

CITY OF CHIPLEY, FLORIDA
AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2008

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C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	3- 4
MANAGEMENT DISCUSSION AND ANALYSIS	5-10
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	11
Statement of Activities	12-13
Balance Sheet - Governmental Funds	14
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	17
Statement of Net Assets - Proprietary Funds	18-19
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	20
Statement of Cash Flows - Proprietary Funds	21-23
Notes to Financial Statements	24-42
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	44
Notes to Required Supplemental Information	45
INDEPENDENT AUDITORS' REPORT REQUIRED BY GOVERNMENTAL AUDITING STANDARDS	
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 <i>Government Auditing Standards</i>	47-48
INDEPENDENT AUDITORS' MANAGEMENT LETTER REQUIRED BY THE STATE OF FLORIDA	
Independent Auditors' Management Letter	50-51
Schedule of Expenditures of Federal Awards and State Financial Assistance	52-53
Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance	54
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND CHAPTER 10.550 RULES OF THE AUDITOR GENERAL	55-56
Schedule of Findings and Questioned Costs	57-58
City of Chipley, Florida's Response to Financial Statement Findings	59



M^cDANIEL & ASSOCIATES PC
 Certified Public Accountants and Business Consultants

E.B. McDaniel, Jr., CPA (1913-1998)
 Charles E. Maddox, CPA, Ret. (2005)
 Mac F. Carpenter, CPA
 James C. Ellis, CPA
 George F. Price, CPA
 T. Leon Cheshire, CPA
 Bill Flowers, CPA
 Paula L. Steele, CPA
 Ben E. Hathcock, CPA
 J. Philip Tyler, CPA
 M. Craig Scarbrough, CPA

Rod A. Andrews, CPA
 Carol P. Morgan, CPA
 Brenda H. Burnett, CPA
 Vicki M. Martin, CPA
 Kay S. Foster, CPA
 Elaine Johnson Taylor, CPA
 Dana S. Starling, CPA
 Celeste Welejski, CPA
 Steve Kingry, CPA
 Yahna C. Holland, CPA
 Thad J. Taylor, CPA
 Shaylee W. Meadows, CPA
 Stephanie H. Crowe, CPA
 J. Michael Farris, CPA
 Gunter Price, CPA

Mary M. Richardson, CMA

DOTHAN
 101 Executive Park Drive
 PO Box 6356
 Dothan, AL 36302
 ■ 334.792.2153
 ■ 334.793.1216
 dothan@mcdanielcpa.com

MARIANNA
 2910 Russ Street
 PO Box 5768
 Marianna, FL 32447
 ■ 850.482.7333
 ■ 850.482.3085
 marianna@mcdanielcpa.com

SANTA ROSA BEACH
 2441 West U.S. Highway 98
 Suite 108
 Santa Rosa Beach, FL 32459
 ■ 850.622.0888
 ■ 850.622.5678
 srb@mcdanielcpa.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chipley, Florida, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Chipley, Florida's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 of Chipley, Florida, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2009, on our consideration of the City of Chipley, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management discussion and analysis and the budgetary comparison information on pages five through ten and page forty-four, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chipley, Florida's basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, Rules of the Auditor General, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

McDaniel & Associates, P.C.

Marianna, Florida
June 24, 2009

CITY OF CHIPLEY, FLORIDA MANAGEMENT DISCUSSION AND ANALYSIS

The City of Chipley, Florida's management discussion and analysis is designed to assist the reader in the focus 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, 2007 and 2008, please read in conjunction with the City's financial statements beginning on page eleven.

City Highlights

- The City is continuing to work on the construction phase of a new Waste Water Treatment Facility, Collections System, and Spray Field, which will be funded through the Florida Department of Environmental Protection (FDEP) State Revolving Fund Loan and Disadvantaged Small Communities Grant, \$25 million.
- The City is continuing to work on the construction of a new water well, which is being funded through the United States Department of Agriculture Loan and Grant Program in the amount of \$515,500.
- The City is working on the renovations of the old City Hall, which is being funded through the Department of State Historic Preservation Grant Program in the amount of \$300,000.
- The City is working on the construction of a baseball field, playground, tennis courts, picnic facilities, nature trail, horseshoe pit, restrooms, parking and security lighting, which is being funded through the Florida Recreation Development Assistance Program from the Department of Environmental Protection for Pals Park-Phase III, in the amount of \$200,000.
- The City is working on the construction of a baseball field, playground, tennis courts, picnic facilities, nature trail, horseshoe pit, restrooms, parking and security lighting, which is being funded through the Florida Recreation Development Assistance Program from the Department of Environmental Protection for Pals Park-Phase IV, in the amount of \$200,000.
- The City is working on the construction and renovation of baseball and softball field lighting, which is being funded through the Florida Recreation Development Assistance Program from the Department of Environmental Protection for Pals Park-Phase V, in the amount of \$135,611.
- The City is continuing to work on the construction of a new Waste Water Treatment Facility, which is being funded through the Community Development Block Grant Program from the Department of Community Affairs in the amount of \$700,000.

Overview of the Financial Statements

This annual report consists of the management discussion and analysis, the basic financial statements, required supplementary information, and 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).

**CITY OF CHIPLEY, FLORIDA
MANAGEMENT DISCUSSION
AND ANALYSIS**

Overview of the Financial Statements, Continued

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

The fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

In the fund financial statements, each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenses.

The following major fund types are used by the City:

1. ***Governmental Funds***: The focus of government fund measurement is upon determination of financial position and changes in financial position rather than upon net income. The statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending. The general fund is a major governmental fund of the City. It is the general operating fund and it is used to account for all financial resources except those required to be accounted for in other funds.
2. ***Proprietary Funds***: The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The statements offer short-term and long-term financial information about the activities the government operates like businesses, such as the water system, sewer system, natural gas system, and sanitation system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**CITY OF CHIPLEY, FLORIDA
MANAGEMENT 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 Assets

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities at the close of the fiscal year by \$6.2 million for governmental activities and \$15.7 million for business-type activities.

The largest component, \$18.7 million, of the City's net assets as of September 30, 2008, 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 \$5.4 million as of September 30, 2008. Restricted net assets represent resources that are subject to external restrictions.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Assets						
Current assets	\$2,712,834	\$2,376,327	\$ 6,408,355	\$ 5,620,802	\$ 9,121,189	\$ 7,997,129
Capital assets	<u>5,293,406</u>	<u>5,427,641</u>	<u>23,626,882</u>	<u>35,327,812</u>	<u>28,920,288</u>	<u>40,755,453</u>
Total assets	<u>\$8,006,240</u>	<u>\$7,803,968</u>	<u>\$30,035,237</u>	<u>\$40,948,614</u>	<u>\$30,041,477</u>	<u>\$48,752,582</u>
Liabilities						
Current liabilities	\$ 245,956	\$ 253,315	\$ 2,366,209	\$ 4,268,269	\$ 2,612,165	\$ 4,521,584
Long-term liabilities	<u>1,451,322</u>	<u>1,376,581</u>	<u>13,562,418</u>	<u>20,970,869</u>	<u>15,013,740</u>	<u>22,347,450</u>
Total liabilities	<u>\$1,697,278</u>	<u>\$1,629,896</u>	<u>\$15,928,627</u>	<u>\$25,239,138</u>	<u>\$17,625,905</u>	<u>\$26,869,034</u>
Net Assets						
Invested in capital assets, net of related debt	\$4,003,640	\$4,240,949	\$10,120,000	\$14,414,866	\$14,123,640	\$18,655,815
Restricted net assets	845,991	726,739	4,633,740	4,714,716	5,479,731	5,441,455
Unrestricted net assets	<u>1,459,331</u>	<u>1,206,384</u>	<u>(647,130)</u>	<u>(3,420,106)</u>	<u>812,201</u>	<u>(2,213,722)</u>
Total net assets	<u>\$6,308,962</u>	<u>\$6,174,072</u>	<u>\$14,106,610</u>	<u>\$15,709,106</u>	<u>\$20,415,572</u>	<u>\$21,883,548</u>

**CITY OF CHIPLEY, FLORIDA
MANAGEMENT DISCUSSION
AND ANALYSIS**

Statement of Activities

The following schedule summarizes revenues and expenses comparing the current year to the prior year, as derived from the government-wide Statement of Activities. Increases and decreases in net assets measure whether the City's financial position is improving or deteriorating. During the fiscal year, the net assets of the governmental activities increased by \$135 thousand, or by 2 percent, and the net assets of the business-type activities increased by \$1.6 million, or by 11 percent.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Program Revenue						
Fees, fines, and charges for services	\$ 119,989	\$ 112,769	\$ 2,724,228	\$ 2,681,286	\$ 2,844,217	\$ 2,794,055
Operating grants and contributions	1,180,015	899,764	0	0	1,180,015	899,764
Capital grants and contributions	131,698	364,579	2,976,928	1,915,683	3,108,626	2,280,262
General Revenue						
Taxes	1,473,387	1,451,234	0	0	1,473,387	1,451,234
Investments earnings	176,614	68,679	242,400	129,160	419,014	197,839
Other	<u>180,753</u>	<u>165,788</u>	<u>85,841</u>	<u>63,777</u>	<u>266,594</u>	<u>229,565</u>
Total revenue	<u>3,262,456</u>	<u>3,062,813</u>	<u>6,029,397</u>	<u>4,789,906</u>	<u>9,291,853</u>	<u>7,852,719</u>
Program Activities						
Governmental activities:						
General government	751,786	830,093	0	0	751,786	830,093
Public safety	1,099,431	1,051,669	0	0	1,099,431	1,051,669
Public works	536,052	883,280	0	0	536,052	883,280
Cemetery and grounds	225,364	281,173	0	0	225,364	281,173
Culture and recreation	354,530	177,564	0	0	354,530	177,564
Interest	68,617	60,699	0	0	68,617	60,699
Business-Type Activities						
Water	0	0	646,082	642,911	646,082	642,911
Sewer	0	0	1,163,200	1,203,215	1,163,200	1,203,215
Sanitation	0	0	504,500	560,745	504,500	560,745
Natural gas	<u>0</u>	<u>0</u>	<u>673,751</u>	<u>693,394</u>	<u>673,751</u>	<u>693,394</u>
Total expenses	<u>3,035,780</u>	<u>3,284,478</u>	<u>2,987,533</u>	<u>3,100,265</u>	<u>6,023,313</u>	<u>6,384,743</u>
Net increase (decrease) before transfers	226,676	(221,665)	3,041,864	1,689,641	3,268,540	1,467,976
Transfers	<u>90,525</u>	<u>86,775</u>	(90,525)	(86,775)	<u>0</u>	<u>0</u>
Net increase after transfers	317,201	(134,890)	2,951,339	1,602,866	3,268,540	1,467,976
Net assets, beginning	<u>5,991,761</u>	<u>6,308,962</u>	<u>11,155,271</u>	<u>14,106,610</u>	<u>17,147,032</u>	<u>20,415,572</u>
Net assets, ending	<u>\$6,308,962</u>	<u>\$6,174,072</u>	<u>\$14,106,610</u>	<u>\$15,709,476</u>	<u>\$20,415,572</u>	<u>\$21,883,548</u>

**CITY OF CHIPLEY, FLORIDA
MANAGEMENT DISCUSSION
AND ANALYSIS**

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 2008, the City's general fund reported a fund balance of \$1,461,609. The unreserved portion of this fund balance is \$1,370,989.

The debt service fund is reported as a major governmental fund. The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. As of the end of the fiscal year 2008, the City's debt service fund reported a reserved fund balance of \$133,629.

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 significance of the financial relationships with the City. As of the end of the fiscal year 2008, the community redevelopment agency fund reported a fund balance of \$526,279.

As of the end of the fiscal year 2008, the City's other governmental funds (non-major funds) reported a fund balance of \$6,453.

General Fund Budgetary Variances

Over the course of the year, the City Council revised the City budget several times. 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

At the end of fiscal year 2008, the City had invested \$11.8 million in a broad range of capital assets including land, buildings and improvements, equipment and vehicles, and construction-in-progress. This amount represents a net increase of 41 percent over last fiscal year.

This year's major capital asset additions included the following:

- The construction of a new lift station, \$412,000.
- The construction-in-progress on the waste water improvement project, \$11,570,947.

Additional information about the City's capital assets can be obtained in Note 3 of the financial statements.

**CITY OF CHIPLEY, FLORIDA
MANAGEMENT DISCUSSION
AND ANALYSIS**

Capital Asset and Long-Term Debt, Continued

The City's long-term obligations increased \$7.3 million, or by 49 percent, for fiscal year 2008. The changes are as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Revenue bonds	(\$ 44,201)	(\$45,905)	\$ 15,030	(\$ 67,000)	(\$ 29,171)	(\$ 112,905)
Notes and lease	(169,285)	(57,169)	7,245,447	7,473,088	7,076,162	7,415,919
Compensated absences	<u>29,094</u>	<u>28,333</u>	<u>20,134</u>	<u>2,363</u>	<u>49,228</u>	<u>30,696</u>
Total	<u>(\$184,392)</u>	<u>(\$74,741)</u>	<u>\$7,280,611</u>	<u>\$7,408,451</u>	<u>\$7,096,219</u>	<u>\$7,333,710</u>

These changes are the result of the following increased loan obligations:

- Interim financing, in the amount of \$6,119,122, was obtained to continue construction on the new waste water treatment facility and spray field. See notes 5 and 12 for further details.

Additional information about the city's long-term obligations can be obtained in Note 5 of 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 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.

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 any questions about this report or need additional information, contact the City of Chipley, Florida, Post Office Box 1007, Chipley, Florida 32428.

**CITY OF CHIPLEY, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008**

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 536,401	\$ 360,537	\$ 896,938
Investments	265,775	32,967	298,742
Accounts receivable, net	54,783	282,844	337,627
Taxes receivable	80,853	0	80,853
Due from other governments	165,882	0	165,882
Other receivables	111,394	322,017	433,411
Internal balances	434,500	(434,500)	0
Restricted cash	639,413	373,004	1,012,417
Restricted investments	87,326	4,683,933	4,771,259
Capital assets			
Land	807,835	612,748	1,420,583
Construction-in-progress	354,415	25,055,189	25,409,604
Buildings, improvements, and equipment, net	4,265,391	9,570,042	13,835,433
Bond issue costs, net	0	35,353	35,353
Loan service fees	<u>0</u>	<u>54,480</u>	<u>54,480</u>
Total assets	<u>7,803,968</u>	<u>40,948,614</u>	<u>48,752,582</u>
LIABILITIES			
Accounts payable	67,497	3,989,171	4,056,668
Salaries and benefits payable	124,960	25,807	150,767
Other liabilities	0	58,928	58,928
Accrued interest	4,958	10,413	15,371
Deposits from others	0	183,950	183,950
Deferred revenue	55,900	0	55,900
Long-term liabilities			
Portion due or payable within one year			
Notes payable	12,429	0	12,429
Bonds payable	48,724	70,800	119,524
Portion due or payable after one year			
Compensated absences	189,889	147,756	337,645
Notes payable	26,575	17,997,513	18,024,088
Bonds payable	<u>1,098,964</u>	<u>2,754,800</u>	<u>3,853,764</u>
Total liabilities	<u>1,629,896</u>	<u>25,239,138</u>	<u>26,869,034</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,240,949	14,414,866	18,655,815
Restricted net assets	726,739	4,714,716	5,441,455
Unrestricted net assets	<u>1,206,384</u>	<u>(3,420,106)</u>	<u>(2,213,722)</u>
Total net assets	<u>\$6,174,072</u>	<u>\$15,709,476</u>	<u>\$21,883,548</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF CHIPLEY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

<u>Function/Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 830,093	\$ 60,772	\$623,826	\$ 323,547
Public safety	1,051,669	37,996	117,920	0
Public works	883,280	0	153,615	40,629
Cemetery and grounds	281,173	12,800	0	0
Culture and recreation	177,564	1,201	4,403	403
Interest	<u>60,699</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total governmental activities	<u>3,284,478</u>	<u>112,769</u>	<u>899,764</u>	<u>364,579</u>
Business type activities:				
Water	642,911	507,924	0	131,913
Sewer	1,203,215	914,291	0	1,783,770
Sanitation	560,745	607,866	0	0
Natural gas	<u>693,394</u>	<u>651,205</u>	<u>0</u>	<u>0</u>
Total business-type activities	<u>3,100,265</u>	<u>2,681,286</u>	<u>0</u>	<u>1,915,683</u>
Total activities	<u>\$6,384,743</u>	<u>\$2,794,055</u>	<u>\$899,764</u>	<u>\$2,280,262</u>
General revenues:				
Taxes				
Ad valorem tax				
Sales tax				
Utility tax				
Interest income				
Miscellaneous				
Gain (loss) on sale of assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
NET ASSETS, October 1, 2007				
NET ASSETS, September 30, 2008				

The accompanying notes are an integral part of this financial statement.

**CITY OF CHIPLEY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**Net (Expense) Revenue and
Changes in Net Assets**

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 178,052		\$ 178,052
(895,753)		(895,753)
(689,036)		(689,036)
(268,373)		(268,373)
(171,557)		(171,557)
(60,699)		(60,699)
<u>(1,907,366)</u>		<u>(1,907,366)</u>
	(3,074)	(3,074)
	1,494,846	1,494,846
	47,121	47,121
	<u>(42,189)</u>	<u>(42,189)</u>
	<u>1,496,704</u>	<u>1,496,704</u>
<u>(1,907,366)</u>	<u>1,496,704</u>	<u>(410,662)</u>
783,559	0	783,559
143,158	0	143,158
524,517	0	524,517
50,105	129,160	179,265
165,788	63,777	229,565
18,574	0	18,574
<u>86,775</u>	<u>(86,775)</u>	<u>0</u>
<u>1,772,476</u>	<u>106,162</u>	<u>1,878,638</u>
(134,890)	1,602,866	1,467,976
<u>6,308,962</u>	<u>14,106,610</u>	<u>20,415,572</u>
<u>\$6,174,072</u>	<u>\$15,709,476</u>	<u>\$21,883,548</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF CHIPLEY, FLORIDA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008**

	<u>General Fund</u>	<u>Chipley Redevelopment Agency</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS					
Cash	\$ 529,948	\$ 0	\$ 0	\$6,453	\$ 536,401
Investments	261,275	4,500	0	0	265,775
Accounts receivable, net	54,783	0	0	0	54,783
Taxes receivable	80,853	0	0	0	80,853
Due from other governments	165,882	0	0	0	165,882
Interfund receivables	434,500	0	0	0	434,500
Other receivables	92,105	19,289	0	0	111,394
Restricted cash	90,620	502,490	46,303	0	639,413
Restricted investments	<u>0</u>	<u>0</u>	<u>87,326</u>	<u>0</u>	<u>87,326</u>
Total assets	<u>\$1,709,966</u>	<u>\$526,279</u>	<u>\$133,629</u>	<u>\$6,453</u>	<u>\$2,376,327</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 67,497	\$ 0	\$ 0	\$ 0	\$ 67,497
Salaries and benefits payable	124,960	0	0	0	124,960
Deferred revenue	<u>55,900</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>55,900</u>
Total liabilities	<u>248,357</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>248,357</u>
FUND BALANCES					
Reserved for:					
Debt service	0	0	133,629	0	133,629
Other purposes	90,620	502,490	0	0	593,110
Unreserved fund balance, undesignated	1,370,989	0	0	0	1,370,989
Unreserved, reporting in nonmajor:					
Special revenue funds	<u>0</u>	<u>23,789</u>	<u>0</u>	<u>6,453</u>	<u>30,242</u>
Total fund balance	<u>1,461,609</u>	<u>526,279</u>	<u>133,629</u>	<u>6,453</u>	<u>2,127,970</u>
Total liabilities and fund balances	<u>\$1,709,966</u>	<u>\$526,279</u>	<u>\$133,629</u>	<u>\$6,453</u>	<u>\$2,376,327</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CHIPLEY, FLORIDA
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Amounts reported for governmental activities in the statement of net assets (page 11) are different because:

Fund balances - total government funds (page 14)	\$2,127,970
--	-------------

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	5,427,641
--	-----------

Long-term liabilities applicable to the governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as expenditure when due. All liabilities, both current and long-term are reported in the statement of net assets. Balances at September 30, 2008 are:

Accrued interest on bonds	(\$ 4,958)
Bonds, notes, and leases payable	(1,186,692)
Compensated absences	(<u>189,889</u>)

(1,381,539)

Total net assets of governmental activities (page 11)	<u>\$6,174,072</u>
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The accompanying notes are an integral part of this financial statement.

CITY OF CHIPLEY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>General Fund</u>	<u>Chipley Redevelopment Agency</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
REVENUES					
Taxes	\$1,466,454	\$ 0	\$ 0	\$ 0	\$1,466,454
Licenses and permits	58,933	0	0	0	58,933
Fines, forfeitures, and penalties	27,530	0	0	0	27,530
Intergovernmental	1,110,037	162,711	0	0	1,272,748
Charges for services	1,201	0	0	0	1,201
Sale of cemetery lots	12,800	0	0	0	12,800
Interest	30,804	15,771	3,530	0	50,105
Miscellaneous	<u>442,185</u>	<u>0</u>	<u>0</u>	<u>10,466</u>	<u>452,651</u>
Total revenue	<u>3,149,944</u>	<u>178,482</u>	<u>3,530</u>	<u>10,466</u>	<u>3,342,422</u>
EXPENDITURES					
Current Operating					
General government	671,576	325,731	0	0	997,307
Public safety	929,333	0	0	7,468	936,801
Public works	844,721	0	0	0	844,721
Cemetery and grounds	252,684	0	0	0	252,684
Culture and recreation	144,600	0	0	0	144,600
Debt service:					
Principal	0	0	146,201	0	146,201
Interest	0	0	61,167	0	61,167
Capital outlay	<u>458,419</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>458,419</u>
Total expenditures	<u>3,301,333</u>	<u>325,731</u>	<u>207,368</u>	<u>7,468</u>	<u>3,841,900</u>
Excess of revenues over (under) expenditures	(151,389)	(147,249)	(203,838)	2,998	(499,478)
OTHER FINANCING SOURCES (USES)					
Transfers in	86,775	0	221,101	0	307,876
Transfers out	(221,101)	0	0	0	(221,101)
Proceeds from sale of assets	25,244	0	0	0	25,244
Premiums from issuance of debt	<u>43,125</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>43,125</u>
Total other financing sources (uses)	(65,957)	<u>0</u>	<u>221,101</u>	<u>0</u>	<u>155,144</u>
Net change in fund balance	(217,346)	(147,249)	17,263	2,998	(344,334)
FUND BALANCES,					
October 1, 2007	<u>1,678,955</u>	<u>673,528</u>	<u>116,366</u>	<u>3,455</u>	<u>2,472,304</u>
FUND BALANCES,					
September 30, 2008	<u>\$1,461,609</u>	<u>\$526,279</u>	<u>\$133,629</u>	<u>\$ 6,453</u>	<u>\$2,127,970</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CHIPLEY, FLORIDA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Amounts reported for governmental activities in the statement of activities (page 13) are different because:

Net change in fund balances - total governmental funds (page 16) (\$344,334)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$458,419) exceeded depreciation expense (\$317,512) in the current period. 140,907

In the statement of activities, only the loss on the disposal of capital assets is reported whereas, in the governmental funds, there is no use of financial resources. As a result, the change in net assets differ from the change in fund balance by the net book value of the disposed capital assets. (6,670)

Loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayment of principal	146,199	
Loan proceeds	<u>(43,125)</u>	
		103,074

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net change of:

Compensated absences	(28,333)	
Accrued interest on bonds	<u>466</u>	
		(27,867)

Changes in net assets of governmental activities (page 13) (\$134,890)

The accompanying notes are an integral part of this financial statement.

**CITY OF CHIPLEY, FLORIDA
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
SEPTEMBER 30, 2008**

	<u>Enterprise Fund</u>				
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Natural Gas</u>	<u>Total</u>
ASSETS					
Current Assets:					
Cash	\$ 11,799	\$ 30,826	\$301,357	\$ 16,555	\$ 360,537
Investments	32,967	0	0	0	32,967
Accounts receivable, net	56,843	98,168	73,017	54,816	282,844
Other receivables	86,879	231,981	1,410	1,747	322,017
Restricted cash	117,386	196,290	22,253	37,075	373,004
Restricted investments	<u>0</u>	<u>4,683,933</u>	<u>0</u>	<u>0</u>	<u>4,683,933</u>
Total current assets	305,874	5,241,198	398,037	110,193	6,055,302
Noncurrent Assets:					
Buildings, improvements, and equipment, net	3,264,953	31,604,781	40,232	328,013	35,237,979
Bond issue costs, net	9,830	25,523	0	0	35,353
Loan service fee	<u>0</u>	<u>54,480</u>	<u>0</u>	<u>0</u>	<u>54,480</u>
Total noncurrent assets	<u>3,274,783</u>	<u>31,684,784</u>	<u>40,232</u>	<u>328,013</u>	<u>35,327,812</u>
Total assets	<u>3,580,657</u>	<u>36,925,982</u>	<u>438,269</u>	<u>438,206</u>	<u>41,383,114</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF CHIPLEY, FLORIDA
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
SEPTEMBER 30, 2008**

	<u>Enterprise Fund</u>				<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Natural Gas</u>	
LIABILITIES					
Current Liabilities:					
Accounts payable	62,896	3,922,656	2,261	1,358	3,989,171
Interfund payables	345,000	89,500	0	0	434,500
Salaries and benefits payable	6,506	12,819	1,355	5,127	25,807
Other liabilities	2,561	54,480	555	1,332	58,928
Accrued interest	420	9,993	0	0	10,413
Deposits from others	62,901	68,973	22,172	29,904	183,950
Notes payable, current portion	0	0	0	0	0
Bonds payable, current portion	<u>1,400</u>	<u>69,400</u>	<u>0</u>	<u>0</u>	<u>70,800</u>
Total current liabilities	481,684	4,227,821	26,343	37,721	4,773,569
Noncurrent liabilities:					
Compensated absences	60,399	48,140	15,070	24,147	147,756
Notes payable	942,613	17,054,900	0	0	17,997,513
Bonds payable	<u>123,600</u>	<u>2,631,200</u>	<u>0</u>	<u>0</u>	<u>2,754,800</u>
Total noncurrent liabilities	<u>1,126,612</u>	<u>19,734,240</u>	<u>15,070</u>	<u>24,147</u>	<u>20,900,069</u>
Total liabilities	<u>1,608,296</u>	<u>23,962,061</u>	<u>41,413</u>	<u>61,868</u>	<u>25,673,638</u>
NET ASSETS					
Invested in capital assets, net of related debt	2,197,340	11,849,281	40,232	328,013	14,414,866
Restricted net assets	6,821	4,707,895	0	0	4,714,716
Unrestricted net assets	(231,800)	(3,593,255)	356,624	48,325	(3,420,106)
Total net assets	<u>\$1,972,361</u>	<u>\$12,963,921</u>	<u>\$396,856</u>	<u>\$376,338</u>	<u>\$15,709,476</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CHIPLEY, FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Enterprise Fund</u>				
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Natural Gas</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	\$ 507,924	\$ 914,291	\$607,866	\$651,205	\$ 2,681,286
Miscellaneous revenue	<u>40,319</u>	<u>17,797</u>	<u>0</u>	<u>5,661</u>	<u>63,777</u>
Total operating revenues	<u>548,243</u>	<u>932,088</u>	<u>607,866</u>	<u>656,866</u>	<u>2,745,063</u>
OPERATING EXPENSES					
Salaries and benefits	318,188	463,949	69,921	164,831	1,016,889
Services and supplies	182,848	307,737	483,938	502,434	1,476,957
Other expenses	12,580	38,831	2,063	4,941	58,415
Depreciation	<u>123,739</u>	<u>258,745</u>	<u>4,823</u>	<u>21,188</u>	<u>408,495</u>
Total operating expenses	<u>637,355</u>	<u>1,069,262</u>	<u>560,745</u>	<u>693,394</u>	<u>2,960,756</u>
Operating income (loss)	(89,112)	(137,174)	47,121	(36,528)	(215,693)
NONOPERATING REVENUES (EXPENSES)					
Grant revenue	131,913	1,783,770	0	0	1,915,683
Interest income	1,726	115,546	8,523	3,365	129,160
Interest expense	(5,556)	(133,953)	0	0	(139,509)
Total nonoperating revenues (expenses)	<u>128,083</u>	<u>1,765,363</u>	<u>8,523</u>	<u>3,365</u>	<u>1,905,334</u>
Income (loss) before transfers	38,971	1,628,189	55,644	(33,163)	1,689,641
Transfers	(36,450)	(4,100)	(38,375)	(7,850)	(86,775)
Change in net assets	2,521	1,624,089	17,269	(41,013)	1,602,866
NET ASSETS, October 1, 2007	<u>1,969,840</u>	<u>11,339,832</u>	<u>379,587</u>	<u>417,351</u>	<u>14,106,610</u>
NET ASSETS, September 30, 2008	<u>\$1,972,361</u>	<u>\$12,963,921</u>	<u>\$396,856</u>	<u>\$376,338</u>	<u>\$15,709,476</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF CHIPLEY, FLORIDA
STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Enterprise Fund</u>				<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Natural Gas</u>	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	\$ 519,687	\$ 1,563,001	\$602,102	\$638,990	\$3,323,780
Payments to suppliers	(239,399)	(778,417)	(484,786)	(506,797)	(2,009,399)
Payments to employees	(307,666)	(459,752)	(66,029)	(173,361)	(1,006,808)
Other receipts	<u>40,319</u>	<u>17,797</u>	<u>0</u>	<u>5,661</u>	<u>63,777</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>12,941</u>	<u>342,629</u>	<u>51,287</u>	<u>(35,507)</u>	<u>371,350</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES					
Operating subsidies and transfers to other funds	(36,450)	(4,100)	(38,375)	(7,850)	(86,775)
Loan payments to other funds	(310,000)	(140,000)	0	0	(450,000)
Loan proceeds from other funds	<u>345,000</u>	<u>138,250</u>	<u>0</u>	<u>0</u>	<u>483,250</u>
NET CASH PROVIDED BY (USED IN) NON CAPITAL FINANCING ACTIVITIES	<u>(1,450)</u>	<u>(5,850)</u>	<u>(38,375)</u>	<u>(7,850)</u>	<u>(53,525)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Grant revenue	131,913	1,783,770	0	0	1,915,683
Purchases and construction of capital assets	(156,417)	(9,568,349)	0	0	(9,724,766)
Principal paid on capital debt	(1,400)	(65,600)	0	0	(67,000)
Proceeds from capital debt	30,270	7,442,818	0	0	7,473,088
Loan service fees	0	(1,176)	0	0	(1,176)
Interest paid on capital debt	<u>(5,582)</u>	<u>(134,833)</u>	<u>0</u>	<u>0</u>	<u>(140,415)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,216)</u>	<u>(543,370)</u>	<u>0</u>	<u>0</u>	<u>(544,586)</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF CHIPLEY, FLORIDA
STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Enterprise Fund</u>				<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Natural Gas</u>	
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	1,726	115,546	8,523	3,365	129,160
Purchase of investments	(619)	(81,177)	0	0	(81,796)
Sale of investments	0	5,000	0	0	5,000
Investment fees	0	(25,559)	0	0	(25,559)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,107</u>	<u>13,810</u>	<u>8,523</u>	<u>3,365</u>	<u>26,805</u>
INCREASE (DECREASE) IN CASH	11,382	(192,781)	21,435	(39,992)	(199,956)
BALANCES, October 1, 2007	<u>117,803</u>	<u>419,897</u>	<u>302,175</u>	<u>93,622</u>	<u>933,497</u>
BALANCES, September 30, 2008	<u>\$ 129,185</u>	<u>\$ 227,116</u>	<u>\$323,610</u>	<u>\$ 53,630</u>	<u>\$ 733,541</u>
Reconciliation of cash to the statement of net assets:					
Unrestricted cash	\$ 11,799	\$ 30,826	\$301,357	\$ 16,555	\$ 360,537
Restricted cash	<u>117,386</u>	<u>196,290</u>	<u>22,253</u>	<u>37,075</u>	<u>373,004</u>
CASH	<u>\$ 129,185</u>	<u>\$ 227,116</u>	<u>\$323,610</u>	<u>\$ 53,630</u>	<u>\$ 733,541</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF CHIPLEY, FLORIDA
STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS, CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Enterprise Fund</u>				
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Natural Gas</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	(\$ 89,112)	(\$ 137,174)	\$ 47,121	(\$ 36,528)	(\$ 215,693)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	123,739	258,745	4,823	21,188	408,495
Amortization	262	936	0	0	1,198
Investment fees	0	25,559	0	0	25,559
Change in assets and liabilities:					
Receivables, net	4,834	7,933	(8,518)	(9,464)	(5,215)
Other receivables	5,093	636,133	(1,306)	(1,747)	638,173
Salaries and benefits Payable	10,522	4,197	3,892	(8,530)	10,081
Deposits from others	1,836	4,644	4,060	(1,004)	9,536
Accounts and other payables	(44,233)	(458,344)	1,215	578	(500,784)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 12,941</u>	<u>\$ 342,629</u>	<u>\$ 51,287</u>	<u>(\$ 35,507)</u>	<u>\$ 371,350</u>
SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:					
Purchase of capital assets on account	<u>\$ 36,436</u>	<u>\$2,348,247</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$2,384,683</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 1. Summary of Significant Accounting Policies

The City of Chipley, Florida (the “City”) located in Washington County, was incorporated in 1901, pursuant to 5077-1901 Laws of Florida and is a political subdivision of the State of Florida. The City operates under an elected city council and provides police and fire protection, general government, recreation, and public works services to its residents. In addition, the City operates water and sewer, natural gas, and sanitation services.

The City’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) for government-wide and proprietary fund financial statements that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

Reporting Entity: These financial statements present the City (the primary government) and its component units, the volunteer fire department and the redevelopment agency. As defined by GASBS No. 14, component units are legally separate entities that are included in the City’s reporting entity because of the significance of their operating or financial relationships with the City. 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. Control or dependence upon the City is determined on the basis of budget adoption, taxing authority, and outstanding debt secured by revenues or general obligation of the City, and the City’s legal responsibility to fund any deficits that may occur. On this basis, the following entity is not a part of the City of Chipley, Florida and, thus, is excluded from the accompanying financial statements:

Chipley Housing Authority (the “Authority”) - This authority was created by the City pursuant to State Statutes with commissioners of the Authority appointed by the City Council. Operations are administered by the Authority and financed with Federal funds and rentals. Outstanding debt of the Authority is not an obligation of the City. The City does not exercise budgetary control.

On this basis, the following entities are included in the City’s financial statements:

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

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 1. Summary of Significant Accounting Policies, Continued

Chipley Volunteer Fire Department (the "Department") - This is a nonprofit organization which is funded primarily by city funds and some public donations. Operations are administered by the Department. The City includes the operations of the Department in its annual budget for the General Fund.

GASB Statement No. 14, as amended, requires the use of the blending method for component units if the component units' governing body is substantively the same as the governing body of the primary government. The general fund of a blended component unit should be reported as a special revenue fund. The Department is shown as a blended component unit and is included in the other Governmental Funds as special revenue funds on the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance. The Agency is shown as a blended component unit and is shown separately on the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance. The Department and the Agency are included with Governmental Activities on the Statement of Net Assets and the Statement of Activities.

Basic Financial Statements - Government-Wide Statements: The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, parks, 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.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column (b) 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. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions (police, fire, etc.) and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, recreation, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 1. Summary of Significant Accounting Policies, Continued

Basic Financial Statements - Fund Financial Statements: The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The following major fund types are used by the City:

1. **Governmental Funds**:

The focus of the government funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the major governmental funds of the City:

General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund is used to account for principal and interest payments for long-term debt.

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

2. **Proprietary Funds**:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the major proprietary funds of the City:

Water Fund is used to account for all operations associated with the water system of the City.

Sewer Fund is used to account for all operations associated with the sewer system of the City.

Sanitation Fund is used to account for all operations associated with sanitation services provided by the City.

Natural Gas Fund is used to account for all operations associated with natural gas services provided by the City.

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 1. Summary of Significant Accounting Policies, Continued

Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

Basis of Accounting: Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. *Accrual:* Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.
2. *Modified Accrual:* The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Property Taxes: Under Florida Law, the assessment of all properties and the collection of all county, municipal, and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the State regulating tax assessment are also designed to assure a consistent property valuation method statewide.

State statutes permit municipalities to levy property taxes at a rate of up to 10 mils. The millage rate assessed by the City for the fiscal year ended September 30, 2008 was 5.8.

All property is assessed according to its fair market value on January 1 of each year. Each assessment roll is submitted to the Executive Director of the Department of Revenue for review to determine if the rolls meet all of the appropriate requirements.

The current year taxes for the fiscal year beginning October 1, are billed in the month of November and are due no later than March 31. On April 1, all unpaid amounts become delinquent and are subject to interest and penalties. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. The taxes paid in March are without discount.

**CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

Note 1. Summary of Significant Accounting Policies, Continued

Delinquent taxes on real property bear interest at 18% per year. On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest at 18% per year, or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years.

Delinquent taxes on personal property bear interest at 18% per year until the tax is satisfied either by seizure and sale of property or by the five year statute of limitations.

Since the Washington County Tax Collector's Office acts quickly in selling tax certificates and in remitting such collections to the City, no delinquent or uncollected property taxes exist at year end. Property tax revenue is recognized in the fiscal year in which the taxes are collected. The City Tax Calendar is as follows:

Valuation date:	January 1
Levy date:	November 1
Due date:	March 31, succeeding year
Lien date:	April 1, succeeding year

Financial Statement Amounts:

1. Cash, Cash Equivalents, and Investments: The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with an original maturity date within three months of the date acquired by the government. Investments are stated at cost or amortized cost.
2. Restricted Assets: Certain assets of the Enterprise Funds, General Fund, and Debt Service Fund are required by resolution to be set aside and used for specified purposes; thus, they are not available for general operating purposes. These restricted assets are recorded at cost and summarized below. Included in investments below is an escrow account reported at fair value of \$4,505,782 at September 30, 2008 (see Notes 2 and 5), and certificates of deposit with original maturity greater than 90 days.

Cash and certificate of deposit	\$1,012,417
Investments	<u>4,771,259</u>
 Total	 <u>\$5,783,676</u>

3. Encumbrances: Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve a portion of an appropriation, is used by the City. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. There were no encumbrances outstanding at September 30, 2008.

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 1. Summary of Significant Accounting Policies, Continued

4. Receivables: All trade and tax receivables are shown net of an allowance for uncollectibles. The allowance for uncollectible accounts for 2008 is \$14,582.
5. 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. This policy has changed effective October 1, 2003. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

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

6. Revenues: Substantially all governmental fund revenues are susceptible to accrual. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as capital contributions. In applying grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.
7. Expenditures: Expenditures are recognized when the related liability is incurred.
8. 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. 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 (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations. The amounts attributable to the enterprise funds are charged to expense and a corresponding liability in the applicable fund. The estimated liabilities include required salary-related payments.

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 1. Summary of Significant Accounting Policies, Continued

9. *Interfund Activity*: Interfund activity is reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are eliminated at the government-wide level. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are eliminated as part of the reconciliation to the government-wide financial statements.
10. *Interest Costs*: Interest expense is equal to the amount incurred during the current year less capitalized interest. In the Enterprise funds, any interest costs associated with the construction of fixed assets are capitalized. The City incurred interest costs, which were capitalized, of \$207,047 for the current year on a fixed asset construction project.
11. *Bond Issue Costs*: Bond issue costs are amortized over the term of the bonds using the straight-line method which is not materially different from the effective interest method. Unamortized bond issue costs are presented in the financial statements as deferred charges.
12. *Use of Estimates*: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Deposits and Investments

At year-end, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash	\$ 536,401	\$ 360,537	\$ 896,938
Investments	265,775	32,967	298,742
Restricted cash	639,413	373,004	1,012,417
Restricted investments	<u>87,326</u>	<u>4,683,933</u>	<u>4,771,259</u>
	<u>\$1,528,915</u>	<u>\$5,450,441</u>	<u>\$6,979,356</u>

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 2. Deposits and Investments, Continued

The breakdown between deposits and investments for the City is as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 619,265	\$ 616,786	\$1,236,051
Land	229,737	0	229,737
Florida State Board of Administration			
Local Government Surplus Funds			
Investment Pool	630,808	302,046	932,854
Fund B Surplus Funds Trust Fund (Fund B)	47,580	25,827	73,407
US Government Securities, maturing daily	0	4,505,782	4,505,782
Petty cash or cash on hand	<u>1,525</u>	<u>0</u>	<u>1,525</u>
	<u>\$1,528,915</u>	<u>\$5,450,441</u>	<u>\$6,979,356</u>

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:

- a. 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.
- b. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- c. Savings accounts in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes.
- d. Certificates of deposit in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes.
- e. Direct obligations of the U.S. Treasury.
- f. Federal agencies and instrumentalities.

Custodial Credit Risk: At September 30, 2008, the carrying amount of the City's deposits was \$1,236,051, and the bank balance was \$1,088,621. The bank balance was covered by the federal depository insurance and, for the amount in excess of such federal depository insurance, by the State of Florida's Public Deposit Act. Provisions of the Act require that public deposits may only be made at qualified public depositories. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to, or in excess of, the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of securities pledged by the defaulting depository are assessed against the other qualified public depositories of the same type as the depository in default.

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 2. Deposits and Investments, Continued

The City also invested funds in the Florida State Board of Administration LGIP and Fund B. The LGIP 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, 2008, the fair value and the carrying value of these funds was \$932,854. The funds are carried as cash on the balance sheet in the amount of \$572,179, and as restricted cash of \$360,675 at September 30, 2008. The local government surplus investment pool is not rated by a nationally recognized statistical rating agency as of September 30, 2008.

The Local Government Surplus Funds Trust Fund is governed by Ch. 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration.

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

Fund B is accounted for as a fluctuating net asset value (NAV) pool. At September 30, 2008, the fair value and the carrying value of these funds was \$73,407. The funds are carried as restricted cash on the balance sheet at September 30, 2008.

Interest Rate Risk: At September 30, 2008, the City owned U.S. Government securities in the escrow account with a reported amount and fair value totaling \$4,505,782. The funds are carried as restricted investments on the balance sheet (see Note 1).

The weighted average days to maturity (WAM) of the LGIP at September 30, 2008, was 8.5 days. The weighted average life of Fund B at September 30, 2008, was 9.36 days.

Credit Risk: The LGIP is rated by Standards and Poors. The current rating is AAAM. The Fund B is not rated by any nationally recognized statistical rating agency.

Unrestricted certificates of deposit with original maturity greater than 90 days are carried as investments on the statement of net assets. Land held for the purposes of appreciation or income is also included in investments. The fair value and carrying value at September 30, 2008 for investments is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
CD's	\$ 36,038	\$32,967
Land	<u>229,737</u>	<u>0</u>
	<u>\$265,775</u>	<u>\$32,967</u>

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 3. Capital Assets

Capital asset activity for the year ended September 30, 2008, is as follows:

<u>Governmental Activities</u>	Balance	<u>Primary Government</u>		Balance
	10/01/07	Increase	Decrease	9/30/08
Capital assets not being depreciated:				
Land	\$ 807,869	\$ 0	(\$ 34)	\$ 807,835
Construction in progress	<u>26,250</u>	<u>328,165</u>	<u>0</u>	<u>354,415</u>
Total capital assets not being depreciated	<u>834,119</u>	<u>328,165</u>	<u>(34)</u>	<u>1,162,250</u>
Other capital assets:				
Office furniture and equipment	1,803,603	93,723	(19,910)	1,877,416
Improvements other than buildings	712,984	36,529	0	749,513
Building	<u>4,593,674</u>	<u>0</u>	<u>0</u>	<u>4,593,674</u>
Total other capital assets	<u>7,110,261</u>	<u>130,252</u>	<u>(19,910)</u>	<u>7,220,603</u>
Less accumulated depreciation for:				
Office furniture and equipment	1,317,938	164,249	(13,274)	1,468,913
Improvements other than buildings	352,835	13,956	0	366,791
Building	<u>980,201</u>	<u>139,307</u>	<u>0</u>	<u>1,119,508</u>
Total accumulated depreciation	<u>2,650,974</u>	<u>317,512</u>	<u>(13,274)</u>	<u>2,955,212</u>
Total other capital assets, net	<u>4,459,287</u>	<u>(187,260)</u>	<u>(6,636)</u>	<u>4,265,391</u>
Governmental activity capital assets, net	<u>\$ 5,293,406</u>	<u>\$ 140,905</u>	<u>(\$ 6,670)</u>	<u>\$ 5,427,641</u>
 <u>Business-Type Activities</u>				
Capital assets not being depreciated:				
Land	\$ 613,418	\$ 0	(\$ 670)	\$ 612,748
Construction in progress	<u>13,812,407</u>	<u>12,192,372</u>	<u>(949,590)</u>	<u>25,055,189</u>
Total capital assets not being depreciated	<u>14,425,825</u>	<u>12,192,372</u>	<u>(950,260)</u>	<u>25,667,937</u>
Other capital assets:				
Building and plant	12,898,550	867,337	0	13,765,887
Equipment and vehicles	<u>1,779,022</u>	<u>0</u>	<u>0</u>	<u>1,779,022</u>
Total other capital assets at historical cost	<u>14,677,572</u>	<u>867,337</u>	<u>0</u>	<u>15,544,909</u>

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 3. Capital Assets, Continued

<u>Business-Type Activities</u>	Balance	<u>Primary Government</u>		Balance
	10/01/07	<u>Increase</u>	<u>Decrease</u>	9/30/08
Less accumulated depreciation for:				
Building and plant	4,584,305	323,269	0	4,907,574
Equipment and vehicles	<u>982,067</u>	<u>85,226</u>	<u>0</u>	<u>1,067,293</u>
Total accumulated depreciation	<u>5,566,372</u>	<u>408,495</u>	<u>0</u>	<u>5,974,867</u>
Total other capital assets, net	<u>9,111,200</u>	<u>458,842</u>	<u>0</u>	<u>9,570,042</u>
Business-type activities capital assets, net	<u>\$23,537,025</u>	<u>\$12,651,214</u>	(<u>\$950,260</u>)	<u>\$35,237,979</u>

Depreciation expenses were charged to the governmental activities of the City as follows:

General	\$102,632
Public safety	114,868
Public works	38,559
Cemetery and grounds	28,489
Culture and recreation	<u>32,964</u>
	<u>\$317,512</u>

Note 4. Interfund Balances and Activity

Interfund Receivables: Advances to/from other funds at September 30, 2008 consist of the following:

• Due from the sewer fund to the general fund representing short-term loan	\$ 20,000
• Due from the water fund to the general fund representing short-term loan	345,000
• Due from the sewer fund to the general fund representing long-term loan (annual payments of \$3,750 with no interest, maturing 2027)	<u>69,500</u>
Total interfund receivables, balance sheet - governmental funds	<u>\$434,500</u>
• Due to the general fund from the water fund representing short-term loan	\$345,000
• Due to the general fund from the sewer fund representing short-term loan	20,000
• Due to the general fund from the sewer fund representing long-term loan (annual payments of \$3,750 with no interest, maturing 2027)	<u>69,500</u>
Total interfund payables, statement of net assets - proprietary fund	<u>\$434,500</u>

**CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

Note 4. Interfund Balances and Activity, Continued

Interfund Transfers: Transfers to/from other funds at September 30, 2008, consist of the following:

• To the general fund from the water fund to supplement other fund sources	\$ 36,450
• To the general fund from the sewer fund to supplement other fund sources	4,100
• To the general fund from the sanitation fund to supplement other fund sources	38,375
• To the general fund from the natural gas fund to supplement other fund sources	<u>7,850</u>
 Total	 <u>\$ 86,775</u>
 • From the general fund to other governmental funds to pay debt service on bonds	 <u>\$221,101</u>

Note 5. Long-Term Obligations

Changes in long-term obligations are summarized as follows:

	<u>10/1/07</u>	<u>Increase</u>	<u>Decrease</u>	<u>9/30/08</u>
<u>Governmental Activities</u>				
Revenue bonds	\$ 1,193,593	\$ 0	\$ 45,905	\$ 1,147,688
Notes and leases	96,173	43,125	100,294	39,004
Compensated absences	<u>161,556</u>	<u>28,333</u>	<u>0</u>	<u>189,889</u>
	<u>\$ 1,451,322</u>	<u>\$ 71,458</u>	<u>\$146,199</u>	<u>\$ 1,376,581</u>
<u>Business-Type Activities</u>				
Revenue bonds	\$ 2,892,600	\$ 0	\$ 67,000	\$ 2,825,600
Notes and leases	10,524,425	7,473,088	0	17,997,513
Compensated absences	<u>145,393</u>	<u>2,363</u>	<u>0</u>	<u>147,756</u>
	<u>\$13,562,418</u>	<u>\$7,475,451</u>	<u>\$ 67,000</u>	<u>\$20,970,869</u>

Bond and note descriptions are as follows:

Governmental Activities

Revenue Bonds:

- Authorized and issued \$500,000, City of Chipley Public Improvement Revenue Bonds, Series 1995, interest at 5%, principal and interest payable annually on September 1, collateralized by a pledge of franchise fees and public service taxes. Bonds were sold to U.S. Department of Agriculture, Rural Development.
- Authorized and issued \$546,000, City of Chipley Capital Improvement Revenue Bonds, Series 2002A, interest at 4.75%, principal and interest payable annually on September 1, collateralized by a pledge of solid waste disposal system revenues. Bonds were sold to U.S. Department of Agriculture, Rural Development.

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 5. Long-Term Obligations, Continued

Governmental Activities, Continued

- Authorized and issued \$87,000, City of Chipley Capital Improvement Revenue Bonds, Series 2002B, interest at 4.875%, principal and interest payable annually on September 1, collateralized by a pledge of solid waste disposal system revenues. Bonds were sold to U.S. Department of Agriculture, Rural Development.
- Authorized and issued \$400,000, City of Chipley Capital Improvement Revenue Bonds, Series 2003, interest at 4.625%, principal and interest payable annually on September 1, collateralized by net revenues of the solid waste system 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 (including interest) and will pay to the City, in equal installments, a sum of money equal to one-half of the annual bond payment. Bonds were sold to U.S. Department of Agriculture, Rural Development.

Notes and leases:

- Note payable to Capital City Bank, payable in annual installments of \$14,259, including interest at 4.7%, maturing May, 2011.

Business-Type Activities

Revenue bonds:

- Water and Sewer Revenue Bonds - 1986 Series Authorized and issued \$1,379,200, interest at 5%, principal and interest payable annually on September 1, with principal payments beginning in 1990, collateralized by net revenues of the system. Bonds were sold to U.S. Department of Agriculture, Rural Development
- Water and Sewer Revenue Bonds - 1994 Series Authorized and issued \$143,400, interest at 5%, principal and interest payable annually on September 1, with principal payments beginning in 1996, collateralized by net revenues of the system. Bonds were sold to U.S. Department of Agriculture, Rural Development
- Water and Sewer Revenue Bonds - 1994 Series Authorized and issued \$851,000, interest at 5%, principal and interest payable annually on September 1, with principal payments beginning in 1996, collateralized by net revenues of the system. Bonds were sold to U.S. Department of Agriculture, Rural Development
- Water and Sewer Revenue Bonds - 1999 Series Authorized and issued \$1,068,600, interest at 4.5%, principal and interest payable annually on September 1, with principal payments beginning in 2002, collateralized by net revenues of the system. Bonds were sold to U.S. Department of Agriculture, Rural Development.
- Water and Sewer Revenue Bonds - 2006 Series Authorized and issued \$128,900, interest at 4.375%, principal and interest payable annually on September 1, with principal payments beginning in 2006, collateralized by net revenues of the system. Bonds were sold to U.S. Department of Agriculture, Rural Development.

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 5. Long-Term Obligations, Continued

Business-Type Activities, Continued

Notes and leases:

- Note payable (Project No. CS12057614P) to the State of Florida Department of Environmental Protection (Department) under a Clean Water State Revolving Fund (SRF) Loan Agreement. The principal amount of the original approved loan was \$876,415. The original loan agreement was amended on July 30, 2004, and the approved principal amount of the loan increased to \$2,486,415. The revised principal amount of the loan of \$2,486,415 includes \$2,412,415 to be disbursed to the City and \$74,000 of capitalized interest. As of September 30, 2008, \$2,030,896 of the loan proceeds had been disbursed to the City. The principal amount due on the note payable at September 30, 2008, was \$2,220,432, which includes capitalized interest. Capitalized interest through September 30, 2008 was computed at the combined rate of interest and grant allocation assessment or rates, of 3.05 percent per annum for the original amount of the loan and 1.68 percent for the additional loan amount. It accrues and is compounded annually from the time when disbursements are made until six months before the first semi-annual loan payment is due. The remaining loan proceeds will be disbursed to the City in accordance with the terms of the loan agreement as project activities are completed. The purpose of the loan is to finance the planning, design, and construction cost of improvements to the City's sewer system. The City received a total of \$4,000,000 in State of Florida appropriation funds and has deposited them into the loan repayment account at US Bank as of September 30, 2008. The SRF loan agreement requires that the City enter into an escrow agreement with a depository and deposit the State of Florida appropriation into the loan repayment account. The purpose of the escrow agreement and loan repayment account is to use the account balance, plus investment earnings, to make payments on the State Revolving Fund loan. In February, 2009, the loan agreement was amended to change the start date of the semiannual loan payments. Unless the loan agreement is amended further, semiannual loan payments will be due to the Department beginning July 15, 2010, and semiannually thereafter on January 15 and July 15 of each year until all amounts due have been fully paid. The loan repayment schedule will be determined by an amendment.
- Note payable (Project No. DP576150) to the State of Florida Department of Environmental Protection (Department) under a Clean Water State Revolving Fund (SRF) Loan Agreement. The principal amount of the original approved loan was \$1,600,900. The original loan agreement was amended on May 17, 2006, and the approved principal amount of the loan increased to \$2,775,642. The loan was amended a second time on December 11, 2006, increasing the approved principal amount of the loan to \$9,024,570. The revised principal amount of the loan of \$9,024,570 includes \$8,967,870 to be disbursed to the City and \$56,700 of capitalized interest. As of September 30, 2008, \$8,465,824 of the loan proceeds had been disbursed to the City. The principal amount due on the note payable at September 30, 2008, was \$8,715,346, which includes capitalized interest. Capitalized interest through September 30, 2008, was computed at the combined interest and grant allocation assessment, or rates, of 1.82 percent per annum for the original amount of the loan and 1.87 percent per annum for the additional loan amount. It accrues and is compounded annually from the time when disbursements are made until six months before the first semiannual loan payment is due. The remaining loan proceeds will be disbursed to the City in accordance with the terms of the loan agreement as project activities are completed. The loan repayment schedule will be determined by an amendment. The purpose of the loan is to finance the planning, design, and construction cost of improvements to the City's sewer system.

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 5. Long-Term Obligations, Continued

Business-Type Activities, Continued

Notes and leases, Cont'd:

- Note payable to the Florida Department of Transportation (FDOT) under a repayment plan for the cost of relocating the water utilities. The total balance owed at September 30, 2008 was \$942,614. The balance is due on or before March 9, 2010.
- Note payable to the Florida Rural Utility Financing Commission. The loan is due on or before January 1, 2011, with interest thereon payable on the date of maturity (or prior prepayment) from January 24, 2008, at the rate of 4.2% per annum. The City cannot prepay the loan in full or in part prior to February 1, 2009. The total credit available is \$15,150,000 and the balance owed at September 30, 2008, was \$6,119,122. Also refer to Note 12 regarding repayment of the balance due.

Debt service requirements at September 30, 2008 are as follows:

<u>Due Date</u>	<u>Revenue Bonds</u>		<u>Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
			<u>Governmental Activities</u>	
2009	\$ 48,724	\$ 55,038	\$12,429	\$1,829
2010	51,558	52,637	13,014	1,245
2011	53,507	50,101	13,561	633
2012	56,573	47,515	0	0
2013	58,757	44,682	0	0
2014-2018	138,904	190,892	0	0
2019-2023	105,425	165,949	0	0
2024-2028	133,466	138,386	0	0
2029-2033	165,696	103,629	0	0
2034-2038	202,211	61,065	0	0
2039-2043	<u>132,867</u>	<u>13,203</u>	<u>0</u>	<u>0</u>
Totals	<u>\$1,147,688</u>	<u>\$923,097</u>	<u>\$39,004</u>	<u>\$3,707</u>
			<u>Business-Type Activities</u>	
<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 70,800	\$ 135,852	\$ 0	\$ 0
2010	73,700	132,399	942,614	0
2011	77,700	128,802	0	0
2012	81,800	125,025	0	0
2013	85,900	121,018	0	0

**CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

Note 5. Long-Term Obligations, Continued

Business-Type Activities, Continued

<u>Due Date</u>	<u>Business-Type Activities</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014-2018	491,100	538,392	0	0
2019-2023	618,700	406,776	0	0
2024-2028	528,800	252,878	0	0
2029-2033	480,300	141,925	0	0
2034-2038	276,100	47,090	0	0
2039-2043	27,800	6,721	0	0
2044-2045	<u>12,900</u>	<u>874</u>	<u>0</u>	<u>0</u>
Totals	<u>\$2,825,600</u>	<u>\$2,037,752</u>	<u>\$942,614</u>	<u>\$ 0</u>

Note 6. Loan Service Fee Payable

The note payable (Project No. CS12057614P) to the State of Florida Department of Environmental Protection (Department) under the Clean Water State Revolving Fund Loan Agreement contains a loan service fee of \$48,248 for the loan amount authorized (see Note 5). The fee represents two percent of the loan amount to be disbursed to the City excluding capitalized interest; that is, two percent of \$2,412,415. Interest will accrue on the loan service fee at the combined rate of interest and grant allocation assessment set for the loan until six months before the first semiannual loan payment is due at which time it is capitalized. The semiannual loan payment to the Department shall be computed based upon the principal amount of the loan plus the loan service fee and loan service fee capitalized interest based on the principle of level debt service. The Department will deduct the loan service fee and all associated interest from the first two payments. The amount of loan service fee payable at September 30, 2008, including capitalized interest, was \$54,480.

The note payable (Project No. DP576150) to the State of Florida Department of Environmental Protection (Department) under the Clean Water State Revolving Fund Loan Agreement contains a loan service fee of \$54,927 for the loan authorized (see Note 5). The fee represents two percent of the loan amount of \$2,746,342. Interest will accrue on the loan service fee at the combined rate of interest and grant allocation assessment set for the loan until six months before the first semiannual loan payment is due at which time it is capitalized. The semiannual loan payment to the Department shall be computed based upon the principal amount of the loan plus the loan service fee and loan service fee capitalized interest based on the principle of level debt service. The Department will deduct the loan service fee and all associated interest from the first two payments. The amount of loan service fee payable at September 30, 2008, including capitalized interest, was \$0.

**CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

Note 7. Major Supplier

All natural gas sold by the natural gas fund is purchased from a single supplier, Florida Gas Utility. Purchases totaled \$462,524 in 2008. This is currently the City’s single source of natural gas.

Note 8. Defined Benefit Pension Plan - Florida Retirement System

The City participates in the Florida Retirement System (“System”), a cost-sharing, multiple-employer, public employee, retirement system administered by the State of Florida Department of Administration, Division of Retirement, to provide retirement, disability, or death benefits to participating public employees or their designated beneficiaries. Chapter 121, Florida Statutes, establishes the authority for participant eligibility, contribution requirements, vesting eligibility, and benefit provisions. For the period October 1, 2007 through September 30, 2008, the total payroll for all City employees was \$1,817,257. The payroll for City employees covered by the System was \$1,732,625.

The System provides vesting of benefits after ten years of creditable service for regular employees and eight years of creditable service for elected city officials. Regular employees who are members are eligible for normal retirement after ten years of service and attaining age sixty-two, or thirty years of service regardless of age. Elected city officials are eligible for normal retirement after eight years of service as an elected city official and attaining age sixty-two, or ten years of any creditable service and attaining age sixty-two, or thirty years of service. Early retirement may be taken any time after vesting; however, there is a five percent benefit reduction for each year prior to normal retirement. Retirement coverage is employee noncontributory. The employer pays all contributions. The rates are as follows:

	<u>10/1/07 – 9/30/08</u>
Regular employees	9.85%
Special risk employees	20.92%
Senior management	13.12%

Contributions made by the City to the System for the year ended September 30, 2008 were \$221,190; these contributions represented 12.77% of covered City payroll.

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System’s funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers. The System does not make separate measurements of assets and pension benefit obligations for individual employers. The pension benefit obligation at July 1, 2008 for the System as a whole, determined through an actuarial valuation performed as of that date (the latest available actuarial valuation), was \$130.7 billion. The System’s net assets available for benefits on that date valued at market were \$124.0 billion, leaving no unfunded pension benefit obligation.

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 8. Defined Benefit Pension Plan - Florida Retirement System, Continued

Historical information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the comprehensive annual financial report of the State of Florida for the fiscal year ended June 30, 2008. The complete financial report of the Florida Retirement System may be obtained by writing the Division of Retirement, 2639 North Monroe Street, Building C, Tallahassee, Florida, 32399-1560.

During fiscal 2008, the System held no securities issued by the employer.

Note 9. Commitments

Amendment 2 to the Florida Financially Disadvantaged Small Community Grant was signed by the Florida Department of Environmental Protection on December 18, 2007, and increased the funding in the amount of \$16,194,231, for a total grant of \$18,861,134 instead of the original \$2,666,903. The amount of the grant disbursed to the City through September 30, 2008, was \$4,040,294, leaving a balance to be received of \$14,820,840. These grant funds are to be used for the City's State Revolving Fund (SRF) sewer project.

Note 10. Contingencies

The City receives grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in a request for reimbursement by the grantor for expenditures disallowed under the terms and conditions of the grant. City management believes that such disallowance, if any, will not be significant.

Note 11. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; workers' compensation claims; errors, and omissions; and natural disasters. 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 12. Subsequent Events

The City received a letter from the Florida Department of Environmental Protection (FDEP) dated January 16, 2009, informing the City that \$10 million in construction funding was now available for the City's State Revolving Fund (SRF) sewer project. The City was instructed by the letter to submit a loan application by May 15, 2009. The City submitted a loan application to FDEP on May 15, 2009, for additional approved funding in the amount of \$10 million for the Chipley Treatment and Major Sewer Rehabilitation/Replacement Project. The funds are to be used to repay interim financing provided by the Florida Rural Utility Financing Commission. A fully executed loan agreement with FDEP is required to be completed by August 13, 2009. FDEP has stated that a loan agreement is issued to make the funds available immediately and then the Disadvantaged Small Community Grant funds will repay the loan as they become available annually.

CITY OF CHIPLEY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

Note 12. Subsequent Events, Continued

The City has been notified that West Point Home, Inc. will be closing their facility located in Chipley, Florida during the subsequent fiscal year. West Point Home, Inc. leases their building from the City and represents approximately 25% of the gas revenue. The impact to the City during the fiscal year ending September 30, 2009, is expected to be minimal as the facility will be closing toward the end of the fiscal year.

A lawsuit has been filed against the City subsequent to September 30, 2008. The amount or outcome of the suit is not determinable at this time.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CHIPLEY, FLORIDA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Budgetary Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$1,487,004	\$1,567,852	\$1,466,454	(\$101,398)
Licenses and permits	52,000	61,350	58,933	(2,417)
Fines, forfeitures and penalties	32,500	38,797	27,530	(11,267)
Intergovernmental	1,338,136	962,871	1,110,037	147,166
Charges for services	40,000	2,000	1,201	(799)
Sale of cemetery lots	20,000	19,480	12,800	(6,680)
Interest	26,000	30,900	30,804	(96)
Miscellaneous	<u>398,534</u>	<u>450,443</u>	<u>442,185</u>	<u>(8,258)</u>
Total revenue	<u>3,394,174</u>	<u>3,133,693</u>	<u>3,149,944</u>	<u>16,251</u>
EXPENDITURES				
Current operating:				
General government	690,690	720,733	671,576	49,157
Public safety	979,700	1,123,084	929,333	193,751
Public works	488,450	848,099	844,721	3,378
Cemetery and grounds	258,000	264,235	252,684	11,551
Culture and recreation	136,775	175,034	144,600	30,434
Capital outlay	<u>767,500</u>	<u>523,613</u>	<u>458,419</u>	<u>65,194</u>
Total expenditures	<u>3,321,115</u>	<u>3,654,798</u>	<u>3,301,333</u>	<u>353,465</u>
Excess of revenues over (under) expenditures	73,059	(521,105)	(151,389)	369,716
OTHER FINANCING SOURCES (USES)				
Transfers in	90,525	90,525	86,775	(3,750)
Transfers out	(151,250)	(147,500)	(221,101)	(73,601)
Proceeds of loans	0	43,126	43,125	(1)
Proceeds from sale of assets	<u>0</u>	<u>15,645</u>	<u>25,244</u>	<u>9,599</u>
Total other financing sources (uses)	<u>(60,725)</u>	<u>1,796</u>	<u>(65,957)</u>	<u>(67,753)</u>
Net change in fund balance	12,334	(519,309)	(217,346)	301,963
FUND BALANCES, October 1, 2007	<u>1,678,955</u>	<u>1,678,955</u>	<u>1,678,955</u>	<u>0</u>
FUND BALANCES, September 30, 2008	<u>\$1,691,289</u>	<u>\$1,159,646</u>	<u>\$1,461,609</u>	<u>\$301,963</u>

The accompanying notes are an integral part of this schedule.

CITY OF CHIPLEY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2008

Note 1. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budget reflected in the financial statements:

1. City management staff submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is legally enacted through passage of an ordinance.
3. The budget of the General Fund is prepared on the modified accrual basis of accounting with the following exception:

The City includes a portion of the prior years' fund balance represented by unappropriated liquid assets remaining in the fund as a budgeted revenue in the succeeding year. The results of operation in accordance with generally accepted accounting principles do not recognize the fund balance allocation as revenue, as it is the result of the prior periods' excess of revenues over expenditures.

Budget statements must be approved by the City Council. The budget amounts presented in the financial statements represent the City's final budget as amended during the year.

**INDEPENDENT AUDITORS' REPORT REQUIRED BY
GOVERNMENTAL AUDITING STANDARDS**



M^CDANIEL & ASSOCIATES PC
 Certified Public Accountants and Business Consultants

E.B. McDaniel, Jr., CPA (1913-1998)
 Charles E. Maddox, CPA, Ret. (2005)
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 James C. Ellis, CPA
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 Ben E. Hathcock, CPA
 J. Philip Tyler, CPA
 M. Craig Scarbrough, CPA

Rod A. Andrews, CPA
 Carol P. Morgan, CPA
 Brenda H. Burnett, CPA
 Vicki M. Martin, CPA
 Kay S. Foster, CPA
 Elaine Johnson Taylor, CPA
 Dana S. Starling, CPA
 Celeste Welejski, CPA
 Steve Kingry, CPA
 Yahna C. Holland, CPA
 Thad J. Taylor, CPA
 Shaylee W. Meadows, CPA
 Stephanie H. Crowe, CPA
 J. Michael Farris, CPA
 Gunter Price, CPA

Mary M. Richardson, CMA

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Chipley, Florida as of and for the year ended September 30, 2008, which collectively comprise the City of Chipley, Florida's basic financial statements and have issued our report thereon dated June 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

DOTHAN

101 Executive Park Drive
 PO Box 6356
 Dothan, AL 36302
 ■ 334.792.2153
 ■ 334.793.1216
 dothan@mcdanielcpa.com

MARIANNA

2910 Russ Street
 PO Box 5768
 Marianna, FL 32447
 ■ 850.482.7333
 ■ 850.482.3085
 marianna@mcdanielcpa.com

SANTA ROSA BEACH

2441 West U.S. Highway 98
 Suite 108
 Santa Rosa Beach, FL 32459
 ■ 850.622.0888
 ■ 850.622.5678
 srb@mcdanielcpa.com

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Chipley, Florida's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Chipley, Florida's financial statements that is more than inconsequential will not be prevented or detected by the City of Chipley, Florida's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

PRIOR YEAR COMMENTS NOT RESOLVED

Segregation of Duties

Comment: There is a lack of segregation of duties between employees who have record keeping responsibilities and employees in the custody of City assets.

Recommendation: The size of the City administrative staff makes it difficult to achieve ideal separation of duties. The City should be aware of this internal control weakness and continue to separate record keeping duties from custody of assets as much as possible.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Mayor and Members of the City Council, others within the entity, the Florida Auditor General, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McDaniel & Associates, P.C.

Marianna, Florida
June 24, 2009

INDEPENDENT AUDITORS' MANAGEMENT LETTER

REQUIRED BY

THE STATE OF FLORIDA

MCDANIEL & ASSOCIATES PC
Certified Public Accountants and Business Consultants

INDEPENDENT AUDITORS' MANAGEMENT LETTER

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Stephanie H. Crowe, CPA

J. Michael Farris, CPA

Gunter Price, CPA

Mary M. Richardson, CMA

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

We have audited the financial statements of the City of Chipley, Florida, as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated June 24, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditors' Report on Compliance with Requirements Applicable to each Major Federal Program and State Project and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated June 24, 2009, should be considered in conjunction with this management letter.

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

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial report.

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we noted that the gas fund continued to show a loss in 2008. We recommend that the City continue to monitor the effect of these losses and to continue to develop ways to minimize the losses in the future. We also noted that it

DOTHAN

101 Executive Park Drive

PO Box 6356

Dothan, AL 36302

■ 334.792.2153

■ 334.793.1216

dothan@mcdanielcpa.com

MARIANNA

2910 Russ Street

PO Box 5768

Marianna, FL 32447

■ 850.482.7333

■ 850.482.3085

marianna@mcdanielcpa.com

SANTA ROSA BEACH

2441 West U.S. Highway 98

Suite 108

Santa Rosa Beach, FL 32459

■ 850.622.0888

■ 850.622.5678

srb@mcdanielcpa.com

is not required for authorized personnel to sign off on the write-offs prior to the write-offs being processed. We recommend that the authorized personnel initial the write-off report indicating their approval thereby authorizing the billing clerk to process the write-offs.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contract or grant agreements or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failure to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Chipley, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Chipley, Florida for the fiscal year ended September 30, 2008, 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, 2008. In connection with our audit, we determined that these two reports were in agreement.

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

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

McDaniel & Associates, P.C.

Marianna, Florida
June 24, 2009

CITY OF CHIPLEY, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2008

<u>Federal/ State Agency/Pass-through Entity/ Federal Program/State Project</u>	<u>CFDA CSFA Number</u>	<u>Contract Grant Number</u>	<u>Expenditures</u>
U.S. Department of Transportation, Highway Planning and Construction Program, Pass-through Program from Florida Department of Transportation	20.205	AOP84	\$ <u>36,529</u>
<i>Total U.S. Department of Transportation</i>			36,529
U.S. Department of Justice, Edward Byrne Memorial Justice Assistance Grant Program, Pass-through Program from State of Florida Department of Law Enforcement	16.738	2008-JAGD-WASH-1-Q0-047	1,745
U.S. Department of Justice, Edward Byrne Memorial Justice Assistance Grant Program, Pass-through Program from State of Florida Department of Law Enforcement	16.738	2008-JAGC-WASH-2-M8-274	11,000
U.S. Department of Justice, Bulletproof Vest Partnership Program	16.607	2009BUBX08045172	<u>550</u>
<i>Total U.S. Department of Justice</i>			13,295
U.S. Department of Housing and Urban Development, Community Development Block Grants/State's Program, Pass-through Program from State of Florida Department of Community Affairs	14.228	07DB-3R-02-77-02-N29	<u>291,875</u>
<i>Total U.S. Department of Housing and Urban Development</i>			291,875
U.S. Department of Environmental Protection, Capitalization Grants for the State Revolving Fund, Pass-through Program from State of Florida Department of Environmental Protection	66.458	DP576150	460,387
U.S. Department of Environmental Protection, Capitalization Grants for the State Revolving Fund, Pass-through Program from State of Florida Department of Environmental Protection	66.458	CS12057614P	<u>49,611</u>
<i>Total U.S. Department of Environmental Protection</i>			509,998
U.S. Department of Agriculture, Cooperative Forestry Assistance - Volunteer Fire Assistance Grant Program, Pass-through Program from State of Florida Department of Agriculture and Consumer Services Division of Forestry	10.664	-	1,688
U.S. Department of Agriculture, Rural Development Water and Waste Disposal Systems for Rural Communities	10.760	-	<u>131,913</u>
<i>Total U.S. Department of Agriculture</i>			<u>133,601</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$985,298</u>

The accompanying notes are an integral part of this schedule.

**CITY OF CHIPLEY, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

<u>Federal/State Agency/Pass-through Entity/ Federal Program/State Project</u>	<u>CFDA CSFA Number</u>	<u>Contract Grant Number</u>	<u>Expenditures</u>
Florida Department of Environmental Protection, Florida Recreation Development Assistance Program	37.017	A8146	\$ 201
Florida Department of Environmental Protection, Florida Recreation Development Assistance Program	37.017	A8205	201
Florida Department of State, Historic Preservation Grants	45.032	SC708	228,165
Florida Department of Environmental Protection, Florida Financially Disadvantaged Small Community Grant	37.039	SG576120	1,248,213
Florida Department of Environmental Protection, Florida Financially Disadvantaged Small Community Grant, Loan Guarantee to Florida Rural Utility Financing Commission	37.039	-	9,827,722
Florida Executive Office of the Governor, Office of Tourism, Trade and Economic Development, Rural Community Development	31.030	0T07-020	73,148
Florida Department of Law Enforcement, Drug Control/ Money Laundering Investigations – Matching Funds Project	71.005	-	575
Florida Department of Environmental Protection, Northwest Florida Water Management District, Florida Water Protection and Sustainability Program	37.066	07-053	<u>500,000</u>
<i>Total Expenditures of State Financial Assistance</i>			<u>\$11,878,225</u>

The accompanying notes are an integral part of this schedule.

CITY OF CHIPLEY, FLORIDA
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of the City of Chipley, Florida, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Florida Single Audit Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 2. Interim Financing

The City obtained interim financing from the Florida Rural Utility Financing Commission for the City's State Revolving (SRF) sewer improvements project based on a letter of commitment of permanent financing by the Florida Department of Environmental Protection (FDEP). Expenditures incurred through September 30, 2008, totaled \$9,827,722. The SRF project is being funded by federal and state funds and the end result at completion is to be 85% state grant funds and 15% federal loan funds. Currently, the federal funds expended is greater than 15% and some of these federal funds will be repaid with state grant funds. Therefore, the expenditures incurred as of September 30, 2008, based on the permanent financing guarantee from FDEP were determined to ultimately be paid by state grant funds (Florida Financially Disadvantaged Small Community Grant - see Note 9 to the financial statements) based on the best information available at this time.

In our opinion, the City of Chipley, Florida, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state projects for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the City of Chipley, Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City of Chipley, Florida's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 of Chipley, Florida's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of management, the Mayor and Members of the City Council, others within the entity, the Florida Auditor General, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McDaniel & Associates, P.C.

Marianna, Florida
June 24, 2009

**CITY OF CHIPLEY, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued		Unqualified
Internal control over financial reporting:		
Material weakness(es) identified?	_____ Yes	___X___ No
Reportable condition(s) identified not considered to be material weakness(es)?	___X___ Yes	_____ None
Noncompliance material to financial statements noted?	_____ Yes	___X___ No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____ Yes	___X___ No
Reportable condition(s) identified not considered to be material weakness(es)?	_____ Yes	___X___ None
Type of auditors' report issued on compliance for major programs		Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133, or any audit findings relative to major State projects?	_____ Yes	___X___ No

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
66.458	Capitalization Grants for the State Revolving Fund

Identification of major state projects:

<u>CSFA Number</u>	<u>Name of State Project</u>
37.066	Northwest Florida Water Management District, Wastewater Reuse Improvements
37.039	Florida Financially Disadvantaged Small Community Grant
37.039	Florida Financially Disadvantaged Grant, Loan Guarantee

Dollar threshold used to distinguish between Type A and Type B programs for major federal programs: \$300,000

Dollar threshold used to distinguish between Type A and Type B programs for major state projects: \$356,347

Auditee qualified as a low-risk auditee? ___X___ Yes _____ No

**CITY OF CHIPLEY, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Section II - Financial Statement Findings

Reportable Conditions

2008-1 **Segregation of Duties**

Comment: There is a lack of segregation of duties between employees who have record keeping responsibilities and employees in custody of City assets.

Condition and Recommendation: The size of the City administrative staff makes it difficult to achieve ideal separation of duties. The City should be aware of this internal control weakness and continue to separate record keeping duties from custody of assets as much as possible.

Response: The City is aware of the internal control weaknesses. We plan to continue to separate record keeping duties from custody of assets as much as possible with a small administrative staff.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

