

City of Callaway, Florida

FINANCIAL STATEMENTS

September 30, 2017



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City of Callaway, Florida
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the City Commission
City of Callaway, Florida

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 15, the schedule of funding progress for the retirees' health insurance other postemployment benefits plan and schedule of employer contributions for the retirees' health insurance other postemployment benefits plan on page 60, the schedule of proportionate share of net pension liability – Florida Retirement System on page 61, the schedule of contributions – Florida Retirement System on page 62, the schedule of proportionate share of the net pension liability – Health Insurance Subsidy Program on page 63, and the schedule of contributions – Health Insurance Subsidy Program on page 64, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison schedules as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the budgetary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the budgetary comparison schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Certified Public Accountants
Panama City Beach, Florida
June 22, 2018

Management's Discussion and Analysis

As management of the City of Callaway, Florida (City), we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended September 30, 2017.

Financial Highlights

- The total assets and deferred outflows of resources of the City at September 30, 2017 exceeded its liabilities and deferred inflows of resources by approximately \$37 million (net position), and represents an increase of \$2.6 million (7%) over the prior year.
- Of the \$37 million of net position at September 30, 2017, \$19 million represents net investments in capital assets (e.g. land, construction in progress, building, vehicles, machinery, and equipment) less related debt used to acquire these assets that is still outstanding, \$3.2 million is restricted for future obligations, and \$14.1 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The governmental activities' total net position increased \$2.2 million (19%), and the business-type activities' total net position increased \$338 thousand (1%) during fiscal year 2017.
- At September 30, 2017 the City's governmental funds reported combined total fund balances of \$5 million, an increase of \$1.3 million over the prior year. Approximately \$3.4 million (69%) of ending fund balances, is unassigned and available for spending at the discretion of the City Commission.
- At September 30, 2017 unassigned fund balance for the general fund was 60% of total general fund expenditures.

Overview of the Financial Statements

The focus of the Governmental Accounting Standards Board (GASB) Statement 34 financial statements is on both the City as a whole (government-wide), and on the major individual funds. Both perspectives allow the user to address relevant questions, broaden a basis for comparison (year-to-year, government-to-government), and enhance the City's accountability.

This discussion and analysis intends to serve as an introduction to the City's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

Designed to be similar to corporate financial statements, the government-wide financial statements consolidate governmental and business-type activities into two columns, which add to a total for primary government. This provides readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets (including deferred outflows of resources) and liabilities (including deferred inflows of resources), with the difference between the two reported as net position. This statement combines and consolidates the governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the City.

The statement of changes in net position presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government services (including city manager, city clerk, human resources, finance, purchasing, building inspector and nondepartmental expenses), public safety, highways and streets (including public works, administration, streets, central garage, repairs and maintenance), maintenance, economic environment, and culture and recreation (parks, library, and arts and conference center). The business-type activities of the City include water, sewer and solid waste management. The government-wide financial statements are found on pages 16-19 of this report.

The government-wide financial statements include the City (*primary government*) and the Callaway Community Redevelopment Agency (CRA), a legally separate component unit. The CRA is presented as a blended component unit because the City and the CRA share a governing body, and the CRA is a department of the City.

Fund Financial Statements

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

Funds

Governmental Funds

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

Such information may be useful in evaluating a government's near-term financial requirements. The basic governmental fund financial statements are found on pages 20-24 of this report.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual governmental funds (general fund, capital projects fund and community redevelopment fund (a special revenue fund)). The general fund is the only major fund in fiscal year 2017. The community redevelopment and capital projects funds are presented as other governmental funds. The City adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison schedules are provided to demonstrate compliance with the budgets.

Proprietary Funds

Proprietary funds of the City include water, sewer, and solid waste funds. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses proprietary funds to account for its utility operations (water operations and distribution, sewer collections and treatment, and sanitation services).

The basic proprietary fund financial statements are found on pages 25-29.

Notes to Basic Financial Statements

The notes provide additional information, which is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements begin on page 30 of this report.

Government-wide Financial Analysis of the City

Net position may serve over time as a useful indicator of a government's financial position. The City's assets (and deferred outflows of resources) exceeded liabilities (and deferred inflows of resources) by \$37 million (net position) at September 30, 2017.

\$19 million (51%) of the City's net position reflects its investment in capital assets (e.g. land, construction in progress, buildings, vehicles, and machinery and equipment) less related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City reports investment in its capital assets net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The following schedule provides a summary of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the City. At the end of the fiscal years 2017 and 2016, the City is able to report positive balances in all three categories of net position, for the government as a whole, and for its governmental and business-type activities.

Net Position

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 6,003,627	\$ 3,940,163	\$ 23,249,335	\$ 24,286,013	\$ 29,252,962	\$ 28,226,176
Capital assets	10,758,946	9,757,865	23,389,920	23,270,447	34,148,866	33,028,312
Total assets	16,762,573	13,698,028	46,639,255	47,556,460	63,401,828	61,254,488
Deferred outflows of resources	1,186,858	1,070,651	1,854,165	1,914,654	3,041,023	2,985,305
Current liabilities	976,244	318,207	3,190,459	3,189,489	4,166,703	3,507,696
Noncurrent liabilities	2,927,615	2,777,251	21,792,657	23,151,940	24,720,272	25,929,191
Total liabilities	3,903,859	3,095,458	24,983,116	26,341,429	28,886,975	29,436,887
Deferred inflows of resources	344,940	199,520	99,149	56,500	444,089	256,020
Net position						
Net investment in capital assets	10,758,946	9,757,865	8,240,294	8,159,159	18,999,240	17,917,024
Restricted	1,062,191	264,589	2,996,824	2,966,092	4,059,015	3,230,681
Unrestricted	1,879,495	1,451,247	12,174,037	11,947,934	14,053,532	13,399,181
Total net position	\$ 13,700,632	\$ 11,473,701	\$ 23,411,155	\$ 23,073,185	\$ 37,111,787	\$ 34,546,886

A portion of the City's net position, \$4 million (11%), represents resources that are subject to restrictions on how they may be used. The unrestricted portion of net position, \$14 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The City's overall financial condition improved during the year ended September 30, 2017. The overall increase in the City's net position was \$3 million (7%) during the year. Governmental activities' net position increased \$2 million, while business-type activities' net position increased \$338 thousand.

The following schedule provides a summary of the changes in net position.

Changes in Net Position

<i>Year Ended September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program revenues						
Charges for services	\$ 465,945	\$ 395,953	\$ 7,548,978	\$ 7,434,647	\$ 8,014,923	\$ 7,830,600
Operating grants and contributions	2,215	2,526	-	-	2,215	2,526
Capital grants and contributions	570,294	364,760	160,876	273,648	731,170	638,408
General revenues						
Property taxes	1,027,364	1,012,892	-	-	1,027,364	1,012,892
Other taxes	5,119,237	4,368,063	-	-	5,119,237	4,368,063
Other revenue	723,293	708,201	658,119	774,271	1,381,412	1,482,472
Total revenues	7,908,348	6,852,395	8,367,973	8,482,566	16,276,321	15,334,961
Expenses						
General government	883,386	874,758	-	-	883,386	874,758
Public safety	2,846,153	2,805,089	-	-	2,846,153	2,805,089
Highways and streets	762,783	757,079	-	-	762,783	757,079
Maintenance	233,685	211,518	-	-	233,685	211,518
Culture and recreation	955,410	898,744	-	-	955,410	898,744
Debt service interest	-	10,566	-	-	-	10,566
Water	-	-	3,004,377	2,737,642	3,004,377	2,737,642
Sewer	-	-	4,283,224	4,239,521	4,283,224	4,239,521
Solid waste	-	-	742,402	546,473	742,402	546,473
Total expenses	5,681,417	5,557,754	8,030,003	7,523,636	13,711,420	13,081,390
Changes in net position	2,226,931	1,294,641	337,970	958,930	2,564,901	2,253,571
Net position - beginning	11,473,701	10,179,060	23,073,185	22,114,255	34,546,886	32,293,315
Net position - ending	\$ 13,700,632	\$ 11,473,701	\$ 23,411,155	\$ 23,073,185	\$ 37,111,787	\$ 34,546,886

Financial Impacts

Normal Impacts

There are eight basic impacts on revenues and expenses as reflected below:

Revenues

- Economic condition: This can reflect a declining, stable, or growing economic environment and has a substantial impact on property, sales, gas or other tax revenue.
- Commission approved rate adjustments: While certain tax rates are set by statute, the City Commission has significant authority to impose and periodically adjust rates (water, sewer, solid waste, impact fees, recreation user fees, etc.).
- Changing patterns in intergovernmental grant revenue (both recurring and nonrecurring): Certain recurring revenues (state revenue sharing) may experience significant changes periodically while nonrecurring grants are less predictable and often distorting in their impact on year-to-year comparisons.
- Market impacts on investment income: The current market conditions can have an influence on the City's investment income, causing it to fluctuate.

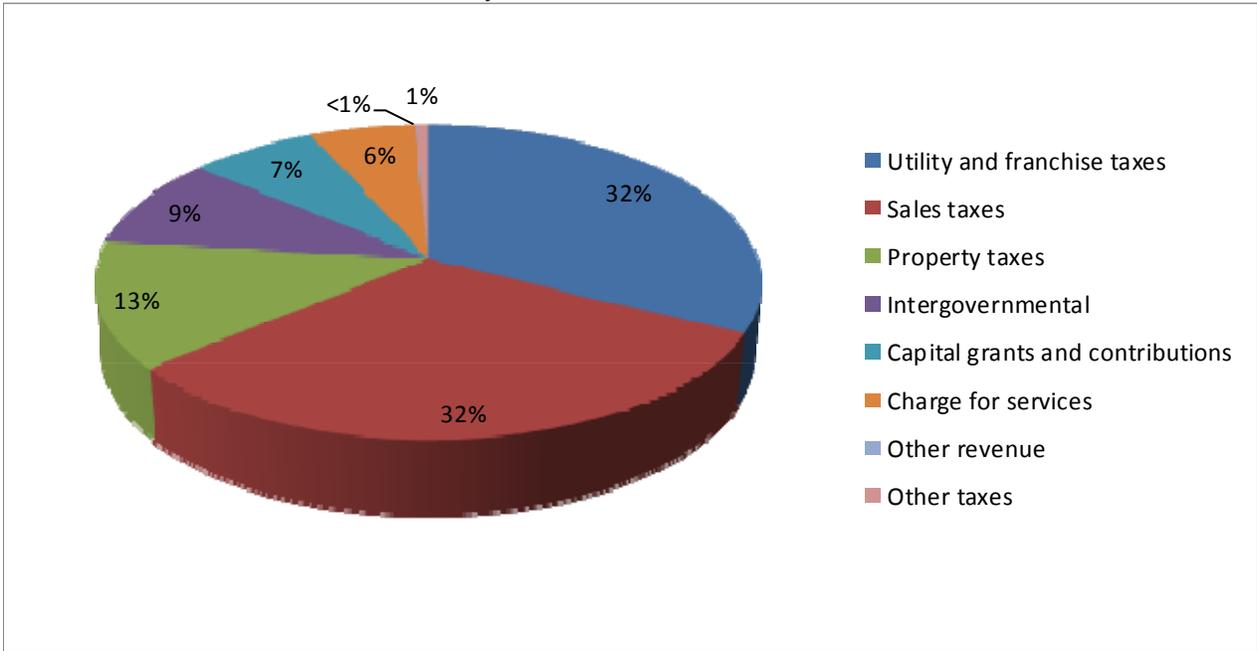
Expenses

- Introduction of new programs: Within functional expense categories (public safety, highway and streets, economic environment, culture and recreation, etc.), individual programs may be added or deleted to meet changing community needs.
- Authorized position adjustments: Changes in service demand may cause the City Commission to change authorized staffing.
- Salary adjustments: The ability to attract and retain human and intellectual resources requires the City to maintain competitive salary ranges.
- Inflation: While overall inflation is low, the City is a major consumer of certain commodities such as utilities, chemicals, supplies, fuel, oil and parts. Cost fluctuations directly affect the City's overall costs.

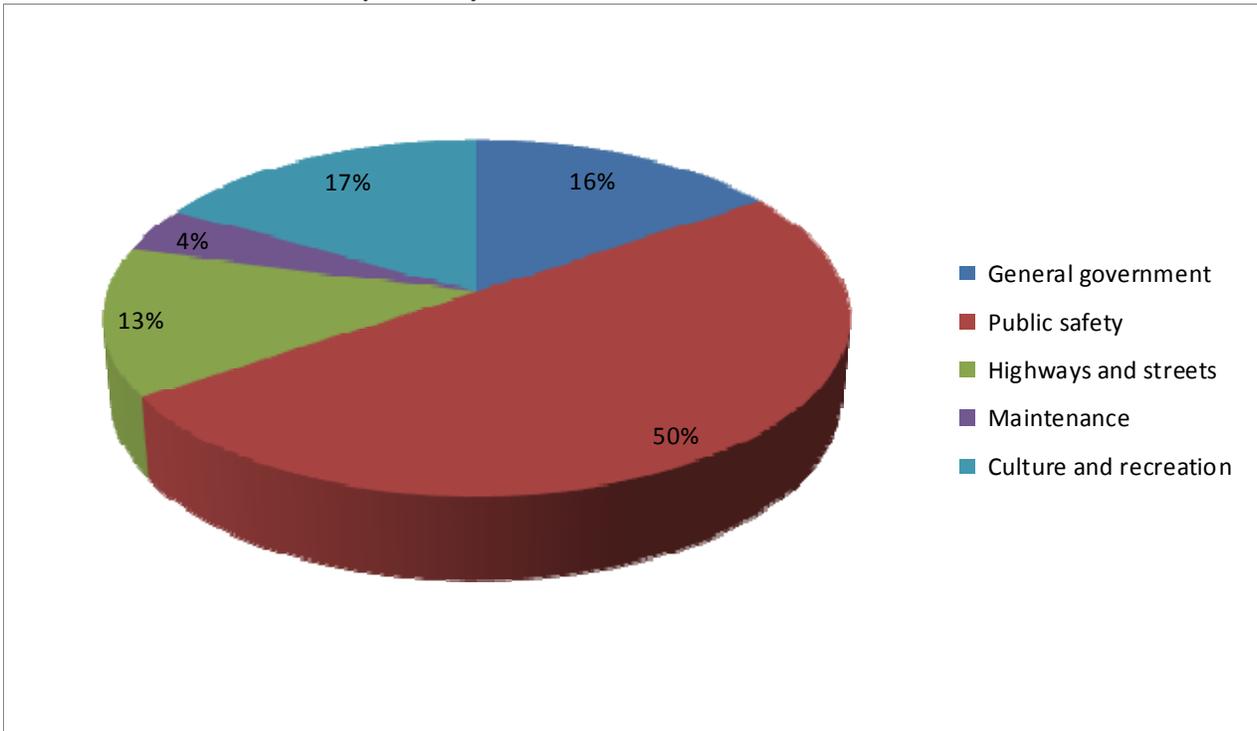
Current Year Impacts – Governmental Activities

- Other taxes increased by \$751 thousand primarily due to: 1) Receiving additional revenues generated by the half-cent sales tax for infrastructure improvements of \$901 thousand, sales tax of \$36 thousand and other governmental activities of \$17 thousand and, 2) Decreases in revenues from public service tax of \$50 thousand, franchise fees of \$116 thousand and fuel tax of \$37 thousand.
- Grant revenues increased by \$206 thousand due to an increase in grant revenue generated from the Florida Department of Transportation for sidewalk improvements and a FBIP Grant for park improvements.

Revenues by Source – Governmental Activities



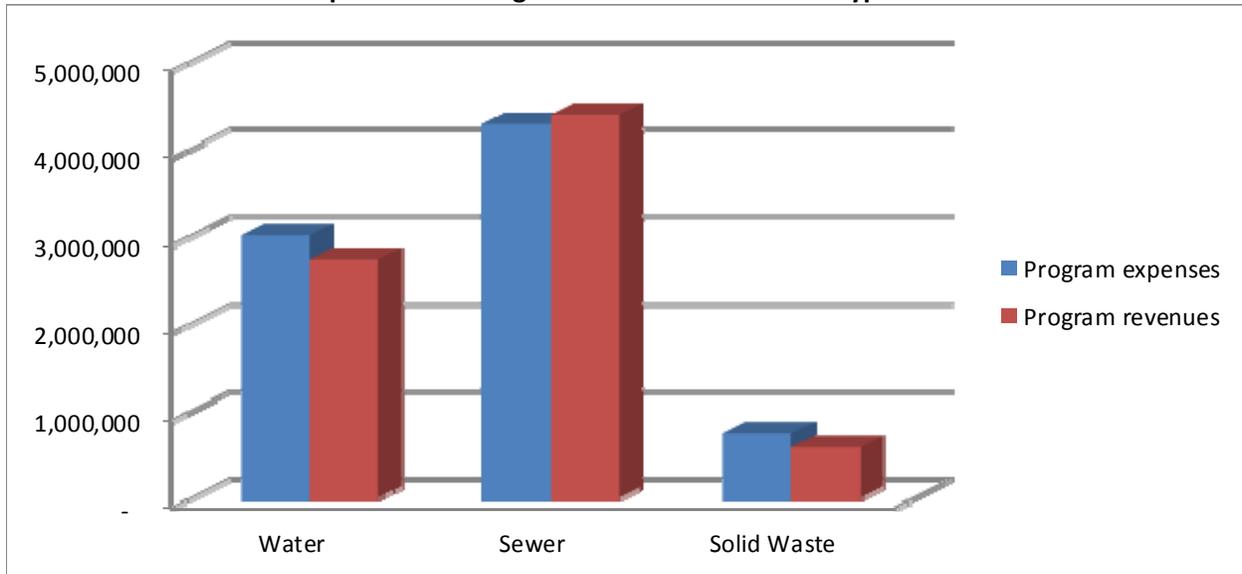
Expenses by Function – Governmental Activities



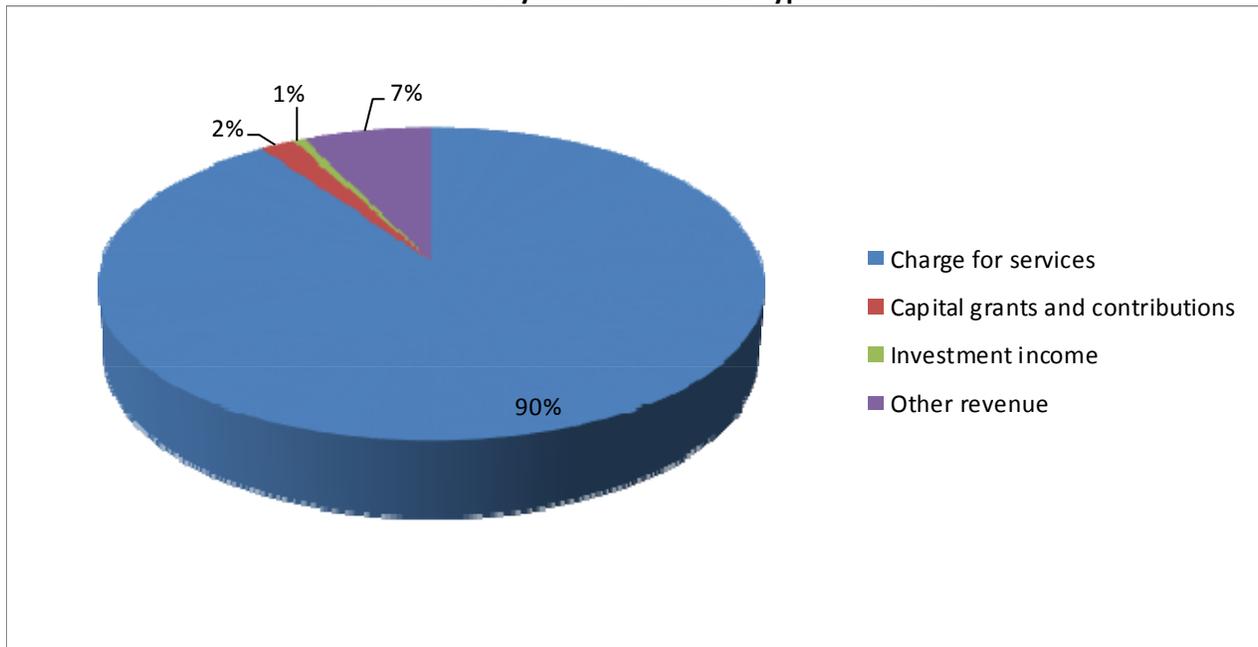
Current Year Impacts – Business-type Activities

- Charges for services for business-type activities increased by \$114 thousand due to increased charges for services due to usage.
- Grants revenues decreased by \$113 thousand. The county donated the city some property associated with the lift stations at an estimated value of \$75 thousand as part of the Military Point Advanced Wastewater Treatment Facility.
- Other revenues decreased by \$116 thousand with \$98 thousand of this due to a decrease in the amount of gain received from the joint venture in fiscal year 2017.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



Financial Analysis of the Government's Funds

In the governmental funds and proprietary funds the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At September 30, 2017 the City's governmental funds reported combined ending fund balances of \$5 million, an increase of \$1 million compared to the prior year-end. Approximately \$3 million of the total fund balance (69%) is unassigned, which is available for spending at the City Commission's discretion. The remainder of fund balance is categorized as:

- Nonspendable – prepaid items and inventory
- Restricted – bond covenants, impact fees, and community redevelopment
- Committed – voluntary park fees and stormwater fees

The general fund is the main operating fund of the City. At September 30, 2017 unassigned fund balance of the general fund was \$3 million, while total fund balance was \$4 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 60%, and total fund balance represents 72% of total general fund expenditures.

During the year ended September 30, 2017 the fund balance of the City's general fund increased by \$512 thousand.

At September 30, 2017 the other governmental funds has a total fund balance of \$850 thousand, all of which is restricted. The other governmental funds fund balance increased \$740 thousand during the year ended September 30, 2017.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the proprietary funds totaled \$12 million at September 30, 2017. The water fund had an unrestricted fund balance of \$79 thousand, the sewer fund's unrestricted fund balance was \$12 million (which includes a \$7 million investment in the Military Point Advanced Wastewater Treatment Facility joint venture) and the solid waste fund's unrestricted fund balance was \$451 thousand. Net position for the proprietary funds increased \$338 thousand during fiscal year 2017. Refer to the statement of net position and the statement of revenues, expenses and changes in net position for specific numerical data.

Budgetary Highlights

General Fund

Actual expenditures, were less than budgeted amounts by approximately 16% primarily as a result of general government, highways and streets, and maintenance expenditures being less than the amount budgeted. Transfers out exceeded the amount budgeted by \$584,648. The excess budget transfer was related to a transfer of the new infrastructure tax proceeds to the capital projects fund from the general fund. The related infrastructure projects are being reported in the capital projects fund.

The original budgets by department were adjusted throughout the year as necessary to arrive at the final budget.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2017, is \$34 million (net of accumulated depreciation and amortization). This investment in capital assets includes land, construction in progress, buildings, wastewater and drainage systems improvements, vehicles, machinery and equipment, park facilities, roads and highways, and software. There was a net increase of the City's investment in capital assets for the year ended September 30, 2017 of \$1 million.

Capital Assets (net of depreciation)

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 847,869	\$ 847,869	\$ 252,353	\$ 177,428	\$ 1,100,222	\$ 1,025,297
Construction in progress	228,313	35,111	22,961	22,961	251,274	58,072
Buildings	3,026,346	3,048,385	2,931,891	3,033,215	5,958,237	6,081,600
Improvements other than buildings	5,803,241	5,039,438	18,808,002	18,863,401	24,611,243	23,902,839
Vehicles	445,238	347,623	497,494	253,219	942,732	600,842
Machinery and equipment	388,542	399,452	877,219	920,223	1,265,761	1,319,675
Software	19,397	39,987	-	-	19,397	39,987
Total	\$ 10,758,946	\$ 9,757,865	\$ 23,389,920	\$ 23,270,447	\$ 34,148,866	\$ 33,028,312

Additional information on the capital assets of the City can be found in note 5 of this report.

Long-term Debt Outstanding

At September 30, 2017 the City had total debt outstanding of \$22.3 million. The debt amount represents notes payable and revenue bonds payable secured by specified revenue sources and equipment.

Long-term Debt Outstanding

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Notes payable	\$ -	\$ -	\$ 5,321,725	\$ 6,535,720	\$ 5,321,725	\$ 6,535,720
Revenue bonds payable, plus bond premium	-	-	16,943,047	17,054,495	16,943,047	17,054,495
Total	\$ -	\$ -	\$ 22,264,772	\$ 23,590,215	\$ 22,264,772	\$ 23,590,215

Principal repayments during the year for business-type activities' bonds were \$73,500 and amortization of bond premiums was \$37,948. Repayment of notes payable by the Military Point Advanced Wastewater Treatment Facility joint venture were \$1,213,995.

Additional information on the City's long-term debt can be found in note 9 of this report.

Economic Factors and Next Year's Budget and Rates

The City continues to be financially sound and some improvements in the local economy is evidenced by an increase in residential and commercial development.

For the upcoming fiscal year, the City budgeted to increase reserves in the general fund by \$410 thousand, due to the availability of the new infrastructure tax revenue that will cover capital projects. This amount includes all fiscal year 2018 budget amendments through the date of this report.

The unassigned general fund balance is projected to continue to exceed the minimum required by city policy of 17% of expenditures.

Bay County voters approved a referendum for a half-cent sales infrastructure tax in November of 2016. Proceeds from the surtax are to be used for infrastructure purposes, including roads, bridges, parks, storm water drainage, and other authorized capital improvement projects in accordance with Sec. 212.055(2),FS. Distributions to the City for fiscal year 2017 amounted to \$901 thousand and is projected to be approximately \$1.4 million for fiscal year 2018, with incremental increases tied to economic growth for the remainder of the 10-year tax levy. The City has budgeted for the \$1.4 million in revenues and anticipated expenditures of \$1.8 million for capital improvements using \$388 thousand of the fiscal year 2017 funds from reserves from the infrastructure funds.

The City budgeted a decrease in sewer rate of \$2 per month for the base rate, which is an estimated reduction of charges for services of \$144 thousand dollars for the year. The City budgeted an increase in impact fees of \$144 thousand for the new residential projects that are currently in progress. The overall revenue and expenditures for fiscal year 2018 are relatively flat.

Requests for Information

This discussion and analysis is designed to provide a general overview of the City's finances for readers of the City's financial statements. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Callaway, 6601 East Highway 22, Callaway, Florida 32404, Attention: Director of Finance. The City's website is <http://www.cityofcallaway.com>.

City of Callaway, Florida
Statement of Net Position
September 30, 2017

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,660,249	\$ 6,117,313	\$ 10,777,562
Accounts receivable, net	252,526	720,413	972,939
Due from other governments	833,467	-	833,467
Due from joint venture	-	181,748	181,748
Prepays	652	2,991	3,643
Inventory	44,894	15,395	60,289
Restricted assets			
Cash and cash equivalents	211,839	3,682,951	3,894,790
Other assets			
Capital contributions receivable, noncurrent	-	529,263	529,263
Notes receivable - joint venture	-	5,321,725	5,321,725
Investment in joint venture	-	6,677,536	6,677,536
Capital assets			
Nondepreciable/nonamortizable	1,076,182	275,314	1,351,496
Depreciable/amortizable, net	9,682,764	23,114,606	32,797,370
Total assets	16,762,573	46,639,255	63,401,828
Deferred outflows of resources			
Deferred loss on bond refunding	-	1,513,012	1,513,012
Deferred outflows related to pensions	1,186,858	341,153	1,528,011
Total deferred outflows of resources	1,186,858	1,854,165	3,041,023
Liabilities			
Accounts payable	799,046	686,637	1,485,683
Accrued payroll liabilities	71,814	28,142	99,956
Retainages payable	15,222	-	15,222
Due to joint venture	-	46,228	46,228
Unearned revenue	12,850	-	12,850

(Continued)

See accompanying notes

City of Callaway, Florida
Statement of Net Position (Continued)
September 30, 2017

Primary Government			
	Governmental Activities	Business-type Activities	Total
Payable from restricted assets			
Customer deposits	\$ -	\$ 944,511	\$ 944,511
Accrued interest payable	-	114,664	114,664
Long-term liabilities			
Due within one year			
Notes payable	-	1,250,241	1,250,241
Revenue bonds payable	-	73,500	73,500
Accrued compensated absences	77,312	46,536	123,848
Due in more than one year			
Notes payable	-	4,071,484	4,071,484
Revenue bonds payable, net	-	16,869,547	16,869,547
Other postemployment benefits	51,962	25,038	77,000
Net pension liability	2,875,653	826,588	3,702,241
Total liabilities	3,903,859	24,983,116	28,886,975
Deferred inflows of resources			
Deferred inflows related to pensions	344,940	99,149	444,089
Total deferred inflows of resources	344,940	99,149	444,089
Net position			
Net investment in capital assets	10,758,946	8,240,294	18,999,240
Restricted			
Debt service	-	5	5
Infrastructure tax	820,824	-	820,824
Impact fees	211,839	2,996,819	3,208,658
Redevelopment	29,528	-	29,528
Unrestricted	1,879,495	12,174,037	14,053,532
Total net position	\$ 13,700,632	\$ 23,411,155	\$ 37,111,787

See accompanying notes

City of Callaway, Florida
Statement of Activities
Year Ended September 30, 2017

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for		Capital Grants and Contributions	Primary Government		Total
		Services	Operating Grants and Contributions		Governmental Activities	Business-type Activities	
Functions/Programs							
Primary government							
Governmental activities							
General government	\$ 883,386	\$ 230,586	\$ -	\$ -	\$ (652,800)	\$ -	\$ (652,800)
Public safety	2,846,153	126,791	-	-	(2,719,362)	-	(2,719,362)
Highways and streets	762,783	55,796	-	566,279	(140,708)	-	(140,708)
Maintenance	233,685	-	-	-	(233,685)	-	(233,685)
Economic environment	-	-	2,215	-	2,215	-	2,215
Culture and recreation	955,410	52,772	-	4,015	(898,623)	-	(898,623)
Total governmental activities	5,681,417	465,945	2,215	570,294	(4,642,963)	-	(4,642,963)
Business-type activities							
Water	3,004,377	2,706,394	-	32,407	-	(265,576)	(265,576)
Sewer	4,283,224	4,259,595	-	128,469	-	104,840	104,840
Solid waste	742,402	582,989	-	-	-	(159,413)	(159,413)
Total business-type activities	8,030,003	7,548,978	-	160,876	-	(320,149)	(320,149)
Total primary government	\$ 13,711,420	\$ 8,014,923	\$ 2,215	\$ 731,170	(4,642,963)	(320,149)	(4,963,112)

(Continued)

See accompanying notes

City of Callaway, Florida
Statement of Activities (Continued)
Year Ended September 30, 2017

**Net (Expenses) Revenues and
Changes in Net Position**

Primary Government

	Governmental Activities	Business-type Activities	Total
General revenues			
Taxes			
Property taxes	\$ 1,027,364	\$ -	\$ 1,027,364
Sales taxes	2,499,788	-	2,499,788
Utility service taxes	1,720,162	-	1,720,162
Franchise taxes	846,173	-	846,173
Tax increments for redevelopment districts	33,569	-	33,569
Other taxes	19,545	-	19,545
Municipal revenue sharing, intergovernmental	731,251	-	731,251
Gain (loss) on sale of assets	(20,658)	15,221	(5,437)
Gain on investment in joint venture	-	585,597	585,597
Miscellaneous	6,922	4,628	11,550
Investment earnings	5,778	52,673	58,451
Total general revenues and investment earnings	6,869,894	658,119	7,528,013
Changes in net position	2,226,931	337,970	2,564,901
Net position - beginning	11,473,701	23,073,185	34,546,886
Net position - ending	\$ 13,700,632	\$ 23,411,155	\$ 37,111,787

See accompanying notes

City of Callaway, Florida
Governmental Funds
Balance Sheet
September 30, 2017

	General Fund	Other Governmental Funds	Total
Assets			
Cash and cash equivalents	\$ 4,118,345	\$ 541,904	\$ 4,660,249
Accounts receivable, net	252,526	-	252,526
Due from other governments	138,647	559,399	698,046
Inventory	44,894	-	44,894
Prepays	652	-	652
Restricted assets			
Cash and cash equivalents	211,839	-	211,839
Total assets	\$ 4,766,903	\$ 1,101,303	\$ 5,868,206
Liabilities			
Accounts payable	\$ 563,317	\$ 250,951	\$ 814,268
Accrued payroll liabilities	71,814	-	71,814
Unearned revenue	12,850	-	12,850
Total liabilities	647,981	250,951	898,932
Fund balances			
Nonspendable			
Prepays	652	-	652
Inventory	44,894	-	44,894
Restricted			
Infrastructure tax	-	820,824	820,824
Impact fees	211,839	-	211,839
Redevelopment	-	29,528	29,528
Comitted			
Park fees	422	-	422
Stormwater fees	439,955	-	439,955
Unassigned	3,421,160	-	3,421,160
Total fund balances	4,118,922	850,352	4,969,274
Total liabilities and fund balances	\$ 4,766,903	\$ 1,101,303	\$ 5,868,206

See accompanying notes

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

Fund balances, total governmental funds (page 20)		\$ 4,969,274
Amounts reported for governmental activities in the statement of net position are different because:		
Due from other governments, received after 60 days of year-end, on a modified accrual basis are not resources and, therefore, are not reported in the funds.		135,421
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Governmental nondepreciable assets	\$ 1,076,182	
Governmental depreciable assets	18,403,217	
Less accumulated depreciation/amortization	<u>(8,720,453)</u>	
		10,758,946
Deferred inflows of resources and deferred outflows of resources related to pensions are not available (receivable) or due (payable), respectively, in the current period and therefore are not reported in the governmental funds.		
Deferred outflows of resources related to pensions	1,186,858	
Deferred inflows of resources related to pensions	<u>(344,940)</u>	
		841,918
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated absences	(77,312)	
Other postemployment benefits	(51,962)	
Net pension liability	<u>(2,875,653)</u>	
		(3,004,927)
Net position of governmental activities (page 17)		\$ 13,700,632

See accompanying notes

City of Callaway, Florida
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended September 30, 2017

	General Fund	Other Governmental Funds	Total
Revenues			
Taxes	\$ 2,985,882	\$ 10,727	\$ 2,996,609
License, fees and permits	1,061,444	-	1,061,444
Intergovernmental	2,887,925	582,241	3,470,166
Charges for services	192,704	-	192,704
Fines and forfeitures	8,975	-	8,975
Miscellaneous	70,260	-	70,260
Total revenues	7,207,190	592,968	7,800,158
Expenditures			
Current			
General government	785,845	670	786,515
Public safety	2,615,343	-	2,615,343
Highways and streets	702,827	-	702,827
Maintenance	110,707	-	110,707
Culture and recreation	733,118	200	733,318
Capital outlay	740,170	859,977	1,600,147
Total expenditures	5,688,010	860,847	6,548,857
Excess (deficit) of revenues over (under) expenditures	1,519,180	(267,879)	1,251,301
Other financing sources (uses)			
Transfers in	-	1,009,045	1,009,045
Transfers out	(1,009,045)	-	(1,009,045)
Total other financing sources (uses)	(1,009,045)	1,009,045	-
Net changes in fund balances	510,135	741,166	1,251,301
Fund balances - beginning	3,608,787	109,186	3,717,973
Fund balances - ending	\$ 4,118,922	\$ 850,352	\$ 4,969,274

See accompanying notes

City of Callaway, Florida

**Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2017**

Net changes in fund balances - total governmental funds (page 22) \$ 1,251,301

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is depreciated/amortized over the estimated useful lives of the assets.

Capital outlays	\$ 1,600,147	
Less depreciation/amortization	<u>(571,835)</u>	
		1,028,312

The net effect of miscellaneous noncash transactions involving capital assets (i.e. sales, trade-ins, adjustments and donations) is to decrease net position. (27,231)

Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds. 135,421

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Long-term compensated absences	32,305	
Other postemployment benefits	(26,849)	
Net pension liability	(123,515)	
Deferred outflows of resources related to pensions	116,207	
Deferred inflows of resources related to pensions	<u>(159,020)</u>	
		(160,872)

Change in net position of governmental activities (page 19) \$ 2,226,931

City of Callaway, Florida
Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual – General Fund
Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with Final</u> <u>Budget-Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,868,151	\$ 2,868,151	\$ 2,985,882	\$ 117,731
License, fees and permits	1,005,670	1,005,670	1,061,444	55,774
Intergovernmental	2,089,964	2,089,964	2,887,925	797,961
Charges for services	187,380	187,380	192,704	5,324
Fines and forfeitures	3,500	3,500	8,975	5,475
Miscellaneous	88,267	88,267	70,260	(18,007)
Total revenues	6,242,932	6,242,932	7,207,190	964,258
Expenditures				
Current				
General government	1,406,955	1,484,001	785,845	698,156
Public safety	2,609,346	2,689,291	2,615,343	73,948
Highways and streets	829,223	829,223	702,827	126,396
Maintenance	251,743	247,743	110,707	137,036
Culture and recreation	805,935	805,935	733,118	72,817
Capital outlay	688,894	686,449	740,170	(53,721)
Total expenditures	6,592,096	6,742,642	5,688,010	1,054,632
Excess (deficit) of revenues over (under) expenditures	(349,164)	(499,710)	1,519,180	2,018,890
Other financing sources (uses)				
Transfers out	(225,170)	(424,397)	(1,009,045)	(584,648)
Total other financing sources (uses)	(225,170)	(424,397)	(1,009,045)	(584,648)
Net changes in fund balance	(574,334)	(924,107)	510,135	1,434,242
Fund balance - beginning	3,608,787	3,608,787	3,608,787	-
Fund balance - ending	\$ 3,034,453	\$ 2,684,680	\$ 4,118,922	\$ 1,434,242

See accompanying notes

City of Callaway, Florida
Proprietary Funds
Statement of Net Position
September 30, 2017

	Business-type Activities			
	Major Funds		Nonmajor Fund	Total
	Water	Sewer	Solid Waste	
Assets				
Current assets				
Cash and cash equivalents	\$ 335,172	\$ 5,240,268	\$ 541,873	\$ 6,117,313
Accounts receivable, net				
Trade accounts	173,629	376,613	48,981	599,223
Capital contributions	-	121,190	-	121,190
Prepays	2,991	-	-	2,991
Inventory	-	-	15,395	15,395
Due from joint venture	-	181,748	-	181,748
Total current assets	511,792	5,919,819	606,249	7,037,860
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	1,413,103	2,269,848	-	3,682,951
Other assets				
Capital contributions receivable	-	529,263	-	529,263
Notes receivable - joint venture	-	5,321,725	-	5,321,725
Investment in joint venture	-	6,677,536	-	6,677,536
Total other assets	-	12,528,524	-	12,528,524
Capital assets				
Nondepreciable/nonamortizable	113,083	162,231	-	275,314
Depreciable/amortizable, net	14,085,121	8,803,830	225,655	23,114,606
Total capital assets	14,198,204	8,966,061	225,655	23,389,920
Total noncurrent assets	15,611,307	23,764,433	225,655	39,601,395
Total assets	16,123,099	29,684,252	831,904	46,639,255
Deferred outflows of resources				
Deferred loss on bond refunding	756,506	756,506	-	1,513,012
Deferred outflows related to pensions	127,872	152,212	61,069	341,153
Total deferred outflows of resources	884,378	908,718	61,069	1,854,165

(Continued)

See accompanying notes

City of Callaway, Florida
Proprietary Funds
Statement of Net Position (Continued)
September 30, 2017

	Business-type Activities			
	Major Funds		Nonmajor Fund	Total
	Water	Sewer	Solid Waste	
Liabilities				
Current liabilities				
Accounts payable	\$ 175,082	\$ 485,208	\$ 26,347	\$ 686,637
Accrued liabilities				
Compensated absences	17,054	15,955	13,527	46,536
Wages	10,557	12,252	5,333	28,142
Due to joint venture	-	46,228	-	46,228
Notes payable	-	1,250,241	-	1,250,241
Revenue bonds payable	-	73,500	-	73,500
Payable from restricted assets				
Customer deposits	944,511	-	-	944,511
Accrued interest	54,548	60,116	-	114,664
Total current liabilities	1,201,752	1,943,500	45,207	3,190,459
Noncurrent liabilities				
Notes payable	-	4,071,484	-	4,071,484
Revenue bonds payable, net	8,331,319	8,538,228	-	16,869,547
Net pension liability	309,826	368,799	147,963	826,588
Other postemployment benefits	9,487	10,440	5,111	25,038
Total noncurrent liabilities	8,650,632	12,988,951	153,074	21,792,657
Total liabilities	9,852,384	14,932,451	198,281	24,983,116
Deferred inflows of resources				
Deferred inflows related to pensions	37,163	44,239	17,747	99,149
Total deferred inflows of resources	37,163	44,239	17,747	99,149
Net position				
Net investment in capital assets	6,623,391	1,391,248	225,655	8,240,294
Restricted				
Debt service/bond covenants	5	-	-	5
Impact fees	415,132	2,581,687	-	2,996,819
Unrestricted	79,402	11,643,345	451,290	12,174,037
Total net position	\$ 7,117,930	\$ 15,616,280	\$ 676,945	\$ 23,411,155

See accompanying notes

City of Callaway, Florida
Proprietary Funds

Statement of Revenues, Expenses and Change in Net Position
Year Ended September 30, 2017

	Business-type Activities			
	Major Funds		Nonmajor Fund	Total
	Water	Sewer	Solid Waste	
Operating revenues				
Charges for services	\$ 2,706,394	\$ 4,259,595	\$ 582,989	\$ 7,548,978
Total operating revenues	2,706,394	4,259,595	582,989	7,548,978
Operating expenses				
Personal services	643,589	611,151	292,617	1,547,357
Operating	1,476,485	2,850,736	390,794	4,718,015
Depreciation	537,843	454,124	58,991	1,050,958
Total operating expenses	2,657,917	3,916,011	742,402	7,316,330
Operating income (loss)	48,477	343,584	(159,413)	232,648
Nonoperating revenues (expenses)				
Interest expense	(346,460)	(367,213)	-	(713,673)
Gain on investment in joint venture	-	585,597	-	585,597
Gain on disposal of capital assets	6,565	8,656	-	15,221
Interest income	1,290	51,356	27	52,673
Miscellaneous	-	-	4,628	4,628
Total nonoperating revenues (expenses)	(338,605)	278,396	4,655	(55,554)
Net income (loss) before capital grants and contributions	(290,128)	621,980	(154,758)	177,094
Capital grants and contributions	32,407	128,469	-	160,876
Change in net position	(257,721)	750,449	(154,758)	337,970
Total net position - beginning	7,375,651	14,865,831	831,703	23,073,185
Total net position - ending	\$ 7,117,930	\$ 15,616,280	\$ 676,945	\$ 23,411,155

See accompanying notes

City of Callaway, Florida
Proprietary Funds
Statement of Cash Flows
Year Ended September 30, 2017

	Business-type Activities			
	Major Funds		Nonmajor Fund	Total
	Water	Sewer	Solid Waste	
Cash flows from operating activities				
Receipts from customers and users	\$ 2,847,955	\$ 4,387,223	\$ 583,126	\$ 7,818,304
Payments to suppliers	(1,595,785)	(2,852,762)	(380,708)	(4,829,255)
Payments to employees	(604,129)	(640,212)	(275,370)	(1,519,711)
Miscellaneous receipts	-	-	4,628	4,628
Net cash provided by (used for) operating activities	648,041	894,249	(68,324)	1,473,966
Cash flows from capital and related financing activities				
Acquisition of capital assets	(189,821)	(799,996)	(105,689)	(1,095,506)
Proceeds from capital grants and contributions	32,407	53,544	-	85,951
Proceeds from disposal of capital assets	6,565	8,656	-	15,221
Principal paid on revenue bonds	-	(73,500)	-	(73,500)
Interest paid on revenue bonds	(327,291)	(348,044)	-	(675,335)
Net cash (used for) capital and related financing activities	(478,140)	(1,159,340)	(105,689)	(1,743,169)
Cash flows from investing activities				
Interest received	1,290	51,356	27	52,673
Distributions from joint venture	-	242,927	-	242,927
Net cash provided by investing activities	1,290	294,283	27	295,600
Net increase (decrease) in cash and cash equivalents	171,191	29,192	(173,986)	26,397
Cash and cash equivalents - beginning	1,577,084	7,480,924	715,859	9,773,867
Cash and cash equivalents - ending	\$ 1,748,275	\$ 7,510,116	\$ 541,873	\$ 9,800,264
Classified as cash				
Unrestricted	\$ 335,172	\$ 5,240,268	\$ 541,873	\$ 6,117,313
Restricted	1,413,103	2,269,848	-	3,682,951
Cash and cash equivalents - ending	\$ 1,748,275	\$ 7,510,116	\$ 541,873	\$ 9,800,264

(Continued)

See accompanying notes

City of Callaway, Florida
Proprietary Funds
Statement of Cash Flows (Continued)
Year Ended September 30, 2017

Business-type Activities				
	Major Funds		Nonmajor Fund	Total
	Water	Sewer	Solid Waste	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ 48,477	\$ 343,584	\$ (159,413)	\$ 232,648
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	537,843	454,124	58,991	1,050,958
Miscellaneous revenue	-	-	4,628	4,628
Decrease (increase) in assets				
Accounts receivable, net	5,607	(17,558)	137	(11,814)
Due from other governments	73,773	-	-	73,773
Inventory	-	-	(15,395)	(15,395)
Capital contributions receivable	-	145,186	-	145,186
Decrease (increase) in deferred outflows of resources				
Deferred outflows related to pensions	(20,125)	10,739	(6,411)	(15,797)
Increase (decrease) in liabilities				
Customer deposits				
Accounts payable	(119,300)	15,638	25,481	(78,181)
Compensated absences	(569)	(2,271)	(971)	(3,811)
Accrued wages	3,511	(7,458)	6,147	2,200
Due to joint venture	-	(17,664)	-	(17,664)
Customer deposits	62,181	-	-	62,181
Net pension liability	32,860	(50,066)	7,460	(9,746)
Other postemployment benefits	5,332	4,052	2,767	12,151
Increase (decrease) in deferred inflows of resources				
Deferred inflows related to pensions	18,451	15,943	8,255	42,649
Net cash provided by (used for) operating activities	\$ 648,041	\$ 894,249	\$ (68,324)	\$ 1,473,966
Supplemental disclosure of noncash transactions				
Property donated to the City	\$ -	\$ 74,925	\$ -	\$ 74,925
Gain on investment in joint venture	\$ -	\$ 585,597	\$ -	\$ 585,597

See accompanying notes

City of Callaway, Florida Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Callaway, Florida (City) was incorporated in 1963. The City's original charter was enacted in 1964. The present charter was enacted in 1996. The City is a political subdivision of the State of Florida and is located in Bay County. The City occupies approximately twelve miles square on the northern shore of East Bay. It operates under a commissioner-manager form of government and provides the following services: general government, public safety (fire control, law enforcement, protective inspections and emergency and disaster relief services), highways and streets, maintenance, parks and recreation, public improvements, planning and zoning, and utility (water, sewer and solid waste) services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America applicable to governmental units and the Uniform Accounting System mandated by Chapter 218.33, Florida Statutes. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting in the United States.

Reporting Entity

As required by GAAP, this report presents the financial statements of the funds of the City (the primary government). In evaluating the City as a reporting entity, management has considered all potential component units for which the City may or may not be financially accountable and included within the City's financial statements. Management utilized criteria set forth in GASB Statement 61 for determining financial accountability of potential component units in evaluating potential component units. In accordance with GASB Statement 61, the City is financially accountable if it appoints a voting majority of the potential component unit's governing board, and it is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

As of September 30, 2017, the City had one component unit, as defined by GASB Statement 61, which has been presented in the financial statements of the primary government using the blended presentation method, and is presented as a governmental fund type with a fiscal year end of September 30. The Callaway Community Redevelopment Agency (Agency) was formed to prepare a community redevelopment plan for a designated geographic area within the City. The Agency's governing body is the same as the governing body of the City. The Agency functions as a department of the City. City management has operational and fiscal responsibility for the Agency's activities.

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Interfund services provided and used have not been eliminated. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as with accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and thus have been recognized as revenues of the current fiscal period. Sales taxes, gasoline taxes, and other intergovernmental revenues collected and held by the state at year-end on behalf of the City, are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Bay County Tax Collector bills and collects property taxes for the City in accordance with the laws of the State of Florida. Property taxes attach as an enforceable lien on property as of the date of assessment and remain in effect until discharge by payment. Taxes are payable when levied (on November 1, or as soon thereafter as the assessment roll becomes available to the Tax Collector).

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

The following is the current property tax calendar:

Lien date	January 1
Levy date	November 1
Due date	November 1
Delinquent date	April 1
Sale of tax certificates	by June 1

Discounts of 1% are granted for each month taxes are paid on or before February 28 with a maximum discount of 4% if paid by November 30.

Revenue recognition criteria for property taxes under GASB requires that property taxes expected to be collected within 60 days of the current period be accrued.

Current year ad valorem taxes, which are uncollected as of the end of the fiscal year, are generally immaterial in amount and highly susceptible to uncollectibility and, therefore, are not recorded as a receivable.

Basis of Presentation

The financial transactions of the City are recorded in individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes, as operating revenues, the portion of tap fees intended to recover the cost of connecting customers to the City's utility systems.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

GASB Statement 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. The City has used GASB Statement 34 minimum criteria for major fund determination to determine which funds are required to be reported as major funds.

The following two broad classifications are used to categorize the fund types used by the City:

Governmental Funds

Governmental funds focus on the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) and not net income. The City has the following major governmental fund:

General fund – This is the City's primary operating fund and is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Funds

Proprietary funds focus on the determination of net income, changes in net position, financial position and cash flows. The following is a description of the City's major proprietary funds:

Water fund – Accounts for the operations and activities related to the water system within the City.

Sewer fund – Accounts for the operations and activities related to the sewer system within the City.

Cash and Cash Equivalents

Each fund's cash on hand, demand deposits, and short-term investments are considered cash and cash equivalents. For purposes of these statements, all highly liquid debt instruments (including restricted assets), with a maturity of three months or less when purchased, are considered to be cash equivalents.

Deposits and Investments

Section 218.415, Florida Statutes, requires the investment of surplus public funds and prescribes the instruments in which those investments are authorized. Specifically, allowable investments include:

- The State of Florida Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in s. 163.01
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency
- Interest-bearing time deposits or savings accounts in qualified public depositories as defined in s. 280.02
- Direct obligations of the United States

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City adheres strictly to the provisions of those cited statutes, as well as with Chapter 280, Florida Statutes, which requires the City to maintain deposits only with qualified public depositories. The City maintains a cash and investment pool available for use by all funds. Earnings from such investments are allocated to the respective funds based on applicable cash participation by each fund. In addition, restricted cash accounts and money market deposit accounts are separately maintained by several City funds in accordance with bond ordinances and other contractual agreements.

Investments are stated at fair value, based on quoted market prices.

The City's cash and investment pool and certain individual funds participate in the Local Government Surplus Trust Fund - Florida PRIME, operated by Florida's State Board of Administration (SBA). The SBA is governed by Chapter 19-1 of the Florida Administrative Code (FAC). The FAC provides guidance and establishes the general operating procedures for the administration of the Local Government Surplus Trust Funds. Additionally, the Florida Auditor General performs an operational audit of activities and investments of the SBA. GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, applies to Florida PRIME. GASB Statement 31 outlines the two options for accounting and reporting for money market investment pools as either "2a-7 like" or fluctuating net asset value (NAV). GASB Statement 31 describes a "2a-7 like" pool as an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will operate in a manner consistent with Rule 2a-7 under the Investment Company Act of 1940. Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant NAV of \$1.00 per share, provided that such funds meet certain conditions. City investments with the SBA may be made or liquidated by wire on a same day basis, subject to limitations described in note 3. These funds are considered a SEC "2a-7 like" fund and are recorded at fair value.

Receivables and Payables

Interfund transactions are reflected as loans, services provided, reimbursements, or transfers. Loans between funds outstanding at the end of the fiscal year are referred to as either "due to other funds" or "due from other funds" (i.e., the current portion of interfund loans) or "advances" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances" and are not eliminated in the process of consolidation.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Services provided, deemed to be at market, or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. All proprietary fund receivables are shown net of an allowance for uncollectibles. The City's allowance estimate is based on historical collection experience and a review of the current status of accounts receivable.

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory and Prepaid Items

Inventory in governmental funds is valued at the lower of cost or net realizable value using the first in/first out (FIFO) method. A portion of the general fund balance equal to the inventory amount has been reserved in the fund financial statements to indicate that it is not available for appropriation.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids in both government-wide and fund financial statements.

Restricted Assets

Restricted assets are maintained in both the governmental and business-type activities. Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "reserve fund" account is used to report resources set aside to make up potential future deficiencies in the sinking fund account. Water meter deposits received from customers of the water and sewer system are placed in the water meter deposit trust account. This money is restricted to use as payment of the final customer bill or returned to the customer upon settlement of the final bill. Impact fees and special capital extension fees from customers are restricted in the water, sewer, and general fund for future system improvements. Additionally, stormwater fees from customers are committed in the general fund for future system improvements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, infrastructure, water and sewer distribution systems and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets costing in excess of \$1,000 with estimated useful lives in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. The amount of interest capitalized during the construction phase of capital assets of business-type activities is calculated by offsetting interest expense incurred from the date of borrowing until the completion of the project with interest earned on the invested proceeds over the same period.

Capital assets are stated at cost, except for contributed assets, which are recorded at fair value on the date received by the City. Property, plant and equipment of the primary government are depreciated/amortized using the straight-line method generally over the following estimated useful lives:

Assets	Years
Buildings	20-50
Improvements other than buildings	20-50
System infrastructure	10-50
Vehicles	5-10
Machinery and equipment	3-15
Software	5

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. The City allows a maximum of no more than 240 hours for annual leave accumulation as of December 31st of any given year. A liability for these amounts is reported in governmental fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

The City estimates that all compensated absences accrued at September 30, 2017 will be used within one year. This estimate is based on historical usage of leave being substantially equal to the balance at year end. Therefore, compensated absences are reported as current liabilities in these financial statements.

The policy of the City for accruing annual and sick leave per pay period is as follows:

Years of Employment	General Employees	Fire Department
1st Year	2 Hours	2.4 Hours
2 to 5 Year	4 Hours	4.8 Hours
5 to 10 Years	5 Hours	6.0 Hours
10 or More Years	6 Hours	7.2 Hours
 Sick Leave	 4 Hours	 4.8 Hours

Upon termination of employment with two-week notice, employees will be paid for accumulated annual leave, but accumulated sick leave is forfeited.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expenses as incurred.

The difference between the reacquisition price (new debt) and the net carrying value of the old debt creates a deferred gain/loss from advance refunding of debt. This difference is deferred and amortized as a component of interest expense using the bonds outstanding method over the shorter of the remaining life of the old debt or the life of the new debt. The deferred account is offset against the new liability.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement Systems (FRS) and Health Insurance Subsidy (HIS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by FRS. For this purpose, benefit payments (including refunds of employee contributions, if any) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Capitalization of Interest

Interest costs related to bond issues are capitalized during the construction period in the business-type activities. During the year ended September 30, 2017, the City did not have any capitalized interest.

Fund Balance

GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB Statement 54, are as follows:

Nonspendable – includes amounts that are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, deposits, prepaids, and advances to other funds.

Restricted – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed – includes fund balance amounts that can be used only for the specific purposes that are internally imposed by a formal action (Resolution) of the government's highest level of decision making authority, the City Commission. Commitments may be changed or lifted only by the City taking the same formal action (Resolution) that imposed the constraint. Contractual obligations are included to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual obligations.

Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Intent is expressed by the City Commission or a body (for example: a budget or finance committee) or official to which the City Commission has delegated the authority

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

to assign amounts to be used for specific purposes. This indicates that resources in these funds are, at a minimum, intended to be used for the purposes of that fund. The City Commission has not authorized a specific party to assign fund balance. The City Commission may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's budget.

Unassigned – includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed on fund balances. Fund balance can have different levels of restraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification with the general fund. The general fund is the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance. The City's general fund formal fund balance policy establishes a targeted minimum reserve balance in its unassigned fund balance equal to 17%, or a two-month reserve amount, of the current fiscal year operating expenditures and transfers out budgeted for the fund.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Net Position

Net position is classified in three categories. The general meaning of each is as follows:

Net investment in capital assets - represents the cost of capital assets, less accumulated depreciation reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Restricted - This category includes resources restricted by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. The government-wide statement of net position reports \$4,059,015 of restricted net position, of which \$4,059,010 is restricted by enabling legislation.

Unrestricted - indicates that portion of net position that is available for future periods.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources, as they are needed.

Reclassification

Certain reclassifications have been made to the 2016 financial statement presentation to conform to the 2017 presentation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. See note 6 and note 9 for additional information on the City's deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has one item that qualifies for reporting in this category which relates to those related to pensions. See note 6 for additional information on the City's deferred inflows of resources related to pensions.

Estimates

The preparation of financial statements in conformity with GAAP 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.

Subsequent Events

Subsequent events were evaluated through June 22, 2018, which is the date the financial statements were available to be issued.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets

Budgets are adopted on a basis consistent with GAAP. Annual appropriated budgets are adopted by ordinance for all governmental and proprietary funds. However, budgets for proprietary funds are not legally required to be reported on and are not included in these financial statements. All appropriations lapse at fiscal year end except for appropriations related to multiyear capital projects.

Florida Statutes provide that it is unlawful to make expenditures that exceed the total amount budgeted for each fund. Chapter 129, Florida Statutes, governs the manner in which the budget may be legally amended once it has been approved. Therefore, the fund level is the legal level of control for budget considerations according to Florida Statutes.

The City, based on a policy change in 2014, sets the legal level of budgetary control at the line item (account) level for each department. Only the City Commission can approve budget amendments for each department's expenditure line items. However, in the case of an emergency, the City Manager can exceed expenditures in

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

department line items and retrospectively present an amendment to the Commission. The schedule of expenditures by department budget and actual is presented in the combining and individual fund schedules section of the financial statements to demonstrate compliance with the previous City policy which required budget approvals at the total department level. The City issues a separate budgetary report to demonstrate compliance with the new policy due to the exceptionally low level at which budgetary control has been set.

If, during the fiscal year, additional revenue becomes available for appropriations in excess of those estimated in the budget, the City Commission by resolution can make supplemental appropriations for the year. During the current fiscal year, various supplemental appropriations were approved by the City Commission. Budgetary data presented in the accompanying basic financial statements in the final budgeted amounts column represents the final budgetary data. In this column, the effects of budget amendments have been applied to original budgetary data.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources that are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances outstanding at year end are reported as commitments of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. All encumbrances were closed at the end of the year. Therefore, no provision for encumbrances has been made at September 30, 2017.

NOTE 3: DEPOSITS AND INVESTMENTS

Deposit policies – The City's cash and cash equivalents (including restricted assets) include cash on hand, demand deposits, short-term highly liquid debt instruments with original maturities of three months or less from the date of acquisition, pooled investments and money market funds.

Investment policies – The types of investments, which can be made by the City, are restricted by state statutes and other contractual agreements. A description of the requirements and the types of investments allowed can be found in note 1.

Deposits

Custodial credit risk – There is a risk that in the event of failure of a depository financial institution, the government will not be able to recover their deposits. It is the City's policy to maintain its deposits only with qualified public depositories as defined in Chapter 280, Florida Statutes. The provisions of this statute allow qualified public depositories to participate in a multiple financial institution collateral pool to ensure security for public deposits. All qualified public depositories must place with or in the name of the Chief Financial Officer of the State of Florida, collateral in the amount of the average daily balance of public deposits multiplied by the average monthly balance of public deposits or 125 percent of the average daily balance of public deposits greater than capital. In the event of default by a qualified public depository, excess losses over insurance and collateral will be recovered through assessments from all qualified public depositories of the same type as the depository in default. Under this method, all City's deposits are considered fully insured. The City has no further custodial credit risk policy.

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

At September 30, 2017 the City held \$109,106 in money market funds which are considered cash equivalents for reporting purposes and are not subject to interest rate risk.

Interest rate risk – The City does not have a formal policy relating to interest rate risk.

The City has \$10,175 invested in SBA's Florida PRIME at September 30, 2017 which is stated at amortized cost. Florida PRIME's current credit rating is AAAM as rated by Standard and Poor's. The weighted average maturity (WAM) of Florida PRIME at September 30, 2017 is 51 days. The next interest rate reset dates for floating rate securities are used in the calculation of the WAM. The weighted average life (WAL) of Florida PRIME at September 30, 2017 is 80 days.

Credit risk – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. All the City's investments are excluded from the definition of custodial credit risk. The City has no investment policy regarding credit risk.

Concentrations of credit risk – The City places no limits on the amount it may invest on any one issuer. As of September 30, 2017, the City did not hold any investments that were considered to be a concentration of credit risk.

Investments are stated at amortized cost in accordance with GASB 79. Per GASB 79, if a participant has an investment in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost it should disclose the presence of any limitations or restrictions on withdrawals (such as redemption notice periods, maximum transaction amounts, and the qualifying external investment pool's authority to impose liquidity fees or redemption gates) in notes to the financial statements.

Chapter 218.409(8)(a), Florida Statutes, states, "The principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the Executive Director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the Trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The Trustees shall convene an emergency meeting as soon as practicable from the time the Executive Director has instituted such measures and review the necessity of those measures. If the Trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the Executive Director may extend the moratorium until the Trustees are able to meet to review the necessity for the moratorium. If the Trustees agree with such measures, the Trustees shall vote to continue the measures for up to an additional 15 days. The Trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the Trustees exceed 15 days."

As of September 30, 2017, there were no redemption fees, maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable, net at September 30, 2017, was as follows:

	Governmental		Business-type Activities			Total
	General	Water	Sewer	Solid Waste		
	Fund	Fund	Fund	Fund		
Accounts receivable	\$ 252,694	\$ 174,706	\$ 378,950	\$ 49,285	\$ 855,635	
Less: allowance for doubtful accounts	(168)	(1,077)	(2,337)	(304)	(3,886)	
Capital contributions, current	-	-	121,190	-	121,190	
Total accounts receivable, net	252,526	173,629	497,803	48,981	972,939	
Due from other governments	833,467	-	-	-	833,467	
Capital contributions, noncurrent	-	-	529,263	-	529,263	
Total	\$ 1,085,993	\$ 173,629	\$ 1,027,066	\$ 48,981	\$ 2,335,669	

Due from Other Governments

Amounts due from other governments in the general fund relate to the ½ cent sales tax and other intergovernmental revenue.

Capital Contributions Receivable

On December 28, 2011, the City entered into an agreement with Sandy Creek Utility Services, Inc. (Company) to purchase the water distribution and sewage collection systems of every kind and nature owned by the Company in Bay County Florida, located east of the north/south line of the Hathaway Bridge center point. The Company decommissioned its treatment plants and transferred its remaining limited distribution and collection facilities to the City as of May 1, 2012, which completed the connection to the City's system.

The City's impact fee ordinance and special capital extension fee ordinance make it unlawful for any person to connect to the City's system without first paying the impact fees or special capital extension fees. On December 6, 2012, the City was granted a final judgment to assess and collect special capital extension fees and impact fees from property owners within the Sandy Creek Assessment Area ("Improved Lot Owners"). In order to meet bond covenant requirements, that require the fee to be collected, the City issued the Utility System Capital Improvement and Extension Revenue Bonds, Series 2012, in the amount of \$735,000 to finance the fees on behalf of the Sandy Creek Subdivision. Through a special assessment, the City is assessing the property owners within the Sandy Creek assessment area approximately \$1.4 million, plus legal costs in the amount of \$105,130, less grants of \$53,729 (applied as a credit) over a ten year period ending in fiscal year 2022.

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 4: ACCOUNTS RECEIVABLE (CONTINUED)

Capital Contributions Receivable (Continued)

As of September 30, 2017, the capital contributions receivable totaled \$650,453, including \$121,190 due within one year. The outstanding receivable bears an interest rate of 5.05%, recognized over the remaining term of the receivable. The noncurrent portion is \$529,263 and is shown as other assets on the statement of net position at September 30, 2017.

NOTE 5: CAPITAL ASSETS

The following schedule summarizes the capital assets of the City's governmental activities at September 30, 2017:

	September 30, 2016	Increases	Decreases	September 30, 2017
Capital assets, not being depreciated/amortized				
Land	\$ 847,869	\$ -	\$ -	\$ 847,869
Construction in progress	35,111	220,433	(27,231)	228,313
Total capital assets, not being depreciated/amortized	882,980	220,433	(27,231)	1,076,182
Capital assets, being depreciated/amortized				
Buildings	4,085,141	91,089	-	4,176,230
Improvements other than buildings	8,777,694	1,002,522	-	9,780,216
Vehicles	1,001,852	203,448	(45,330)	1,159,970
Machinery and equipment	3,134,551	82,655	(33,351)	3,183,855
Software	102,946	-	-	102,946
Total capital assets, being depreciated/amortized	17,102,184	1,379,714	(78,681)	18,403,217
Less accumulated depreciation/amortization				
Buildings	(1,036,756)	(113,128)	-	(1,149,884)
Improvements other than buildings	(3,738,256)	(238,719)	-	(3,976,975)
Vehicles	(654,229)	(105,833)	45,330	(714,732)
Machinery and equipment	(2,735,099)	(93,565)	33,351	(2,795,313)
Software	(62,959)	(20,590)	-	(83,549)
Total accumulated depreciation/amortization	(8,227,299)	(571,835)	78,681	(8,720,453)
Capital assets, being depreciated/amortized, net	8,874,885	807,879	-	9,682,764
Total governmental activities' capital assets, net	\$ 9,757,865	\$ 1,028,312	\$ (27,231)	\$ 10,758,946

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 5: CAPITAL ASSETS (CONTINUED)

The following schedule summarizes the capital assets of the City's business-type activities at September 30, 2017:

	September 30, 2016	Increases	Decreases	September 30, 2017
Capital assets, not being depreciated				
Land	\$ 177,428	\$ 74,925	\$ -	\$ 252,353
Construction in progress	22,961	-	-	22,961
Total capital assets, not being depreciated	200,389	74,925	-	275,314
Capital assets, being depreciated				
Buildings and improvements	7,049,948	68,148	-	7,118,096
Utility systems	24,070,797	608,546	-	24,679,343
Vehicles	1,372,829	339,989	(118,659)	1,594,159
Machinery and equipment	2,160,134	78,823	(35,988)	2,202,969
Total capital assets, being depreciated	34,653,708	1,095,506	(154,647)	35,594,567
Less accumulated depreciation				
Buildings and improvements	(4,016,733)	(169,472)	-	(4,186,205)
Utility systems	(5,207,396)	(663,945)	-	(5,871,341)
Vehicles	(1,119,610)	(95,714)	118,659	(1,096,665)
Machinery and equipment	(1,239,911)	(121,827)	35,988	(1,325,750)
Total accumulated depreciation	(11,583,650)	(1,050,958)	154,647	(12,479,961)
Capital assets, being depreciated, net	23,070,058	44,548	-	23,114,606
Total business-type activities' capital assets, net	\$ 23,270,447	\$ 119,473	\$ -	\$ 23,389,920

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 5: CAPITAL ASSETS (CONTINUED)

For the year ended September 30, 2017 depreciation/amortization expense was charged to functions/programs of the primary government as follows:

Depreciation/Amortization Expense by Function

Governmental activities	
General government	\$ 76,074
Public safety	125,910
Highway and streets	161,754
Maintenance	6,811
Culture and recreation	201,286
<hr/>	
Total depreciation/amortization expense – governmental activities	\$ 571,835
<hr/>	
Business-type activities	
Water	\$ 537,843
Sewer	454,124
Solid waste	58,991
<hr/>	
Total depreciation expense – business-type activities	\$ 1,050,958
<hr/>	

Open Commitments on Construction Projects

The City has ongoing construction projects as of September 30, 2017, as referenced below. The remaining amounts expected to be expended on those projects at year end were as follows:

Project	Contract Amount	Expended to Date	Remaining Commitment
<i>Governmental Activities</i>			
Boat landing - Gore Park	\$ 281,123	\$ 172,439	\$ 108,684
<hr/>			
Total commitments	\$ 281,123	\$ 172,439	\$ 108,684
<hr/>			

NOTE 6: PENSION PLANS

Defined Benefit Plans

The City participates in two defined benefit pension plans (Plans) that are administered by the State of Florida, Department of Management Services, Division of Retirement. The plans provide retirement, disability or death benefits to retirees or their designated beneficiaries. Chapter 121, Florida Statutes, establishes the authority for benefit provisions. Changes to the law can only occur through an act of the Florida Legislature. The State of Florida issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report is available from the Florida Department of Management Services' website at www.dms.myflorida.com.

The Florida Retirement System (FRS) Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan with a Deferred Retirement Option Program (DROP) available for eligible employees. FRS was established and is administered in accordance with Chapter 121, Florida Statutes. Retirees receive a lifetime pension benefit with joint and survivor payment options. FRS membership is compulsory for employees filling regularly established positions in a state agency, county agency, state university, state college, or district school board, unless restricted from FRS membership under Sections 121.053 or 121.122, Florida Statutes, or allowed to participate in a defined contribution plan in lieu of FRS membership. Participation by cities, municipalities, special districts, charter schools and metropolitan planning organizations is optional.

The Retirees' Health Insurance Subsidy (HIS) Program is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. To be eligible to receive a HIS benefit, a retiree under a state administered retirement system must provide proof of eligible health insurance coverage, which can include Medicare.

Benefits Provided

Benefits under FRS are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement plan and/or class to which the member belonged when the service credit was earned.

Eligible retirees and beneficiaries receive a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to Section 112.363, Florida Statutes.

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 6: PENSION PLANS (CONTINUED)

Contributions

The contribution requirements of plan members and the employer are established and may be amended by the Florida Legislature. Employees are required to contribute 3% of their salary to FRS. The employer's contribution rates as of September 30, 2017, were as follows:

	October 1, 2016 Through June 30, 2017		July 1, 2017 Through September 30, 2017	
	FRS	HIS	FRS	HIS
Regular class	5.86%	1.66%	6.26%	1.66%
Senior management	20.11%	1.66%	21.05%	1.66%
Special risk employee class	20.91%	1.66%	21.61%	1.66%
Elected officials	40.81%	1.66%	43.84%	1.66%
DROP plan participants	11.33%	1.66%	11.60%	1.66%

The City's contributions for the year ended September 30, 2017, were \$232,516 to FRS and \$38,609 to HIS.

Pension Liabilities and Pension Expense

In its financial statements for the year ended September 30, 2017, the City reported a liability for its proportionate shares of the net pension liabilities. The net pension liabilities were measured as of June 30, 2017 and the total pension liabilities used to calculate the net pension liability were determined by an actuarial valuation dated July 1, 2017. The City's proportions of the net pension liabilities were based on the City's share of contributions to the pension plans relative to the contributions of all participating entities, actuarially determined.

	FRS	HIS
Net pension liability	\$ 2,811,160	\$ 891,081
Proportion at:		
Current measurement date	0.009503803%	0.008333731%
Prior measurement date	0.010144815%	0.008811107%
Pension expense (benefit)	\$ 406,008	\$ 48,552

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 6: PENSION PLANS (CONTINUED)

Deferred Outflows/Inflows of Resources Related to Pensions

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	FRS		HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 257,997	\$ 15,572	\$ -	\$ 1,855
Changes of assumptions	944,749	-	125,255	77,053
Net difference between projected and actual earnings on pension plan investments	-	69,668	494	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	77,867	187,238	47,702	92,703
Employer contributions subsequent to the measurement date	63,324	-	10,623	-
Total	\$ 1,343,937	\$ 272,478	\$ 184,074	\$ 171,611

Deferred outflows of resources related to employer contributions paid subsequent to the measurement date and prior to the employer's fiscal year end will be recognized as a reduction of the net pension liability in the reporting period ending September 30, 2018. Other pension related amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Measurement period ending June 30,	FRS		HIS	
2018	\$	119,251	\$	8,158
2019		361,082		8,065
2020		244,464		8,020
2021		60,251		4,400
2022		203,847		8,524
Thereafter		19,240		(35,327)
Total	\$	1,008,135	\$	1,840

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 6: PENSION PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability for each of the defined benefit plans, measured as of June 30, 2017, was determined by an actuarial valuation dated July 1, 2017, using the individual entry age normal actuarial cost method and the following significant actuarial assumptions:

	FRS	HIS
Inflation	2.60%	2.60%
Salary increases	3.25%	3.25%
Investment rate of return	7.10%	N/A
Discount rate	7.10%	3.58%

Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB.

For both plans, the actuarial assumptions used in the valuation dated July 1, 2017 were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The following changes in key actuarial assumptions occurred in 2017:

FRS: The long-term expected rate of return and the discount rate used to determine the total pension liability decreased from 7.6% to 7.1%.

HIS: The municipal bond index rate and the discount rate used to determine the total pension liability increased from 2.85 % to 3.58%.

The long-term expected investment rate of return was not based on historical returns, but instead was based on a forward-looking capital market economic model. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. For the FRS Pension Plan, the table below summarizes the target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class.

Asset Class	Target Allocation	Annual Arithmetic Return	Compound Annual (Geometric) Return
Cash	1%	3.0%	3.0%
Fixed income	18%	4.7%	4.6%
Global equity	53%	8.1%	6.8%
Real estate (property)	10%	6.4%	5.8%
Private equity	6%	11.5%	7.8%
Strategic investments	12%	6.1%	5.6%
	<u>100%</u>		

NOTE 6: PENSION PLANS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability for FRS was 7.1%. FRS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Because HIS is essentially funded on a pay-as-you-go basis, a municipal bond rate of 3.58% was used to determine the total pension liability for the program. The Bond Buyer General Obligation Bond 20-Bond Municipal Bond Index was used as the applicable municipal bond index.

Sensitivity Analysis

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the employer's proportionate share of the net pension liability if the discount rate was 1% higher or 1% lower than the current discount rate.

	FRS			HIS		
	Current			Current		
	1% Decrease (6.1%)	Discount Rate (7.1%)	1% Increase (8.1%)	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
City's proportionate share of the net pension liability	\$ 5,088,032	\$ 2,811,160	\$ 920,837	\$ 1,016,841	\$ 891,081	\$ 786,329

Pension Plans' Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the State's separately issued financial reports.

Defined Contribution Plan

Pursuant to Chapter 121, Florida Statutes, the Florida Legislature created the Florida Retirement Investment Plan (FRS Investment Plan), a defined contribution pension plan qualified under Section 401(a) of the Internal Revenue Code. The FRS Investment Plan is an alternative available to members of the Florida Retirement System in lieu of the defined benefit plan. There is a uniform contribution rate covering both the defined benefit and defined contribution plans, depending on membership class. Required employer contributions made to the plan during the year ended September 30, 2017, totaled \$46,123.

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 7: OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)

During the year ended September 30, 2010, the City implemented GASB Statement 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*, for certain postemployment health care benefits provided by the City.

Plan Description

The City has established the Retirees' Health Insurance Other Postemployment Benefits Plan (Plan), a single employer plan. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the City and eligible dependents, may continue to participate in the group insurance plan. Retirees and their eligible dependents shall be offered the same health and hospitalization insurance coverage as is offered to active employees at a premium cost of no more than the premium cost applicable to active employees. The City subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The City currently has 59 total active and retired employees eligible to receive these benefits. No stand alone report is issued for the plan.

Eligibility

A participant is eligible to receive benefits from the plan upon retirement under the Florida Retirement System plan provisions. To be eligible for retiree benefits, the participant must be covered under the medical plan as an active participant immediately prior to retirement. Participants not eligible for retirement at the time of their termination are not eligible for immediate or future benefits from the plan.

Funding Policy

Although the contribution requirement is established by Statute, the contribution amount required by plan members and the government are established and may be amended by the City's Commission. Currently, members receiving benefits pay the full cost (total premium) for medical coverage.

The contribution rates effective for eligible City plan members during the year ended September 30, 2017 are shown below:

Coverage	Monthly Premiums Plan 03900	Monthly Premiums Plan 05774	Monthly Premiums Plan 05772	Monthly Premiums Plan 03769
Retiree	\$ 463	\$ 581	\$ 637	\$ 719
Retiree and Spouse	1,102	1,384	1,517	1,711
Retiree and Children	852	1,070	1,173	1,323
Retiree and Family	1,444	1,814	1,989	2,243

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 7: OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) (CONTINUED)

The City has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation. Rather, the funding is provided on a pay-as-you-go basis. During the fiscal year, the City provided contributions of \$11,000 toward the annual OPEB cost. A schedule of employer contributions can be found in required supplementary information immediately following these notes.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Description		
Annual required contribution	\$	24,000
Amortization of unfunded actuarial accrued liability		24,000
Amortization of net opeb obligation		3,000
Annual required contribution		51,000
Interest on net OPEB obligation		2,000
Adjustment to annual required contribution		(3,000)
Annual OPEB cost (expense)		50,000
Contribution toward the OPEB cost		(11,000)
Increase in net OPEB obligation		39,000
Net OPEB obligation, beginning of year		38,000
Net OPEB obligation, end of year	\$	77,000

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of September 30, 2017 was as follows:

Year ending September 30,	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2015	\$ -	0%	\$ -
2016	49,000	22%	38,000
2017	50,000	22%	77,000

Funding Status and Funding Progress

The funding status and funding progress information can be found in the schedule of funding progress which is presented as required supplementary information immediately following the notes. This schedule presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

NOTE 7: OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) (CONTINUED)

Actuarial Methods and Assumptions

The City had an actuarial valuation completed for the fiscal year ended September 30, 2016 dated October 1, 2016. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, in effect at the valuation date and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially determined accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The initial OPEB actuarial valuation method used for the City was the projected unit credit method. This method is used to estimate the actuarial liabilities and costs. This method was selected because it produced the best estimate of the OPEB liability and annual cost for the City employees. The valuation rate of investment return was 4% including inflation at 2.75% per annum. The actuarial assumptions also include an annual healthcare inflation rate. For the City, this rate begins with an initial rate for the 2017 fiscal year of 8.0% grading down to 5.5% in fiscal year 2022 with an ultimate rate of 5% per annum. The unfunded actuarial accrued liability is being amortized with a level dollar method. The open amortization period used is 15 years.

NOTE 8: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation claims and natural disasters. The City purchases commercial insurance for these risks of loss. There has been no significant reduction in insurance coverage from the prior year. Commercial insurance coverage has been sufficient to cover all claims made in the prior three fiscal years.

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 9: LONG-TERM DEBT

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

	Balance September 30, 2016	Additions	Deductions	Balance September 30, 2017	Due Within One Year
Governmental activities					
Accrued compensated absences	\$ 109,617	\$ 100,905	\$ (133,210)	\$ 77,312	\$ 77,312
Total governmental activities	109,617	100,905	(133,210)	77,312	77,312
Business-type activities					
Revenue bonds payable	16,263,909	-	(73,500)	16,190,409	73,500
Plus unamortized bond issuance premium	790,586	-	(37,948)	752,638	-
Notes payable	6,535,720	-	(1,213,995)	5,321,725	1,250,241
Accrued compensated absences	44,336	34,994	(32,794)	46,536	46,536
Total business-type activities	23,634,551	34,994	(1,358,237)	22,311,308	1,370,277
Total	\$ 23,744,168	\$ 135,899	\$ (1,491,447)	\$ 22,388,620	\$ 1,447,589

Description of Long-term Debt Outstanding

	Current	Long-term	Total
Governmental activities			
Accrued Compensated Absences			
Total current portion of accumulated, vested compensated absences for governmental fund types.	\$ 77,312	\$ -	\$ 77,312
Total governmental activities	77,312	-	77,312

Business-type activities

Revenue Bonds

On December 1, 2015 the City issued \$15,910,000 Capital Improvement Revenue Refunding Bonds, Series 2015 at a premium of \$825,372. The proceeds of the issuance, along with an additional \$3,867,362 in City funds, were used to refund \$18,625,000 outstanding Capital Improvement Revenue Bonds, Series 2007.

(Continued)

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 9: LONG-TERM DEBT (CONTINUED)

	Current	Long-term	Total
<p>The funds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2007 Series Refunded Bonds. As a result, \$18,625,000 of the 2007 series bonds are considered to be defeased, and the City's liability associated with those bonds has been removed from the financial statements.</p>			
<p>The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,658,954. The difference is reported as a deferred amount on refunding. The City completed the refunding to reduce its debt service over 22 years by \$2,456,218 and obtain an economic gain of \$1,352,471.</p>			
<p>The bonds are payable solely from and secured by a lien on a pledge of (i) the Sales Tax Revenues, (ii) the Electric Public Service Tax, (iii) until applied in accordance with the provisions of the Indenture, the proceeds of the Series 2015 Bonds, and (iv) all moneys, including investments thereof, in the funds and accounts established under the Indenture, other than the Rebate Fund.</p>			
<p>Interest varies from 3% to 5%, principal payable annually on August 1, commencing August 1, 2021, interest payable semiannually on August 1 and February 1, commencing on February 1, 2016. Final maturity is on August 1, 2037.</p>			
<p>For the year ended September 30, 2017 principal and interest payments on the bonds were 26% of pledged revenues. The total principal and interest remaining to be paid on the bonds is \$24,286,044. Principal and interest paid for the current year and total pledged revenues were \$654,581 and \$2,520,480, respectively.</p>	\$	-	\$ 15,910,000
		\$ 15,910,000	\$ 15,910,000

Authorized and issued \$735,000 Utility System Capital Improvement and Extension Revenue Bonds, interest payable in semiannual installments and principal payable annually, with a final maturity on June 30, 2022. Interest accrues at an annual rate of 5.05%. This bond is secured by a pledge of the impact fees and special capital extension fees to fund the cost of capital improvements upon all properties formerly permitted and obligated to be served by Sandy Creek Utility Services, Inc.

(Continued)

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 9: LONG-TERM DEBT (CONTINUED)

	Current	Long-term	Total
The total principal and interest remaining to be paid on the bonds is \$316,077 for the year ended September 30, 2017. Principal and interest paid for the year ended September 30, 2017 and total pledged revenues were \$91,753 and \$0 respectively.	\$ 73,500	\$ 206,909	\$ 280,409
Total revenue bonds payable	73,500	16,116,909	16,190,409
Notes			
State of Florida State Revolving Loan Fund Program for the joint venture (Military Point Advanced Wastewater Treatment Facility) between Bay County, City of Callaway, City of Springfield, City of Parker, and (formerly) the Town of Cedar Grove. The funds are being used directly by the joint venture with Bay County, Florida, and the City of Callaway as joint obligors. The note payments are made directly by the joint venture. The note carries an interest rate of 2.82%. Payments of \$1,000,150 are due semiannually beginning September 1, 1999. The note is collateralized by the net revenues of the Military Point Advanced Wastewater Treatment Facility. As obligor, the City of Callaway has reported one half of the liability on these financial statements with the remaining half reported by Bay County, Florida. The City is also contingently liable for the half reported by Bay County, Florida.	858,741	438,484	1,297,225
Military Point Advanced Wastewater Treatment Facility (MPAWTF). The interest rate is 3.31% per annum. The notes are collateralized by assets and the anticipated net system revenues of the MPAWTF. The note was used to defease Series 2004 Revenue Bonds.	391,500	3,633,000	4,024,500
Total notes payable	1,250,241	4,071,484	5,321,725
Accrued compensated absences			
Total current portion of accumulated, vested compensated absences for enterprise fund types.	46,536	-	46,536
Plus unamortized bond issuance premium			
Total unamortized bond issuance premium for the Capital Improvement Revenue Refunding Bonds, Series 2015.	-	752,638	752,638
Total business-type activities	1,370,277	20,941,031	22,311,308
Government-wide total long-term debt			\$ 22,388,620

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 9: LONG-TERM DEBT (CONTINUED)

For the governmental activities, compensated absences are generally liquidated by the general fund.

Future Annual Requirements to Amortize Outstanding Long-term Debt

The annual requirements to amortize all debt outstanding except accrued and annual leave, as of September 30, 2017, are outlined in the table below.

Year ending September 30,	Business-type Activities			
	Revenue Bonds		Notes	
	Principal	Interest	Principal	Interest
2018	\$ 73,500	\$ 669,189	\$ 1,250,241	\$ 163,827
2019	73,500	665,395	842,484	126,445
2020	73,500	661,601	418,000	106,880
2021	714,909	657,807	432,000	93,044
2022	690,000	621,831	445,000	78,745
2023-2027	3,995,000	2,571,705	1,934,000	162,570
2028-2032	4,765,000	1,807,184	-	-
2033-2037	5,805,000	757,000	-	-
Total	\$ 16,190,409	\$ 8,411,712	\$ 5,321,725	\$ 731,511

NOTE 10: INTERFUND TRANSERS

The composition of interfund transfers as of September 30, 2017, is as follows:

Transfers Out	Transfers In Community			Total
	Capital Projects	Redevelopment		
	Fund	Fund		
General fund	\$ 913,002	\$ 96,043	\$	\$ 1,009,045
Total	\$ 913,002	\$ 96,043	\$	\$ 1,009,045

Transfers of \$913,002 out of the general fund to the capital projects fund represent amounts for capital outlay expenditures and the transfer of the infrastructure tax funds received during the year. Transfers of \$96,043 out of the general fund to community redevelopment represent amounts for capital outlay expenditures.

NOTE 11: JOINT VENTURE

The City of Callaway, Florida, in alliance with Bay County, Florida, the cities of Springfield and Parker, Florida and the former Town of Cedar Grove joined efforts in 1996 to supply existing and expanded wastewater treatment and disposal services. The mission of this partnership is to provide these services in an economical, efficient, and environmentally appropriate manner to their respective citizenry. This venture, known as the Military Point Advanced Wastewater Treatment Facility (MPAWTF), has constructed a 7.0 million gallons per day (MGD) advanced wastewater facility. The operations of the plant began in July 1999. Costs of the project were funded through a combination of a State of Florida revolving trust fund loans and a bond issue between Bay County and the City of Callaway, and MPAWTF.

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 11: JOINT VENTURE (CONTINUED)

MPAWTF is owned and governed by Bay County, Florida and the cities of Callaway, Parker and Springfield, Florida. The City of Callaway's capacity percentage in the joint venture is 30.545% as of September 30, 2017. One owner is selected by the others to be responsible for operating MPAWTF. The owner delegated to be the operator is Bay County, Florida. The operator of MPAWTF, in accordance with the interlocal agreement, prepares MPAWTF's annual budget, sets treatment rates, and collects funds sufficient to pay debt service; costs of operations and maintenance; renewal and replacement; and enhancements to reserves.

The results of operations and cash flows are accounted for within the financial statements of MPAWTF. The City's interest in equity is reported within the City's sewer fund. As of September 30, 2017, the City's portion of the equity of the venture was \$6,677,536. Complete financial statements for MPAWTF may be obtained from the operator at P.O. Box 2269, Panama City, Florida 32402.

As of September 30, 2017, the City owes MPAWTF \$46,228 for transferred collection systems and a segregation line. MPAWTF owes the City \$181,748 for excess funds accumulated in the repair and replacement account and reserve account. This balance has been recorded in the sewer fund as "due to joint venture" and "due from joint venture," respectively. In addition, the City is owed \$5,321,725 at September 30, 2017 from MPAWTF for the outstanding obligation of MPAWTF to the City for half of the Wastewater System Revenue Refunding Bonds, Series 2014 issued in the City's name and half of the State Revolving Fund loans also issued in the City's name. The bond proceeds were transferred to MPAWTF and used for capital expansion. The outstanding obligation of the City related to these bond and note payables, which are reported as debt in the City's sewer fund is \$5,321,725 at September 30, 2017.

Condensed financial statements for MPAWTF are as follows:

Statement of Net Position
September 30, 2017

Assets	
Current assets	\$ 9,877,347
Noncurrent assets	18,622,594
<hr/>	
Total assets	28,499,941
<hr/>	
Deferred outflows of resources	
Deferred loss on bond refunding	739,253
<hr/>	
Liabilities	
Current liabilities	3,785,408
Noncurrent liabilities	8,528,197
<hr/>	
Total liabilities	12,313,605
<hr/>	
Net position	\$ 16,925,589
<hr/> <hr/>	

City of Callaway, Florida
Notes to Basic Financial Statements

NOTE 11: JOINT VENTURE (CONTINUED)

Statement of Activities
Year Ended September 30, 2017

Operating revenues	\$	7,212,565
Operating expenses		(4,829,060)
<hr/>		
Net operating income		2,383,505
Nonoperating revenues (expenses), net		(466,360)
<hr/>		
Net income before distributions to owners		1,917,145
Distributions to owners		(622,494)
<hr/>		
Change in net position		1,294,651
<hr/>		
Net position, beginning of year		15,630,938
<hr/>		
Net position, end of year	\$	16,925,589
<hr/> <hr/>		

During the year ended September 30, 2017 the City of Callaway's investment in joint venture increased \$403,849, as follows:

City's share of net income	\$	612,749
Distribution to City		(181,748)
City's decrease in reserve requirements		(27,152)
<hr/>		
Increase in investment in joint venture	\$	403,849
<hr/> <hr/>		

NOTE 12: COMMITMENTS AND CONTINGENCIES

Law Enforcement Services

The City entered into an agreement with the Bay County Sheriff's Office in September 2017 (amended November 2017) to provide law enforcement services to the City for \$1,697,875 for the year ending September 30, 2018. This agreement includes an automatic renewal for a one year term at 105% of the fiscal year 2018 amount.

Required Supplementary Information

City of Callaway, Florida
Other Postemployment Benefit Plan Schedules
Year Ended September 30, 2017

Schedule of Funding Progress for the Retirees' Health Insurance Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Liabilities (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
October 1, 2016	\$ -	\$ 299,000	\$ 299,000	0.0%	\$ 2,654,000	11.3%
October 1, 2013	N/A	N/A	N/A	N/A	N/A	N/A
September 30, 2010	-	-	-	0.0%	-	-

Schedule of Employer Contributions for the Retirees' Health Insurance Other Postemployment Benefits Plan

Fiscal Year Ended September 30,	Actual Contribution	Annual Required Contribution	Percentage Contributed
2015	\$ -	\$ -	0%
2016	11,000	49,000	22%
2017	11,000	50,000	22%

See independent auditors' report

City of Callaway, Florida
Schedule of Proportionate Share of Net Pension Liability
– Florida Retirement System

June 30,	2017	2016	2015	2014	2013 *	2012 *	2011 *	2010 *	2009 *	2008 *
City's proportion of the net pension liability/(asset)	0.0095038%	0.0101448%	0.0094302%	0.0093242%	N/A	N/A	N/A	N/A	N/A	N/A
City's proportionate share of the net pension liability/(asset)	\$ 2,811,160	\$ 2,561,574	\$ 1,218,037	\$ 568,913	N/A	N/A	N/A	N/A	N/A	N/A
City's covered-employee payroll	2,325,831	2,245,083	2,425,141	2,286,632	N/A	N/A	N/A	N/A	N/A	N/A
City's proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	120.87%	114.10%	50.23%	24.88%	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	83.89%	84.88%	92.00%	96.09%	N/A	N/A	N/A	N/A	N/A	N/A

* Disclosures for 2008 through 2013 are N/A because comparable information is not available at this time.

See independent auditors' report

City of Callaway, Florida
Schedule of Contributions
– Florida Retirement System

Year ended June 30,	2017	2016	2014	2015	2013 *	2012 *	2011 *	2010 *	2009 *	2008 *
Contractually required contribution	\$ 232,516	\$ 207,481	\$ 229,916	\$ 204,239	N/A	N/A	N/A	N/A	N/A	N/A
Contributions in relation to the contractually required contribution	(232,516)	(207,481)	(229,916)	(204,239)	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A	N/A	N/A
City's covered-employee payroll	\$ 2,325,831	\$ 2,245,083	\$ 2,425,141	\$ 2,286,632						
Contributions as a percentage of covered-employee payroll	10.00%	9.24%	9.48%	8.93%	N/A	N/A	N/A	N/A	N/A	N/A

* Disclosures for 2008 through 2013 are N/A because comparable information is not available at this time.

See independent auditors' report

City of Callaway, Florida
Schedule of Proportionate Share of Net Pension Liability
– Health Insurance Subsidy Program

June 30,	2017	2016	2015	2014	2013 *	2012 *	2011 *	2010 *	2009 *	2008 *
City's proportion of the net pension liability/(asset)	0.00833337%	0.00881111%	0.0081078%	0.0082877%	N/A	N/A	N/A	N/A	N/A	N/A
City's proportionate share of the net pension liability/(asset)	\$ 891,081	\$ 1,026,898	\$ 826,863	\$ 774,921	N/A	N/A	N/A	N/A	N/A	N/A
City's covered-employee payroll	2,325,831	2,245,083	2,425,141	2,286,632	N/A	N/A	N/A	N/A	N/A	N/A
City's proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	38.31%	45.74%	34.10%	33.89%	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	1.64%	0.97%	0.50%	0.99%	N/A	N/A	N/A	N/A	N/A	N/A

* Disclosures for 2008 through 2013 are N/A because comparable information is not available at this time.

See independent auditors' report

City of Callaway, Florida
Schedule of Contributions
– Health Insurance Subsidy Program

Year ended June 30,	2017	2016	2015	2014	2013 *	2012 *	2011 *	2010 *	2009 *	2008 *
Contractually required contribution	\$ 38,609	\$ 37,268	\$ 30,993	\$ 28,391	N/A	N/A	N/A	N/A	N/A	N/A
Contributions in relation to the contractually required contribution	(38,609)	(37,268)	(30,993)	(28,391)	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A	N/A	N/A
City's covered-employee payroll	\$ 2,325,831	\$ 2,245,083	\$ 2,425,141	\$ 2,286,632						
Contributions as a percentage of covered-employee payroll	1.66%	1.66%	1.28%	1.24%	N/A	N/A	N/A	N/A	N/A	N/A

* Disclosures for 2008 through 2013 are N/A because comparable information is not available at this time.

See independent auditors' report

Combining and Individual Fund Schedules

City of Callaway, Florida
General Fund
Schedule of Expenditures by Department
– Budget and Actual
Year Ended September 30, 2017

General Fund	Budgeted Amounts		Actual Amounts	Variance with Final
	Original	Final		Budget-Positive (Negative)
Legislative	\$ 62,178	\$ 62,178	\$ 29,838	\$ 32,340
Executive	184,767	184,767	89,354	95,413
Financial and administrative	273,206	331,816	165,651	166,165
Legal counsel	120,000	120,000	27,749	92,251
Comprehensive planning and code enforcement	417,002	417,002	322,995	94,007
Other general governmental services	349,802	368,238	225,802	142,436
Law enforcement	1,483,600	1,557,100	1,556,809	291
Fire control	1,142,191	1,142,191	1,068,417	73,774
Highway and streets	1,422,223	1,422,223	1,278,438	143,785
Maintenance	282,343	282,343	143,051	139,292
Leisure services	854,784	854,784	779,906	74,878
Total general fund				
Expenditures by department	\$ 6,592,096	\$ 6,742,642	\$ 5,688,010	\$ 1,054,632

See independent auditors' report

City of Callaway, Florida
Nonmajor Governmental Funds
Combining Balance Sheet
September 30, 2017

	Special Revenue Fund Community Redevelopment	Capital Projects Fund	Other Governmental Funds Total
Assets			
Cash and cash equivalents	\$ 49,328	\$ 492,576	\$ 541,904
Due from other governments	-	559,399	559,399
Total assets	\$ 49,328	\$ 1,051,975	\$ 1,101,303
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 19,800	\$ 231,151	\$ 250,951
Total liabilities	19,800	231,151	250,951
Fund balances			
Restricted	29,528	820,824	850,352
Total fund balances	29,528	820,824	850,352
Total liabilities and fund balances	\$ 49,328	\$ 1,051,975	\$ 1,101,303

See independent auditors' report

City of Callaway, Florida
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Year Ended September 30, 2017

	<u>Special Revenue Fund Community Redevelopment</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds Total</u>
Revenues			
Taxes			
Property taxes	\$ 10,727	\$ -	\$ 10,727
Intergovernmental	22,842	559,399	582,241
Total revenues	33,569	559,399	592,968
Expenditures			
Current			
General government	670	-	670
Culture and recreation	-	200	200
Capital outlay	208,600	651,377	859,977
Total expenditures	209,270	651,577	860,847
Excess (deficit) of revenues over (under) expenditures	(175,701)	(92,178)	(267,879)
Other financing sources (uses)			
Transfers in	96,043	913,002	1,009,045
Total other financing sources (uses)	96,043	913,002	1,009,045
Net changes in fund balances	(79,658)	820,824	741,166
Fund balances - beginning	109,186	-	109,186
Fund balances - ending	\$ 29,528	\$ 820,824	\$ 850,352

See independent auditors' report

**City of Callaway, Florida
Community Redevelopment Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance – Budget and Actual
Year Ended September 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget-Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 10,727	\$ 10,727	\$ 10,727	\$ -
Intergovernmental	11,800	11,800	22,842	11,042
Total revenues	22,527	22,527	33,569	11,042
Expenditures				
Current				
General government	27,550	27,550	670	26,880
Capital outlay	150,000	200,000	208,600	(8,600)
Total expenditures	177,550	227,550	209,270	18,280
Excess (deficit) of revenues over (under) expenditures	(155,023)	(205,023)	(175,701)	29,322
Other financing sources (uses)				
Transfers in	46,043	96,043	96,043	-
Total other financing sources (uses)	46,043	96,043	96,043	-
Net changes in fund balance	(108,980)	(108,980)	(79,658)	29,322
Fund balance - beginning	109,186	109,186	109,186	-
Fund balance - ending	\$ 206	\$ 206	\$ 29,528	\$ 29,322

See independent auditors' report

City of Callaway, Florida
Capital Projects Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balance – Budget and Actual
Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with Final</u> <u>Budget-Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 488,421	\$ 599,342	\$ 559,399	\$ (39,943)
Total revenues	488,421	599,342	559,399	(39,943)
Expenditures				
Current				
Culture and recreation	-	-	200	(200)
Capital outlay	667,548	927,696	651,377	276,319
Total expenditures	667,548	927,696	651,577	276,119
Excess (deficit) of revenues over (under) expenditures	(179,127)	(328,354)	(92,178)	236,176
Other financing sources (uses)				
Transfers in	179,127	328,354	913,002	584,648
Total other financing sources (uses)	179,127	328,354	913,002	584,648
Net changes in fund balance	-	-	820,824	820,824
Fund balance - beginning	-	-	-	-
Fund balance - ending	\$ -	\$ -	\$ 820,824	\$ 820,824

See independent auditors' report

Compliance Section

INDEPENDENT AUDITORS' MANAGEMENT LETTER

Honorable Mayor and Members
of the City Commission
City of Callaway, Florida

Report on Financial Statements

We have audited the financial statements of the City of Callaway, Florida (City) as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated June 22, 2018.

Auditors' Responsibility

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

Other Report

We have issued our 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* and Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 22, 2018, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Tabulation of Uncorrected Audit Findings		
Current Year Finding No.	2015-16 FY Finding No.	2014-15 FY Finding No.
2017-001	2016-001	N/A
2017-002	2016-003	2015-01

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of Callaway, Florida was established under the provisions of the State of Florida (Laws of Florida, 1951, CH. 27685, Sec. 5). The City included the following component units:

The Callaway Community Redevelopment Agency is operated by the City. The Agency was created on May 8, 2007 by City Ordinance 829 pursuant to Florida Statute Section 163.387.

Financial Condition and Management

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

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

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

Annual Financial Report

Sections 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2017. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

Section 10.554(1)(i)5.d., Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Additional Matters

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

Purpose of this Letter

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

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

Certified Public Accountants
Panama City Beach, Florida
June 22, 2018

INDEPENDENT ACCOUNTANTS' REPORT

Honorable Mayor and Members
of the City Commission
City of Callaway, Florida

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

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

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

In our opinion, the City complied in all material respects with the aforementioned requirements for the year September 30, 2017.

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

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

Certified Public Accountants
Panama City Beach, Florida
June 22, 2018



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 Commission
City of Callaway, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Callaway, Florida (City) as of and for the year ended September 30, 2017, and the related notes to basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 22, 2018.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency described in the accompanying schedule of findings and responses to be a material weakness, 2017-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying schedule of findings and responses to be a significant deficiency, 2017-002.

Compliance and Other Matters

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

Management's Responses to Findings

Management of the City's responses to the findings identified in our audit are included in the accompanying schedule of findings and responses. The responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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

Certified Public Accountants
Panama City Beach, Florida
June 22, 2018

City of Callaway, Florida
Schedule of Findings and Responses
Year Ended September 30, 2017

2017-001 Segregation of Duties (Material Weakness)

Condition

The City does not have proper segregation of duties in many areas of the accounting function due to a limited number of staff and the need to cross-train staff in the event of absences.

Criteria

Authorization, custody, and record-keeping duties should be segregated to provide reasonable assurance that transactions are handled properly.

Effect

Not having proper segregation of duties increases the possibility of undetected errors or irregularities.

Cause

The City has limited staff available which leads to certain incompatible duties being performed by one person. The City has considered the costs of hiring additional staff to achieve more appropriate segregation of duties and has determined that the costs would outweigh the derived benefits at this time.

Recommendation

The City should continue to evaluate the cost versus the benefit of hiring additional staff to better segregate accounting duties. Incompatible duties should be separated as much as possible and compensating controls should be considered when it's not possible to segregate incompatible duties appropriately. In addition to other compensating controls, monthly financial activity such as journal entries, activity in significant account balances, bank reconciliations, bank statements and check images should be reviewed for reasonableness by an independent member of management with sufficient knowledge.

Management's Response

With limited staffing and the cost versus benefit issue the City continues to work on segregation of duties, as well as implementing review of processes by an independent member of management. In fiscal year 2017, the City hired a new city manager and director of finance due to vacancies and with this the responsibilities of several areas shifted to provide better segregation of duties and to improve the management and review processes. The city manager's department reviews all invoices presented for payment and receives copies of all the bank statements. A listing of all checks paid for the month is provided to the Mayor for review. Payroll has various duties assigned to human resources, accounts payable and the director of finance. With the involvement of more departments and personnel in the workflow and review processes the less likelihood of undetected errors or irregularities occurring. In addition, an improved monthly financial reporting package was implemented to provide more detail at the department and fund levels. The financial reports are presented to the commission and department heads for review monthly.

2017-002 Monthly Closing Process (Significant Deficiency)

Condition

The City's monthly closing process including preparation and review of bank reconciliations and reconciliation of other material account balances is not always been completed timely. During fiscal year 2017, progress was made in completing the month-end close process in a timely manner. However, a formal close-out process has not been implemented.

City of Callaway, Florida
Schedule of Findings and Responses
Year Ended September 30, 2017

Criteria

The City's accounting policy manual, in tandem with a properly designed system of internal controls, requires certain control activities, such as reconciliations to be accomplished timely. This allows for timely review and detection and correction of errors to ensure the accuracy of monthly reports of operating results and financial position. The City's accounting policy manual requires the production of a monthly balance sheet, revenue analysis, expense/budget comparison for the month and year to date, and bank statement reconciliations for management's and elected officials' review.

Effect

Not having essential month-end closing procedures performed timely increases the risk that misstatements will not be detected and corrected timely. Timely closing also allows the production of reports for management's and the City commission's review and use in financial decision making.

Cause

The City has experienced personnel turnover in the finance department. The finance director (previous and current) have not always been able to close the month timely until recently due to numerous factors including; volume of workload, lack of familiarity with the accounting software, and issues stemming from utility billing along with strategic initiatives of management and the City commission.

Recommendation

We recommend the development and implementation of a formal closing schedule which indicates who is responsible for performing each procedure and when each procedure should be completed. The commission should be kept abreast of the progress and, if the deadlines cannot be met on a consistent basis, the reasons identified.

Management's Response

As noted, the City has improved the month-end closing process and has implemented a formal closing checklist in fiscal year 2018. The checklist defines who is responsible for the task and states that the closing process is to be completed by the 15th of the month so the financial package can be prepared and sent to the commission prior to the meeting held on the 4th Tuesday of each month. In addition, the City improved the monthly financial reporting package to provide more detail at both the department and fund levels. The financial report presents the current approved annual budget, monthly revenues and expenditures, year to date revenues and expenditures, encumbrances and year to date budget variance.