

CITY OF CHIEFLAND,
FLORIDA

AUDIT REPORT

SEPTEMBER 30, 2007

**City of Chiefland, Florida
Audit Report
September 30, 2007**

Table of Contents

	Page
INDEPENDENT AUDITORS' REPORT.....	i
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets.....	1
Statement of Activities	2
Governmental Fund Financial Statements:	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balances.....	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	6
Proprietary Fund Financial Statements:	
Statement of Net Assets.....	7
Statement of Revenues, Expenses and Changes in Fund Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements.....	10
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	19
Notes to Required Supplementary Information	20
ADDITIONAL ELEMENTS REQUIRED BY THE RULES OF THE AUDITOR GENERAL:	
Management Letter.....	21
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.....	23
Schedule of Findings	25
Corrective Action Plan	--



Independent Auditors' Report

The Honorable Mayor and
City Commissioners
City of Chiefland, Florida

Certified Public Accountants
& Business Consultants

A Partnership Consisting of
Professional Associations

Gainesville

4010 N.W. 25th Place
P.O. Box 13494 (32604)
Gainesville, Florida 32606
Phone: (352) 372-6300
(800) 344-5034
Fax: (352) 375-1583

Palatka

906 South State Road 19
Palatka, Florida 32177
Phone: (386) 325-4561
Fax: (386) 328-1014

St. Augustine

1301 Plantation Island Dr.
Suite 205A
St. Augustine, Florida 32080
Phone: (904) 471-3445
Fax: (904) 471-3825

Website:

www.davismonk.com

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 Chiefland, Florida (the "City"), as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members:

CPAmerica International

Florida Institute of
Certified Public Accountants

American Institute of
Certified Public Accountants

Horwath International

Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Davis, York & Company". The signature is written in dark ink and is positioned above the typed name and date.

June 6, 2008
Gainesville, Florida

Management's Discussion and Analysis

This discussion and analysis of the City of Chiefland's financial performance provides an overview of the City's financial activities for the fiscal year ending September 30, 2007. Please read it in conjunction with the City's financial statements, which follow this section.

The following are various financial highlights for fiscal year 2007:

- Total ending unrestricted net assets were \$1,766,273.
- The City had total expenses for the year of \$3,658,519, compared to revenues of \$3,894,942.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This annual report contains government-wide financial statements that report on the City's activities as a whole and fund financial statements that report on the City's individual funds.

Government-wide Financial Statements

The first financial statement is the Statement of Net Assets. This statement includes all of the City's assets and liabilities using the accrual basis of accounting. Accrual accounting is similar to the accounting used by most private-sector companies. All of the current year revenues and expenditures are recorded, regardless of when cash is received or paid. Net assets – the difference between assets and liabilities – can be used to measure the City's financial position.

The second financial statement is the Statement of Activities. This statement is also shown using the accrual basis of accounting. It shows the increases and decreases in net assets during the fiscal year. Over time, the increases or decreases in net assets are useful indicators of whether the City's financial health is improving or deteriorating. However, other non-financial factors, such as road conditions or changes in the tax base, must also be considered when assessing the overall health of the City.

In these statements, the City's activities are divided as follows:

- Governmental activities – Most of the City's basic services are reported here, including administration, fire and police services, and road maintenance. Taxes and charges for services finance most of these activities.
- Business-type activities – These activities are financed in whole or in part by fees charged to external parties for goods or services. The activities of the water and sewer system and garbage services are reported as a business-type activity, along with the Industrial Park.

Fund Financial Statements

Following the government-wide financial statements are the fund financial statements. They provide more detailed information about the City's funds.

Governmental funds – The General Fund and Law Enforcement Trust Fund are the City's only governmental funds. These funds are accounted for using modified accrual accounting. Modified accrual accounting focuses on available cash and other financial assets that can readily be converted to cash. This provides a shorter-term view of the governmental fund's financial position. A reconciliation is provided with these statements, which helps to explain the difference between the fund financial statements and the government-wide financial statements.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

- Proprietary funds – The Utility Service fund and Industrial Park fund are the City's only proprietary funds. Proprietary funds are reported using the accrual basis of accounting and, accordingly, there is a correlation between the amounts reported in the fund financial statements and the amounts reported in the government-wide financial statements.

CONDENSED FINANCIAL INFORMATION

NET ASSETS

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2007	2006	2007	2006	2007
ASSETS:						
Non-Capital Assets	\$ 1,228,985	\$ 1,284,498	\$ 1,000,927	\$ 1,302,443	\$ 2,229,912	\$ 2,586,941
Capital Assets	2,509,703	2,586,035	3,832,280	3,816,989	6,341,983	6,403,024
TOTAL ASSETS	3,738,688	3,870,533	4,833,207	5,119,432	8,571,895	8,989,965
LIABILITIES:						
Current Liabilities	247,544	332,438	307,897	504,607	555,441	837,045
Long-term Liabilities	429,187	399,461	628,428	558,197	1,057,615	957,658
TOTAL LIABILITIES	676,731	731,899	936,325	1,062,804	1,613,056	1,794,703
NET ASSETS:						
Invested in Capital Assets, Net of Related Debt	1,997,799	2,083,676	3,261,276	3,335,786	5,259,075	5,419,462
Restricted	1,236	9,527	-	-	1,236	9,527
Unrestricted	1,062,922	1,045,431	635,606	720,842	1,698,528	1,766,273
TOTAL NET ASSETS	\$ 3,061,957	\$ 3,138,634	\$ 3,896,882	\$ 4,056,628	\$ 6,958,839	\$ 7,195,262

CHANGES IN NET ASSETS

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2007	2006	2007	2006	2007
PROGRAM REVENUES:						
Charges for Services	\$ 617,131	\$ 335,427	\$ 920,406	\$ 1,319,019	\$ 1,537,537	\$ 1,654,446
Capital Grants & Contributions	258,735	103,725	99,491	172,389	358,226	276,114
Operating Grants & Contributions	52,231	60,118	-	-	52,231	60,118
GENERAL REVENUES:						
Property Taxes	461,800	607,741	-	-	461,800	607,741
Other Taxes and Shared Revenues	1,140,765	1,212,103	-	-	1,140,765	1,212,103
Miscellaneous	66,437	23,269	-	-	66,437	23,269
Investment Earnings	9,016	34,903	5,644	26,248	14,660	61,151
TOTAL REVENUES	2,606,115	2,377,286	1,025,541	1,517,656	3,631,656	3,894,942
PROGRAM EXPENSES						
General Government	561,042	593,548	-	-	561,042	593,548
Public Safety	1,152,651	1,318,895	-	-	1,152,651	1,318,895
Physical Environment	330,275	5,391	-	-	330,275	5,391
Transportation	155,868	179,876	-	-	155,868	179,876
Culture and Recreation	128,337	152,034	-	-	128,337	152,034
Interest on Long-term Debt	22,745	21,686	-	-	22,745	21,686
Water and Sewer	-	-	889,148	1,367,111	889,148	1,367,111
Industrial Park	-	-	13,284	19,978	13,284	19,978
TOTAL EXPENSES	2,350,918	2,271,430	902,432	1,387,089	3,253,350	3,658,519
TRANSFERS	-	(29,179)	-	29,179	-	-
CHANGE IN NET ASSETS	255,197	76,677	123,109	159,746	378,306	236,423
BEGINNING NET ASSETS	2,806,760	3,061,957	3,773,773	3,896,882	6,580,533	6,958,839
ENDING NET ASSETS	\$ 3,061,957	\$ 3,138,634	\$ 3,896,882	\$ 4,056,628	\$ 6,958,839	\$ 7,195,262

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Governmental Activities

The governmental activities generated \$499,270 in program revenues and \$1,878,016 of general revenues, and incurred \$2,271,430 of program expenses and \$29,179 of transfers. This resulted in a \$76,677 increase in net assets.

Business-Type Activities

Revenues of the Utility Service fund and Industrial Park fund were \$1,517,656 compared to expenses of \$1,387,089. This resulted in an increase in net assets for the year of \$159,746.

THE CITY'S INDIVIDUAL FUNDS

General Fund

The General Fund's fund balance decreased by \$16,191 from \$1,113,222 to \$1,097,031.

Utility Service Fund

The Utility Service fund net assets increased by \$146,891, from \$3,682,294 to \$3,829,185. A large part of the increase was due to grants received in the amount of \$172,389.

BUDGETARY HIGHLIGHTS

The final budgeted revenues and expenditures reflect budget amendments for unanticipated revenue and grants of \$213,347.

Revenues of the General Fund were received in excess of budgeted amounts.

General Fund expenditures were below budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City purchased approximately \$168,000 of new equipment and \$112,000 of building and property improvements in the General Fund. In the Utility Service fund, the City purchased approximately \$97,000 in equipment and improvements. Construction in progress for the CDBG increased by approximately \$172,000. For all other capital asset activity during the year, please refer to a note to the accompanying financial statements entitled, *Capital Asset Activity*.

Debt Administration

The City's long-term debt was reduced by about \$94,000 during the year. Please refer to a note to the accompanying financial statements entitled *Long-term Obligations* for more detailed information about the City's long-term debt activity.

ECONOMIC FACTORS

We are not currently aware of any conditions that are expected to have a significant effect on the City's financial position or results of operations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact City Hall at 214 East Park Avenue, Chiefland, FL 32626.

City of Chiefland, Florida
Statement of Net Assets
September 30, 2007

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Equivalents	\$ 971,726	\$ 879,179	\$ 1,850,905
Investments	74,072	39,803	113,875
Accounts Receivable	63,901	107,438	171,339
Internal Balances	11,369	(11,369)	-
Due From Other Governments	163,430	117,511	280,941
Inventory	-	10,510	10,510
Prepaid Expenses	-	139,405	139,405
Capital Assets:			
Non-Depreciable	714,884	258,289	973,173
Depreciable, Net	<u>1,871,151</u>	<u>3,558,700</u>	<u>5,429,851</u>
TOTAL ASSETS	<u>3,870,533</u>	<u>5,099,466</u>	<u>8,969,999</u>
<u>LIABILITIES</u>			
Accounts Payable and Accrued Liabilities	160,390	216,352	376,742
Deposits	-	124,282	124,282
Unearned Revenue	17,550	50,061	67,611
Noncurrent Liabilities:			
Due Within One Year	154,498	93,946	248,444
Due in More Than One Year	<u>399,461</u>	<u>558,197</u>	<u>957,658</u>
TOTAL LIABILITIES	<u>731,899</u>	<u>1,042,838</u>	<u>1,774,737</u>
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	2,083,676	3,335,786	5,419,462
Restricted for Law Enforcement	9,527	-	9,527
Unrestricted	<u>1,045,431</u>	<u>720,842</u>	<u>1,766,273</u>
TOTAL NET ASSETS	<u>\$ 3,138,634</u>	<u>\$ 4,056,628</u>	<u>\$ 7,195,262</u>

See accompanying notes.

City of Chiefland, Florida
Statement of Activities
For the Year Ended September 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
GOVERNMENTAL ACTIVITIES:							
General Government	\$ 593,548	\$ 107,643	\$ -	\$ 53,820	\$ (432,085)	\$ -	\$ (432,085)
Public Safety	1,318,895	223,584	20,900	46,894	(1,027,517)	-	(1,027,517)
Physical Environment	5,391	4,200	-	-	(1,191)	-	(1,191)
Transportation	179,876	-	38,718	-	(141,158)	-	(141,158)
Culture and Recreation	152,034	-	500	3,011	(148,523)	-	(148,523)
Interest on Long-Term Debt	21,686	-	-	-	(21,686)	-	(21,686)
TOTAL GOVERNMENTAL ACTIVITIES	2,271,430	335,427	60,118	103,725	(1,772,160)	-	(1,772,160)
BUSINESS-TYPE ACTIVITIES:							
Water and Sewer	1,367,111	1,291,135	-	172,389	-	96,413	96,413
Industrial Park	19,978	27,884	-	-	-	7,906	7,906
TOTAL BUSINESS-TYPE ACTIVITIES	1,387,089	1,319,019	-	172,389	-	104,319	104,319
TOTAL	\$ 3,658,519	\$ 1,654,446	\$ 60,118	\$ 276,114	(1,772,160)	104,319	(1,667,841)
GENERAL REVENUES:							
Property Taxes					607,741	-	607,741
Shared Revenues					221,860	-	221,860
Discretionary Sales Surtaxes					166,591	-	166,591
Franchise Fees					270,267	-	270,267
Utility Taxes					415,417	-	415,417
Communications Service Tax					132,135	-	132,135
Investment Earnings					34,903	26,248	61,151
Impact Fees					5,833	-	5,833
Miscellaneous					23,269	-	23,269
Transfers					(29,179)	29,179	-
TOTAL GENERAL REVENUES AND TRANSFERS					1,848,837	55,427	1,904,264
CHANGE IN NET ASSETS					76,677	159,746	236,423
NET ASSETS - BEGINNING OF YEAR					3,061,957	3,896,862	6,958,839
NET ASSETS - END OF YEAR					\$ 3,138,634	\$ 4,056,628	\$ 7,195,262

See accompanying notes.

**City of Chiefland, Florida
Balance Sheet
Governmental Funds
September 30, 2007**

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and Equivalents	\$ 962,199	\$ 9,527	\$ 971,726
Investments	74,072	-	74,072
Accounts Receivable	63,901	-	63,901
Due From Other Funds	19,966	-	19,966
Due From Other Governments	<u>163,430</u>	<u>-</u>	<u>163,430</u>
TOTAL ASSETS	<u><u>\$ 1,283,568</u></u>	<u><u>\$ 9,527</u></u>	<u><u>\$ 1,293,095</u></u>
<u>LIABILITIES</u>			
Accounts Payable and Accrued Liabilities	\$ 160,390	\$ -	\$ 160,390
Due to Other Funds	8,597	-	8,597
Deferred Revenue	<u>17,550</u>	<u>-</u>	<u>17,550</u>
TOTAL LIABILITIES	<u>186,537</u>	<u>-</u>	<u>186,537</u>
<u>FUND BALANCES</u>			
Unreserved, Reported In:			
General Fund	1,097,031	-	1,097,031
Special Revenue Funds	<u>-</u>	<u>9,527</u>	<u>9,527</u>
TOTAL FUND BALANCES	<u>1,097,031</u>	<u>9,527</u>	<u>1,106,558</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,283,568</u></u>	<u><u>\$ 9,527</u></u>	<u><u>\$ 1,293,095</u></u>

See accompanying notes.

City of Chiefland, Florida
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
September 30, 2007

FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ 1,106,558
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the governmental funds.	
Capital Assets – Net.....	2,586,035
Long-term liabilities are not reported in the governmental funds.	
Notes Payable.....	(502,359)
Compensated Absences.....	<u>(51,600)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 3,138,634</u></u>

See accompanying notes.

City of Chiefland, Florida
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2007

	General Fund	Other Governmental Fund	Total Governmental Funds
<u>REVENUES</u>			
Taxes	\$ 1,630,868	\$ -	\$ 1,630,868
Licenses and Permits	70,297	-	70,297
Intergovernmental	294,504	-	294,504
Charges for Services	225,371	-	225,371
Fines and Forfeitures	45,241	8,152	53,393
Miscellaneous	102,714	139	102,853
	<u>2,368,995</u>	<u>8,291</u>	<u>2,377,286</u>
TOTAL REVENUES			
<u>EXPENDITURES</u>			
Current:			
General Government	670,347	-	670,347
Public Safety	1,364,095	-	1,364,095
Physical Environment	3,924	-	3,924
Transportation	176,658	-	176,658
Culture and Recreation	109,752	-	109,752
Debt Service:			
Principal Retirement	87,081	-	87,081
Interest and Fiscal Charges	21,686	-	21,686
	<u>2,433,543</u>	<u>-</u>	<u>2,433,543</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(64,548)</u>	<u>8,291</u>	<u>(56,257)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Debt Issuance	77,536	-	77,536
Transfers Out	(29,179)	-	(29,179)
	<u>48,357</u>	<u>-</u>	<u>48,357</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCES	(16,191)	8,291	(7,900)
FUND BALANCES – BEGINNING OF YEAR	<u>1,113,222</u>	<u>1,236</u>	<u>1,114,458</u>
FUND BALANCES – END OF YEAR	<u>\$ 1,097,031</u>	<u>\$ 9,527</u>	<u>\$ 1,106,558</u>

See accompanying notes.

City of Chiefland, Florida
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
Governmental Funds
For the Year Ended September 30, 2007

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS \$ (7,900)

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 over their estimated useful lives.

Acquisitions of Capital Assets.....	284,537
Current Year Depreciation Expense.....	(203,566)
Loss on Disposal of Capital Assets.....	(4,639)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment does not effect net assets of governmental activities.

Principal Payments.....	87,081
-------------------------	--------

The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

Debt Issuance.....	(77,536)
--------------------	----------

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

Compensated Absences.....	<u>(1,300)</u>
---------------------------	----------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 76,677

See accompanying notes.

City of Chiefland, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2007

	Business-type Activities		Total Enterprise Funds
	– Enterprise Funds		
	Utility Service Fund	Other Enterprise Fund	
<u>CURRENT ASSETS</u>			
Cash and Equivalents	\$ 743,458	\$ 135,721	\$ 879,179
Investments	39,803	-	39,803
Accounts Receivable	104,481	2,957	107,438
Grants Receivable	117,511	-	117,511
Due From Other Funds	8,597	-	8,597
Inventory	10,510	-	10,510
Prepaid Expenses	6,230	-	6,230
TOTAL CURRENT ASSETS	1,030,590	138,678	1,169,268
<u>NONCURRENT ASSETS</u>			
Prepaid Lease Expense	133,175	-	133,175
Capital Assets, Net	3,728,007	88,982	3,816,989
TOTAL ASSETS	4,891,772	227,660	5,119,432
<u>CURRENT LIABILITIES</u>			
Accounts Payable and Accrued Liabilities	216,352	-	216,352
Deposits	124,065	217	124,282
Due to Other Funds	19,966	-	19,966
Unearned Revenue	50,061	-	50,061
Current Portion of Long-Term Liabilities	93,946	-	93,946
TOTAL CURRENT LIABILITIES	504,390	217	504,607
NONCURRENT LIABILITIES	558,197	-	558,197
TOTAL LIABILITIES	1,062,587	217	1,062,804
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	3,246,804	88,982	3,335,786
Unrestricted	582,381	138,461	720,842
TOTAL NET ASSETS	\$ 3,829,185	\$ 227,443	\$ 4,056,628

See accompanying notes.

City of Chiefland, Florida
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2007

	Business-type Activities – Enterprise Funds		Total Enterprise Funds
	Utility Service Fund	Other Enterprise Fund	
<u>OPERATING REVENUES</u>			
User Fees	\$ 1,291,135	\$ 27,884	\$ 1,319,019
<u>OPERATING EXPENSES</u>			
Personal Services	383,058	-	383,058
Operating Expenses	664,024	11,330	675,354
Depreciation	185,664	8,648	194,312
TOTAL OPERATING EXPENSES	<u>1,232,746</u>	<u>19,978</u>	<u>1,252,724</u>
OPERATING INCOME	<u>58,389</u>	<u>7,906</u>	<u>66,295</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>			
Investment Earnings	21,299	4,949	26,248
Interest Expense	(40,392)	-	(40,392)
Loss on Abandonment of Capital Assets	(93,973)	-	(93,973)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(113,066)</u>	<u>4,949</u>	<u>(108,117)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(54,677)	12,855	(41,822)
Capital Contributions – Grants	172,389	-	172,389
Transfers In	29,179	-	29,179
CHANGE IN NET ASSETS	146,891	12,855	159,746
NET ASSETS – BEGINNING OF YEAR	<u>3,682,294</u>	<u>214,588</u>	<u>3,896,882</u>
NET ASSETS – END OF YEAR	<u>\$ 3,829,185</u>	<u>\$ 227,443</u>	<u>\$ 4,056,628</u>

See accompanying notes.

City of Chiefland, Florida
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2007

	<u>Business-type Activities</u> <u>– Enterprise Funds</u>		<u>Total</u> <u>Enterprise</u> <u>Funds</u>
	<u>Utility</u> <u>Service</u> <u>Fund</u>	<u>Other</u> <u>Enterprise</u> <u>Fund</u>	
<u>OPERATING ACTIVITIES</u>			
Receipts From Customers	\$ 1,149,558	\$ 26,752	\$ 1,176,310
Payments to Suppliers	(540,820)	(43,701)	(584,521)
Payments to Employees	(278,719)	-	(278,719)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>330,019</u>	<u>(16,949)</u>	<u>313,070</u>
<u>NONCAPITAL FINANCING ACTIVITIES</u>			
Transfers In	29,179	-	29,179
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Capital Grants	172,389	-	172,389
Acquisitions of Capital Assets	(269,529)	(3,465)	(272,994)
Principal Paid on Debt	(90,448)	-	(90,448)
Interest Paid on Debt	(40,392)	-	(40,392)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(227,980)</u>	<u>(3,465)</u>	<u>(231,445)</u>
<u>INVESTING ACTIVITIES</u>			
Interest Received	21,299	4,949	26,248
CHANGE IN CASH AND EQUIVALENTS	152,517	(15,465)	137,052
CASH AND EQUIVALENTS – BEGINNING OF YEAR	<u>590,941</u>	<u>151,186</u>	<u>742,127</u>
CASH AND EQUIVALENTS – END OF YEAR	<u>\$ 743,458</u>	<u>\$ 135,721</u>	<u>\$ 879,179</u>
OPERATING INCOME	\$ 58,389	\$ 7,906	\$ 66,295
Depreciation	185,664	8,648	194,312
Change In:			
Accounts Receivable	(28,212)	(1,132)	(29,344)
Grants Receivable	(117,511)	-	(117,511)
Due From Other Funds	(804)	(32,371)	(33,175)
Prepaid Expense	11,591	-	11,591
Inventory	3,975	-	3,975
Accounts Payable and Accrued Liabilities	187,780	-	187,780
Due To Other Funds	19,966	-	19,966
Unearned Revenue	(698)	-	(698)
Compensated Absences	4,231	-	4,231
Customer Deposits	5,648	-	5,648
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 330,019</u>	<u>\$ (16,949)</u>	<u>\$ 313,070</u>

See accompanying notes.

City of Chiefland, Florida
Notes to Financial Statements
September 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Chiefland, Florida (the "City"), was established by Section 13948, Laws of Florida, in 1929.

As required by generally accepted accounting principles, the accompanying financial statements present the City as a primary government.

Component units are entities for which the City is considered financially accountable. There are no blended or discretely presented component units included in the City's financial reporting entity.

Basis of Presentation

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting principles. The more significant of the City's accounting policies are hereafter described.

Reporting Model

Effective October 1, 2003, the City adopted GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *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 charged to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include: charges for services that are directly related to a given function; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not properly included among program revenues are reported instead as *general revenues*.

City of Chiefland, Florida
Notes to Financial Statements
September 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements, but all nonmajor funds are aggregated and displayed in a single column. The governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The City reports the following major governmental fund:

General Fund – the primary operating fund, used to account for all activities except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

Utility Service Fund – to account for the assets, operation and maintenance of the City-owned water and sewer system and garbage services.

Measurement Focus and Basis of Accounting

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

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Taxes and certain intergovernmental revenues constitute the most significant sources of revenue considered susceptible to accrual. In governmental funds, expenditures are generally recognized when the related liability is incurred. However, debt service expenditures, and expenditures for compensated absences and claims and judgments, are recorded only when payment is due.

Application of FASB Pronouncements

For its enterprise funds, the City applies all applicable GASB pronouncements. Additionally, the City applies pronouncements of the FASB and its predecessor bodies issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

City of Chiefland, Florida
Notes to Financial Statements
September 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For purpose of the Statement of Cash Flows, the City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Deposits and Investments

All deposits are placed in a bank that qualifies as a public depository, as required by law (Florida Security For Public Deposits Act). Accordingly, all deposits are insured by Federal depository insurance and/or entirely collateralized pursuant to Chapter 280, Florida Statutes.

The City only invests excess public funds in certificates of deposit with qualified public depositories, which is an authorized form of investment pursuant to the provisions of Section 218.415, Florida Statutes. Such investments are stated at cost and are entirely insured or collateralized.

Accounts Receivable

Receivables are stated at net realizable value, reduced by an allowance for uncollectable accounts, where appropriate. Accounts receivable of the Utility Service Fund are net of a \$8,100 allowance.

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

Capital Assets

Capital assets are recorded at historical cost or estimated historical cost, except for contributed assets which are recorded at fair value at the date of contribution. The City uses a capitalization threshold of \$1,000 for all classes of capital assets.

In accordance with GASB Statement No. 34, the City has elected not to report general infrastructure assets acquired prior to October 1, 2003.

Depreciation of capital assets is provided using the straight-line method over the estimated useful lives of the assets, which range as follows:

	<u>Years</u>
Buildings and improvements	30
Furniture, equipment and vehicles	5 – 15
Water and sewer system	40 – 50

City of Chiefland, Florida
Notes to Financial Statements
September 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For its business-type activities, the City's policy is to capitalize construction period interest costs on projects funded specifically through debt financing. Interest earnings are offset against construction costs for qualified projects financed with tax-exempt debt. No interest costs were capitalized during 2007.

Compensated Absences

The City's policy is to allow limited vesting of employee vacation pay and accumulated sick leave. A liability for accrued compensated absences of employees of the governmental funds has been accrued. Since this liability will not be liquidated with expendable available financial resources, the liability has not been reported in the governmental funds. A liability for compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements.

Property Taxes

The Levy County Tax Collector bills and collects property taxes for the City. In governmental funds, property tax revenues are recognized when levied, to the extent that they result in current receivables.

Details of the City's tax calendar are presented below:

Lien Date	January 1
Levy Date	October 1
Due Date	March 31

Operating Revenues and Expenses

The enterprise 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 an enterprise fund's principal ongoing operations. 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

City of Chiefland, Florida
Notes to Financial Statements
September 30, 2007

NOTE 2 – INTERFUND BALANCES AND TRANSFERS

The interfund balances resulted from the normal course of operations are expected to be repaid within one year.

At September 30, 2007, interfund balances were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 19,966	\$ 8,597
Enterprise Funds:		
Utility Service	<u>8,597</u>	<u>19,966</u>
Total	<u>\$ 28,563</u>	<u>\$ 28,563</u>

NOTE 3 – CAPITAL ASSET ACTIVITY

During the year ended September 30, 2007, the following changes in capital assets occurred:

	<u>Balance October 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2007</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 714,884	\$ -	\$ -	\$ 714,884
Capital Assets Being Depreciated:				
Land Improvements	633,282	13,355	-	646,637
Buildings and Improvements	1,054,806	100,811	-	1,155,617
Furniture and Equipment	<u>1,193,546</u>	<u>170,371</u>	<u>4,639</u>	<u>1,359,278</u>
Total Capital Assets Being Depreciated	<u>2,881,634</u>	<u>284,537</u>	<u>4,639</u>	<u>3,161,532</u>
Less Accumulated Depreciation for:				
Land Improvements	112,517	31,408	-	143,925
Buildings and Improvements	383,604	34,377	-	417,981
Furniture and Equipment	<u>590,694</u>	<u>137,781</u>	<u>-</u>	<u>728,475</u>
Total Accumulated Depreciation	<u>1,086,815</u>	<u>203,566</u>	<u>-</u>	<u>1,290,381</u>
Total Capital Assets Being Depreciated, Net	<u>1,794,819</u>	<u>80,971</u>	<u>4,639</u>	<u>1,871,151</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,509,703</u>	<u>\$ 80,971</u>	<u>\$ 4,639</u>	<u>\$ 2,586,035</u>

City of Chiefland, Florida
Notes to Financial Statements
September 30, 2007

NOTE 3 – CAPITAL ASSET ACTIVITY

	Balance October 1, <u>2006</u>	<u>Increases</u>	<u>Decreases</u>	Balance September 30, <u>2007</u>
<u>Business-type Activities</u>				
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 36,382	\$ -	\$ -	\$ 36,382
Construction in Progress	143,491	172,389	93,973	221,907
Total Capital Assets Not Being Depreciated	<u>179,873</u>	<u>172,389</u>	<u>93,973</u>	<u>258,289</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	141,771	3,465	-	145,236
Water System	2,344,204	54,962	-	2,399,166
Sewer Treatment Plant and System	3,917,085	41,111	393	3,957,803
Garbage Services	-	1,067	-	1,067
Total Capital Assets Being Depreciated	<u>6,403,060</u>	<u>100,605</u>	<u>393</u>	<u>6,503,272</u>
Less Accumulated Depreciation for:				
Building and Improvements	83,988	8,648	-	92,636
Water System	1,005,321	69,811	-	1,075,132
Sewer Treatment Plant and System	1,661,344	115,800	393	1,776,751
Garbage Services	-	53	-	53
Total Accumulated Depreciation	<u>2,750,653</u>	<u>194,312</u>	<u>393</u>	<u>2,944,572</u>
Total Capital Assets Being Depreciated, Net	<u>3,652,407</u>	<u>(93,707)</u>	<u>-</u>	<u>3,558,700</u>
Business-type Activities Capital Assets, Net	<u>\$ 3,832,280</u>	<u>\$ 78,682</u>	<u>\$ 93,973</u>	<u>\$ 3,816,989</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 27,158
Public Safety	111,666
Physical Environment	1,467
Transportation	6,283
Culture and Recreation	56,992
Total Depreciation Expense - Governmental Activities	<u>\$ 203,566</u>
Business-type Activities	
Utility Service	\$ 185,664
Industrial Park	8,648
Total Depreciation Expense - Business-type Activities	<u>\$ 194,312</u>

**City of Chiefland, Florida
Notes to Financial Statements
September 30, 2007**

NOTE 4 – LONG-TERM OBLIGATIONS

Governmental Activities

5.15% note for land; Payable \$3,247 monthly, including interest	\$ 222,583
4.50% note for fire truck; Payable \$1,755 monthly, including interest	119,559
3.75% note for vehicles; Payable \$14,230 quarterly, including interest	82,681
4.55% note for radios; Payable \$1,447 monthly, including interest	<u>77,536</u>
Total	<u>\$ 502,359</u>

Business-type Activities

5.15% Water and Sewer 2007 Consolidating Loan; Payable \$9,242 monthly, including interest.	<u>\$ 628,528</u>
---	-------------------

Aggregate maturities of long-term debt are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	114,070	21,687	80,341	30,557
2009	88,805	16,547	83,061	26,320
2010	64,273	13,118	89,038	21,860
2011	67,458	9,934	93,734	17,165
2012	69,348	6,595	98,676	12,223
2013-2017	<u>98,405</u>	<u>4,279</u>	<u>183,678</u>	<u>8,672</u>
Totals	<u>\$ 502,359</u>	<u>\$ 72,160</u>	<u>\$ 628,528</u>	<u>\$ 116,797</u>

City of Chiefland, Florida
Notes to Financial Statements
September 30, 2007

NOTE 4 – LONG-TERM OBLIGATIONS

Following is a summary of changes in long-term obligations:

<u>Governmental Activities</u>	Balance October 1, 2006	Additions	Deductions	Balance September 30, 2007	Due Within One Year
Notes Payable	\$ 511,904	\$ 77,536	\$ 87,081	\$ 502,359	\$ 114,070
Compensated Absences	50,300	97,900	96,600	51,600	40,428
Total	<u>\$ 562,204</u>	<u>\$ 175,436</u>	<u>\$ 183,681</u>	<u>\$ 553,959</u>	<u>\$ 154,498</u>

<u>Business-type Activities</u>	Balance October 1, 2006	Additions	Deductions	Balance September 30, 2007	Due Within One Year
Loan Payable	\$ 718,976	\$ -	\$ 90,448	\$ 628,528	\$ 80,341
Compensated Absences	19,384	23,751	19,520	23,615	13,605
Total	<u>\$ 738,360</u>	<u>\$ 23,751</u>	<u>\$ 109,968</u>	<u>\$ 652,143</u>	<u>\$ 93,946</u>

NOTE 5 – PENSION PLAN

Plan Description. The City contributes to the Florida Retirement System ("System"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Florida, Department of Administration, Division of Retirement. The System provides 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 System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Florida Retirement System, PO Box 9000, Tallahassee, Florida 32315, or by calling (850) 488-6491.

Funding Policy. The System is employee noncontributory. The City is required to contribute at an actuarially determined rate. The rates at September 30, 2007 were as follows: Regular Employees 9.85%; Special Risk Employees 20.92%; Senior Management 13.12%; Elected Officials 16.53%. The contribution requirements of plan members and the City are established and may be amended by the Florida Legislature. The City's contributions to the System for the years ended September 30, 2007, 2006 and 2005 were \$170,132, \$135,385 and \$117,103, respectively, equal to the required contributions for each year.

City of Chiefland, Florida
Notes to Financial Statements
September 30, 2007

NOTE 6 – RISK MANAGEMENT

The City is exposed to various risks of loss related to general liability, workers' compensation, public liability, law enforcement liability, property damage, and errors and omissions. To manage its risks, the City participates in the Florida League of Cities Self Insurance Fund (the "Fund") a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to the Fund for its coverage. The premiums are designed to fund the liability risks assumed by the Fund and are based on certain actual exposures of each member.

REQUIRED SUPPLEMENTARY INFORMATION

City of Chiefland, Florida
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual – General Fund
For the Year Ended September 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with Final</u> <u>Budget</u>
<u>REVENUES</u>				
Taxes	\$ 1,547,063	\$ 1,547,063	\$ 1,630,868	\$ 83,805
Licenses and Permits	102,500	102,500	70,297	(32,203)
Intergovernmental	234,752	313,789	294,504	(19,285)
Charges for Services	178,842	178,842	225,371	46,529
Fines and Forfeitures	88,300	88,300	45,241	(43,059)
Miscellaneous	33,466	90,240	102,714	12,474
TOTAL REVENUES	<u>2,184,923</u>	<u>2,320,734</u>	<u>2,368,995</u>	<u>48,261</u>
<u>EXPENDITURES</u>				
Current:				
General Government	630,185	684,005	670,347	13,658
Public Safety	1,203,230	1,354,324	1,364,095	(9,771)
Physical Environment	6,500	6,500	3,924	2,576
Transportation	197,427	197,427	176,658	20,769
Culture and Recreation	116,367	124,800	109,752	15,048
Debt Service:				
Principal Retirement	88,381	88,381	87,081	1,300
Interest and Fiscal Charges	20,358	20,358	21,686	(1,328)
TOTAL EXPENDITURES	<u>2,262,448</u>	<u>2,475,795</u>	<u>2,433,543</u>	<u>42,252</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(77,525)</u>	<u>(155,061)</u>	<u>(64,548)</u>	<u>90,513</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In (Out)	2,525	2,525	(29,179)	(31,704)
Debt Issuance	-	77,536	77,536	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,525</u>	<u>80,061</u>	<u>48,357</u>	<u>(31,704)</u>
NET CHANGE IN FUND BALANCES	(75,000)	(75,000)	(16,191)	58,809
FUND BALANCES – BEGINNING OF YEAR	<u>75,000</u>	<u>75,000</u>	<u>1,113,222</u>	<u>1,038,222</u>
FUND BALANCES – END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,097,031</u>	<u>\$ 1,097,031</u>

See accompanying notes.

City of Chiefland, Florida
Notes to Required Supplementary Information
For the Year Ended September 30, 2007

Budgets and Budgetary Accounting

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

1. Prior to September 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of an ordinance.
4. Budgetary control is maintained at the department level. The fund is the legal level of control.
5. Appropriations lapse at the end of the fiscal year.
6. The budget is prepared on a basis which does not differ materially from generally accepted accounting principles.

**ADDITIONAL ELEMENTS REQUIRED BY THE
RULES OF THE AUDITOR GENERAL**



Certified Public Accountants
& Business Consultants

A Partnership Consisting of
Professional Associations

Gainesville

4010 N.W. 25th Place
P.O. Box 13494 (32604)
Gainesville, Florida 32606
Phone: (352) 372-6300
(800) 344-5034
Fax: (352) 375-1583

Palatka

906 South State Road 19
Palatka, Florida 32177
Phone: (386) 325-4561
Fax: (386) 328-1014

St. Augustine

1301 Plantation Island Dr.
Suite 205A
St. Augustine, Florida 32080
Phone: (904) 471-3445
Fax: (904) 471-3825

Website:

www.davismonk.com

Members:

CPAmerica International

Florida Institute of
Certified Public Accountants

American Institute of
Certified Public Accountants

Horwath International

Management Letter

To the Honorable Mayor and
City Commissioners
City of Chiefland, Florida

We have audited the financial statements of the City of Chiefland (the "City") as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated June 6, 2008. We have also issued our report on internal control over financial reporting and on compliance and other matters. That report should be considered in conjunction with this management letter.

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. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

Prior Audit Findings

The Rules of the Auditor General require that we comment as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding audit. In that regard, prior audit finding 06-1 is repeated in the accompanying Schedule of Findings as item 07-1.

Financial Condition

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.503, Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the City has not met one or more of the conditions described in Section 218.503(1), Florida Statutes.

Also, as required by the Rules of the Auditor General, we applied financial condition assessment procedures, as of the end of the fiscal year, pursuant to Rule 10.556(8). It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The application of such procedures did not reveal evidence of "deteriorating financial condition" as that term is defined in Rule 10.554.

To the Honorable Mayor and
City Commissioners
City of Chiefland, Florida

Page Two

Annual Financial Report

As required by the Rules of the Auditor General, we determined that City's annual financial report for the fiscal year ended September 30, 2007, filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, is in substantial agreement with the audit report for the fiscal year ended September 30, 2007.

Investment of Public Funds

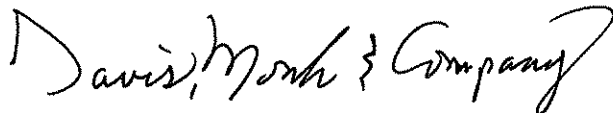
As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. Our audit did not reveal noncompliance with the provisions of Section 218.415, Florida Statutes.

Other Matters

Our audit did not reveal any other matters that we are required to include in this management letter.

This management letter is intended solely for the information and use of the Honorable Mayor and City Commissioners, management, and oversight audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of the audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.



June 6, 2008
Gainesville, Florida



Certified Public Accountants
& Business Consultants

A Partnership Consisting of
Professional Associations

Gainesville

4010 N.W. 25th Place
P.O. Box 13494 (32604)
Gainesville, Florida 32606
Phone: (352) 372-6300
(800) 344-5034
Fax: (352) 375-1583

Palatka

906 South State Road 19
Palatka, Florida 32177
Phone: (386) 325-4561
Fax: (386) 328-1014

St. Augustine

1301 Plantation Island Dr.
Suite 205A
St. Augustine, Florida 32080
Phone: (904) 471-3445
Fax: (904) 471-3825

Website:

www.davismonk.com

Members:

CPAmerica International

Florida Institute of
Certified Public Accountants

American Institute of
Certified Public Accountants

Horwath International

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters**

The Honorable Mayor and City Commissioners
City of Chiefland, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chiefland, Florida (the "City") as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings as items 07-1 through 07-3 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 07-1 to be a material weakness.

Compliance and Other Matters

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

The City's response to the findings identified in our audit is described in its accompanying corrective action plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Honorable Mayor and City Commissioners, management, and oversight audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.



June 6, 2008
Gainesville, Florida

City of Chiefland, Florida
Schedule of Findings
For the Year Ended September 30, 2007

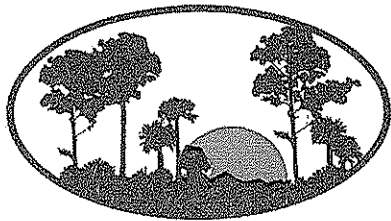
- 07-1 Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. Our audit did not reveal any significant errors or irregularities resulting from this lack of separation of employee duties and responsibilities. However, we feel it is important that you are made aware of this condition.
- 07-2 During the audit period, the City determined that an employee of the Police Department had been misappropriating certain assets for personal use. We recommend that the City's internal controls be strengthened so that such irregularities can be prevented or promptly detected in the future.
- 07-3 We noted some immaterial noncompliance with the provisions of the City's community development block grant. Internal controls should be strengthened to help ensure future compliance with the provisions of the City's grant agreements.

**Corrective Action Plan
For the Year Ended September 30, 2007
City of Chiefland, Florida**

The City Manager is responsible for the implementation of the current year corrective action plan. He may be contacted as shown below:

214 East Park Avenue
Chiefland, Florida 32626
Telephone Number: (352) 493-6711

The City's corrective actions are described on the following page.



City of Chiefland

~ The Gem of the Suwannee Valley ~

Teal Pomeroy
Mayor

Teresa Barron
Vice Mayor

Frank Buie
Commissioner

Sammy Cason
Commissioner

Rollin Hudson
Commissioner

June 16, 2008

Davis, Monk & Company
Certified Public Accountants
Post Office Box 13494
Gainesville, Florida 32604

We are providing this letter in connection with your audit of the general purpose financial statements of The City of Chiefland as of September 30, 2007, and for the year then ended for the purpose of expressing an opinion as to whether the general purpose financial statements present fairly, in all material respects, the financial position of The City of Chiefland and the results of its operations and the cash flows of its proprietary fund in conformity with generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the general purpose financial statements of financial position, results of operations, and cash flows of the proprietary fund in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of June 16, 2008, the following representations made to you during your audit.

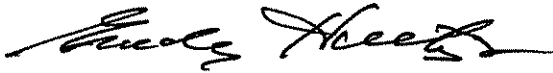
1. The financial statements referred to above are fairly presented in conformity with generally accepted accounting principles and include all properly classified funds and account groups of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all ----
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of The City Commission or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
5. We do not believe there to be any uncorrected financial statement misstatements.

6. There has been no ----
 - a. Fraud involving management or employees who have significant roles in internal control.
 - b. Fraud involving others that could have a material effect on the financial statements.
7. The City of Chiefland has no plans or intentions that may materially affect the carrying value or classifications of assets, liabilities, or fund equity.
8. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which The City of Chiefland is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
9. We are responsible for compliance with laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts.
10. There are no ----
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.
11. The City of Chiefland has satisfactory title to all owned assets, and there are no liens or encumbrances on such nor has any asset been pledged as collateral.
12. The City of Chiefland has complied with all aspects of contractual agreements that would have a material effect on the general purpose financial statements in the event of noncompliance.

June 16, 2008

Page Three

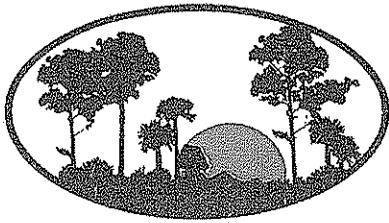
To the best of our knowledge, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.



Grady Hartzog, City Manager



Date



City of Chiefland

~ The Gem of the Suwannee Valley ~

Teal Pomeroy
Mayor

Teresa Barron
Vice Mayor

Frank Buie
Commissioner

Sammy Cason
Commissioner

Rollin Hudson
Commissioner

June 16, 2008

William O. Monroe, CPA
Auditor General
Local Government Audits/342
Room 401, Claude Pepper Building
111 W. Madison Street
Tallahassee, FL 32399-1450

RE: 2006/07 Annual Audit Report

Dear Mr. Monroe,

Davis Monk and Company, Inc. prepared an independent annual audit of the City of Chiefland financial records for fiscal year ending September 30, 2007.

The City provided all records upon request for all aspects of financial activity and I believe the audit was prepared in accordance with generally accepted auditing standards, Government Auditing Standards and Rules of the Auditor General.

Please accept my response, attached, to the three findings as a result of the review of the City's financial records for transactions that occurred during this period.

Sincerely,

Grady Hartzog
City Manager'

Attachment

**City of Chiefland Management Response
To Schedule of Findings for the Fiscal Year Ending September 30, 2007**

07-1 The City has and will continue to segregate incompatible duties, as much as possible, so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction.

07-2 Upon learning of the misappropriation of certain City assets by a Police Department employee, the City of Chiefland immediately implemented a Credit /Charge Card Policy making each department head accountable for all purchases within their departments.

07-3 The City will strengthen internal procedures and controls to ensure that the City complies with the provisions of all future grant agreements.