,520	217,215	35,088,113
	-	-	263,170
	477,945	(209,738)	(216,581)
\$	573,465	\$ 7,477	\$ 35,134,702

City of Chipley
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2017

	Business-Type	
	Water	Sewer
Operating Revenues		
Charges for services	\$ 634,460	\$ 1,150,139
Miscellaneous revenue	17,281	12,388
Total operating revenues	651,741	1,162,527
Operating Expenses		
Salaries and benefits	411,318	430,092
Services and supplies	198,839	398,822
Other expenses	10,241	12,058
Depreciation	132,328	1,070,561
Total operating expenses	752,726	1,911,533
Operating Income (Loss)	(100,985)	(749,006)
Non-Operating Revenues (Expenses)		
Grant revenue	1,340,727	249,149
Interest income	4	1,412
Interest expense	(5,683)	(108,296)
Gain on disposal of assets	-	5,670
Total non-operating revenues (expenses)	1,335,048	147,935
Income (Loss) Before Transfers	1,234,063	(601,071)
Transfers in	149,028	11,212
Change in net position	1,383,091	(589,859)
Total Net Position - beginning	3,254,010	30,506,518
Total Net Position - ending	\$ 4,637,101	\$ 29,916,659

See accompanying notes to the financial statements.

Activities

Sanitation	Natural Gas	Total
\$ 705,691	\$ 323,142	\$ 2,813,432
-	1,289	30,958
705,691	324,431	2,844,390
86,341	152,704	1,080,455
581,362	278,935	1,457,958
1,631	4,448	28,378
22,268	21,018	1,246,175
691,602	457,105	3,812,966
14,089	(132,674)	(968,576)
-	-	1,589,876
4,995	10	6,421
(757)	-	(114,736)
-	-	5,670
4,238	10	1,487,231
18,327	(132,664)	518,655
-	-	160,240
18,327	(132,664)	678,895
555,138	140,141	34,455,807
\$ 573,465	\$ 7,477	\$ 35,134,702

City of Chipley
Statement of Cash Flows – Proprietary Funds
For the Year Ended September 30, 2017

	Business-Type	
	Water	Sewer
Cash Flows From Operating Activities		
Receipts from customers, users and others	\$ 683,998	\$ 1,199,753
Payments to suppliers	286,974	(479,276)
Payments to employees	(299,216)	(288,017)
Net cash provided by (used in) operating activities	671,756	432,460
Cash Flows From Non-Capital Financing Activities		
Advances from other funds	229,028	(72,538)
Cash Flows From Capital and Related Financing Activities		
Grant revenue	776,032	117,738
Purchases and construction of capital assets	(1,648,501)	(346,329)
Principal paid on capital debt	(19,052)	(136,087)
Proceeds from capital debt	-	108,764
Proceeds from sale of capital assets	-	5,670
Interest paid on capital debt	(5,930)	(108,208)
Net cash used in capital and related financing activities	(897,451)	(358,452)
Cash Flows From Investing Activities		
Interest and dividends	4	1,412
Purchase of investments	-	(1,325)
Net cash provided by investing activities	4	87
Net increase (decrease) in cash and cash equivalents	3,337	1,557
Cash and Cash Equivalents - beginning	133,220	209,927
Cash and Cash Equivalents - ending	\$ 136,557	\$ 211,484

See accompanying notes to the financial statements.

Activities

Sanitation	Natural Gas	Total
\$ 711,174	\$ 333,558	\$ 2,928,483
(584,044)	(282,437)	(1,058,783)
(90,044)	(151,087)	(828,364)
37,086	(99,966)	1,041,336
-	105,000	261,490
-	-	893,770
-	(13,183)	(2,008,013)
(31,763)	-	(186,902)
-	-	108,764
-	-	5,670
(925)	-	(115,063)
(32,688)	(13,183)	(1,301,774)
4,995	10	6,421
-	-	(1,325)
4,995	10	5,096
9,393	(8,139)	6,148
498,106	38,690	879,943
\$ 507,499	\$ 30,551	\$ 886,091

-Continued-

City of Chipley
Statement of Cash Flows – Proprietary Funds (Continued)
For the Year Ended September 30, 2017

	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)	\$ (100,985)	\$ (749,006)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	132,328	1,070,561
Changes in operating assets and liabilities:		
Accounts receivable	(6,788)	(5,384)
Deferred outflows related to pension	37,140	40,179
Accounts payable	622,484	77,261
Accrued payroll liabilities	4,789	1,313
Other accrued liabilities	-	-
Compensated absences	(7,653)	7,570
Pension liability	19,391	20,977
Other post-employment benefit liability	192	144
Deferred inflows related to pension	(31,047)	(33,586)
Customer deposits	1,905	2,431
Net cash provided by (used in) operating activities	\$ 671,756	\$ 432,460
Non-cash Financing Activities:		
Equipment acquired through issuance of long-term debt	\$ -	\$ 47,475

See accompanying notes to the financial statements.

Activities

Sanitation	Natural Gas	Total
\$ 14,089	\$ (132,674)	\$ (968,576)
22,268	21,018	1,246,175
(5,242)	(2,845)	(20,259)
8,105	12,524	97,948
1,493	5,491	706,729
906	777	7,785
-	(536)	(536)
(4,609)	840	(3,852)
4,232	6,539	51,139
-	(79)	257
(6,776)	(10,469)	(81,878)
2,620	(552)	6,404
\$ 37,086	\$ (99,966)	\$ 1,041,336
\$ -	\$ -	\$ 47,475

NOTE

1. Summary of Significant Accounting Policies
2. Stewardship, Compliance, and Accountability
3. Cash, Cash Equivalents and Investments
4. Receivables
5. Interfund Balances
6. Capital Assets
7. Long-Term Debt
8. Major Supplier
9. Restricted Net Position
10. Supplemental Cash Flow Information
11. Employee Retirement Plan
12. Post-Employment Benefits Other Than Pension
13. Commitments and Contingencies
14. Risk Management
15. Subsequent Events

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 in accordance with the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the City’s basic financial statements.

Reporting Entity

The City of Chipley, Florida (the “City”), located in Washington County, was incorporated in 1901 pursuant to 5077-1901 Laws of Florida. The City is a political subdivision of the State of Florida and operates under an elected City Council. The City provides police and fire protection, general government, recreation, and public works services to its residents. In addition, the City provides water, sewer, natural gas and sanitation services. The financial statements of the City include the funds required to account for those financial activities, which are related to the City and are controlled by or dependent upon the City’s legislative body. The definition of the reporting entity, pursuant to Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600, is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. The City is also financially accountable for a legally separate agency if the City’s 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 GAAP, these financial statements present the government and its component units, entities for which the government is considered financially accountable. Component units are reported as either blended or discretely presented. 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. The City has two blended component units described below. Each blended component unit has a year-end of September 30. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. The City has no discretely presented component units.

Related Organization

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Blended Component Units

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

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

Government-wide and Fund Financial Statements

The basic financial statements consist of the government-wide financial statements and fund financial statements. Government-wide financial statements are comprised of the statement of net position and the statement of changes in net position which reports information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Fiduciary funds of the government are eliminated from this presentation since these resources are not available for general government funding purposes. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or within sixty days after year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer, Sanitation and Natural Gas Departments are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Community Redevelopment Agency – This is a blended component unit of the City. It is a separate legal entity required to be included in the City’s reporting entity because of the significance of their operating or financial relationships with the City.

The City 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.

Natural Gas Fund – This fund accounts for all activity related to providing natural gas services to its citizens.

Cash and Cash Equivalents

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

Investments

The City’s investments are limited to certificates of deposits stated at fair value.

Accounts Receivable

The City considered all governmental fund receivables collectible and as such, no allowance for uncollectibles is reported.

Proprietary Fund - The City grants credit to its proprietary fund customers who use its various services, substantially all of whom are local residents or businesses. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Receivables and Payables

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

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. Buildings 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 acquisition value as of the date of donation. The City has not reported infrastructure acquired prior to October 1, 2003. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are expensed as incurred. Interest incurred during the construction phase on loans obtained for long-term construction projects are capitalized into the cost of the asset.

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has one item that qualifies for reporting in this category, the deferred outflows related to pension. A deferred outflow related to pension results from pension contributions related to normal and accrued employer liability (net of any refunds or error service payments) subsequent to the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category, deferred inflows related to pension and unavailable revenue from occupational license.

Compensated Absences

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

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

Pension Plans

Florida Retirement System - 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.

Health Insurance Subsidy Program - Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy Program ("HIS"), a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Contributions to the HIS plan are included in contributions to the Pension Plan noted above.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position and Fund Equity

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

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

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

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

Fund balances are reported in the fund financial statements in two major categories: nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The City’s reported governmental fund balance at September 30, 2017 is comprised of the following:

	General Fund	Community Redevelopment Agency	Other Government Funds	Total Governmental Funds
Nonspendable				
Long-term loans receivable	\$ -	\$ 65,744	\$ -	\$ 65,744
Restricted				
Capital Improvements	1,050,375	-	-	1,050,375
Debt Service	-	-	70,615	70,615
Economic development	-	449,176	-	449,176
Committed:				
Cemetery	57,867	-	-	57,867
Volunteer Fire Department	-	-	11,870	11,870
Assigned:				
Recreation	17,075	-	-	17,075
Unassigned	647,228	-	-	647,228
	\$ 1,772,545	\$ 514,920	\$ 82,485	\$ 2,369,950

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The current property tax calendar is as follows:

Lien date:	January 1, 2016
Levy date:	November 1, 2016
Due date:	March 31, 2017
Delinquent date:	April 1, 2017

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

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

Management Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from estimates used.

Impact of Recently Issued Accounting Pronouncements

In fiscal year 2017, the City adopted four new statements of financial accounting standards issued by GASB:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 74”).
- GASB Statement No. 77, *Tax Abatement Disclosures* (“GASB 77”).
- GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* (“GASB 78”).
- GASB Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14* (“GASB 80”).

GASB 74 establishes accounting and financial reporting standards, but not funding or budgetary standards, for state and local governmental other postemployment benefit (“OPEB”) plans. GASB 74 replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The adoption of GASB 74 had no impact on the City’s governmental fund financial statements. The adoption also resulted in no changes to the presentation of the financial statements of the City’s Pension and Other Employee Benefit Trust

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds. In the separate annual financial statements of these funds, certain changes in Note disclosures and Required Supplementary Information (RSI) were incorporated to comply with GASB 74.

GASB 77 defines a tax abatement and contains required disclosures about a reporting government’s own tax abatement agreements and those agreements that are entered into by other governments and that reduce the reporting government’s tax revenues. There was no impact on the City’s financial statements as a result of the implementation of GASB 77.

GASB 78 amends the scope and applicability of GASB Statement No. 68 Accounting and Financial Reporting for Pensions—and amendment of GASB Statement No. 27 to exclude pension plans provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (a) is not a state or local government pension plan, (b) is used to provide defined benefits both to employees of state or local governmental employers and to employees of employers that are not state or local governments, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The Statement also establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. There was no material impact on the City’s financial statements as a result of the implementation of GASB 78.

GASB 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments by providing an additional criterion. A component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member as identified in the component unit’s articles of incorporation or bylaws. There was no impact on the City’s financial statements as a result of the implementation of GASB 80.

Recently Issued But Not Yet Effective

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the City upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
75	<i>Account and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

81	<i>Irrevocable Split-Interest Agreements</i>	2018
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2020
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment Issues</i>	2018
87	<i>Leases</i>	2021

GASB Statement No. 75 (“GASB 75”) establishes standards of accounting and financial reporting, but not funding or budgetary standards, for OPEB that is provided to the employees of state and local governmental employers through OPEB Plans that are administered through trusts or equivalent arrangements meeting certain criteria. GASB 75 also establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditure. GASB 75 replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans. For defined benefit OPEB plans, the statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information are addressed. GASB 75 is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 81 (“GASB 81”) requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. The requirements of GASB 81 are effective for periods beginning after December 15, 2016.

GASB Statement No. 83 (“GASB 83”) addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB 83. GASB 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. GASB 83 requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. GASB 83 requires the measurement of an ARO to be based on the

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. GASB 83 requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement. GASB 83 requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset. A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of GASB 83. In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. GASB 83 requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements. GASB 83 also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. GASB 83 requires similar disclosures for a government's minority shares of AROs. The requirements for GASB 83 are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84 ("GASB 84") establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. GASB 84 also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of GASB 84 are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 85 (“GASB 85”) addresses practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The requirements of GASB 85 are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86 (“GASB 86”) improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB 86 also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of GASB 86 are effective for reporting periods beginning after June 15, 2017.

The objective of GASB Statement No. 87 (“GASB 87”) is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for reporting periods beginning after December 15, 2019.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

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.

During fiscal year 2017, there were general fund supplemental budget appropriations of \$699,216 or 20.29% of the original budget. The Community Redevelopment Agency had no such budget appropriations during fiscal year 2017. The following items represent the major additional appropriations:

General Fund

Capital outlays	\$	550,246
Various personnel services and operating costs		148,970
Total general fund	\$	699,216

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.

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.

Land Held for Resale

City law enforcement seized real estate as part of law enforcement activities in January 2007. The fair value of this real estate is estimated at \$225,237, and it is currently being held for sale by the City.

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

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

Custodial Credit Risk - Deposits

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

Investments

Investments were comprised of certificates of deposits and reported at amortized cost in the amount of \$215,484 as of September 30, 2017.

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). 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, 2017, the fair value and the carrying value of these funds was \$1,648,443. The funds are carried as cash on the balance sheet in the amount of \$1,231,037, and as restricted cash of \$417,406 at September 30, 2017. The local government surplus investment pool is not rated by a nationally recognized statistical rating agency as of September 30, 2017.

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

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

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 City has adopted operating procedures consistent with the requirements for a 2a-7 fund.

Concentration of Credit Risk

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has limited its interest rate risk by investing in low risk instruments with a maturity of 60 months or less. At September 30, 2017, the City held the following investments:

Investment Type	Fair Value	Purchase Date to Maturity			
		0 – 1 Year	1 – 2 Years	2 – 3 Years	3 – 5 Years
Certificates of Deposit	\$ 215,484	\$ -	\$ 215,484	\$ -	\$ -

NOTE 4 – RECEIVABLES

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

Governmental Funds

	Community Redevelopment Agency	
	General Fund	Agency
Taxes	\$ 85,879	\$ -
Franchise fees	27,604	-
Revolving loan receivable	-	80,113
Other	44,761	-
	\$ 158,244	\$ 80,113

City of Chipley
Notes to Financial Statements

NOTE 4 – RECEIVABLES (Continued)

Proprietary Funds

	Water	Sewer	Sanitation	Natural Gas
Accounts – utility billings (1)	\$ 79,739	\$ 135,246	\$ 83,798	\$ 30,510
Allowance for uncollectibles	(1,039)	(1,758)	(1,094)	(367)
Other	967	570	25	-
	<u>\$ 79,667</u>	<u>\$ 134,058</u>	<u>\$ 82,729</u>	<u>\$ 30,143</u>

(1) Includes unbilled revenue for September usage billed in October.

Due From Other Governments

The \$303,687 reported in governmental activities and \$1,098,010 reported in business-type activities are due from the State of Florida. The amounts due are deemed collectible.

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, 2017 is shown below:

Interfund Receivables and Payables

	Payable Fund			
	Water	Sewer	Gas	Total
Receivable Fund				
General	\$ 307,000	\$ 55,750	\$ 105,000	\$ 467,750

Interfund Transfers

	Transfers In			
	Debt Service	Water	Sewer	Total
Transfers Out				
General	\$ 74,307	\$ 149,028	\$ 11,212	\$ 234,547

City of Chipley
Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 957,092	\$ -	\$ -	\$ 957,092
Construction in progress	44,125	403,598	67,764	379,959
Total capital assets not being depreciated	\$ 1,001,217	\$ 403,598	\$ 67,764	\$ 1,337,051
Capital assets being depreciated:				
Furniture and equipment	\$ 2,207,161	\$ 159,623	\$ 41,379	\$ 2,325,405
Improvements other than buildings	2,141,270	67,764	-	2,209,034
Buildings	4,607,549	-	-	4,607,549
Total capital assets being depreciated	8,955,980	227,387	41,379	9,141,988
Less accumulated depreciation for:				
Furniture and equipment	2,082,095	129,030	-	2,211,125
Improvements other than buildings	825,165	87,530	-	912,695
Buildings	2,086,000	67,428	41,379	2,112,049
Total accumulated depreciation	4,993,260	283,988	41,379	5,235,869
Total capital assets being depreciated, net	\$ 3,962,720	\$ (56,601)	\$ -	\$ 3,906,119

City of Chipley
Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 702,898	\$ -	\$ -	\$ 702,898
Construction in progress	451,240	1,951,767	57,500	2,345,507
Total capital assets not being depreciated	\$ 1,154,138	\$ 1,951,767	\$ 57,500	\$ 3,048,405
Capital assets being depreciated:				
Building and plant	\$ 47,444,616	\$ 57,500	\$ -	\$ 47,502,116
Equipment and vehicles	2,428,830	56,249	65,780	2,419,299
Total capital assets being depreciated	49,873,446	113,749	65,780	49,921,415
Less accumulated depreciation for:				
Building and plant	12,229,528	1,130,255	-	13,359,783
Equipment and vehicles	1,780,751	115,920	65,780	1,830,891
Total accumulated depreciation	14,010,279	1,246,175	65,780	15,190,674
Total capital assets, being depreciated, net	\$ 35,863,167	\$ (1,132,426)	\$ -	\$ 34,730,741

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

Governmental Activities:	
General government	\$ 113,635
Public safety	64,823
Public works	78,539
Culture and recreation	26,991
Total	\$ 283,988
Business-Type Activities:	
Water	\$ 132,328
Sewer	1,070,561
Sanitation	22,268
Natural Gas	21,018
Total	\$ 1,246,175

City of Chipley
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
Revenue bonds	\$ 775,512	\$ -	\$ 17,182	\$ 758,330	\$ 18,665
Notes and leases	-	106,281	20,492	85,789	18,525
Compensated absences	454,096	72,102	80,171	446,027	98,126
Total	\$ 1,229,608	\$ 178,383	\$ 117,845	\$ 1,290,146	\$ 135,316
Business-Type Activities:					
Revenue bonds	\$ 2,154,300	\$ -	\$ 102,700	\$ 2,051,600	\$ 107,000
Notes and leases	614,870	108,765	84,202	639,433	60,159
Compensated absences	229,937	31,912	35,764	226,085	35,764
Total	\$ 2,999,107	\$ 140,677	\$ 222,666	\$ 2,917,118	\$ 202,923

Debt service requirements on long-term debt at September 30, 2017 are as follows:

Governmental Activities

Fiscal Year Ending September 30,	Revenue Bonds		Notes and Leases	
	Principal	Interest	Principal	Interest
2018	\$ 18,665	\$ 35,966	\$ 18,525	\$ 2,043
2019	19,172	35,080	18,951	1,617
2020	19,703	34,212	11,646	1,182
2021	21,258	33,237	11,931	897
2022	21,841	32,228	12,223	605
2023-2027	127,954	144,423	12,513	306
2028-2032	159,266	111,214	-	-
2033-2037	193,623	70,250	-	-
2038-2042	176,848	21,588	-	-
Total	\$ 758,330	\$ 518,198	\$ 85,789	\$ 6,650

City of Chipley
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
2018	\$ 107,000	\$ 98,082	\$ 60,158	\$ 6,876
2019	112,600	92,837	106,196	5,717
2020	117,100	87,377	36,419	4,876
2021	123,600	81,646	27,888	4,270
2022	129,300	75,614	18,480	3,859
2023-2027	581,700	281,084	97,739	16,624
2028-2032	458,500	163,779	107,272	11,858
2033-2037	324,600	61,970	117,733	6,626
2038-2042	78,300	10,236	67,548	1,255
2043-2045	18,900	1,717	-	-
Total	\$ 2,051,600	\$ 954,342	\$ 639,433	\$ 61,961

Notes Payable

Notes and leases payable at September 30, 2017 are comprised of the following:

	Governmental Activities
Capital City Bank – A note payable in annual installments of \$7,740 including interest at 2.05%. The note matures on February 1, 2019 and is secured by a vehicle.	\$ 15,003
One South Bank - A note payable in annual installments of \$12,828 including interest at 2.411%. The note matures on December 20, 2022 and is secured by a vehicle.	70,786
	\$ 85,789
	Business-Type Activities
Capital City Bank – A note payable in annual installments of \$33,812 including interest at 1.94%. The note matures on January 4, 2018 and is secured by equipment.	\$ 42,879

NOTE 7 – LONG-TERM DEBT (Continued)

Capital City Bank – A note payable in annual installments of \$9,987 including interest at 2.43%. The note matures on February 2, 2021 and is secured by a pledge of and lien upon non-advalorem taxes. 37,603

One South Bank - A note payable in annual installments of \$9,567 including interest at 2.58%. The note matures on March 5, 2019 and is secured by a vehicle. 18,318

Florida Department of Environmental Protection – A note payable under a Clean Water State Revolving Fund (SRF) Loan Agreement awarded April 2016 to fund sewer system upgrades. The loan is payable in semi-annual principal and interest installments of \$23,708 beginning June 2018. Interest accrues at rates ranging from 0.85% to 1.7% based on the dates of the various loan awards which comprise the total loan. 61,289

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 \$13,099 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. 479,344

\$ 639,433

Bonds Payable

Bonds payable at September 30, 2017 are comprised of the following:

	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.	\$ 428,330

City of Chipley
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

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. 330,000

Total \$ 758,330

**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. \$ 519,200

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. 546,800

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. 92,100

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. 783,600

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. 109,900

Total \$ 2,051,600

NOTE 7 – LONG-TERM DEBT (Continued)

The City has pledged future water and sewer system net revenues to repay \$2,809,930 in revenue bonds issued in 1986, 1994, 1998, 2001, 2003, and 2006. Proceeds from the bonds were used for capital improvements and rehabilitation or expansion of the City’s water and sewer systems. Principal and interest on the bonds are payable through 2045, solely from the water and sewer system net revenues and an interlocal agreement with Washington County in which the City agreed to pay half of the debt service related to the portion of the debt which financed the construction of a library. Annual principal and interest on the bonds are expected to require approximately 71 percent of such net revenues. Principal and interest paid for the current year and total customer net revenues were \$259,728 and \$364,191, respectively.

NOTE 8 – MAJOR SUPPLIER

All natural gas sold by the natural gas fund is purchased from a single supplier, Florida Gas Utility. Purchases totaled \$175,292. Florida Gas Utility is currently the City’s sole supplier of natural gas.

NOTE 9 – RESTRICTED NET POSITION

Restricted net position is comprised of the following at September 30, 2017:

	Governmental	Business-Type
Restricted to capital improvements	\$ 1,050,375	\$ 152,839
Restricted to debt service	70,614	110,331
Restricted to economic development	514,920	-
	<u>\$ 1,635,909</u>	<u>\$ 263,170</u>

NOTE 10 – SUPPLEMENTAL CASH FLOW INFORMATION

Interest expense incurred for business-type activities for the year ended September 30, 2017 was \$114,736, all of which was charged to non-operating expenses. Cash paid for interest was \$115,063 and there was no interest capitalized for the year ended September 30, 2017.

NOTE 11 – EMPLOYEE RETIREMENT

Florida Retirement System Pension Plan

Substantially all full-time City employees are participants in the Florida Retirement System (the “System”), a defined benefit, cost sharing, multiple employer public retirement system, which is controlled by the State Legislature and administered by the State of Florida, Department of Administration, Division of Retirement. The plan covers full time employees of various governmental units within the State of Florida.

NOTE 11 – EMPLOYEE RETIREMENT (Continued)

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 (see rates below). Level percentages of payroll employer contribution rates established by state law are determined using the entry-age actuarial funding method.

The System provides for those employees hired prior to July 1, 2012 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, 2012, the System provides for vesting of benefits after eight years of creditable service. Normal retirement benefits are available to employees who retire at or after age 65 with eight or more years of service. Early retirement is available after eight years of service with a 5% reduction of benefits for each year prior to the normal retirement age. Retirement benefits are based upon age, average compensation, and years-of-service credit where average compensation is computed as the average of an individual's five highest years of earnings.

Participating employer contributions are based upon state-wide rates established by the State of Florida. These rates are applied to employee salaries as follows: regular employees-7.92% DROP Program-13.26%, special risk employees-23.27%, senior management-22.71% and elected officials-45.50%. The rate applied to employee salaries for employee contributions was 3.00% for all classifications with the exception of DROP program participants who do not make contributions.

The City's contributions to the plan for the years ended September 30, 2017, 2016, and 2015 were \$261,073, \$250,758, and \$236,343 respectively, and equal to the actuarially determined contributions for each year. These contributions were paid by their due date. Total payroll for the City employees covered by the System was \$1,819,586 for the year ended September 30, 2017. The City's total payroll was \$1,938,829 for the same period.

The City has no responsibility to the System other than to make the periodic payments required by State Statutes. The Florida Division of Retirement issues a publicly available financial report that includes financial statements and required supplementary information for the System. The report may be obtained by writing Florida Division of Retirement, P O Box 9000, Tallahassee, FL 32315-9000. *Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions.* At September 30, 2017, the City reported a liability of \$2,484,786 for its proportionate share of the collective net pension liability for the Florida Retirement System Pension Plan ("Pension Plan"). The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The City's proportion of the collective net pension liability was based on the employers' shares of contributions to the Pension Plan relative to the total employer contributions of all participating employers. At June 30, 2017, the System's proportion of the Pension Plan was 0.008400%, which was a decrease of 0.00000448% from its proportion measured as of June 30, 2016.

City of Chipley
Notes to Financial Statements

NOTE 11 - EMPLOYEE RETIREMENT (Continued)

For the year ended September 30, 2017, the City recognized pension expense of \$426,148 for the Pension Plan. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to the Pension Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 228,052	\$ (13,764)
Changes of assumptions	835,064	-
Net difference between projected and actual earnings on pension plan investments	-	(61,579)
Changes in proportion and differences between employer contributions and proportionate share of contributions	65,519	(58,586)
Employer contributions subsequent to the measurement date	61,432	-
Total	\$ 1,190,067	\$ (133,929)

\$61,432 reported as deferred outflows of resources related to the Pension Plan resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

Year Ended September 30,	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense, Net
2018	\$ 209,004	\$ (28,793)	\$ 180,211
2019	209,004	(28,793)	180,211
2020	209,004	(28,793)	180,211
2021	209,004	(28,793)	180,211
2022	209,004	(13,397)	195,607
Thereafter	83,615	(5,360)	78,255
Total	\$ 1,128,635	\$ (133,929)	\$ 994,706

Actuarial assumptions. The total pension liability for the Pension Plan was determined by an actuarial valuation as of June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Investment rate of return*	7.10%
Projected salary increases	3.25%

* Net of pension plan investment expense

NOTE 11 - EMPLOYEE RETIREMENT (Continued)

The actuarial assumptions used in the actuarial valuation as of June 30, 2017 for the Pension Plan were based on the results of an investigation of the economic and demographic experience for the System based upon participant data as of June 30, 2013.

Mortality rates were based on the Generational RP-2000 Mortality Table with Projected Scale BB.

The long-term expected rate of return for the Pension Plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (1)	Annual Arithmetic Return*	Compound Annual (Geometric) Return	Standard Deviation
Cash	1%	3.0%	3.0%	1.8%
Fixed Income	18%	4.5%	4.4%	4.2%
Global equity	53%	7.8%	6.6%	17.0%
Real estate (property)	10%	6.6%	5.9%	12.8%
Private equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	9.7%
Total	100%			

* Includes assumed rate of inflation of 2.60%

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
City's proportionate share of collective net pension liability	\$ 4,497,313	\$ 2,484,786	\$ 813,928

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the FRS prepared as of June 30, 2017. The auditor's report dated January 10, 2018 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of June 30, 2017 along with supporting schedules is also available. The additional financial and actuarial information is available from http://www.dms.myflorida.com/workforce_operations/retirement/publications.

NOTE 11 - EMPLOYEE RETIREMENT (Continued)

Health Insurance Subsidy Program

Chapter 112, Florida Statutes, established the HIS, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Contributions to the HIS plan are included in contributions to the Pension Plan noted above. The Pension Plan contributes 1.66% of each covered employee's salary to the HIS Plan. The remainder is contributed to the Pension Plan, with the exception for 0.04% that is contributed to administrative expenses.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At September 30, 2017, the City reported a liability of \$590,320 for its proportionate share of the collective net pension liability. For the Health Insurance Subsidy program ("HIS Plan"), the net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The City's proportion of the collective net pension liability was based on the employers' shares of contributions to the HIS Plan relative to the total employer contributions of all participating employers. At June 30, 2017, the System's proportion of the HIS Plan was 0.005521%, which was a decrease of 0.0002699% from its proportion measured as of June 30, 2017.

For the year ended September 30, 2017, the City recognized pension expense of \$41,641 for the HIS Plan. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to the HIS Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (1,231)
Changes of assumptions	82,979	(51,046)
Net difference between projected and actual earnings on pension plan investments	327	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	8,624	(33,341)
Employer contributions subsequent to the measurement date	7,845	-
Total	\$ 99,775	\$ (85,618)

\$7,845 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in the pension's expense as follows:

City of Chipley
Notes to Financial Statements

NOTE 11 - EMPLOYEE RETIREMENT (Continued)

Year Ended September 30,	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense Net
2018	\$ 14,857	\$ (13,809)	\$ 1,048
2019	14,857	(13,809)	1,048
2020	14,857	(13,809)	1,048
2021	14,857	(13,809)	1,048
2022	14,857	(13,809)	1,048
Thereafter	17,645	(16,573)	1,072
Total	\$ 91,930	\$ (85,618)	\$ 6,312

The total pension liability for the HIS Plan was determined by an actuarial valuation as of June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60%
Investment rate of return*	3.58%
Projected salary increases	3.25%

* Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of June 30, 2016 for the HIS Plan were based on the results of an investigation of the economic and demographic experience for the System based upon participant data as of June 30, 2013.

Mortality rates were based on the Generational RP-2000 Mortality Table with Projected Scale BB.

The long-term expected rate of return for the HIS Plan investments was based on the Bond Buyer General Obligation 20-Bond Municipal Bond Index.

Discount rate. The discount rate used to measure the total pension liability for the HIS Plan was 3.58%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion rate is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 3.58% for the HIS Plan as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.58%) or 1-percentage point higher (4.58%) than the current rate:

NOTE 11 - EMPLOYEE RETIREMENT (Continued)

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
City's proportionate share of collective net pension liability	\$ 673,633	\$ 590,320	\$ 520,925

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued FRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the FRS prepared as of June 30, 2017. The auditor's report dated January 10, 2018 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of June 30, 2017 along with supporting schedules is also available. The additional financial and actuarial information is available from http://www.dms.myflorida.com/workforce_operations/retirement/publications.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description - The City has previously established and maintains an employee group medical insurance plan that it makes available to eligible retirees in accordance with Section 112.081 of the Florida Statutes and City ordinance. The medical plan is a single-employer, experience rate insurance plan that provides medical benefits to eligible retirees and their eligible dependents. The post-retirement benefit portion of this benefit plan refers to the medical benefits applicable to current and future retirees and their eligible dependents used for the purpose of this valuation.

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.

At September 30, 2017, the total number of participating eligible retirees and dependents used for the medical plan was 3. The City currently determines the eligibility, benefit provisions and changes to those provisions applicable to retirees in accordance with applicable City ordinances, federal and state laws.

Actuarial Valuation as of September 30, 2017

Summary of Employer Census Data

Number of active members	34
Number of retired members	3
Number of spouses receiving benefits	-

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Funded Status and Funding Progress - As of September 30, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$170,973, and the actuarial value of present assets was \$-0-, resulting in an unfunded actuarial accrued liability of \$170,973. The covered payroll (annual payroll of active participating employees) was \$1,284,118 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 13.31%.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB 45. The ARC, which represents a level of funding that is paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for postemployment health care benefits.

<i>Fiscal Year Ending September 30, 2017</i>	Amount
Annual required contribution	\$ 13,371
Annual OPEB cost	12,915
Contribution toward the OPEB cost in fiscal year 2017	(11,660)
Increase in Net OPEB obligation	1,255
Net OPEB obligation, beginning of year	27,836
Net OPEB obligation, end of year	\$ 29,091

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

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

The City's OPEB actuarial valuation using information as of September 30, 2017 employed the projected unit cost method to estimate the unfunded actuarial accrued liability as of September 30, 2017 and to estimate the City's 2017 annual required contribution. Although the OPEB liability is currently unfunded, the actuarial assumption included a 3.9% discount rate. The actuarial assumptions also included a health care cost trend level 5.00% for medical. The economic rates are based on an assumed long-term medical inflation rate of 5.00% per annum. The amortization period used to determine amortization costs for the initial unfunded actuarial accrued liability is a level period for 30 years on an open basis.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Litigation - The City is involved in several litigations and claims arising in the ordinary course of operations. In the opinion of management, the range of potential recoveries or liabilities would not materially affect the financial position of the City at September 30, 2017. Accordingly, no accruals for loss contingency have been made in the accompanying financial statements.

Grants – Grant funds received and disbursed by the City are for specific purposes and are subject to review by grantor agencies. Such reviews may result in requests for reimbursements due to disallowed expenditures. Based upon experience, the City does not believe that such disallowance, if any, would have a material effect on the financial position of the City. As of September 30, 2017, there were no questioned or disallowed costs as a result of reviews by grantor agencies in process or completed.

Construction Commitments - The City had open contract commitments for improvements as of September 30, 2017 as follows:

Contract amounts	\$	6,815,191
Amount expended through September 30, 2017		2,731,799
<hr/>		
Remaining commitment on contract	\$	4,083,392
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NOTE 14 – RISK MANAGEMENT

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

NOTE 15 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date the financial statements were available for issuance, and there are none to disclose.

City of Chipley
Required Supplementary Information
Post-Employment Benefits Plan Schedule of Funding Progress
And Schedule of Employer Contributions
September 30, 2017

Schedule of Funding Progress (1)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/2014	\$ -	\$ 62,977	\$ 62,977	0.00%	\$ 1,408,096	4.47%
9/30/2015	\$ -	\$ 83,504	\$ 83,504	0.00%	\$ 1,467,082	5.69%
9/30/2016	\$ -	\$ 96,172	\$ 96,172	0.00%	\$ 1,525,765	6.30%
9/30/2017	\$ -	\$ 170,973	\$ 170,973	0.00%	\$ 1,284,118	13.31%

Schedule of Employer Contributions (1)			
Fiscal Year Ended	Employer Contributions (2)	Annual OPEB Required Contribution (ARC)	Percentage of ARC Contributed
9/30/2014	\$ 8,722	\$ 11,894	73.33%
9/30/2015	1,651	12,407	13.31%
9/30/2016	-	13,909	0.00%
9/30/2017	11,660	12,915	90.28%

(1) 2014 Initial year of plan disclosures, no prior data available.

(2) Employer contributions shown are estimates of the net subsidy paid by the employer.

City of Chipley
Required Supplementary Information
Schedule of the Employer's Proportionate Share of the Net Pension Liability
Florida Retirement System Pension Plan
September 30, 2017

<i>As of June 30,</i>	2017(1)	2016(1)	2015(1)
Employer's proportion of the net pension liability	0.008400%	0.008848%	0.008602%
Employer's proportionate share of the net pension liability	\$ 2,484,786	\$ 2,234,242	\$ 1,111,018
Employer's covered-employee payroll*	\$ 1,770,759	\$ 1,783,369	\$ 1,781,214
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	140.32%	125.28%	62.37%
Plan fiduciary net position as a percentage of the total pension liability	83.89%	84.88%	92.00%

(1) Information is not available for years prior to 2015. This schedule is intended to show information for 10 years and additional years will be presented as it becomes available.

*Employer's covered-employee payroll during measurement period is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2017, the measurement period is the twelve month period beginning July 1, 2016.

City of Chipley
Required Supplementary Information
Schedule of Employer Contributions
Florida Retirement System Pension Plan
September 30, 2017

<i>For the year ended September 30,</i>	2017(1)	2016(1)	2015(1)
Contractually required contribution**	\$ 261,073	\$ 220,909	\$ 205,049
Contributions in relation to the actuarially determined contribution	261,073	220,909	205,049
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered-employee payroll*	\$ 1,819,586	\$ 1,798,143	\$ 1,885,154
Contributions as a percentage of covered-employee payroll	14.35%	12.29%	10.88%

(1) Information is not available for years prior to 2015. This schedule is intended to show information for 10 years and additional years will be presented as it becomes available.

*Employer's covered-employee payroll during the fiscal year is the total paid to covered employees (not just pensionable payroll). For fiscal year 2017, the period is October 1, 2016 through September 30, 2017.

**The amount of contractually required contributions is equal to the amount that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the employer's fiscal year.

Required Supplementary Information
Schedule of the Employer's Proportionate Share of the Net Pension Liability
Health Insurance Subsidy Program
September 30, 2017

<i>As of June 30,</i>	2017(1)	2016(1)	2015(1)
Employer's proportion of the net pension liability	0.005521%	0.005790%	0.005865%
Employer's proportionate share of the net pension liability	\$ 590,320	\$ 674,775	\$ 598,119
Employer's covered-employee payroll*	\$ 1,770,759	\$ 1,783,369	\$ 1,781,214
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	33.34%	37.84%	33.58%
Plan fiduciary net position as a percentage of the total pension liability	1.64%	0.97%	0.50%

(1) Information is not available for years prior to 2015. This schedule is intended to show information for 10 years and additional years will be presented as it becomes available.

*Employer's covered-employee payroll during measurement period is the total payroll paid to covered employees (not just pensionable payroll). For fiscal year 2017, the measurement period is the twelve month period beginning July 1, 2016.

**Required Supplementary Information
Schedule of Employer Contributions
Health Insurance Subsidy Program
September 30, 2017**

<i>For the year ended September 30,</i>	2017(1)	2016(1)	2015(1)
Contractually required contribution**	\$ 30,205	\$ 29,849	\$ 31,294
Contributions in relation to the actuarially determined contribution	30,205	29,849	31,294
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Employer's covered-employee payroll*	\$ 1,819,586	\$ 1,798,143	\$ 1,885,154
Contributions as a percentage of covered-employee payroll	1.66%	1.66%	1.66%

(1) Information is not available for years prior to 2015. This schedule is intended to show information for 10 years and additional years will be presented as it becomes available.

*Employer's covered-employee payroll during the fiscal year is the total paid to covered employees (not just pensionable payroll). For fiscal year 2017, the period is October 1, 2016 through September 30, 2017.

**The amount contractually required contributions is equal to the amount that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the employer's fiscal year.

NOTE 1 – POST-EMPLOYMENT BENEFITS PLAN

Contributions – The City has elected to make an annual contribution to the postretirement health insurance benefit plan equal to the benefit payments. This method requires the use of an interest rate based on the long-term expected return on employer investments that are not restricted for other purposes (investments that could be used to finance payment of benefits). The employer share of net benefits is the difference between the expected benefit payments and the retiree contributions. It is sometimes referred to as “pay-as-you-go.”

NOTE 2 – FLORIDA RETIREMENT SYSTEMS (FRS)

The following actuarial assumptions changed in 2017:

The long-term expected rate of return was decreased from 7.60% to 7.10%, and the active member mortality assumption was updated.

The inflation rate assumption remained at 2.60%, the real payroll growth assumption remained at 0.65%, and the overall payroll growth rate assumption remained at 3.25%

NOTE 3 – HEALTH INSURANCE SUBSIDY PROGRAM (HIS)

The following actuarial assumptions changed in 2017:

The municipal rate used to determine total pension liability was increased from 2.85% to 3.58%

COMPLIANCE SECTION

This section is presented to report on internal controls over financial reporting and on compliance and other matters and related compliance reporting requirements of the Auditor General of the State of Florida, including the Florida Single Audit.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Chipley, Florida (the "City"), which comprise the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 28, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be a material weakness (2017-001).

Compliance and Other Matters

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

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

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

Enterprise, Alabama

June 28, 2018



Carr, Riggs & Ingram, LLC
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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH LOCAL GOVERNMENT INVESTMENT POLICIES

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

We have examined City of Chipley, Florida's (the "City") compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, respectively, during the year ended September 30, 2017. Management of the City is responsible for the City's compliance with the specified requirements. Our responsibility is to express an opinion on the City's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, for the year ended September 30, 2017.

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

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

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

Enterprise, Alabama

June 28, 2018



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH CHAPTER 10.550
RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

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

Report on Compliance for Each Major State Project

We have audited City of Chipley, Florida's (the "City"), compliance with the types of compliance requirements described in the Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of the City's major state projects for the year ended September 30, 2017. The City's state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state assistance applicable to its state projects.

Auditors' Responsibility

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

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

Opinion on Each Major State Project

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended September 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

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

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

Enterprise, Alabama

June 28, 2018

City of Chipley
Schedule of Expenditures of
State Financial Assistance
For the Year Ended September 30, 2017

State Agency Pass-Through Entity State Project	CSFA Number	Grant I.D. Number	Expenditures *
Florida Department of Environmental Protection			
Statewide Surface Water Restoration and Wastewater Projects	37.039	LP67010	\$ 658,108
Florida Recreation Development Assistance Program	37.017	A16003	24,746
Florida Recreation Development Assistance Program	37.017	A16004	26,151
Florida Recreation Development Assistance Program	37.017	A17029	1,500
Subtotal for 37.017			52,397
Department Total			710,505
State of Florida Department of Economic Opportunity			
Growth Management Implementation	40.024	P0197	25,000
State of Florida Department of Transportation			
Small County Outreach Program (SCOP)	55.009	G0682	241,847
Small County Outreach Program (SCOP)	55.009	G0G86	12,429
Department total			254,276
Total Expenditures of State Financial Assistance			\$ 989,781

* - No State Funds were disbursed to subrecipients during the year ended September 30, 2017.

City of Chipley
Notes to Schedule of Expenditures of
State Financial Assistance
For the Year Ended September 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of State Financial Assistance (the Schedule) summarizes the state project expenditures under the State of Florida for the year ended September 30, 2017. The amounts reported as state grant expenditures were obtained from the City's general ledger. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets and cash flows of the City.

For purposes of the Schedule, State Financial Assistance includes all grants, contracts, and similar agreements entered into directly with the State and other pass through entities. Payments received for goods or services provided as a vendor do not constitute State Financial Assistance for purposes of the Schedule. The City has obtained Catalog of State Financial Assistance (CSFA) numbers to ensure that all programs have been identified in the Schedule.

NOTE 2 – RELATIONSHIP OF THE SCHEDULE TO PROGRAM FINANCIAL REPORTS

The amounts reflected in the financial reports submitted to the awarding state and/or pass-through agencies and the Schedule may differ. Some of the factors that may account for any difference include the following:

- The City's fiscal year end may differ from the program's year end.
- Accruals recognized in the Schedule, because of year end procedures, may not be reported in the program financial reports until the next program reporting period.
- Fixed asset purchases and the resultant depreciation charges are recognized as fixed assets in the City's financial statements and as expenditures in the program financial reports and the Schedule.

NOTE 3 – BASIS OF ACCOUNTING

This Schedule was prepared on the modified accrual basis of accounting. The modified accrual basis differs from the full accrual basis of accounting in that expenditures for property and equipment are expensed when incurred, rather than being capitalized and depreciated over their useful lives, and expenditures for the principal portion of debt service are expensed when incurred, rather than being applied to reduce the outstanding principal portion of debt, which conforms to the basis of reporting to grantors for reimbursement under the terms of the City's state grants.



City of Chipley
Notes to Schedule of Expenditures of
State Financial Assistance
For the Year Ended September 30, 2017

NOTE 4 – CONTINGENCIES

Grant monies received and disbursed by the City are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon prior 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, 2017, there were no material questioned or disallowed costs as a result of grant audits in process or completed.

NOTE 5 – SUBRECIPIENTS

The City did not provide state funds to subrecipients for the fiscal year ended September 30, 2017.

City of Chipley
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified X yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes X none reported
- Noncompliance material to financial statements noted? yes X no

State Projects

Internal control over major projects:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550, Rules of the State of Florida Office of the Auditor General? yes X no

Identification of major programs:

CFSA Number(s)	Name of State Project
37.039	Statewide Surface Water Restoration and Wastewater Projects

Dollar threshold used to distinguish between type A and type B State Projects? \$296,934

Auditee qualifies as low-risk auditee? yes X no

Section II – Financial Statements Findings

2017-001 Financial Statement Preparation Knowledge

Condition – The external auditors' assistance was necessary to prepare the financial statements including note disclosures in accordance with generally accepted accounting principles.

Criteria - Auditing Standards Board AU-C Section 265 requires auditors to disclose for reports substantially drafted by external auditors whether or not the entity's institutional experience, background and knowledge of Governmental Accounting and Financial Accounting Standards prohibits the entity from preparing the financial statements internally including full note disclosures as required by those standards.

City of Chipley
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

Section II – Financial Statements Findings (Continued)

Cause – Lack of time and continuing education necessary to prepare financial statements in accordance with Governmental Accounting and Financial Accounting Standards including full note disclosures as required by those standards.

Effect - The finding could adversely affect the City of Chipley’s ability to internally prepare financial statements in accordance with generally accepted accounting principles.

Recommendation - We recommend City personnel continue to develop their knowledge of generally accepted accounting principles in order to ultimately prepare or provide technical reviews of the financial statements.

Views of Responsible Officials and Planned Corrective Action – See Management’s Response Letter beginning at page 76.

Section III –State Projects Findings and Questioned Costs

No such findings noted.



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MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the financial statements of the City of Chipley, Florida (the "City") as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated June 28, 2018.

Auditors Responsibility

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

Other Reports and Schedule

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance for Each Major State Project and Report on Internal Control over Compliance, Schedule of Findings and Questioned Costs; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated June 28, 2018, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1, Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding audit report.

Financial Condition

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2017, 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, 2017. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations, other than those disclosed in the Schedule of Findings and Questioned Cost.

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

Purpose of this Letter

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

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

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

Enterprise, Alabama

June 28, 2018



City of Chipley

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Management's Response

2017-001 Financial Statement Preparation Knowledge

The City acknowledges the assistance of the external auditor in drafting year-end financial statements. Assistance in drafting the financial statements is obtained primarily to expedite financial statement preparation and to insure adequate note disclosures. The City only prepares a full set of financial statement on an annual basis as required by Florida Statutes. Therefore, we deem utilizing the external auditors as both efficient and cost effective.