



CITY OF CALLAWAY, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
Fiscal Year Ended September 30, 2009



Callaway's Public Safety Building
construction completed in 2009

City of Callaway, Florida
Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2009

Prepared by: **Alice M. Bennett**
Director of Finance

Judy S. Whitis
City Manager

City of Callaway, Florida
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MAYOR

Kenneth L. Meer

COMMISSIONERS

Dennis A. DeLapp
Thomas W. Abbott
George H. Smith
Mike T. Jones

CITY MANAGER

Judy S. Whitis
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Fax (850) 871-2444

CITY CLERK

Genette R. Bernal
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FINANCE DEPARTMENT

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PUBLIC WORKS DEPARTMENT

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Fax (850) 871-2416

PLANNING/CODE ENFORCEMENT

Director Amanda J. Richard
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FIRE DEPARTMENT

Chief Jack T. McKinney
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LEISURE SERVICES DEPARTMENT

Director Tim Legare
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ARTS & CONFERENCE CENTER

Director Cobb Wynn
Phone (850) 874-0035
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March 9, 2010

Honorable Mayor and City Commission
City of Callaway
Callaway, Florida

The Comprehensive Annual Financial Report of the City of Callaway (The City) for the fiscal year ended September 30, 2009, is hereby submitted. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the enclosed data is accurate in all material aspects and is presented in a manner designed to fairly set forth the financial position and the results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

General Information

The City has prepared its financial statements to meet the requirements of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34). GASB 34 established a reporting model that the City has reported in five parts:

1. Management's Discussion and Analysis; a narrative report providing significant information about the City and how the City's financial position has changed from September 30, 2008, to September 30, 2009, and the reasons for the change;
2. Government-wide Financial Statements; statements which report on the governmental and business-type assets, liabilities, expenses, and revenues of the City;
3. Fund Financial Statements; statements which report on the major individual governmental and proprietary funds of the City;
4. Budgetary Comparisons for the City's general fund and other major governmental funds, and;
5. The notes to those financial statements.

Independent Audit

In compliance with the laws of the State of Florida, the City of Callaway was audited by independent certified public accountants. The opinion of Carr, Riggs, & Ingram, LLC may be found on page B-1 of the Financial Section of this report. The specific report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards* can be found on page D-1 of the Compliance Section.

In addition to meeting the requirements set forth in the Florida State Statutes, the audit was designed to meet the requirements of the Federal Single Audit Act of 1996 and related OMB Circular A-133. The standards governing single audit engagements require the independent auditor to audit compliance and internal control over compliance in accordance with requirements of laws, regulations, contracts, and grants applicable to federal programs. These reports are available in the compliance section beginning on page D-5.

Accounting System and Budgetary Control

The accounting records for general governmental operations are maintained on a modified accrual basis with revenue being recorded upon determination that it is both available and measurable. Expenditures for general governmental operations are recorded when the services or goods are received and the liabilities incurred. Accounting records for enterprise and internal service funds are converted to the full accrual basis of accounting at fiscal year-end for reporting purposes.

In developing and evaluating the accounting system, consideration is given to the adequacy of the internal control structure. The internal control structure is

designed to provide reasonable, but not absolute, assurance regarding; (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework.

State law requires cities and their elected officials to develop balanced budgets to provide for the operation of their offices. Details of expenditures to be made and the resources available to meet these proposed obligations must be included in the budget. Upon adoption, the budget document becomes the legal basis for carrying out the activities of the City. The City of Callaway Commission adopts budgets for all funds. Budgets are adopted on a basis consistent with generally accepted accounting principles, except as noted in the Notes to the Basic Financial Statements. Budget control is maintained by a computerized encumbrance system, which restricts budgetary amounts upon input. All appropriations are reviewed at year-end for accuracy. All encumbrances are closed at the end of the year.

The Reporting Entity and Its Services

The City of Callaway is a chartered city established under the legal authority of the Constitution and the Laws of the State of Florida. The City provides a full range of services. These include public safety (law enforcement and fire), physical environment, economic environment, highways and streets, general administrative services, culture, and recreation.

The City also operates three enterprise activities: Water, Sewer, and Solid Waste services. In addition, the City has created The Callaway Community Redevelopment Agency which provides services specifically to the community redevelopment areas of the city.

Relevant Financial Policies

The City does not have a formal policy limitation on the amount to be held in the general fund's unreserved fund balance; however, their goal is to maintain a balance equal to at least three months of general fund operating expenditures. The 2009 general fund unreserved fund balance remains over the targeted goal.

Cash Management

Residual cash held during the year was invested in non-negotiable certificates of deposit, State Pooled Investment Fund – State Board of Administration, and interest-bearing checking accounts for the majority of the fiscal year. (Utility customer deposits, however, are kept in a non-interest bearing checking account.) All investments were adequately insured by the Federal Deposit Insurance Corporation, guaranteed by the U.S. Treasury, or were collateralized in accordance with Florida law.

Risk Management

Risk Management programs within the City consist of the following programs: Workers Compensation coverage by Florida Municipal Insurance Trust, property and liability insurance, as well as public officials insurance; short-term disability and term life insurance for all full time employees. The City also subsidizes health insurance for all full time employees who elect coverage.

Retirement Plan

Employees of the City are members of the Florida Retirement System, a multi-employer defined benefit plan.

Postretirement Benefits

The City's retirees have the option of continuing to participate in the City's health insurance program upon retirement. The retiree, however, must pay 100% of the monthly insurance premium cost.

Economic Condition and Outlook

The City of Callaway is an urban community in Bay County, east of Panama City in northwest Florida. The community is situated on the northern shores of East Bay and is separated from the Gulf of Mexico by East Bay and a peninsula occupied by Tyndall Air Force Base.

Tyndall Air Force Base is a major contributor to Callaway's economy, with a large percentage of the residents being associated with this military installation or being retired personnel. Unlike less fortunate areas in Florida, Tyndall Air Force Base has been spared from closing. Tyndall Air Force Base has secured its

position in this area as a primary training facility for the F-22 fighter aircraft. Providing homes for Tyndall employees, both military and civilian, has been a major factor in sustaining our population and that of surrounding communities. However, due to the impending drawdown of the F-15 aircraft and their support, Tyndall may experience the loss of as many as 250 service personnel.

In addition to the major economic contribution from the military, many have chosen the City of Callaway as their home, even though they may work in another area. As a bedroom community, demand for services continues to add to the economic base of the City such as shopping centers, banks, fast-food chains, restaurants, retail outlets, retirement facilities and a nursing home facility.

Major Initiatives

For the Year- The City of Callaway is continuing to develop an 80 acre parcel into a recreational complex for the citizens of Callaway. In addition to the bonds issued in 1998 and 2003, the City has applied for and received various community development grants to help offset the cost of the complex. The City has completed baseball and softball fields, a concession stand with a full service kitchen, bleachers, roadways, batting cages, soccer and football fields, and walking paths. This year, the City received grants totaling \$217,500 with 25% matching funds from the Florida Department of Environmental Protection for lighting, a restroom building, pavilion, exercise stations, restroom/concession stand, and a walking trail. Construction of all of these improvements was completed this year.

The City's Arts and Conference Center provides space which can be used for an outdoor agriculture/farmers market, a large auditorium, a commission meeting room, a multi-purpose room, a catering kitchen, an office and storage areas. Events held at the new center include weddings, political campaign events, school dances, reunions, wedding receptions, holiday parties, banquets, business meetings and seminars. The Arts and Conference Center continues to be a popular gathering place for citizens of Callaway and surrounding cities, as well.

The City has continued with the planned implementation of an automatic meter reading (AMR) system. This technology uses cell phone towers to "call in" the readings for an hourly and daily readout of accounts on which it has been installed. Approximately 11% of the City's meters have been converted to this system and more are scheduled for conversion in Fiscal Year 2010.

During Fiscal Year 2004, the City of Callaway Commission voted to enact a City ad valorem tax in the amount of 2 mills beginning Fiscal Year 2005. The tax is collected via the Bay County Property Appraiser's Office and is distributed to the

City monthly. In September of 2008, the Commission voted to increase the millage rate to 2.25 for the 2009 fiscal year.

During the Fiscal Year 2006, the City was approved for a U. S. Department of Agriculture low interest loan in the amount of \$2,000,000 with a \$100,000 grant to fund a new Public Safety Building to house our law enforcement and fire department. Construction of this building was completed this year and the dedication ceremony is scheduled for October, 2009.

For the Future- A new international airport is scheduled to open next year in our (Bay) county. The airport, which will be the first greenfield airport to open since September 11, 2001, has received national attention. This new facility along with its planned surrounding development is projected to serve as an economic catalyst for our entire region. The potential for residential and commercial development in Callaway continues and, hopefully, will be re-ignited with the opening of this new airport.

Unemployment in our area remains below both the state and national averages.

The City has also undertaken a major eight million dollar expansion of the utility infrastructure to improve services to existing utility users and also to provide services to newly developed areas. Construction is nearing completion on a five million gallon ground storage tank, which should be on line within the next 12 months.

In fiscal year 2007, the City formed the Callaway Community Redevelopment Agency to implement an approved plan for redevelopment improvements within a specific area. A trust fund was established by the City for, and on behalf of, the Community Redevelopment Agency. Each year, the incremental increase in ad valorem taxes levied by all taxing authorities within the redevelopment area will be paid into the trust fund to be disbursed for improvements which were designated in the approved plan for redevelopment in the defined area.

Reporting Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Callaway for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2008. This was the 16th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

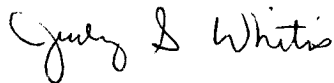
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated services of the entire staff of the City Hall, the Department Heads of the City, and full cooperation and consultation of the firm of Carr, Riggs & Ingram LLC.

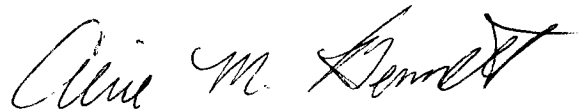
In closing, without the leadership, support and policies provided by the City Commission in conducting the financial operations of the City in a sound and progressive manner, preparation of this report would not have been possible.

Sincerely,



Judy S. Whitis,
City Manager

Sincerely,



Alice M. Bennett, CPA, CPFIM
Director of Finance

**Certificate of Achievement
for Excellence in
Financial Reporting**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Callaway, Florida for its comprehensive annual financial report for the fiscal year ended September 30, 2008.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Callaway
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke.

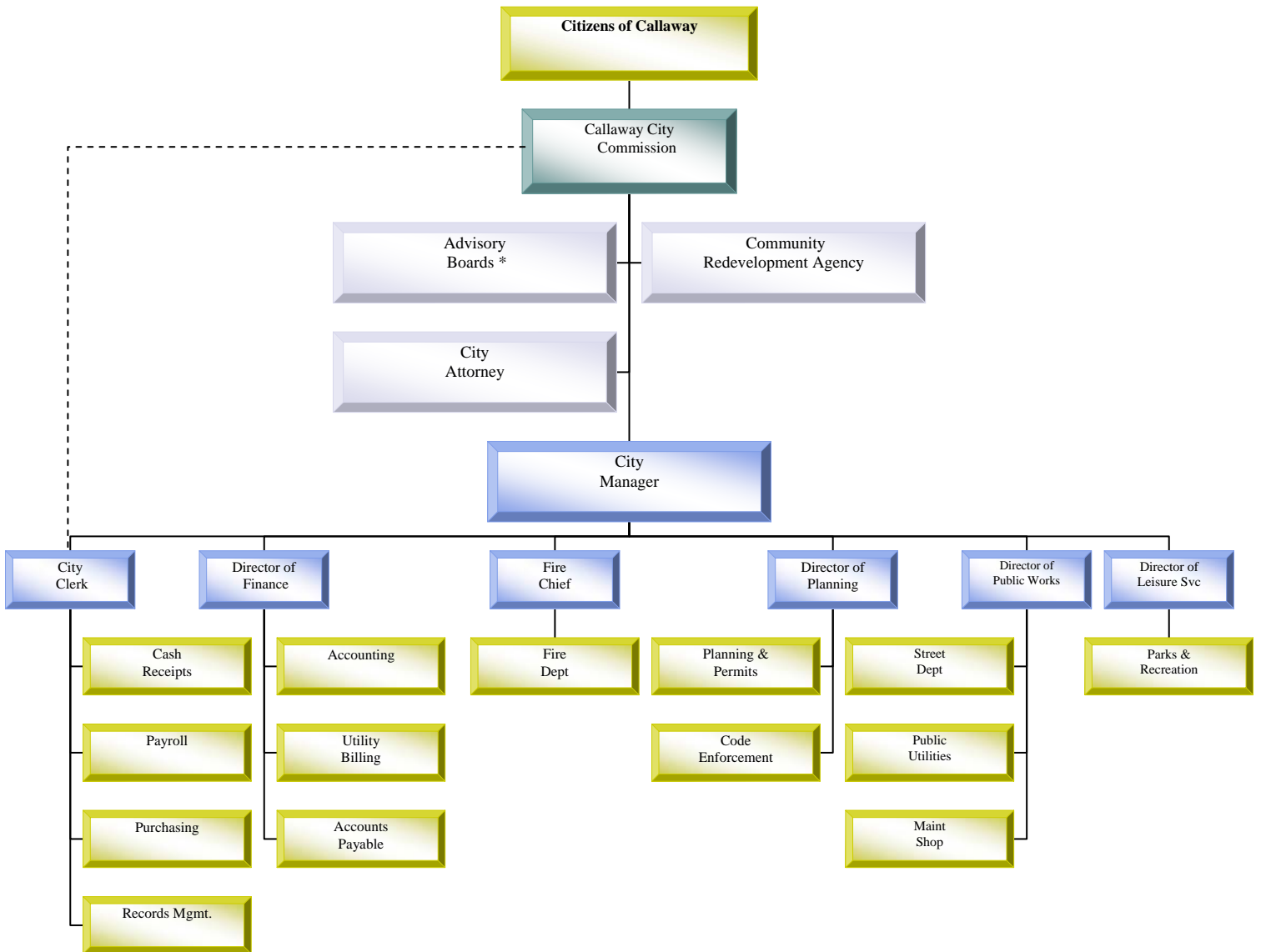
President

A handwritten signature in black ink that reads "Jeffrey R. Emer".

Executive Director



City's Organizational Chart



* Advisory Boards consist of Planning, Adjustments, & Municipal Code Enforcement

PRINCIPAL OFFICIALS OF THE CITY

CITY COMMISSION

Kenneth L. Meer, Mayor

Dennis A. DeLapp
Commissioner, Ward I

Thomas W. Abbott
Commissioner, Ward II

George H. Smith
Commissioner, Ward III

Mike T. Jones
Commissioner, Ward IV

CITY MANAGER

Judy S. Whitis

DEPARTMENT HEADS

Genette R. Bernal, City Clerk

Jack McKinney, Fire Chief

John H. Adams Jr., Director of Public Works

Alice M. Bennett, CPA, CPFIM, Director of Finance

Amanda Richard, Director of Planning

Tim Legare, Director of Leisure Services

CITY ATTORNEY

Michael B. Duncan
Harrison, Sale, McCloy,
Thompson & Duncan, Chartered

INDEPENDENT CERTIFIED

PUBLIC ACCOUNTANTS
Carr, Riggs & Ingram, LLC



The City of Callaway is an urban community in Bay County east of Panama City, in the Panhandle region of Northwest Florida. This community is separated from the Gulf of Mexico by East Bay and Tyndall Air Force Base.

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Callaway, Florida (the City), as of and for the year ended September 30, 2009, 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 of Callaway, Florida, as of September 30, 2009, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and the blended community redevelopment fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2010 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.

The management's discussion and analysis and budgetary comparison information on pages B-3 through B-9 and B-51 through B-52, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Carri Riggs & Ingram, L.L.C.

Panama City Beach, Florida
March 9, 2010

Management's Discussion and Analysis

Management's discussion and analysis provides an overview of the City's financial activities. The analysis provides summary financial information for the City and should be read in conjunction with the City's financial statements.

Financial Highlights

- Total assets of the City exceeded total liabilities by \$28,311,163 (net assets). Of this amount, \$2,159,396 is unrestricted net assets for Governmental Activities and \$4,990,045 is unrestricted net assets for Business-type Activities, while \$ 98,312 is restricted net assets for Governmental Activities and \$4,663,285 is restricted net assets for Business-type Activities.
- Total net assets increased by \$1,098,529. Of this amount, \$284,124 is attributable to Governmental Activities and \$814,405 is attributable to Business-type Activities.
- As of September 30, 2009, the general fund's unreserved fund balance was \$1,805,163 or 33% of total general fund expenditures.
- Governmental Activities revenues increased to \$6,158,017 or 2.9%, while Governmental Activities expenditures increased .1% to \$6,058,893. Business-type Activities revenues decreased to \$7,053,048 or 5.1%, while Business-type Activities expenses decreased 6.9% to \$6,053,643.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) *Government-wide financial statements*, 2) *Fund financial statements*, and 3) *Notes to basic financial statements*. The *government-wide financial statements* present an overall picture of the City's financial position and results of operations. The *fund financial statements* present financial information for the City's major funds. The *notes to basic financial statements* provide additional information concerning the City's finances that are not otherwise disclosed in the government-wide or fund financial statements.

Government-wide Financial Statements

The *government-wide financial statements* include the *statement of net assets* and *statement of activities*. These statements are designed to provide readers with an overview of the City's financial position, in a manner similar to that of private-sector companies. Emphasis is placed on the net assets of governmental activities and business-type activities, as well as the change in net assets. Governmental activities are primarily supported by gross receipts taxes, utility taxes, franchise fees, and state shared revenues, while business-type activities are supported by charges to the users of activities, such as water, sewer and solid waste charges.

The *statement of net assets* presents information on all assets and liabilities of the City, with the difference between the two reported as *net assets*. Assets, liabilities and net assets are reported separately for governmental activities and business-type activities. Increases or decreases in net assets over time may serve as a useful indicator of the City's improving or declining financial position.

The *statement of activities* presents information on all revenues and expenditures of the City and the change in net assets for the fiscal year. All changes in net assets 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 expenditures are reported in the statement of activities for some items that will

only result in cash flows in future fiscal periods (e.g., uncollected fees and earned, but unused vacation and sick leave).

Expenditures are reported by major function, along with program revenues relating to those functions, providing the net cost of all functions provided by the City. In order to better understand the City's operations, governmental activities expenditures include among others, general government services, public safety, highways and streets, and culture and recreation. Business-type activities expenses, which are financed by user fees and charges, include water, sewer and solid waste services.

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

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes or objectives. Individual funds have been established by the City to account for revenues that are restricted to certain uses, or to comply with legal requirements. The two major categories of funds found in the City's *fund financial statements* include: governmental funds and proprietary funds.

Fund financial statements provide financial information for the City's major funds and more detailed information about the City's activities. Governmental fund financial statements provide information on the *current* assets and liabilities of the funds, changes in *current* financial resources (revenues and expenditures), and *current* available resources. The proprietary funds financial statements provide information on all assets and liabilities of the funds, changes in the economic resources (revenues and expenses), and total economic resources.

The *government-wide financial statements* and the *fund financial statements* provide different presentations of the City's financial position. Categorized by governmental activities and business-type activities, the government-wide financial statements provide an overall picture of the City's financial standing. These statements, which are comparable to private-sector companies, provide a good understanding of the City's overall financial health and present the means used to pay for various activities, or functions provided by the City. All assets of the City, including buildings, land, and infrastructure are reported in the statement of net assets, as well as all liabilities, including outstanding principal on bonds, capital leases, and future employee benefits obligated but not yet paid by the City. The statement of activities includes depreciation on all long lived assets of the City, but all transactions between different functions of the City have been eliminated to avoid doubling up the revenues and expenses. The *fund financial statements* provide a presentation of the City's major funds, along with a column for all non-major funds. In the case of governmental activities, outlays for long lived assets are reported as expenditures and long-term liabilities, such as revenue bonds, are not included in the fund financial statements. To facilitate a comparison between the *fund financial statements* and the *government-wide financial statements*, a reconciliation is provided.

Notes to basic financial statements provide additional detail concerning the financial activities and financial balances of the City. Additional information about the accounting practices of the City, investments of the City, and long-term debt are just a few of the items included in the notes to basic financial statements.

Financial Analysis of the City

The following schedule provides a summary of the assets, liabilities and net assets of the City for the fiscal years ending September 30, 2009 and 2008. The City is able to report positive balances

in all three categories of net assets, for the government as a whole, and for its governmental and business-type activities.

September 30,	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,882,201	\$ 4,352,542	\$38,528,781	\$43,041,486	\$41,410,982	\$47,394,028
Capital assets	9,251,449	7,940,865	21,542,865	13,816,705	30,794,314	21,757,570
Total assets	12,133,650	12,293,407	60,071,646	56,858,191	72,205,296	69,151,598
Current liabilities	839,364	1,164,277	3,659,729	2,529,235	4,499,093	3,693,512
Noncurrent liabilities	3,215,735	3,334,703	36,179,305	34,910,749	39,395,040	38,245,452
Total liabilities	4,055,099	4,498,980	39,839,034	37,439,984	43,894,133	41,938,964
Net assets invested in capital assets, net of related debt	5,820,843	5,004,857	10,579,282	12,676,120	16,400,125	17,680,977
Net assets – restricted	98,312	-	4,663,285	4,352,690	4,761,597	4,352,690
Net assets – unrestricted	2,159,396	2,789,570	4,990,045	2,389,397	7,149,441	5,178,967
Total net assets	\$ 8,078,551	\$ 7,794,427	\$20,232,612	\$19,418,207	\$28,311,163	\$27,212,634

Investment in capital assets (e.g., land, buildings, and equipment), net of any related outstanding debt used to acquire those assets, represents 58% of the City's net assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. It should be noted, that although the City's investment in its capital assets is reported net of related debt, 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 *restricted net assets*, representing 17% of the City's net assets, are subject to external restrictions, and thus are limited as to how they may be used. The remaining balance of net assets is *unrestricted net assets* (\$7,149,441), which may be used to help meet the government's ongoing obligations to citizens and creditors.

Governmental activities liabilities decreased primarily due to payments on debt.

Business-type activities liabilities increased slightly due to debt issued for utility expansion projects.

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

Changes in Net Assets

Year ended September 30,	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Program revenues						
Charges for services	\$ 255,142	\$ 236,318	\$ 6,984,980	\$ 6,802,544	\$ 7,240,122	\$ 7,038,862
Capital grants/contributions	339,622	22,556	-	-	339,622	22,556
General revenues						
Gross receipts taxes	3,157,105	3,224,134	-	-	3,157,105	3,224,134
Utility taxes/franchise fees	2,295,801	2,192,923	-	-	2,295,801	2,192,923
Other	110,347	310,199	68,068	623,463	178,415	933,662
Total revenues	6,158,017	5,986,130	7,053,048	7,426,007	13,211,065	13,412,137
Expenses						
General government	1,428,755	1,510,725	-	-	1,428,755	1,510,725
Public safety	2,252,925	2,092,076	-	-	2,252,925	2,092,076
Highways and streets	1,131,209	1,217,346	-	-	1,131,209	1,217,346
Maintenance	164,932	172,458	-	-	164,932	172,458
Culture/recreation	935,027	943,321	-	-	935,027	943,321
Interest on long-term debt	146,045	118,029	-	-	146,045	118,029
Water	-	-	2,137,414	2,560,264	2,137,414	2,560,264
Sewer	-	-	3,514,294	3,458,947	3,514,294	3,458,947
Solid waste	-	-	401,935	477,296	401,935	477,296
Total expenses	6,058,893	6,053,955	6,053,643	6,496,507	12,112,536	12,550,462
Transfers	185,000	185,000	(185,000)	(185,000)	-	-
Increase in net assets	284,124	117,175	814,405	744,500	1,098,529	861,675
Net assets – beginning, as previously reported	7,794,427	7,677,252	19,418,207	18,223,581	27,212,634	25,900,833
Prior period adjustment	-	-	-	450,126	-	450,126
Net assets – Beginning, as Restated	7,794,427	7,677,252	19,418,207	18,673,707	27,212,634	26,350,959
Net assets – ending	\$ 8,078,551	\$ 7,794,427	\$20,232,612	\$19,418,207	\$28,311,163	\$27,212,634

Governmental activities revenues and transfers exceeded expenses by \$284,124, while business-type activities revenues exceeded expenses and transfers by \$814,405. Total revenues decreased \$201,072 from the previous year. Revenues decreased as a result of several factors, but primarily from decreases in interest earnings as bond proceeds were spent on utility expansions. Total

expenses decreased \$ 437,926 from the previous year primarily resulting from decreased non-capitalized interest charges.

89% of the revenues for governmental activities were generated by taxes and franchise fees (including inter-governmental). Most of the governmental resources expended were for public safety (38%), general government (24%), and highways and streets (19%) activities.

Charges for services provided 99% of the revenues for business-type activities.

The sewer fund consumed 58% of business-type activities expenses.

Financial Analysis of the City's Funds

Governmental Funds

General Fund

The main operating fund of the City is the General Fund. As of September 30, 2009, total assets were \$2,373,365 and total liabilities were \$295,510. At the end of fiscal year 2009, unreserved fund balance of the general fund was \$1,805,163, while total fund balance equaled \$2,077,855. Impact Fees and Transportation Mitigation Fees were \$105,872 less than anticipated and expenditures for the General Fund were less than anticipated in the amount by \$287,583 primarily in the Street Department and Parks and Recreation.

Community Redevelopment Fund

This fund was established by the City to be used as the operating fund of the Callaway Redevelopment Agency. As of September 30, 2009, total assets of the Community Redevelopment Fund were \$271,772 and total liabilities were \$12,243. Ad valorem taxes recorded as revenues in this fund were \$115,106.

Capital Projects Fund

The capital projects fund is used by the City to account for construction costs of major projects.

Debt Service Fund

The debt service fund is used by the City to account for principal and interest payments on general fund debt.

Proprietary Funds

The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in greater detail. All proprietary funds are reported as major funds.

Unrestricted net assets of proprietary funds at the years ended September 30, 2009 and 2008 were:

Fund	2009	2008
Water	\$ (1,466,372)	\$ (2,999,162)
Sewer	6,004,635	5,106,587
Solid waste	451,782	281,972
Total	\$ 4,990,045	\$ 2,389,397

The *Proprietary Funds* are used to account for the operations of the City's utility systems. Refer to the statement of net assets – proprietary funds and the statement of revenues, expenses, and changes in net assets – proprietary funds for specific numerical data.

Capital Assets Activity

The following schedule provides a summary of the City's capital assets activity. The City's total investment in capital assets for both its governmental and business-type activities as of September 30, 2009, was \$30,794,314 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress.

Major capital asset events during the current fiscal year included the following:

- Utility system expansions and improvements in progress.
- Completed construction of the City's Public Safety Building.
- Purchase and/or construction of various improvements to the City's parks and recreational facilities.

Capital Assets (net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 846,594	\$ 846,594	\$ 154,433	\$ 154,433	\$ 1,001,027	\$ 1,001,027
Buildings and improvements	7,956,764	5,042,635	155,825	166,418	8,112,589	5,209,053
Utility system	-	-	9,805,540	10,082,503	9,805,540	10,082,503
Machinery and equipment	419,247	553,372	497,928	674,839	917,175	1,228,211
Construction in progress	28,844	1,498,264	10,929,139	2,738,512	10,957,983	4,236,776
Total	\$ 9,251,449	\$ 7,940,865	\$21,542,865	\$13,816,705	\$30,794,314	\$21,757,570

Additional information on the City's capital assets can be found in Note 6 – Capital Assets, of the notes to the basic financial statements.

Debt Management

At the end of the current fiscal year, the City had total outstanding debt in the amount of \$40,187,837. This debt amount represents notes payable, revenue bond payable, and capital leases secured by specified revenue sources and equipment. In October 2008, the City incurred debt related to the issuance of a bond in the amount of \$2,415,246. Proceeds from this bond issue are being used to fund construction of utility expansion projects. In addition, upon completion of construction of the City's public safety building in July 2009, the City refinanced a short-term bond anticipation note with long-term Capital Improvement Revenue Bonds in the amount of \$2,000,000 issued to USDA.

Outstanding Debt

Year ended September 30,	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Capital leases	\$ -	\$ -	\$ 34,444	\$ 67,193	\$ 34,444	\$ 67,193
Notes payable	406,837	2,444,500	7,365,463	8,032,756	7,772,300	10,477,256
Revenue bonds payable	3,023,769	1,143,150	29,357,324	27,238,437	32,381,093	28,381,587
Total	\$ 3,430,606	\$ 3,587,650	\$ 36,757,231	\$ 35,338,386	\$ 40,187,837	\$ 38,926,036

Principal repayments during the year for governmental activities were \$2,157,044 and for business-type activities was \$996,401. Revenue bonds payable in the business-type activities includes an unamortized bond premium in the amount of \$88,506.

More detail on the City's liabilities is presented in notes 7, 8 and 9 of the notes to basic financial statements.

Economic Factors and Next Year's Budget and Rates

Like most regions of the country, the City has experienced a slow down in new construction and redevelopment. Despite the economic downturn, long-term demographic trends continue to make the area attractive. The unemployment rate in our area continues to remain below both the state and national averages.

The City is continuing with major additions and enhancements to its utility systems which were financed by bonds issued in recent years. Projects are underway and nearing completion in our water department for additional water mains and a new ground storage tank with a booster pump system. The sewer department is adding additional force mains and a new lift station.

A new international airport is under construction in our county and is scheduled to open in May of 2010. Development projects surrounding the airport are already being planned. This new airport and surrounding projects, along with the military sector and beautiful beaches in Bay County all contribute to a higher profile for our region and growth development therein.

As part of the regular budget monitoring process, the finance department prepares a monthly financial report that the City Manager and City Commission can use to follow the actual performance of revenue and expenditure estimates. In addition, quarterly analysis of the budget estimates versus the actual results is presented for monitoring compliance with the approved budget. When necessary, the City Commission passes amended budget resolutions.

The City also levied an ad valorem tax for the fiscal year beginning October 1, 2009. The millage rate will be 2.25 mills on a final gross taxable value of \$543,362,686 as certified by the Bay County Property Appraiser.

This report was prepared by management of the City. Questions concerning 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.

City of Callaway, Florida
Statement of Net Assets
September 30, 2009

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 2,091,538	\$ 2,419,094	\$ 4,510,632
Investments	5,934	-	5,934
Accounts receivable, net	197,342	549,068	746,410
Taxes receivable	16,901	-	16,901
Note receivable-joint venture	-	946,249	946,249
Other receivables	1,335	1,823	3,158
Grant receivable	100,000	-	100,000
Internal balances	14,000	(14,000)	-
Due from other governments	158,859	-	158,859
Due from joint venture	-	177,480	177,480
Inventory	45,912	-	45,912
Prepaid expenses	128,468	4,174	132,642
Unamortized bond issue costs	2,400	46,774	49,174
Restricted assets			
Cash and cash equivalents	98,312	2,124,952	2,223,264
Investments	-	13,846,458	13,846,458
Total current assets	2,861,001	20,102,072	22,963,073
Noncurrent assets			
Note receivable-joint venture	-	12,866,714	12,866,714
Unamortized bond issue costs	21,200	1,228,795	1,249,995
Investment in joint venture	-	4,331,200	4,331,200
Capital assets (not being depreciated)	875,438	11,083,572	11,959,010
Capital assets (being depreciated, net)	8,376,011	10,459,293	18,835,304
Total noncurrent assets	9,272,649	39,969,574	49,242,223
Total assets	\$ 12,133,650	\$ 60,071,646	\$ 72,205,296

(Continued)

City of Callaway, Florida
Statement of Net Assets (Continued)
September 30, 2009

Primary Government			
	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 365,909	\$ 2,099,793	\$ 2,465,702
Accrued payroll liabilities	134,808	60,288	195,096
Accrued interest	21,690	191,600	213,290
Deferred revenues	10,500	-	10,500
Due to other governments	-	2,433	2,433
Due to joint venture	-	173,726	173,726
Retainages payable	10,000	-	10,000
Notes payable	39,030	686,249	725,279
Capital leases	-	34,444	34,444
Bonds payable, net	175,841	349,833	525,674
Accrued compensated absences	81,586	61,363	142,949
Total current liabilities	839,364	3,659,729	4,499,093
Noncurrent liabilities			
Customer deposits	-	492,600	492,600
Notes payable	367,807	6,679,214	7,047,021
Bonds payable, net	2,847,928	29,007,491	31,855,419
Total noncurrent liabilities	3,215,735	36,179,305	39,395,040
Total liabilities	4,055,099	39,839,034	43,894,133
Net assets			
Invested in capital assets, net of related debt	5,820,843	10,579,282	16,400,125
Restricted for debt service/bond covenants	10,990	1,940,904	1,951,894
Restricted for other	87,322	2,722,381	2,809,703
Unrestricted	2,159,396	4,990,045	7,149,441
Total net assets	\$ 8,078,551	\$ 20,232,612	\$ 28,311,163

City of Callaway, Florida
Statement of Activities
Year Ended September 30, 2009

	Program Revenues			Net (Expenses) Revenues and Change in Net Assets		
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions / Programs						
Governmental activities						
General government	\$ 1,428,755	\$ 114,710	\$ -	\$ (1,314,045)	\$ -	\$ (1,314,045)
Public safety	2,252,925	93,416	100,000	(2,059,509)	-	(2,059,509)
Highways and streets	1,131,209	12,813	-	(1,118,396)	-	(1,118,396)
Maintenance	164,932	-	-	(164,932)	-	(164,932)
Parks and recreation	935,027	34,203	239,622	(661,202)	-	(661,202)
Interest on long-term debt	146,045	-	-	(146,045)	-	(146,045)
Total governmental activities	6,058,893	255,142	339,622	(5,464,129)	-	(5,464,129)
Business-type activities						
Water	2,137,414	2,210,074	-	-	72,660	72,660
Sewer	3,514,294	4,221,710	-	-	707,416	707,416
Solid waste	401,935	553,196	-	-	151,261	151,261
Total business-type activities	6,053,643	6,984,980	-	-	931,337	931,337
Total primary government	\$ 12,112,536	\$ 7,240,122	\$ 339,622	(5,464,129)	931,337	(4,532,792)
General revenues						
Utility taxes				1,012,041	-	1,012,041
Ad valorem				1,348,637	-	1,348,637
Franchise fees				813,069	-	813,069
Sales tax				371,406	-	371,406
Alcoholic beverage tax				5,703	-	5,703
Communication services tax				470,691	-	470,691
Local option gas tax				252,604	-	252,604
Half cent sales tax				1,000,953	-	1,000,953
Motor fuel tax				156,222	-	156,222
Business license tax				21,580	-	21,580
Miscellaneous revenues				46,883	14,922	61,805
Interest earnings				65,294	186,808	252,102
Net decrease in the fair value of investments				(1,830)	(133,662)	(135,492)
Transfers				185,000	(185,000)	-
Total general revenues, interest and transfers				5,748,253	(116,932)	5,631,321
Change in net assets				284,124	814,405	1,098,529
Net assets - beginning				7,794,427	19,418,207	27,212,634
Net assets - ending				\$ 8,078,551	\$ 20,232,612	\$ 28,311,163

City of Callaway, Florida
Balance Sheet
Governmental Funds
September 30, 2009

	General	Capital Projects	Community Redevelopment	Debt Service	Total
Assets					
Cash and cash equivalents	\$ 1,704,328	\$ 213,750	\$ 271,772	\$ -	\$ 2,189,850
Investments	5,934	-	-	-	5,934
Accounts receivable (net of allowance for doubtful accounts)	197,342	-	-	-	197,342
Taxes receivable	16,901	-	-	-	16,901
Other receivables	1,335	-	-	-	1,335
Grant receivable	100,000	-	-	-	100,000
Due from other funds	14,286	-	-	-	14,286
Due from other governments	158,859	-	-	-	158,859
Inventory	45,912	-	-	-	45,912
Prepaid items	128,468	-	-	-	128,468
Total assets	\$ 2,373,365	\$ 213,750	\$ 271,772	\$ -	2,858,887
Liabilities and fund balance					
Liabilities					
Accounts payable	\$ 150,202	\$ 203,750	\$ 11,957	\$ -	365,909
Accrued payroll liabilities	134,808	-	-	-	134,808
Due to other funds	-	-	286	-	286
Retainage payable	-	10,000	-	-	10,000
Deferred revenues	10,500	-	-	-	10,500
Total liabilities	295,510	213,750	12,243	-	521,503
Fund balances					
Reserved for					
Prepaid items	128,468	-	-	-	128,468
Inventory	45,912	-	-	-	45,912
Community redevelopment	-	-	259,529	-	259,529
Debt service/bond covenants	10,990	-	-	-	10,990
Other	87,322	-	-	-	87,322
Unreserved	1,805,163	-	-	-	1,805,163
Total fund balances	2,077,855	-	259,529	-	2,337,384
Total liabilities and fund balances	\$ 2,373,365	\$ 213,750	\$ 271,772	\$ -	-
Amounts reported for governmental activities in the statement of net assets are different because					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 9,251,449					
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. (3,510,282)					
Net assets of governmental activities					\$ 8,078,551

City of Callaway, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2009

	General	Capital Projects	Community Redevelopment	Debt Service	Total
Revenues					
Taxes					
Utility	\$ 1,482,732	\$ -	\$ -	\$ -	\$ 1,482,732
Ad valorem	1,233,531	-	115,106	-	1,348,637
Franchise fees	813,069	-	-	-	813,069
Local option gas tax	252,604	-	-	-	252,604
Business license tax	21,580	-	-	-	21,580
Intergovernmental	1,536,182	-	-	-	1,536,182
Charges for services	151,012	-	-	-	151,012
Licenses and permits	69,035	-	-	-	69,035
Fines and forfeitures	8,686	-	-	-	8,686
Rents	34,203	-	-	-	34,203
Interest	64,473	-	821	-	65,294
State grants	217,500	-	-	-	217,500
Federal grants	100,000	-	-	-	100,000
Park contributions	22,122	-	-	-	22,122
Net increase (decrease) in the fair value of investments	(1,830)	-	-	-	(1,830)
Other fees and miscellaneous	40,474	-	-	-	40,474
Total revenues	6,045,373	-	115,927	-	6,161,300
Expenditures					
Current					
General government	1,273,039	-	126,778	-	1,399,817
Public safety	2,199,048	-	-	-	2,199,048
Highways and streets	1,069,251	-	-	-	1,069,251
Maintenance	155,518	-	-	-	155,518
Parks and recreation	726,742	-	-	-	726,742
Debt service					
Principal	-	-	-	2,157,044	2,157,044
Interest and fiscal charges	-	-	-	178,481	178,481
Capital outlay					
General government	31,705	-	7,838	-	39,543
Public safety	6,682	1,235,372	-	-	1,242,054
Highways and streets	16,973	-	-	-	16,973
Maintenance	12,146	-	-	-	12,146
Parks and recreation	78,905	299,455	-	-	378,360
Total expenditures	5,570,009	1,534,827	134,616	2,335,525	9,574,977
Excess (deficit) of revenues over (under) expenditures	475,364	(1,534,827)	(18,689)	(2,335,525)	(3,413,677)
Other financing sources (uses)					
Transfers from other funds	185,000	381,791	68,110	2,335,525	2,970,426
Transfer to capital projects fund	(381,791)	-	-	-	(381,791)
Transfer to community redevelopment fund	(68,110)	-	-	-	(68,110)
Transfer to debt service fund	(2,335,525)	-	-	-	(2,335,525)
Proceeds from issuance of bonds	2,000,000	-	-	-	2,000,000
Total other financing sources (uses)	(600,426)	381,791	68,110	2,335,525	2,185,000
Net change in fund balance	(125,062)	(1,153,036)	49,421	-	(1,228,677)
Fund balance - beginning	2,202,917	1,153,036	210,108	-	3,566,061
Fund balance - ending	\$ 2,077,855	\$ -	\$ 259,529	\$ -	\$ 2,337,384

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, 2009

Amounts reported for governmental activities in the statement of activities (page B-12) are different because:

Net change in fund balances - total governmental funds (page B-14)	\$ (1,228,677)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.	1,313,868
The net effect of various transactions involving capital assets (i.e. sales, trade-ins, adjustments, and donations) is to decrease net assets.	(3,284)
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.	21,173
The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of the issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	181,044
Change in net assets of governmental activities (page B-12)	\$ 284,124

City of Callaway, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual
General Fund
Year Ended September 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues				
Taxes				
Utility	\$ 1,541,326	\$ 1,521,105	\$ 1,482,732	\$ (38,373)
Ad valorem	1,227,716	1,225,500	1,233,531	8,031
Franchise fees	760,000	780,750	813,069	32,319
Local option gas tax	238,409	232,201	252,604	20,403
Business license tax	22,000	20,450	21,580	1,130
Intergovernmental	1,619,250	1,502,887	1,536,182	33,295
Charges for services	278,411	238,901	151,012	(87,889)
Licenses and permits	75,900	59,345	69,035	9,690
Fines and forfeitures	16,250	8,150	8,686	536
Rents	34,800	41,740	34,203	(7,537)
Interest	120,000	80,600	64,473	(16,127)
State grants	217,500	217,500	217,500	-
Federal grants	-	100,000	100,000	-
Park contributions	21,600	22,500	22,122	(378)
Net increase (decrease) in the fair value of investments	-	-	(1,830)	(1,830)
Other fees and miscellaneous	11,610	30,148	40,474	10,326
Total revenues	6,184,772	6,081,777	6,045,373	(36,404)
Expenditures				
Current				
General government				
Legislative	84,326	82,286	80,645	1,641
Administration	229,817	229,614	220,355	9,259
Finance	27,484	26,848	23,866	2,982
Legal	145,000	191,118	162,410	28,708
Planning and code enforcement	523,646	507,582	469,432	38,150
General government	537,430	397,005	348,036	48,969
Total general government	1,547,703	1,434,453	1,304,744	129,709
Public safety				
Police	1,177,004	1,177,004	1,177,005	(1)
Fire	1,032,626	1,031,110	1,028,725	2,385
Total public safety	2,209,630	2,208,114	2,205,730	2,384
Highways and streets	1,219,916	1,161,717	1,086,224	75,493
Maintenance	180,533	175,673	167,664	8,009
Parks and recreation	830,897	877,635	805,647	71,988
Total expenditures	5,988,679	5,857,592	5,570,009	287,583
Excess of revenues over expenditures	196,093	224,185	475,364	251,179

See accompanying notes
B-16

(Continued)

City of Callaway, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual
General Fund (Continued)
Year Ended September 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
Other financing sources (uses)				
Transfer from water fund	\$ 50,000	\$ 50,000	\$ 50,000	\$ -
Transfer from sewer fund	135,000	135,000	135,000	-
Transfer to capital projects fund	(339,334)	(392,831)	(381,791)	11,040
Transfer to debt service fund	(323,419)	(2,392,419)	(2,335,525)	56,894
Transfer to community redevelopment fund	(71,770)	(68,528)	(68,110)	418
Proceeds from issuance of bond	-	2,000,000	2,000,000	-
Proceeds from sale of surplus property	1,500	-	-	-
Total other financing sources (uses)	(548,023)	(668,778)	(600,426)	68,352
Net change in fund balance	(351,930)	(444,593)	(125,062)	319,531
Fund balance - beginning	1,758,121	2,202,917	2,202,917	-
Fund balance - ending	\$ 1,406,191	\$ 1,758,324	\$ 2,077,855	\$ 319,531

City of Callaway, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual
Community Redevelopment Fund
Year Ended September 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
Revenues				
Ad valorem taxes	\$ 116,427	\$ 115,811	\$ 115,106	\$ (705)
Interest	6,000	1,000	821	(179)
Total revenues	122,427	116,811	115,927	(884)
Expenditures				
Current				
General government	283,700	241,300	126,778	114,522
Capital outlay				
General government	-	146,500	7,838	138,662
Total expenditures	283,700	387,800	134,616	114,522
Excess (deficit) of revenues over (under) expenditures	(161,273)	(270,989)	(18,689)	113,638
Other financing sources (uses)				
Transfer from general fund	71,770	68,528	68,110	(418)
Total other financing sources (uses)	71,770	68,528	68,110	(418)
Net change in fund balance	(89,503)	(202,461)	49,421	113,220
Fund balance - beginning	235,000	210,108	210,108	-
Fund balance - ending	\$ 145,497	\$ 7,647	\$ 259,529	\$ 113,220

City of Callaway, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2009

Business-type Activities / Enterprise Funds				
	Water	Sewer	Solid Waste	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 1,069,925	\$ 924,214	\$ 424,955	\$ 2,419,094
Accounts receivable (net of allowance for doubtful accounts)	178,264	323,288	47,516	549,068
Note receivable-joint venture	-	946,249	-	946,249
Other receivables	1,823	-	-	1,823
Prepaid expenses	4,174	-	-	4,174
Due from joint venture	-	177,480	-	177,480
Interfund balances	-	1,323,634	-	1,323,634
Unamortized bond issue costs, current	24,690	22,084	-	46,774
Restricted assets				
Cash-deposits escrow	492,710	-	-	492,710
Cash-impact fees	38,093	1,594,149	-	1,632,242
Investments	5,844,217	8,002,241	-	13,846,458
Total current assets	7,653,896	13,313,339	472,471	21,439,706
Noncurrent assets				
Note receivable-joint venture	-	12,866,714	-	12,866,714
Unamortized bond issue costs	636,160	592,635	-	1,228,795
Investment in joint venture	-	4,331,200	-	4,331,200
Capital assets				
Property, plant and equipment	15,642,112	11,459,295	726,677	27,828,084
Less accumulated depreciation	(2,271,998)	(3,346,459)	(666,762)	(6,285,219)
Total noncurrent assets	14,006,274	25,903,385	59,915	39,969,574
Total assets	\$ 21,660,170	\$ 39,216,724	\$ 532,386	\$ 61,409,280

(Continued)

City of Callaway, Florida
Statement of Net Assets
Proprietary Funds (Continued)
September 30, 2009

Business-type Activities / Enterprise Funds

	Water	Sewer	Solid Waste	Total
Liabilities				
Current liabilities				
Accounts payable	\$ 708,721	\$ 1,387,505	\$ 3,567	\$ 2,099,793
Accrued payroll liabilities	26,070	27,615	6,603	60,288
Accrued interest	106,743	83,749	1,108	191,600
Due to other governments	2,433	-	-	2,433
Due to joint venture	-	173,726	-	173,726
Interfund balances	1,337,634	-	-	1,337,634
Notes payable	-	686,249	-	686,249
Capital leases payable	-	-	34,444	34,444
Bonds payable	65,333	284,500	-	349,833
Accrued compensated absences	16,162	35,790	9,411	61,363
Total current liabilities	2,263,096	2,679,134	55,133	4,997,363
Noncurrent liabilities				
Customer deposits	492,600	-	-	492,600
Notes payable	-	6,679,214	-	6,679,214
Bonds payable	12,855,179	16,152,312	-	29,007,491
Total noncurrent liabilities	13,347,779	22,831,526	-	36,179,305
Total liabilities	15,610,875	25,510,660	55,133	41,176,668
Net assets				
Invested in capital assets, net of related debt	6,475,274	4,078,537	25,471	10,579,282
Restricted for debt service/bond covenants	1,002,300	938,604	-	1,940,904
Restricted for impact fees	38,093	2,684,288	-	2,722,381
Unrestricted	(1,466,372)	6,004,635	451,782	4,990,045
Total net assets	\$ 6,049,295	\$ 13,706,064	\$ 477,253	\$ 20,232,612

City of Callaway, Florida
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2009

Business-type Activities / Enterprise Funds				
	Water	Sewer	Solid Waste	Total
Operating revenues				
Charges for services				
Water, sewer, and solid waste sales	\$ 2,084,558	\$ 3,499,247	\$ 536,906	\$ 6,120,711
Connection, reset and reactivation fees	20,590	17,984	-	38,574
Late fees	49,658	86,666	12,924	149,248
Tap fees	2,760	2,950	-	5,710
Other utility income	14,679	-	3,366	18,045
Miscellaneous income	7,949	1,373	5,600	14,922
Impact fees	37,829	47,122	-	84,951
Total operating revenues	2,218,023	3,655,342	558,796	6,432,161
Operating expenses				
Personal services	688,863	798,608	219,462	1,706,933
Amortization	24,690	22,084	-	46,774
Communication services	4,221	2,866	424	7,511
Contractual services	23,405	6,112	1,838	31,355
Depreciation	243,384	300,760	43,023	587,167
Fuel and lubricants	21,419	14,888	30,442	66,749
Heat, light and power	5,960	56,100	-	62,060
Insurance	17,844	13,656	8,820	40,320
Miscellaneous	25,583	23,350	989	49,922
Office supplies	6,802	3,662	60	10,524
Operating supplies	10,904	7,257	120	18,281
Printing and binding	8,582	7,156	3,467	19,205
Professional services	15,911	15,115	6,450	37,476
Public utility services	866,690	2,073,622	-	2,940,312
Rentals	2,887	2,629	-	5,516
Repairs and maintenance	76,180	87,816	17,812	181,808
Road materials and supplies	21,344	22,770	-	44,114
Tipping fees	-	-	55,706	55,706
Transportation	14,308	12,518	5,899	32,725
Travel and per diem	5,988	3,848	-	9,836
Uncollectible accounts	15,448	18,914	2,837	37,199
Total operating expenses	2,100,413	3,493,731	397,349	5,991,493
Net operating income	117,610	161,611	161,447	440,668
Nonoperating revenues (expenses)				
Interest income-impact fees	264	59,304	-	59,568
Interest income-other	62,507	61,308	3,425	127,240
Interest charges	(37,001)	(20,178)	(4,586)	(61,765)
Gain (loss) on disposition of capital assets	-	(385)	-	(385)
Net increase (decrease) in the fair value of investments	(40,995)	(92,667)	-	(133,662)
Income from joint venture	-	567,741	-	567,741
Total nonoperating revenues (expenses)	(15,225)	575,123	(1,161)	558,737
Transfers out	(50,000)	(135,000)	-	(185,000)
Change in net assets	52,385	601,734	160,286	814,405
Net assets - beginning	5,996,910	13,104,330	316,967	19,418,207
Net assets - ending	\$ 6,049,295	\$ 13,706,064	\$ 477,253	\$ 20,232,612

City of Callaway, Florida
Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2009

Business-type Activities / Enterprise Funds				
	Water	Sewer	Solid Waste	Total
Operating activities				
Receipts from customers and users	\$ 2,184,622	\$ 3,643,117	\$ 556,320	\$ 6,384,059
Payments to suppliers	(700,162)	(779,381)	(219,833)	(1,699,376)
Payments to employees	(1,107,505)	(1,387,567)	(142,038)	(2,637,110)
Net cash provided by operating activities	376,955	1,476,169	194,449	2,047,573
Noncapital financing activities				
Transfer to other funds	(50,000)	(135,000)	-	(185,000)
Net cash (used by) noncapital financing activities	(50,000)	(135,000)	-	(185,000)
Capital and related financing activities				
Proceeds from issuance of bonds	2,415,246	-	-	2,415,246
Principal paid on long term debt	(28,928)	-	-	(28,928)
Payments for bond issue cost	(14,000)	-	-	(14,000)
Interest paid on long term debt	(612,552)	(502,545)	(4,586)	(1,119,683)
Principal payments on capital leases	-	-	(32,749)	(32,749)
Purchase of capital assets	(4,068,564)	(3,182,992)	(750)	(7,252,306)
Net cash (used by) capital and related financing activities	(2,308,798)	(3,685,537)	(38,085)	(6,032,420)
Investing activities				
Purchase of investments	(45,666)	(87,346)	-	(133,012)
Proceeds from sale of investments	2,921,297	2,151,217	-	5,072,514
Distributions from joint venture	-	193,745	-	193,745
Interest received	62,771	120,612	3,425	186,808
Net cash provided by investing activities	2,938,402	2,378,228	3,425	5,320,055
Net change in cash and cash equivalents	956,559	33,860	159,789	1,150,208
Cash and cash equivalents - beginning	644,169	2,484,503	265,166	3,393,838
Cash and cash equivalents - ending	\$ 1,600,728	\$ 2,518,363	\$ 424,955	\$ 4,544,046
Classified as				
Current assets - cash and cash equivalents	\$ 1,069,925	\$ 924,214	\$ 424,955	\$ 2,419,094
Restricted assets - cash and cash equivalents	530,803	1,594,149	-	2,124,952
Total cash and cash equivalents	\$ 1,600,728	\$ 2,518,363	\$ 424,955	\$ 4,544,046

(Continued)

City of Callaway, Florida
Statement of Cash Flows
Proprietary Funds (Continued)
Year Ended September 30, 2009

Business-type Activities / Enterprise Funds				
	Water	Sewer	Solid Waste	Total
Reconciliation of net operating income to net cash provided by operating activities				
Net operating income	\$ 117,610	\$ 161,611	\$ 161,447	\$ 440,668
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	243,384	300,760	43,023	587,167
Amortization of bond costs	24,690	22,084	-	46,774
(Increase) decrease in assets				
Accounts receivable	(744)	(12,225)	(2,476)	(15,445)
Other receivables	(352)	-	-	(352)
Prepaid expense	(914)	-	-	(914)
Increase (decrease) in liabilities				
Accounts payable	26,377	984,712	(7,174)	1,003,915
Accrued expenses	(3,202)	8,061	(601)	4,258
Accrued compensated absences	(11,097)	11,166	230	299
Customer deposits	(32,305)	-	-	(32,305)
Due to other funds	14,000	-	-	14,000
Due to other governments	(492)	-	-	(492)
Total adjustments	259,345	1,314,558	33,002	1,606,905
Net cash provided by operating activities	\$ 376,955	\$ 1,476,169	\$ 194,449	\$ 2,047,573
Noncash investing, capital and noncapital financing activities				
Reduction in note receivable - joint venture	\$ -	\$ (919,793)	\$ -	\$ (919,793)
Reduction in notes payable	\$ -	\$ 667,293	\$ -	\$ 667,293
Reduction in bonds payable	\$ -	\$ 252,500	\$ -	\$ 252,500

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Callaway (the City) have been prepared in conformity with United States generally accepted accounting principles as applied to governmental units promulgated by the Governmental Accounting Standards Board (GASB).

This summary of the City's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies are considered essential and should be read in conjunction with the accompanying financial statements.

Reporting Entity

The City of Callaway, established pursuant to Chapter 67-1190, Laws of Florida, is a political subdivision of the State of Florida and is located in Bay County. The City occupies approximately twelve square miles on the northern shore of East Bay. It operates under a Commissioner/Manager form of government and provides the following services as authorized by its charter: general government, public safety, highways and streets, maintenance, parks and recreation, public improvements, planning and zoning, and utility services.

Component Unit – The Callaway Community Redevelopment Agency

This report includes financial statements of the funds required to account for those financial activities which are related to the City and are controlled by or dependent upon the City's legislative body, the City Commission. The City has one component unit, the Callaway Community Redevelopment Agency, as defined by GASB Statement No. 14, *The Financial Reporting Entity* and in publications cited in the State of Florida, Office of the Auditor General Rules, Rule 10.553, which is required to be blended in these financial statements. A component unit is an entity for which the City is considered to be financially accountable and is included in the City's reporting entity because of the significance of its operational or financial relationships with the City. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

The Callaway Community Redevelopment Agency (Agency) is operated by the City. The Agency was created on May 8, 2007 by City Ordinance 829 pursuant to Florida Statute 163.356. All of the City's council members serve as board members of the Agency. The Agency is presented as a governmental fund type with a fiscal year end of September 30.

Due to the nature and significance of the Agency's relationship with the City, exclusion of the Agency's financial operations would render the City's financial statements incomplete or misleading. The Agency's governing body is the same as the governing body of the City and the Agency does provide services specifically to the Community Redevelopment Areas of the City. The Agency is disclosed using the blended presentation method.

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

The basic financial statements of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include separate columns for the governmental and business-type activities of the primary government. 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 and charges for support.

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. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement 33 – *Accounting and Financial Reporting for Nonexchange Transactions*.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liabilities, rather than as expenditures.

As a general rule, the effects of interfund activity have been eliminated from the government-wide financial statements. The City chooses to eliminate the indirect costs between governmental activities to avoid duplicating revenues and expenditures.

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund financial statements for the primary government's governmental and proprietary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected 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 fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. Franchise fees, licenses, sales taxes, gas taxes, operating and capital grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the City.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources." Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources are expended, rather than as fund assets. The proceeds of long-term debt are recorded as an "other financing source" rather than as a fund liability.

Proprietary Funds

The City's enterprise funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the liability is incurred. In the fund financial statements, proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets. The City applies all GASB pronouncements as well as all FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins, issued on or before November 30, 1989, which do not contradict GASB pronouncements.

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary 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.

Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than an "other financing source." Amounts paid to reduce long-term indebtedness are reported as reductions of the related liabilities, rather than as expenses.

Basis of Presentation

GASB Statement 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise 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 with the exception of including the community redevelopment fund as a major fund. It was included as a major fund due to the significance of the fund to the City and its citizens.

Governmental Major Funds

General Fund – The general fund is the general operating fund of the City. It is used to account for all activities of the general government except those required to be accounted for in another fund.

Capital Projects Fund - The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by the proprietary funds and special revenue funds.

Community Redevelopment Fund - The community redevelopment fund is the operating fund of the Community Redevelopment Agency (the "Agency"). It is used to account for the activities of the community redevelopment agency.

Debt Service Fund - The debt service fund is used to account for financial resources to be used for the repayment of debt.

Proprietary Major Funds

Water Fund – The water fund is used to account for operations and activities related to the water system within the City.

Sewer Fund – The sewer fund is used to account for operations and activities related to the sewer system within the City.

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Solid Waste Fund – The solid waste fund is used to account for the operations and activities related to solid waste services within the City.

Noncurrent Governmental Assets/Liabilities

GASB Statement 34 requires noncurrent governmental assets, such as land, buildings and equipment, and noncurrent governmental liabilities, such as general obligation bonds and capital leases, to be reported in the governmental activities column in the government-wide statement of net assets.

Budgets

Annual budgets are legally adopted for all governmental funds and all proprietary funds. Budgets are prepared and adopted on a basis of accounting consistent with U.S. generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

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 budgets expenditures at the department level. Only the City Commission can approve budget amendments that change the total approved budget appropriation of an individual department. Department managers can transfer appropriations within the departmental budget, but cannot change the total appropriation of an individual department without the approval of the City Commission.

If, during the fiscal year, additional revenue becomes available for appropriations in excess of those estimated in the budget, the Commission by resolution may make supplemental appropriations for the year up to the amount of such excess. During the current fiscal year, various supplemental appropriations were approved by the Commission in accordance with Florida Statutes.

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

Budget control is maintained by a computerized encumbrance system, which restricts budgetary amounts upon input. All appropriations are reviewed at year-end for accuracy. If required, encumbrances are rolled over into a new year. All encumbrances were closed at the end of the year. Therefore, no provision for encumbrances has been made.

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The City's cash and cash equivalents (including restricted assets) include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

As governed by Florida Statute 218 and the City's investment policy, the City is authorized to invest available surplus funds in the following:

1. Local Government Surplus Funds Trust Fund, hereinafter Florida PRIME and Fund B, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in Section 163.01.
2. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
3. Interest-bearing time deposits or savings accounts in qualified public depositories.
4. Direct obligations of the U.S. Treasury.

Investments are stated at fair value in accordance with GASB 31. GASB 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 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, and does, operate in a manner consistent with Rule 2a-7 under the Investment Company Act of 1940 (the "1940 Act")." 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. The Florida PRIME, administered by the Florida State Board of Administration (SBA), is considered to be a SEC 2a-7 like fund and therefore shown at share value. In addition, the City invests funds in Fund B Surplus Trust Fund also administered by the SBA. The Fund B is accounted for as a fluctuating NAV pool. The Fair Value factor for September 30, 2009 was 0.54915069. The Fund B is annually certified for compliance with the requirements of Florida law by the Board of Trustees of the SBA. The Board of Trustees of the SBA consists of the Governor, the Chief Financial Officer, and the Attorney General.

Accounts Receivable

All receivables are reported at their net realizable value. The gross value is reduced by the amount that is estimated to be uncollectible. The City's estimate is based on historical collection experience and a review of the current status of accounts receivable.

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Due To/From Other Funds

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government’s water and sewer function 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.

Inventory

Inventory in governmental funds is valued using the first in/first out (FIFO) method and are recorded as expenditures when consumed rather than when purchased.

Inventory in proprietary funds is valued at the lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, infrastructure, water and sewer distribution systems and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets costing in excess of \$1,000 and with an estimated useful life 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 as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The city does not capitalize interest in governmental activities.

Capital assets are stated at cost, except for contributed assets, which are recorded at fair market value on the date received. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives are generally as follows:

Buildings	20-50 years
Improvements	20-50 years
Machinery and equipment	3-15 years
Infrastructure	10-50 years

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations

The City reports long-term debt of governmental funds at face value in the government-wide long-term liabilities. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the government-wide long-term liabilities.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Capitalization of Interest

Interest costs related to bond issues and state revolving funds are capitalized during the construction period in the business-type activities. During the year ended September 30, 2009, the City capitalized interest in the amount of \$586,304 and \$475,098 in the water fund and sewer funds, respectively.

Unamortized Bond Issuance Costs

Bond issuance costs associated with the issuance of revenue bonds are amortized over the life of the bonds using the straight-line method.

Unamortized Bond Premiums

Bond premiums associated with the issuance of revenue bonds are amortized over the life of the bonds using the interest method. For financial reporting, unamortized bond premiums are added to the applicable long-term debt.

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 government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employees resignations and retirements.

Deferred Revenues

Deferred revenues reported in government-wide financial statements represent unearned revenues. The deferred revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in governmental fund financial statements represent unearned revenues or revenues which are measurable but not available and, in accordance with the modified accrual basis of accounting, are reported as deferred revenues.

Notes to Basic Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports restricted net assets of \$4,761,597, of which \$2,809,703 is restricted by enabling legislation.

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

Property Taxes

The City is authorized by State law to levy property taxes for City operations, capital improvements, and debt service.

Property taxes consist of ad valorem taxes on real property within the City. Property values are determined by the Bay County Property Appraiser and property taxes are collected by the Bay County Tax Collector.

The City adopted the 2008 tax levy on September 23, 2008. The levy date is October 1. Tax bills are mailed in November and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment. Property tax revenue is recognized when received.

Taxes become delinquent on April 1 of the year following the year of assessment with a lien date of January 1. State law provides for enforcement of collection of real property taxes delinquent on June 1 by the sale of interest-bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes as of the sale date, June 1, in the year following the year of assessment.

The City's millage rate was 2.25 for the year ended September 30, 2009.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ significantly from those estimates.

Subsequent Events

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

Notes to Basic Financial Statements

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets:

The governmental funds balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this difference are as follows:

Cost of capital assets	\$	14,959,698
Less: accumulated depreciation		(5,708,249)
<hr/>		
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	9,251,449

Another element of that reconciliation states, "long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Bonds payable	\$	3,023,769
Less: Deferred charge for issuance cost (to be amortized over life of debt)		(23,600)
Note payable		406,837
Compensated absences		81,586
Accrued interest		21,690
<hr/>		
Net adjustment to decrease <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	3,510,282

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$	1,689,076
Depreciation expense		(375,208)
<hr/>		
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	1,313,868

Notes to Basic Financial Statements

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

Another element of that reconciliation states, “the net effect of various transactions involving capital assets (i.e. sales, trade-ins, adjustments and donations) is to decrease net assets.” The details of this difference are as follows:

Governmental funds report sales of surplus property as revenues. However, in the statement of activities, sales proceeds are offset by the cost less accumulated depreciation	\$	(3,284)
<hr/>		
Net adjustment to decrease <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	(3,284)

Another element of the reconciliation states that “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.” The details of this difference are as follows:

Compensated absences	\$	(10,863)
Accrued interest		32,436
Amortization of bond issuance cost		(400)
<hr/>		
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	21,173

Another element of that reconciliation states, "the issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Principal repayments		
Bond payments	\$	2,157,044
Debt issued		
Bonds payable		(2,000,000)
Less issuance cost		24,000
<hr/>		
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	181,044

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City’s cash and cash equivalents (including restricted assets) include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date

Notes to Basic Financial Statements

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

of acquisition. Investments include pooled investments and certificates of deposits with original maturities of three months or greater.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The weighted average days to maturity of the PRIME fund at September 30, 2009 was 33 days. The weighted average life of Fund B at September 30, 2009 was 6.69 years. The City does not have a formal policy relating to interest rate risk.

Custodial Credit Risk - Deposits

The City maintains deposit balances, including cash and certificate of deposits, at various banks which are “Qualified Public Depositories” as defined by Chapter 280, Florida Statutes. These balances are also insured by the FDIC for up to \$250,000.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The City’s investments include certificate of deposits that have original maturities greater than three months and therefore are subject to custodial credit risk – deposits as described above. All other investments are excluded from the definition of custodial credit risk. The City has no policy on credit risk.

Concentration of Credit Risk

At September 30, 2009, the City did not hold any investments that were considered to be a concentration of credit risk.

Credit Risk – Investments

At September 30, 2009, the City’s investments consisted of the following:

	Carrying Amount	Fair Value	Credit Rating
Money market funds	\$ 12,389,179	\$ 12,389,179	AAAm
Nonnegotiable certificate of deposits	1,090,139	1,090,139	*
State Board of Administration Investments:			
Local government surplus funds trust fund (PRIME)	345,256	345,256	AAAm
Fund B	27,818	27,818	*
Total investments	\$ 13,852,392	\$ 13,852,392	

* Credit ratings not applicable for certificates of deposits. Fund B is not rated by any nationally recognized statistical rating agency.

City of Callaway, Florida

Notes to Basic Financial Statements

NOTE 4 – ACCOUNTS RECEIVABLE, NET

At September 30, 2009, accounts receivable, net in the governmental activities is summarized as follows:

Total accounts receivable	\$ 197,998
Less: allowance for doubtful accounts	(656)
<hr/>	
Accounts receivable, net	\$ 197,342
<hr/>	

At September 30, 2009, accounts receivable, net in the business-type activities is summarized as follows:

Total accounts receivable	\$ 571,195
Less: allowance for doubtful accounts	(22,127)
<hr/>	
Accounts receivable, net	\$ 549,068
<hr/>	

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of September 30, 2009 is as follows:

Due to / from other funds:

Receivable Fund	Payable Fund: Water Fund
General fund	\$ 14,000
Sewer fund	1,323,634
<hr/>	
Total interfund balances	\$ 1,337,634
<hr/>	

The sewer fund advanced \$1,323,634 to the water fund for system expansions during the year ended September 30, 2006. The general fund advanced \$14,000 to the water fund for operating expenses during the year ended September 30, 2009. No additional advances or repayments were made during the year ended September 30, 2009.

Interfund transfers:

Transfer from:	Transfers in: General Fund
Water fund	\$ 50,000
Sewer fund	135,000
<hr/>	
Total transfers	\$ 185,000
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Interfund transfers of \$185,000 were used by the general fund for paving.

City of Callaway, Florida

Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS

Changes in capital assets of the governmental activities funds are summarized as follows:

	September 30, 2008	Increases	Decreases	Transfers	September 30, 2009
Capital assets, not being depreciated					
Land	\$ 846,594	\$ -	\$ -	\$ -	846,594
Construction in progress	1,498,264	28,841		(1,498,261)	28,844
Total capital assets, not being depreciated	2,344,858	28,841		(1,498,261)	875,438
Capital assets, being depreciated					
Buildings	1,340,190	1,286,020	-	1,494,491	4,120,701
Improvements	6,101,979	342,234	(2,108)	3,770	6,445,875
Machinery and equipment	3,581,962	31,981	(96,259)	-	3,517,684
Total capital assets, being depreciated	11,024,131	1,660,235	(98,367)	1,498,261	14,084,260
Less accumulated depreciation					
Buildings	(209,162)	(56,957)	-	-	(266,119)
Improvements	(2,190,372)	(154,226)	905	-	(2,343,693)
Machinery and equipment	(3,028,590)	(164,025)	94,178	-	(3,098,437)
Total accumulated depreciation	(5,428,124)	(375,208)	95,083	-	(5,708,249)
Total capital assets, being depreciated (net of accumulated depreciation)	5,596,007	1,285,027	(3,284)	1,498,261	8,376,011
Total governmental activities' capital assets (net of accumulated depreciation)	\$ 7,940,865	\$ 1,313,868	\$ (3,284)	\$ -	\$ 9,251,449

The following schedule summarizes the capital assets of the City's business-type activities at September 30, 2009:

	Water	Sewer	Solid Waste	Total
Land	\$ 113,083	\$ 41,350	\$ -	\$ 154,433
Construction in progress	6,894,840	4,034,299	-	10,929,139
Buildings and improvements	184,858	67,740	929	253,527
Utility system	7,647,602	6,014,889	750	13,663,241
Machinery and equipment	801,729	1,301,017	724,998	2,827,744
Total	15,642,112	11,459,295	726,677	27,828,084
Less: accumulated depreciation				
Buildings and improvements	(70,161)	(27,453)	(88)	(97,702)
Utility system	(1,511,899)	(2,345,788)	(14)	(3,857,701)
Machinery and equipment	(689,938)	(973,218)	(666,660)	(2,329,816)
Total accumulated depreciation	(2,271,998)	(3,346,459)	(666,762)	(6,285,219)
Total business-type activities capital assets (net of accumulated depreciation)	\$ 13,370,114	\$ 8,112,836	\$ 59,915	\$ 21,542,865

City of Callaway, Florida

Notes to Basic Financial Statements

NOTE 6 – CAPITAL ASSETS (CONTINUED)

Changes in capital assets of the business-type activities funds are summarized as follows:

	September 30, 2008	Increases	Decreases	Transfers	September 30, 2009
Capital assets, not being depreciated					
Land	\$ 154,433	\$ -	\$ -	\$ -	\$ 154,433
Construction in progress	2,738,512	8,227,755		(37,128)	10,929,139
Total capital assets, not being depreciated	2,892,945	8,227,755	-	(37,128)	11,083,572
Capital assets, being depreciated					
Buildings	254,035	-	(508)	-	253,527
Utility System	13,565,787	62,575	(2,249)	37,128	13,663,241
Machinery and equipment	2,906,838	23,382	(102,476)	-	2,827,744
Total capital assets, being depreciated	16,726,660	85,957	(105,233)	37,128	16,744,512
Less accumulated depreciation					
Buildings	(87,618)	(10,592)	508	-	(97,702)
Utility System	(3,483,284)	(376,282)	1,865	-	(3,857,701)
Machinery and equipment	(2,231,999)	(200,293)	102,476	-	(2,329,816)
Total accumulated depreciation	(5,802,901)	(587,167)	104,849	-	(6,285,219)
Total capital assets, being depreciated (net of accumulated depreciation)	10,923,759	(501,210)	(384)	-	10,459,293
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 13,816,704	\$ 7,762,545	\$ (384)	\$ -	\$ 21,542,865

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

Governmental activities	
General government	\$ 47,396
Public safety	53,704
Highways and streets	58,182
Maintenance	9,152
Parks and recreation	206,774
Total depreciation expense – governmental activities	\$ 375,208

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

Business-type activities	
Water	\$ 243,384
Sewer	300,760
Solid waste	43,023
Total depreciation expense – business-type activities	\$ 587,167

City of Callaway, Florida

Notes to Basic Financial Statements

NOTE 7 – CAPITAL LEASES

The City has entered into lease agreements to finance vehicles. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the inception date. The cost of assets acquired through capital leases are as follows:

	Business-type Activities
Cost of Assets	\$ 163,609
Less: accumulated depreciation	(119,980)
Net	\$ 43,629

Summarized below are the City's capitalized lease obligations outstanding at September 30, 2009:

Capitalized lease obligation of \$82,081 dated November 29, 2005 payable in five annual installments of \$18,072 which includes principal and interest at 5.05%, collateralized by equipment. This entire lease was used to finance capital assets.	\$ 17,204
Capitalized lease obligation of \$82,081 dated March 31, 2006 payable in five annual installments of \$18,154 which includes principal and interest at 5.30%, collateralized by equipment. This entire lease was used to finance capital assets.	17,240
Total capitalized lease obligations at September 30, 2009	\$ 34,444

The future minimum lease obligations and net present value of these minimum lease payments as of September 30, 2009 are as follows:

Year Ending September 30,	Business – type Activities
2010	\$ 36,226
Total minimum lease payments	
Less amount representing interest	1,782
Present value of minimum lease payments	\$ 34,444

Changes in capital lease liabilities for business-type activities are summarized as follows:

	Balance September 30, 2008	Additions	Deductions	Balance September 30, 2009	Due Within One Year
Capital leases- Business-type Activities	\$ 67,193	\$ -	\$ (32,749)	\$ 34,444	\$ 34,444

City of Callaway, Florida

Notes to Basic Financial Statements

NOTE 8 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

Changes in long-term liabilities for governmental activities are summarized as follows:

	Balance September 30, 2008	Additions	Deductions	Balance September 30, 2009	Due Within One Year
Revenue bonds payable	\$ 1,143,150	\$ 2,000,000	\$ (119,381)	\$ 3,023,769	\$ 175,841
Notes payable	2,444,500	-	(2,037,663)	406,837	39,030
	<u>\$ 3,587,650</u>	<u>\$ 2,000,000</u>	<u>\$(2,157,044)</u>	<u>\$ 3,430,606</u>	<u>\$ 214,871</u>

Governmental activity bonds and note payable consist of the following at September 30, 2009:

Revenue Bonds Payable:

\$1,037,000 Recreation Capital Improvement Revenue Bonds, payable in monthly installments of \$7,097 including interest, with a final maturity on October 5, 2018. Interest accrues at an annual rate of 5.36%. This bond is secured by a pledge to budget and appropriate non-ad valorem revenues. This entire bond was used to finance capital assets. \$ 605,187

\$900,000 Capital Improvement Revenue Bond, Series 2003, payable in quarterly installments of \$28,863, including interest at 5.10% and a final maturity on July 1, 2013. This bond is secured by a pledge to budget and appropriate non-ad valorem revenues. This entire bond was used to finance capital assets. 418,582

\$2,000,000 Public Safety Capital Improvement Revenue Bonds, Series 2009, payable in monthly installments of \$7,097 including interest, with a final maturity on October 5, 2018. Interest accrues at an annual rate of 5.36%. Bonds are secured by pledging of Public Service Tax and Gas Franchise Fees. The City has pledged to budget and appropriate non-ad valorem revenues, amounts sufficient to cover any shortfalls in the amount of pledged funds available to pay the bonds. This entire bond was used to finance capital assets. 2,000,000

Notes Payable:

\$444,500 Capital Improvement Revenue Note, Series 2008A, payable in annual installments of \$53,798, including interest at 3.63% and a final maturity on February 15, 2018. This note is secured by a pledge to budget and appropriate non-ad valorem revenues. This entire note was used to finance capital assets. 406,837

Total principal obligation at September 30, 2009	3,430,606
Less: principal obligation – current portion	(214,871)
Principal obligation – long-term at September 30, 2009	\$ 3,215,735

City of Callaway, Florida

Notes to Basic Financial Statements

NOTE 8 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (CONTINUED)

Debt service requirements to maturity on revenue bonds payable at September 30, 2009 are as follows:

Year Ending September 30,	Principal	Interest	Total
2010	\$ 175,841	\$ 133,280	\$ 309,121
2011	180,112	129,090	309,202
2012	189,522	119,718	309,240
2013	197,761	109,819	307,580
2014	91,936	101,795	193,731
2015-2019	447,597	434,279	881,876
2020-2024	179,000	365,838	544,838
2025-2029	221,000	323,138	544,138
2030-2034	274,000	270,463	544,463
2035-2039	340,000	204,969	544,969
2040-2044	420,000	123,856	543,856
2045-2047	307,000	27,605	334,605
Total	\$ 3,023,769	\$ 2,343,850	\$ 5,367,619

Debt service requirements to maturity on notes payable at September 30, 2009 are as follows:

Year Ending September 30,	Principal	Interest	Total
2010	\$ 39,030	\$ 14,768	\$ 53,798
2011	40,447	13,351	53,798
2012	41,915	11,883	53,798
2013	43,436	10,362	53,798
2014	45,013	8,785	53,798
2015-2019	196,996	18,196	215,192
Total	\$ 406,837	\$ 77,345	\$ 484,182

Notes to Basic Financial Statements

NOTE 9 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES

Changes in long-term liabilities for business-type activities are summarized as follows:

	Balance September 30, 2008	Additions	Deductions	Balance September 30, 2009	Due Within One Year
Revenues					
bonds payable	\$ 27,135,000	\$ 2,415,246	\$ (281,428)	\$ 29,268,818	\$ 349,833
Unamortized bond issuance premium	103,437	-	(14,931)	88,506	-
Total bonds payable	27,238,437	2,415,246	(296,359)	29,357,324	349,833
Notes payable	8,032,756	-	(667,293)	7,365,463	686,249
	\$ 35,271,193	\$ 2,415,246	\$ (963,652)	\$ 36,722,787	\$ 1,036,082

Business-type activity bonds and note payable consist of the following at September 30, 2009:

Revenue Bonds:

Authorized and issued \$15,155,000 Wastewater Revenue Refunding Bonds, Series 2004; 3.0% to 5.7% interest, depending on maturity dates of bonds. Principal and interest is payable semiannually on March 1 and September 1, beginning March 1, 2005. Collateralized by the net revenues of the Military Point Advanced Wastewater Treatment Facility joint venture. The City is liable for one-half of the total obligation.

\$ 6,447,500

Authorized and issued \$20,435,000 Capital Improvement Revenue Bonds, Series 2007; 4.20% to 5.25% interest, depending on maturity dates of bonds. Principal and interest is payable semiannually on February 1 and August 1. Final maturity on bonds is August 1, 2037. Principal payments begin August 1, 2010. As of September 30, 2009, this bond has funded \$4,860,993 of capital assets. The Capital Improvement Revenue Bond requires the establishment of a reserve fund which must maintain a balance equal to the lesser of: (i) 10% percent of the proceeds of the Bonds, (ii) Maximum Debt Service Requirement for the Bonds or (iii) 125% percent of the average annual Debt Service Requirement for the Bonds.

20,435,000

Authorized and issued \$2,415,246 Utility System Revenue Bonds, payable in quarterly installments of \$37,192 including interest, with a final maturity and balloon payment on October 30, 2018 of \$1,953,652. Interest accrues at an annual rate of 4.53%. This bond is secured by a pledge to budget and appropriate non-ad valorem revenues. This entire bond was used to finance capital assets.

2,386,318

City of Callaway, Florida

Notes to Basic Financial Statements

NOTE 9 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

Notes Payable:

State of Florida State Revolving Fund Loan Program for the joint venture (Military Point Advanced Wastewater Treatment Facility) between Bay County, City of Callaway, City of Springfield, City of Parker and 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 loan payments are made directly by the joint venture. The note carries an interest rate of 2.82%.

Payments of \$1,000,150 are due on a semi-annual basis beginning September 1, 1999. 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 one-half reported by Bay County, Florida. The City is also contingently liable for the one-half reported by Bay County, Florida.

	\$ 7,365,463
Total principal obligation at September 30, 2009	36,634,281
Less: principal obligation – current portion	(1,036,082)
	\$ 35,598,199

Debt service requirements to maturity on revenue bonds payable at September 30, 2009 are as follows:

Year Ending September 30,	Principal	Interest	Total
2010	\$ 349,833	\$ 1,438,268	\$ 1,788,101
2011	466,694	1,421,306	1,888,000
2012	605,851	1,399,524	2,005,375
2013	768,168	1,374,962	2,143,130
2014	802,801	1,342,653	2,145,454
2015-2019	6,460,471	6,094,488	12,554,959
2020-2024	5,442,500	4,545,378	9,987,878
2025-2029	5,162,500	3,153,876	8,316,376
2030-2034	5,310,000	1,888,950	7,198,950
2035-2037	3,900,000	416,325	4,316,325
Total	\$ 29,268,818	\$ 23,075,730	\$ 52,344,548

Notes to Basic Financial Statements

NOTE 9 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

Debt service requirements to maturity on notes payable at September 30, 2009 are as follows:

Year Ending September 30,	Principal	Interest	Total
2010	\$ 686,249	\$ 203,106	\$ 889,355
2011	705,746	183,609	889,355
2012	725,801	163,554	889,355
2013	746,428	142,927	889,355
2014	767,644	121,711	889,355
2015-2019	3,733,595	268,504	4,002,099
Total	\$ 7,365,463	\$ 1,083,411	\$ 8,448,874

NOTE 10 – PLEDGED REVENUES- GOVERNMENTAL ACTIVITIES

The \$2,000,000 Public Safety Capital Improvement Revenue Bonds, Series 2009 were used to refund a bond anticipation note as part of financing the costs of acquisition, construction, and erection of a police and fire public safety building. Bonds are secured by pledging of Public Service Tax and Gas Franchise Fees. The City has pledged to budget and appropriate non-ad valorem revenues, amounts sufficient to cover any shortfalls in the amount of pledged funds available to pay the bonds. The pledge remains until effect until extinguishment or maturity of the debt in 2018, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2009 totaled \$4,144,013. Annual interest payments on the bond required 0.9% of the Public Service Tax and Gas Franchise Fees. Interest payments paid for the current year and total Public Service Tax and Gas Franchise Fees collected, were \$9,349 and \$1,077,601, respectively.

NOTE 11 – PLEDGED REVENUES- BUSINESS-TYPE ACTIVITIES

The \$20,435,000 Capital Improvement Revenue Bonds were issued to finance the cost of acquisition and construction of certain capital improvements in connection with the water and sewer utility system. The bonds are secured by special capital extension fees and the City's pledge to budget and appropriate non-ad valorem revenues in amounts sufficient to cover any shortfalls in the amount of pledged funds. The pledge remains until effect until extinguishment or maturity of the debt in 2037, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2009 totaled \$39,548,818. Annual principal and interest payments on the bond required 9.0% of non ad valorem revenues, in the water and sewer fund. Principal and interest payments paid for the current year and total non ad valorem revenues, in the water and sewer fund, were \$1,032,450 and \$11,534,618, respectively. No special capital extension fees were collected during the year.

Notes to Basic Financial Statements

NOTE 12 – COMPENSATED ABSENCES

Compensated absences consist of the following at September 30, 2009:

	Balance September 30, 2008	Additions	Deductions	Balance September 30, 2009
Proprietary funds				
Water	\$ 27,259	\$ 16,162	\$ (27,259)	\$ 16,162
Sewer	24,624	35,790	(24,624)	35,790
Solid waste	9,181	9,411	(9,181)	9,411
General fund	70,723	81,586	(70,723)	81,586
Total	\$ 131,787	\$ 142,949	\$ (131,787)	\$ 142,949

The City estimates that all compensated absences accrued at September 30, 2009 will be used within one year; therefore, compensated absences are reported as current liabilities in these financial statements.

NOTE 13 – NET ASSET RESTRICTIONS

The following is a description of restricted net assets in governmental-type activities at September 30, 2009.

Restricted for debt service/bond covenants	\$ 10,990
Restricted for other	87,322
Total	\$ 98,312

The restricted for other balance of \$87,322 includes amounts restricted for impact fees and transportation mitigation fees of \$12,885 and \$74,437, respectively.

The following is a description of restricted net assets in business-type activities at September 30, 2009.

	Water Fund	Sewer Fund	Total
Restricted for debt service/bond covenants	\$ 1,002,300	\$ 938,604	\$1,940,904
Restricted for other – impact fee	38,093	2,684,288	2,722,381
Total	\$ 1,040,393	\$ 3,622,892	\$ 4,663,285

Notes to Basic Financial Statements

NOTE 14 – FUND BALANCE RESERVATIONS

Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of fund balance set aside by the City for contingencies.

The following is a description of reported reserves in the governmental funds at September 30, 2009:

General Fund

Reserved for inventory – This reserve was created to represent the portion of the fund balance that is not available for expenditures because the City expects to use these resources within the next budgetary period.

Reserved for prepaid items – This reserve was created to represent that portion of fund balance expended in advance for the next budgetary period.

Reserved for other – This reserve was created to account for the collection of fees reserved for specific expenses as required by various ordinances.

Other Governmental Funds

Reserved for community redevelopment - This revenue was created to restrict the use of all resources specifically for community redevelopment.

Summary

Specific reservations of fund balances are summarized below as of September 30, 2009:

General fund	
Reserved for inventory	\$ 45,912
Reserved for prepaid items	128,468
Reserved for debt service/bond covenants	10,990
Reserved for other	87,322
<hr/>	
Total reserved for general fund	\$ 272,692
<hr/>	
Special revenue fund	
Reserved for community redevelopment	\$ 259,529

The reserved for other balance of \$87,322 includes amounts reserved for impact fees and transportation mitigation fees of \$12,885 and \$74,437, respectively.

NOTE 15 – 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; injuries to employees; and natural disasters. The City purchases commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

City of Callaway, Florida

Notes to Basic Financial Statements

NOTE 16 – INVESTMENT IN JOINT VENTURE

The City of Callaway, Florida, in alliance with the Bay County, Florida, the cities of Springfield and Parker, and the former Town of Cedar Grove joined efforts on September 27, 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 MGD advanced wastewater treatment 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 loan and a bond issue between Bay County, the City of Callaway and the joint venture.

The joint venture is owned and governed by its owners. The owners are Bay County, the cities of Callaway, Parker, and Springfield. One owner is selected by the others to be responsible for operating the MPAWTF. The owner delegated to be the operator is Bay County, Florida. The operator of the MPAWTF, in accordance with the interlocal agreement, prepares the MPAWTF's annual budget, sets treatment rates, and collects funds sufficient to pay debt service; cost of operations and maintenance; renewal and replacement; and any enhancements to reserves.

The results of operations and cash flows are accounted for, in total, within the financial statements of the joint venture. The City's interest in equity is reported within the City's Sewer Fund. As of September 30, 2009, the City's portion of the equity of the venture was \$4,331,200. Complete financial statements for the joint venture, may be obtained from the operator at P.O. Box 2269, Panama City, Florida 32402.

Condensed financial statements from the MPAWTF are as follows:

Statement of Net Assets

September 30, 2009

Assets	
Current assets	\$ 3,506,274
Noncurrent assets	36,191,853
<hr/>	
Total assets	39,698,127
<hr/>	
Liabilities	
Current liabilities	3,317,149
Noncurrent liabilities	26,804,334
<hr/>	
Total liabilities	30,121,483
<hr/>	
Net assets	\$ 9,576,644

Notes to Basic Financial Statements

NOTE 16 – INVESTMENT IN JOINT VENTURE (CONTINUED)

Statement of Activities

Year Ended September 30, 2009

Operating revenues	\$ 5,837,658
Operating expenses	3,990,567
Operating income	1,847,091
Nonoperating revenues (expenses), net	(33,698)
Net income before distributions to owners	1,813,393
Distributions to owners	(599,761)
Change in net assets	1,213,632
Net assets, beginning of year	8,363,012
Net assets, end of year	\$ 9,576,644

The City of Callaway's income from joint venture in the amount of \$567,741 is derived as follows:

Share of operating income	\$ 262,911
Reduction in reserve requirements	290,943
Service fee allocation	13,887
Income from joint venture	\$ 567,741

As of September 30, 2009, the joint venture owes the City \$177,480 for distributions to owners and the City owes the joint venture \$173,726 for transferred collection system and segregation line. This has been recorded in the Enterprise Fund as due from other governments and due to joint venture.

NOTE 17 – PENSION PLAN

Plan Description

The City participates in the Florida Retirement System (System), a cost sharing, multiple-employer defined pension plan administered by the State of Florida Department of Administration, Division of Retirement. The System provides retirement, disability benefits, and death benefits to plan members or their designated beneficiaries. Chapter 121, Florida Statutes, established the authority for participant eligibility, contribution requirements, vesting eligibility and benefit provisions. Chapter 121 of the Florida Statutes assigns the authority to establish and amend benefits provisions to the Florida Retirement System. However, Article X, Section 14 of the State of Florida Constitution and Part VII, Chapter 112 of the Florida Statutes requires

Notes to Basic Financial Statements

NOTE 17 – PENSION PLAN (CONTINUED)

that any increase in retirement benefits must be funded concurrently on an actuarially sound basis. The Florida Retirement 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 State of Florida Division of Retirement, 1317 Winewood Boulevard, Building 8, Tallahassee, Florida 32399-6570, by calling 850-414-6346, or via the web at <http://dms.myflorida.com>.

Funding Policy

The System provides vesting of benefits after six years of creditable service. Members are eligible for normal retirement after six years of service and attaining age sixty-two, or thirty years of service regardless of age. Early retirement may be taken any time after completing six years of service; however, there is a five-percent benefit reduction for each year prior to normal retirement. Generally, membership is compulsory for all full-time and part-time employees, except for elected officials who may elect not to participate in the System. Retirement coverage is employee noncontributory. The rates effective for the fiscal year were 9.85%, 13.12%, 16.53%, and 20.92% for regular employees, senior management, elected officials, and special risk, respectively. The rates for eligible employees who elected to participate in the Deferred Retirement Option Program (DROP) were 10.91% effective for the entire fiscal year. The City's contributions for the years ended September 30, 2009, 2008, and 2007 totaled \$365,698, \$109,096, and \$0, respectively and are equal to the required contributions for the year. The covered payroll for the years ended September 30, 2009, 2008, and 2007 was \$3,029,191, \$939,293, and \$0, respectively.

Since June 1, 2002, the FRS began offering a new retirement plan option, the FRS Investment Plan, as an alternative to the traditional retirement plan. Under this plan, the employer makes contributions to an account set up in the participant's name, and the participant controls where the contributions are invested among the plans investment funds. New employees are by default enrolled in the defined benefit plan; however, they will have five months after the month of hire to elect to participate in the FRS Investment Plan.

In prior years, the City participated in a different pension plan. Through May 31, 2008, the City provided pension benefits for all of its full-time employees through a defined contribution plan. The plan was administered by the Florida League of Cities, Inc. with the City Commission acting as the trustee of the plan. The plan was established by ordinances 589, 595, and 631. Full-time employees were eligible to participate after thirty days of employment. After one year of employment, the City made monthly contributions of an amount equal to 5% of the employees' base salary. The benefits provided to the employees depended on amounts contributed to the plan plus the investment earnings. The City's contributions were deposited to employee owned IRA accounts which the City did not own or control. These accounts were owned by each employee. The previous three years contributions are as follows:

Year Ended September 30,	Employee Contribution	Employer Contribution	Covered Payroll
2007	\$ 25,995	\$ 115,006	\$ 2,300,120
2008	17,941	82,138	1,953,534
2009	-	-	-

Notes to Basic Financial Statements

NOTE 18 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

The City provides health insurance to its active and retired employees (the OPEB Plan). Pursuant to Section 112.0801, Florida Statutes, the City is required to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Currently, the City funds the OPEB Plan on a pay-as-you-go basis as a current operating expense, and reflects the expense in its financial statements in the fiscal year in which the payments are made. Pursuant to the provisions of GASB 43, *Financial Reporting for Postemployment Benefits Other Than Pensions*, and GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, governments who provide post employment benefits other than pensions will be required to begin showing all or a portion of the liabilities associated with their OPEB Plans in their financial statements and whether, and to what extent, progress is being made in funding those liabilities. The City intends to implement the requirements of GASB 45 and will obtain an actuarial valuation of the OPEB liability as of October 1, 2009.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

At September 30, 2009, the City had open construction commitments as follows:

Project	Contract Amount	Expended to Date	Remaining Commitment
Governmental Activities:			
Public Safety Building	\$ 1,933,319	\$ 1,923,319	\$ 10,000
Gore Park Fence	50,382	25,191	25,191
CRA-Design and Analysis	96,500	23,431	73,069
CRA-Fence	56,100	-	56,100
Business-type Activities:			
Sewage Overflow	37,405	35,102	2,303
Engineering Fees- Ground Storage Tank	226,320	215,004	11,316
Engineering Fees- Model and Review	5,000	2,500	2,500
Engineering Fees- Utility Expansion	438,273	230,445	207,828
Total construction commitments	\$ 2,843,299	\$ 2,454,992	\$ 388,307

Individual Fund Schedules

City of Callaway, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual
Debt Service Fund
Year Ended September 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
Expenditures				
Debt service				
Principal	\$ 294,621	\$ 2,179,392	\$ 2,157,044	\$ 22,348
Interest and fiscal charges	28,798	213,027	178,481	34,546
Total expenditures	323,419	2,392,419	2,335,525	56,894
Excess (deficit) of revenues over (under) expenditures	(323,419)	(2,392,419)	(2,335,525)	56,894
Other financing sources (uses)				
Transfer from general fund	323,419	2,392,419	2,335,525	(56,894)
Total other financing sources (uses)	323,419	2,392,419	2,335,525	(56,894)
Net change in fund balance	-	-	-	-
Fund balance - beginning	-	-	-	-
Fund balance - ending	\$ -	\$ -	\$ -	\$ -

City of Callaway, Florida
Schedule of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual
Capital Projects Fund
Year Ended September 30, 2009

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget- Positive (Negative)
Expenditures				
Capital outlay				
Public safety	\$ 1,200,607	\$ 1,257,867	\$ 1,235,372	\$ 22,495
Parks and recreation	270,000	288,000	299,455	(11,455)
Total expenditures	1,470,607	1,545,867	1,534,827	11,040
Excess (deficit) of revenues over (under) expenditures	(1,470,607)	(1,545,867)	(1,534,827)	11,040
Other financing sources (uses)				
Transfer from general fund	339,334	392,831	381,791	(11,040)
Total other financing sources (uses)	339,334	392,831	381,791	(11,040)
Net change in fund balance	(1,131,273)	(1,153,036)	(1,153,036)	-
Fund balance - beginning	1,131,273	1,153,036	1,153,036	-
Fund balance - ending	\$ -	\$ -	\$ -	\$ -

STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Callaway's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	2 - 9
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property taxes and water & sewer charges.	10 - 16
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future. *	17 - 19
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and help make comparisons over time and with other governments.	20 - 24
Operating Information These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and activities it performs.	25 - 27

Unless otherwise noted, the information in the schedules attached is derived from the comprehensive annual financial reports of the relevant year. Many of the schedules offer comparisons retroactive to fiscal year 2004, which is the year in which the City implemented GASB Statement 34. The City first levied ad valorem taxes beginning with the fiscal year ending in 2005; therefore, any schedules relating to those revenues are only presented retroactive to that year.

* Florida Statutes and the Charter of the City of Callaway set no legal debt margin. The City has not had any general bonded debt, supported by property taxes, in the last ten fiscal years.

City of Callaway, Florida
Net Assets by Component (unaudited)
Last Six Fiscal Years
(accrual basis of accounting)

	FISCAL YEAR					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental activities						
Invested in capital assets, net of related debt	\$ 4,746,156	\$ 4,883,908	\$ 4,788,414	\$ 4,859,182	\$ 5,004,857	\$ 5,820,843
Restricted	-					98,312
Unrestricted	1,446,171	2,047,590	2,757,714	2,818,070	2,789,570	2,159,396
Total governmental activities net assets	\$ 6,192,327	\$ 6,931,498	\$ 7,546,128	\$ 7,677,252	\$ 7,794,427	\$ 8,078,551
Business-type activities						
Invested in capital assets, net of related debt	\$ 3,898,860	\$ 4,417,472	\$ 7,587,634	\$ 11,445,202	\$ 12,676,120	\$ 10,579,282
Restricted	2,492,639	2,772,775	3,830,294	2,588,102	4,352,690	4,663,285
Unrestricted	3,945,917	5,041,607	6,094,870	4,190,277	2,389,397	4,990,045
Total business-type activities net assets	\$ 10,337,416	\$ 12,231,854	\$ 17,512,798	\$ 18,223,581	\$ 19,418,207	\$ 20,232,612
Primary government - Totals						
Invested in capital assets, net of related debt	\$ 8,645,016	\$ 9,301,380	\$ 12,376,048	\$ 16,304,384	\$ 17,680,977	\$ 16,400,125
Restricted	2,492,639	2,772,775	3,830,294	2,588,102	4,352,690	4,761,597
Unrestricted	5,392,088	7,089,197	8,852,584	7,008,347	5,178,967	7,149,441
Total primary government net assets	\$ 16,529,743	\$ 19,163,352	\$ 25,058,926	\$ 25,900,833	\$ 27,212,634	\$ 28,311,163

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Note: The City began to report accrual information upon the implementation of GASB Statement 34 in fiscal year 2004.

City of Callaway, Florida
Changes in Net Assets (unaudited)
Last Six Fiscal Years
(accrual basis of accounting)

	FISCAL YEAR					
	<u>2004*</u>	<u>2005*</u>	<u>2006*</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Expenses						
Governmental activities:						
General Government	\$ 1,127,043	\$ 1,064,373	\$ 1,249,361	\$ 1,481,783	\$ 1,510,725	\$ 1,428,755
Public Safety	1,390,078	1,609,170	1,736,545	1,980,656	2,092,076	2,252,925
Highways & Streets	789,075	1,108,681	1,110,675	1,044,888	1,217,346	1,131,209
Maintenance	101,494	110,487	129,386	157,516	172,458	164,932
Parks & Recreation	404,902	618,329	746,788	891,384	943,321	935,027
Interest on long-term debt	115,609	105,963	91,070	71,421	118,029	146,045
Total governmental activities expenses	<u>3,928,201</u>	<u>4,617,003</u>	<u>5,063,825</u>	<u>5,627,648</u>	<u>6,053,955</u>	<u>6,058,893</u>
Business-type activities						
Water	1,670,782	1,608,129	1,633,827	1,839,575	2,560,264	2,137,414
Sewer	3,037,035	2,933,595	2,809,862	2,934,665	3,458,947	3,514,294
Solid Waste	343,104	398,035	508,373	472,302	477,296	401,935
Total business-type activities expenses	<u>5,050,921</u>	<u>4,939,759</u>	<u>4,952,062</u>	<u>5,246,542</u>	<u>6,496,507</u>	<u>6,053,643</u>
Total primary government expenses	<u>\$ 8,979,122</u>	<u>\$ 9,556,762</u>	<u>\$ 10,015,887</u>	<u>\$ 10,874,190</u>	<u>\$ 12,550,462</u>	<u>\$ 12,112,536</u>
Program Revenues						
Governmental activities:						
Charges for Services -						
General Government	\$ 164,102	\$ 129,034	\$ 103,512	\$ 123,580	\$ 117,960	\$ 114,710
Public Safety	30,000	57,068	74,132	74,132	77,839	93,416
Highways & Streets						12,813
Parks & Recreation	2,500	2,500	2,510	29,887	40,519	34,203
Capital Grants & Contributions	307,132	129,211	24,114	20,720	22,556	339,622
Total governmental activities program revenues	<u>503,734</u>	<u>317,813</u>	<u>204,268</u>	<u>248,319</u>	<u>258,874</u>	<u>594,764</u>
Business-type activities						
Charges for Services -						
Water	1,710,312	2,088,317	4,224,080	2,094,382	2,198,987	2,210,074
Sewer	3,003,476	4,267,411	5,515,209	3,275,753	4,068,038	4,221,710
Solid Waste	413,150	440,574	413,017	424,797	535,519	553,196
Operating Grants & Contributions	-	-	-	3,694	-	-
Total business-type activities program revenues	<u>5,126,938</u>	<u>6,796,302</u>	<u>10,152,306</u>	<u>5,798,626</u>	<u>6,802,544</u>	<u>6,984,980</u>
Total primary government program revenues	<u>\$ 5,630,672</u>	<u>\$ 7,114,115</u>	<u>\$ 10,356,574</u>	<u>\$ 6,046,945</u>	<u>\$ 7,061,418</u>	<u>\$ 7,579,744</u>

Net (Expense) Revenue

Governmental activities	\$ (3,424,467)	\$ (4,299,190)	\$ (4,859,557)	\$ (5,379,329)	\$ (5,795,081)	\$ (5,464,129)
Business-type activities	76,017	1,856,543	5,200,244	552,084	306,037	931,337
Total primary government net expense	<u>(\$3,348,450)</u>	<u>(\$2,442,647)</u>	<u>\$340,687</u>	<u>(\$4,827,245)</u>	<u>(\$5,489,044)</u>	<u>(\$4,532,792)</u>

General Revenues and Other Changes in Net Assets

Governmental activities:

Taxes:

Utility	\$ 894,079	\$ 943,768	\$ 979,694	\$ 990,749	\$ 1,002,246	\$ 1,012,041
Ad valorem	-	684,979	782,053	1,011,027	1,347,625	1,348,637
Franchise & Comm Svc	990,750	1,025,801	1,091,797	1,134,376	1,190,677	1,283,760
Business License Tax*					21,775	21,580
Local option gas tax	247,720	251,418	251,277	248,106	242,438	252,604
Half cent sales tax	1,105,139	1,118,475	1,287,103	1,153,900	1,073,559	1,000,953
Intergovernmental	542,829	664,670	733,985	585,862	538,737	533,331
Total taxes	<u>3,780,517</u>	<u>4,689,111</u>	<u>5,125,909</u>	<u>5,124,020</u>	<u>5,417,057</u>	<u>5,452,906</u>
Miscellaneous revenues	52,369	476,728	100,743	82,032	170,120	45,053
Interest earnings	35,702	55,495	97,535	124,401	140,079	65,294
Transfers	-	100,000	150,000	180,000	185,000	185,000
Total governmental activities	<u>3,868,588</u>	<u>5,321,334</u>	<u>5,474,187</u>	<u>5,510,453</u>	<u>5,912,256</u>	<u>5,748,253</u>

Business-type activities:

Interest earnings	136,690	137,894	223,026	337,350	768,681	186,808
Miscellaneous revenues	-	-	7,674	1,349	(145,218)	(118,740)
Income from joint venture**	436,557	-	-	450,126	-	-
Transfers	-	(100,000)	(150,000)	(180,000)	(185,000)	(185,000)
Total business-type activities	<u>573,247</u>	<u>37,894</u>	<u>80,700</u>	<u>608,825</u>	<u>438,463</u>	<u>(116,932)</u>

Total primary government

<u>\$ 4,441,835</u>	<u>\$ 5,359,228</u>	<u>\$ 5,554,887</u>	<u>\$ 6,119,278</u>	<u>\$ 6,350,719</u>	<u>\$ 5,631,321</u>
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Change in Net Assets

Governmental activities	\$ 444,121	\$ 1,022,144	\$ 614,630	\$ 131,124	\$ 117,175	\$ 284,124
Business-type activities	649,264	1,894,437	5,280,944	1,160,909	744,500	814,405
Total primary government	<u>\$ 1,093,385</u>	<u>\$ 2,916,581</u>	<u>\$ 5,895,574</u>	<u>\$ 1,292,033</u>	<u>\$ 861,675</u>	<u>\$ 1,098,529</u>

* Formerly included in General Government Program Revenues as Occupational Licenses

** Beginning with fiscal year 2008, this income is included in Charges for Services.

Note: The City began to report accrual information upon the implementation of GASB Statement 34 in fiscal year 2004

City of Callaway, Florida
Program Revenues by Function/Program (unaudited)
Last Six Fiscal Years
(accrual basis of accounting)

Function/Program	FISCAL YEAR					
	<u>2004*</u>	<u>2005*</u>	<u>2006*</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental activities:						
General Government	\$ 164,102	\$ 129,034	\$ 103,512	\$ 123,580	\$ 117,960	\$ 114,710
Public Safety	30,000	57,068	74,132	74,132	77,839	93,416
Highways & Streets	-	-	-	-	-	12,813
Parks & Recreation	309,632	131,711	26,624	50,607	63,075	34,203
Subtotal governmental activities	503,734	317,813	204,268	248,319	258,874	255,142
Business-type activities						
Water	1,710,312	2,088,317	4,224,080	2,094,382	2,198,987	2,210,074
Sewer	3,003,476	4,267,411	5,515,209	3,275,753	4,068,038	4,221,710
Solid Waste	413,150	440,574	413,017	428,491	535,519	553,196
Subtotal business-type activities	5,126,938	6,796,302	10,152,306	5,798,626	6,802,544	6,984,980
Total primary government	\$ 5,630,672	\$ 7,114,115	\$ 10,356,574	\$ 6,046,945	\$ 7,061,418	\$ 7,240,122

* For consistency and comparison purposes, prior year revenues have been reclassified to the program activity classifications used in listing the current year's revenues.

Note: The City began to report accrual information upon the implementation of GASB Statement 34 in fiscal year 2004

City of Callaway, Florida
Fund Balances, Governmental Funds (unaudited)
Last Ten Fiscal Years

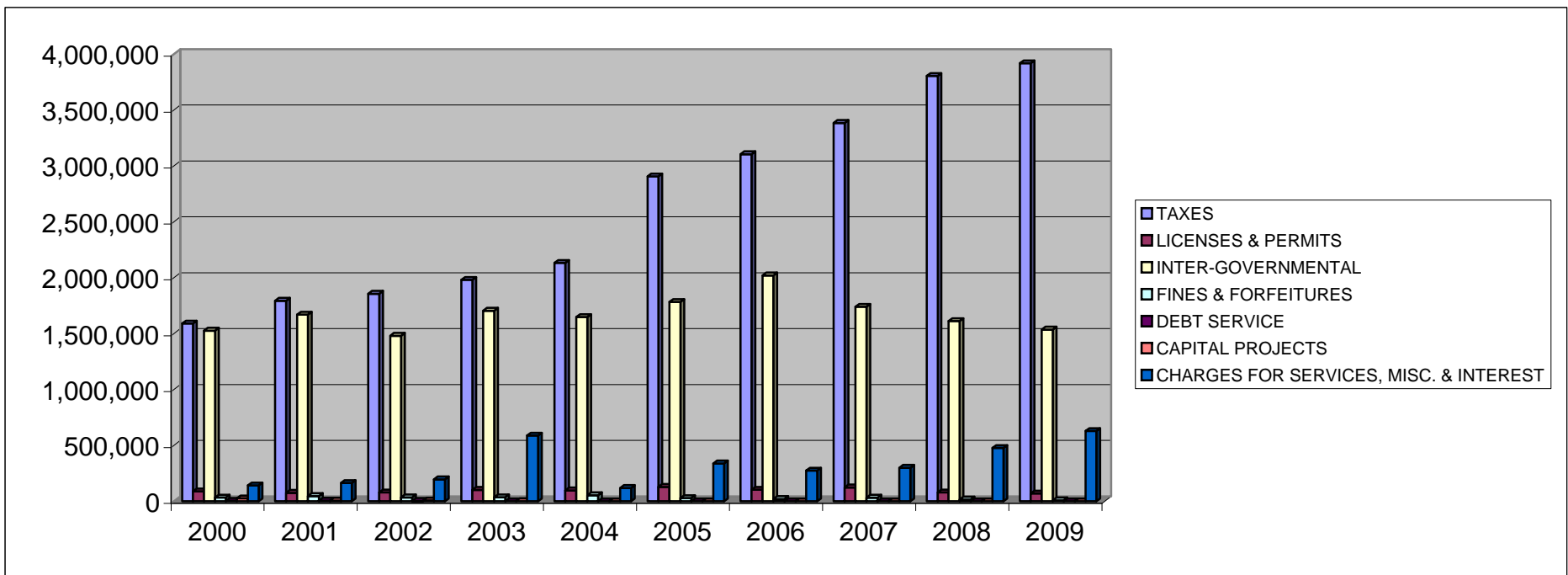
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	FISCAL YEAR									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Fund										
Reserved	\$ 204,373	\$ 229,850	\$ 255,260	\$ 282,529	\$ 52,360	\$ 76,869	\$ 152,009	\$ 108,168	\$ 113,919	\$ 272,692
Unreserved	2,359,693	1,968,457	1,393,350	1,308,320	1,384,246	2,237,750	2,664,231	2,778,179	2,088,998	1,805,163
General Fund	\$ 2,564,066	\$ 2,198,307	\$ 1,648,610	\$ 1,590,849	\$ 1,436,606	\$ 2,314,619	\$ 2,816,240	\$ 2,886,347	\$ 2,202,917	\$ 2,077,855
Community Redevelopment Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 210,108	\$ 259,529
Other Governmental Funds										
Reserved, reported in:										
Debt Service	\$ -	\$ 5,093	\$ -	\$ -	\$ 7,784	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Projects	-	-	-	-	1,781	1,781	-	-	1,153,036	-
Unreserved, reported in:										
Debt Service	-	-	7,784	7,784	-	-	-	-	-	-
Capital Projects	163,756	68,064	3,526	515,386	-	-	-	-	-	-
Other Governmental Funds	\$ 163,756	\$ 73,157	\$ 11,310	\$ 523,170	\$ 9,565	\$ 1,781	\$ -	\$ -	\$ 1,153,036	\$ -
TOTAL GOVERNMENTAL FUNDS	\$ 2,727,822	\$ 2,271,464	\$ 1,659,920	\$ 2,114,019	\$ 1,446,171	\$ 2,316,400	\$ 2,816,240	\$ 2,886,347	\$ 3,566,061	\$ 2,337,384

City of Callaway, Florida
Fund Revenues by Source, Governmental Funds (unaudited)
Last Ten Fiscal Years

FISCAL YEAR	TAXES	LICENSES & PERMITS	INTER-GOVERNMENTAL	FINES & FORFEITURES	DEBT SERVICE	CAPITAL PROJECTS	CHARGES FOR SERVICES, MISC. & INTEREST	TOTAL
2000	1,590,267	88,706	1,526,390	33,648	4,181	25,587	141,868	3,410,647
2001	1,793,612	75,055	1,670,446	46,688	5,093	5,028	163,896	3,759,818
2002	1,856,427	79,189	1,480,924	34,498	2,690	6,385	195,793	3,655,906
2003	1,981,265	101,645	1,704,367	36,266	-	983	587,829	4,412,355
2004	2,132,549	97,337	1,647,968	53,294	-	-	119,247	4,050,395
2005	2,905,966	128,865	1,783,145	29,113	-	-	337,853	5,184,942
2006	3,104,821	103,347	2,021,088	20,336	-	-	274,397	5,523,989
2007	3,384,258	123,410	1,739,762	31,685	-	-	300,255	5,579,370
2008	3,804,761	79,127	1,612,596	14,984	-	-	476,493	5,987,961
2009	3,918,622	69,035	1,536,182	8,686	-	-	628,775	6,161,300

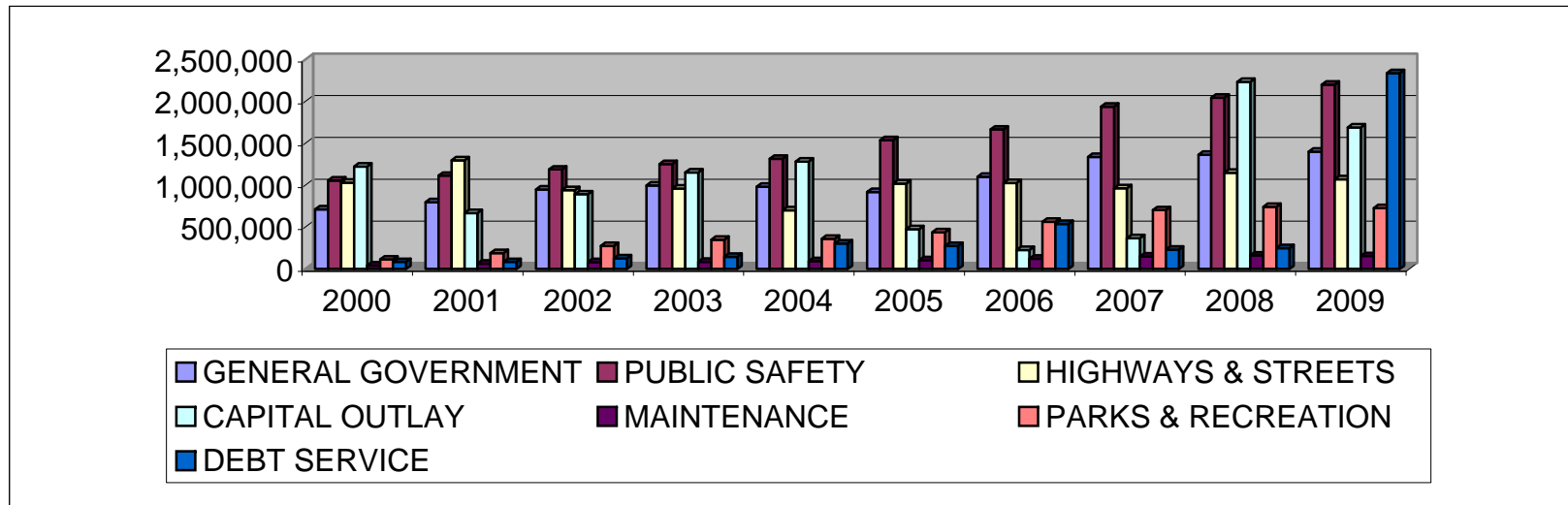
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City of Callaway, Florida
Fund Expenditures by Function, Governmental Funds (unaudited)
Last Ten Fiscal Years

FISCAL YEAR	GENERAL GOVERNMENT	PUBLIC SAFETY	HIGHWAYS & STREETS	MAINTENANCE	PARKS & RECREATION	DEBT SERVICE	CAPITAL OUTLAY	TOTAL
2000	713,251	1,056,011	1,028,404	40,999	114,380	85,168	1,222,395	4,260,608
2001	798,370	1,113,223	1,296,408	64,101	190,971	85,168	667,935	4,216,176
2002	948,730	1,187,122	940,669	84,274	274,420	127,725	891,081	4,454,021
2003	998,091	1,250,867	959,270	87,340	350,605	146,181	1,150,900	4,943,254
2004	981,530	1,315,675	701,859	94,961	359,395	306,157	1,280,593	5,040,170
2005	920,486	1,535,257	1,019,569	104,939	437,687	274,617	476,363	4,768,918
2006	1,101,179	1,664,077	1,025,918	122,382	564,038	539,228	226,117	5,242,939
2007	1,335,586	1,935,721	963,718	150,365	702,957	231,979	369,097	5,689,423
2008	1,363,967	2,042,168	1,147,111	162,487	742,760	248,390	2,232,005	7,938,888
2009	1,399,817	2,199,048	1,069,251	155,518	726,742	2,335,525	1,689,076	9,574,977

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City of Callaway, Florida
Other Financing Sources (Uses) & Net Change in Fund Balances,
Governmental Funds (unaudited)
Last Ten Fiscal Years

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	FISCAL YEAR									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Amount of revenues over (under) expenditures	\$ (849,961)	\$ (456,358)	\$ (798,115)	\$ (530,899)	\$ (964,339)	\$ 416,024	\$ 281,050	\$ (110,053)	\$ (1,950,927)	\$ (3,413,677)
Other Financing Sources (Uses)										
State Grants	\$ -	\$ -	\$ -	\$ -	\$ 281,696	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers in	598,951	385,168	425,007	1,437,050	593,215	366,833	707,572	541,757	3,482,548	2,970,426
Transfer out to capital projects fund	-	(300,000)	(297,281)	(1,290,869)	(287,058)	-	(18,344)	(129,778)	(2,972,829)	(381,791)
Transfer out to debt service fund	(70,941)	(85,168)	(127,726)	(146,181)	(306,157)	(266,833)	(539,228)	(231,979)	(248,390)	(2,335,525)
Transfers out (other)	(103,156)	-	-	-	-	-	-	-	(76,329)	(68,110)
Refund of prior year expenses	-	-	-	-	8,940	75,780	-	-	-	-
Proceeds from long term financing	-	-	186,571	984,998	-	275,000	-	-	2,444,500	2,000,000
Proceeds from sale of surplus property	-	-	-	-	5,855	3,425	7,077	160	1,141	-
Total other financing sources (uses)	\$ 424,854	\$ -	\$ 186,571	\$ 984,998	\$ 296,491	\$ 454,205	\$ 157,077	\$ 180,160	\$ 2,630,641	\$ 2,185,000
Net change in fund balances	\$ (425,107)	\$ (456,358)	\$ (611,544)	\$ 454,099	\$ (667,848)	\$ 870,229	\$ 438,127	\$ 70,107	\$ 679,714	\$ (1,228,677)

Debt Service amounts included in expenditures:										
Principal	30,871	32,752	73,960	82,522	190,548	168,654	448,158	170,300	174,745	2,157,044
Interest	54,297	52,416	53,765	63,659	115,609	105,963	91,070	61,679	73,645	178,481
	85,168	85,168	127,725	146,181	306,157	274,617	539,228	231,979	248,390	2,335,525
							(see note)			(see note)
Debt Service as a % of noncapital expenditures	2.8%	2.4%	3.6%	3.9%	8.1%	6.4%	10.7%	4.4%	4.6%	29.6%

Note: In fiscal year 2006, the City made an early payoff of a note payable which had a balance of \$268,810 at the beginning of the fiscal year.
 In fiscal year 2009, the City refinanced a \$2,000,000 bond anticipation note with a long term bond payable to USDA.

City of Callaway, Florida
Tax Revenues by Source, Governmental Funds (unaudited)
Last Ten Fiscal Years

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	FISCAL YEAR									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
TAXES:										
Ad valorem Tax*	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 684,979	\$ 782,053	\$ 1,011,027	\$ 1,347,625	\$ 1,348,637
Utility Tax	891,984	937,286	801,458	846,769	1,297,388	1,332,021	1,396,072	1,409,598	1,464,255	1,482,732
Franchise Fees	469,898	624,161	810,613	903,578	587,440	637,547	675,419	715,527	728,668	813,069
Local Option Gas Tax	228,385	232,165	244,356	230,918	247,720	251,418	251,277	248,106	242,438	252,604
Business License Tax**	-	-	-	-	-	-	-	-	21,775	21,580
<u>Intergovernmental***</u>										
Cigarette Tax	49,083	-	-	-	-	-	-	-	-	-
Alcoholic Beverage Tax	3,001	2,225	2,570	2,404	3,123	4,116	2,799	2,987	416	5,703
Mobile Home Licenses	1,598	2,725	1,400	1,612	1,422	1,703	1,121	1,044	1,036	848
1/2 cent Sales Tax	886,870	923,146	956,531	1,004,110	1,105,139	1,118,475	1,287,103	1,153,900	1,073,559	1,000,953
MRS - Sales Tax	241,129	276,410	281,791	282,767	349,494	461,426	522,142	418,096	385,437	371,406
MRS - Motor Fuel Tax	158,810	158,871	158,608	158,608	182,040	188,761	207,923	163,735	151,848	156,222
Total Tax Revenues	\$ 2,930,758	\$ 3,156,989	\$ 3,257,327	\$ 3,430,766	\$ 3,773,766	\$ 4,680,447	\$ 5,125,909	\$ 5,124,020	\$ 5,417,057	\$ 5,453,754

* The City levied its first ad valorem tax beginning with the fiscal year ending in 2005.

** Prior to fiscal year 2008, these were classified as Occupational Licenses

*** City's Share of Intergovernmental tax amounts collected by State of Florida

City of Callaway, Florida
Assessed Value and Taxable Value of Property (unaudited)
Last Five Fiscal Years**
(in thousands of dollars)

Fiscal Year	Real Property Assessed Value	Personal Property Assessed Value	Total Property Assessed Value	Less: Tax-Exempt Property	Net Taxable Value	Direct Tax Rate
2005	\$ 575,551	\$ 19,181	\$ 594,732	\$ (183,873)	\$ 410,859	\$ 2.00
2006	\$ 762,706	\$ 19,051	\$ 781,757	\$ (256,217)	\$ 525,540	\$ 2.00
2007	\$ 907,839	\$ 19,102	\$ 926,941	\$ (312,888)	\$ 614,053	\$ 2.00
2008	\$ 900,806	\$ 22,158	\$ 922,964	\$ (357,965)	\$ 564,999	\$ 2.25
2009	\$ 852,463	\$ 23,224	\$ 875,687	\$ (332,324)	\$ 543,363	\$ 2.25

Source: *Bay County Property Appraiser*

** The City levied its first ad valorem tax beginning with the fiscal year ending in 2005

City of Callaway, Florida
Direct and Overlapping Property Tax Rates (unaudited)
Last Ten Tax Years
(rate per \$1,000 of assessed value)

<u>Taxing Authority</u>	Tax Year									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
City of Callaway - Direct Rate:	--	--	--	--	2.0000	2.0000	2.0000	2.0000	2.2500	2.2500
Bay County Overlapping Rates:										
General	5.6620	5.6620	5.6620	5.6620	5.6620	5.6620	4.1620	3.7915	3.6500	3.6500
Mosquito Control	<u>0.1852</u>	<u>0.1852</u>	<u>0.1852</u>	<u>0.1852</u>	<u>0.1852</u>	<u>0.1852</u>	<u>0.1852</u>	<u>0.1525</u>	<u>0.1525</u>	<u>0.1525</u>
Total Overlapping Rate for Bay County	5.8472	5.8472	5.8472	5.8472	5.8472	5.8472	4.3472	3.9440	3.8025	3.8025
Bay County School Districts	8.6690	8.5300	8.6550	8.5690	8.1480	7.9350	6.8080	6.4710	6.7630	7.6230
Northwest FL Water Mgmt District	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0450	0.0450	0.0450

Source: Bay County Tax Collector

City of Callaway, Florida
Top Ten Property Taxpayers (unaudited)
Current Year and Four Years Ago**
(in thousands of dollars)

	<u>2009</u>			<u>2005</u>		
Total Taxable Value	\$ 543,363			\$ 410,859		
<u>Taxpayer</u>	<u>Taxable Value</u>	<u>Rank</u>	<u>% of Total Taxable Value</u>	<u>Taxable Value</u>	<u>Rank</u>	<u>% of Total Taxable Value</u>
Wal-Mart Stores #01-1207	\$ 12,487	1	2.30%	\$ 8,275	1	2.01%
Bridge Harbor Investment Co	9,972	2	1.84%			
PCB East Bay 1120 LLC	8,186	3	1.51%	5,024	2	1.22%
Avenue 12 Holdings, LP	5,275	4	0.97%			
East Bay Development Co of FL	4,371	5	0.80%			
Liberty VP Panama City LLC	3,811	6	0.70%			
Callaway Bayou Land Holdings	3,551	7	0.65%	2,086	6	0.51%
Formation Portfolio I LLC	3,330	8	0.61%	2,937	4	0.71%
Laird Point Investors, LLC	3,226	9	0.59%			
P & N Callaway LLC	3,097	10	0.57%	1,929	8	0.47%
Callaway Plaza LLC			---	2,958	3	0.72%
Bay Front Dev Co Inc			---	2,226	5	0.54%
Feltman, James W			---	1,968	7	0.48%
Kenneth Storey - Trustee			---	1,908	9	0.46%
Wal-Mart Stores, Inc.			---	1,881	10	0.46%
TOTAL OF TOP TEN TAXPAYERS	\$ 57,306		10.55%	\$ 31,192		7.59%

Source: Bay County Property Appraiser

** The City levied its first ad valorem tax beginning with the fiscal year ending in 2005

City of Callaway, Florida
Property Tax Levies and Collections (unaudited)
Last Five Fiscal Years*

City's Fiscal Year	Tax Year	Taxes Levied for the Fiscal Year*			Collected within the Fiscal Year of the Levy**		Collections in Subsequent Years	Total Collections to Date	
		(Original Levy)	Adjustments	Total Adjusted Levy	Amount	Percentage of Original Levy		Amount	Percentage of Original Levy
2005	2004	\$ 709,813	\$ (220)	\$ 709,593	\$ 684,714	96%	\$ 637	\$ 685,352	97%
2006	2005	821,549	594	822,143	784,597	96%	982	785,579	96%
2007	2006	1,050,846	43	1,050,889	1,011,029	96%	538	1,011,567	96%
2008	2007	1,228,406	3,663	1,232,069	1,187,963	97%	1,664	1,189,627	97%
2009	2008	1,271,539	3,320	1,274,859	1,211,330	95%	22,335	1,233,665	97%

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Source: Bay County Property Appraiser

* The City levied its first property tax beginning with the fiscal year ending September 30, 2005 with millage rate of 2.0000 mils. Property taxes become due and payable on November 1 of each year. A four percent discount is allowed if the taxes are paid in November with the discount declining each month thereafter. Accordingly, all taxes collected will not be 100% of the amount levied.

** Taxes become delinquent April 1 each year and tax certificates for the full amount of any unpaid taxes must be sold no later than June 1 of each year. Proceeds of tax certificates are included in this column.

City of Callaway, Florida
Revenue Capacity Information for Water Fund (unaudited)
Last Five Fiscal Years

	FISCAL YEAR				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>Operating Revenue</u>					
Water Charges	\$ 1,629,488	\$ 1,752,381	\$ 1,864,661	\$ 2,016,657	\$ 2,084,558
Connection, reset, & reactivation fees	14,376	16,770	16,945	18,816	20,590
Late Fees	37,527	40,007	43,266	46,402	49,658
Tap Fees	4,981	6,506	7,916	3,950	2,760
Other Utility Income	40,630	32,449	49,901	22,092	14,679
Miscellaneous Income	-	750	-	765	7,949
Special Capital Extension Fees	-	1,422,338	-	-	-
Impact Fees	82,734	852,671	111,693	91,070	37,829
Total Operating Revenue	\$ 1,809,736	\$ 4,123,872	\$ 2,094,382	\$ 2,199,752	\$ 2,218,023
<u>Average # of Accounts per Month</u>	7,153	7,461	7,584	7,627	7,773
<u>Total Annual # of Gallons Billed (in thousands)</u>	429,898	512,897	503,159	464,036	455,789
<u>Average # of Gallons per Month per Account</u>	5,008	5,729	5,529	5,070	4,886
<u>Service Billing Rates**</u>					
Base Rate Charge Inside City Limits	\$ 7.38	\$ 7.57	\$ 8.12	\$ 9.34	\$ 10.05
Usage fee per 1,000 gallons Inside City Limits	\$ 2.48	\$ 2.54	\$ 2.72	\$ 3.13	\$ 3.37
Base Rate Charge Outside City Limits	\$ 9.23	\$ 9.46	\$ 10.15	\$ 11.68	\$ 12.56
Usage fee per 1,000 gallons Outside City Limits	\$ 3.10	\$ 3.18	\$ 3.40	\$ 3.91	\$ 4.21

** Rates in effect as of September 30 of each year. Charges are prorated during the initial and final month of service.

City of Callaway, Florida
Revenue Capacity Information for Sewer Fund (unaudited)
Last Five Fiscal Years

	FISCAL YEAR				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>Operating Revenue</u>					
Sewer Charges	\$ 2,948,081	\$ 3,049,712	\$ 3,066,181	\$ 3,456,333	\$ 3,499,247
Connection, reset, & reactivation fees	800	-	210	17,545	17,984
Late Fees	63,399	70,801	74,572	82,586	86,666
Tap Fees	8,100	11,693	2,937	4,902	2,950
Miscellaneous Income	2,470	5,999	502	254	1,373
Special Capital Extension Fees	-	379,620	-	-	-
Impact Fees	166,423	1,534,189	253,693	174,095	47,122
Total Operating Revenue	\$ 3,189,273	\$ 5,052,014	\$ 3,398,095	\$ 3,735,715	\$ 3,655,342
<u>Average # of Accounts per Month</u>					
	5,807	6,083	6,173	6,193	6,292
<u>Total Annual # of Gallons Billed (in thousands)</u>					
	371,291	411,957	399,695	381,922	378,549
<u>Average # of Gallons per Month per Account</u>					
	5,328	5,644	5,396	5,139	5,014
<u>Service Billing Rates**</u>					
Base Rate Charge Inside City Limits	\$ 23.91	\$ 24.51	\$ 24.51	\$ 28.19	\$ 28.89
Usage fee per 1,000 gallons Inside City Limits	\$ 2.90	\$ 2.97	\$ 2.97	\$ 3.42	\$ 3.51
Base Rate Charge Outside City Limits	\$ 29.89	\$ 30.64	\$ 30.64	\$ 35.24	\$ 36.11
Usage fee per 1,000 gallons Outside City Limits	\$ 3.63	\$ 3.71	\$ 3.71	\$ 4.28	\$ 4.39

** Rates in effect as of September 30 of each year. Charges are prorated during the initial and final month of service.

City of Callaway, Florida
Ratios of Outstanding Debt by Type (unaudited)
Last Six Fiscal Years

Fiscal Year	<u>Governmental Activities</u>			<u>Business-type Activities</u>			<u>TOTAL</u>	% of	Per
	Revenue Bonds	Capital Leases	Note Payable	Revenue Bonds	Capital Leases	Note Payable	Primary Government	Percapita Income**	Capita**
2004	\$ 1,648,791	\$ 181,217	\$ -	\$ 7,850,000	\$ -	\$ 10,631,483	\$ 20,311,491	5.25%	\$ 1,398
2005	1,552,223	115,320	268,810	7,417,500	-	9,926,080	\$ 19,279,933	4.64%	1,332
2006	1,427,060	61,135	-	7,185,000	127,936	9,312,560	\$ 18,113,691	4.12%	1,258
2007	1,299,476	18,419	-	27,498,368	98,331	8,681,618	\$ 37,596,212	8.23%	2,658
2008	1,143,150	-	2,444,500	27,238,437	67,193	8,032,756	\$ 38,926,036	8.43%	2,786
2009	3,023,769	-	406,837	29,357,324	34,444	7,365,463	\$ 40,187,837	N/A	2,891

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Details regarding the city's outstanding debt can be found in the notes to the financial statements

** These ratios are calculated using per capita income and estimated population for the prior calendar year as published by the Population Division of the U.S. Census Bureau and the Florida Legislature Office of Economic and Demographic Research. Prior year ratios have been recalculated using the the latest revised published estimates. Additional demographic information can be found later in this section. N/A = Not yet available.

This schedule is presented retroactively to fiscal year ending in 2004, which is the year in which the City implemented GASB34.

City of Callaway, Florida
Ratios of General Bonded Debt Outstanding (unaudited)
Last Six Fiscal Years

<u>Fiscal Year</u>	<u>Revenue Bonds</u>	<u>Population Estimate*</u>	<u>Per Capita</u>
2004	\$ 1,648,791	14,524	\$ 113.52
2005	1,552,223	14,480	\$ 107.20
2006	1,427,060	14,415	\$ 99.00
2007	1,299,476	14,173	\$ 91.69
2008	1,143,150	13,947	\$ 81.96
2009	3,023,769	13,899	\$ 217.55

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

* As published by the Population Division of the U.S. Census Bureau for the prior year. Prior year amounts have been revised to list the latest published estimate. Additional demographic information can be found later in this section.

This schedule is presented retroactively to fiscal year ending in 2004, which is the year in which the City implemented GASB34.

City of Callaway, Florida
Pledged Revenue Coverage - Water & Sewer Revenue Bonds (unaudited)
Last Ten Fiscal Years

FISCAL YEAR	OPERATING REVENUE (1)	Less: OPERATING EXPENSES (2)	SPECIAL CAP. EXTENSION FEES (3)	AVAILABLE PLEDGED REVENUE (net)	REVENUE BOND DEBT SERVICE			COVERAGE
					PRINCIPAL	INTEREST (4)	TOTAL BOND DEBT SVC	
2000	\$ 3,669,669	\$ 4,196,179	N/A	\$ (526,510)	\$ 194,288	\$ 16,969	\$ 211,257	(2.49)
2001	\$ 3,732,707	\$ 3,870,872	N/A	\$ (138,165)	\$ 232,810	\$ 10,161	\$ 242,971	(0.57)
2002	\$ 3,974,210	\$ 4,013,426	N/A	\$ (39,216)	\$ 60,000	\$ 4,875	\$ 64,875	(0.60)
2003	\$ 3,939,372	\$ 4,219,490	N/A	\$ (280,118)	\$ -	\$ -	\$ -	N/A
2004	\$ 5,285,750	\$ 4,344,141	N/A	\$ 941,609	\$ -	\$ -	\$ -	N/A
2005	\$ 4,749,852	\$ 4,177,890	N/A	\$ 571,962	\$ -	\$ -	\$ -	N/A
2006	\$ 6,789,026	\$ 4,096,716	N/A	\$ 2,692,310	\$ -	\$ -	\$ -	N/A
2007	\$ 5,127,091	\$ 4,287,574	N/A	\$ 839,517	\$ -	\$ -	\$ -	N/A
2008	N/A	N/A	\$0.00	\$0.00	\$ -	\$ 1,049,658	\$ 1,049,658	0.00
2009	N/A	N/A	\$0.00	\$0.00	\$ -	\$ 1,032,450	\$ 1,032,450	0.00

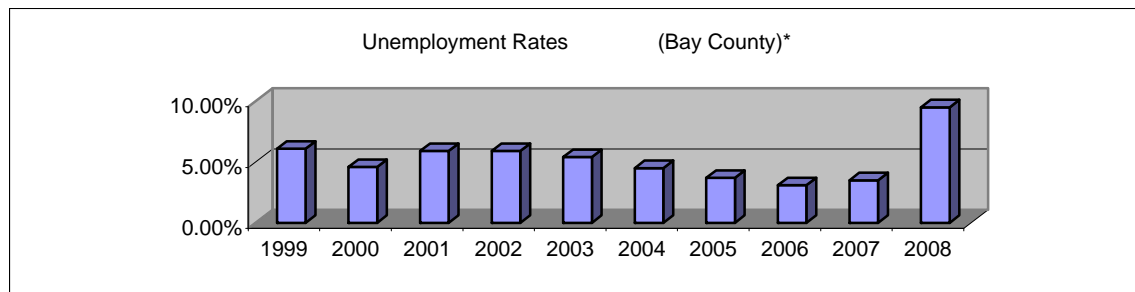
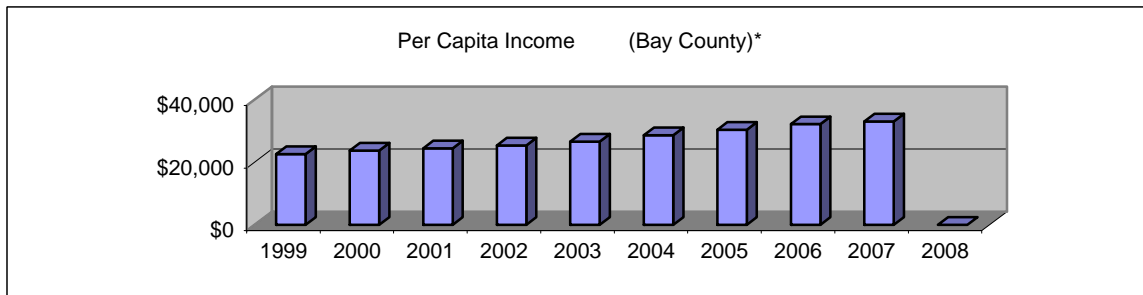
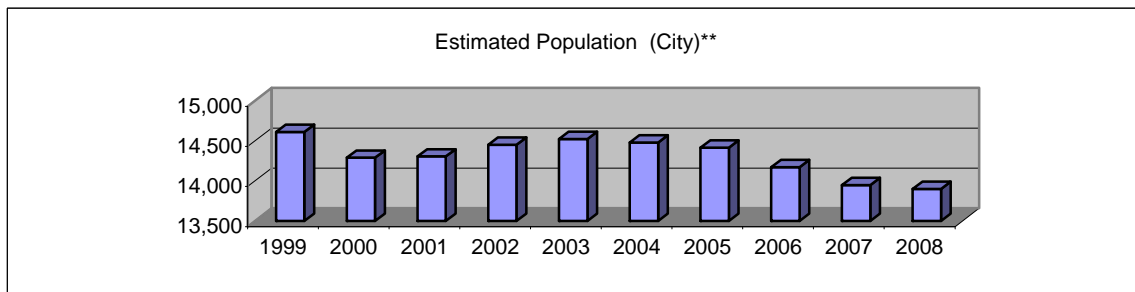
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Details regarding the city's outstanding debt can be found in the notes to the financial statements.

- (1) Gross Revenue for 1999-2007 includes all water and sewer fund operating revenues other than Impact Fees which are not available for debt service.
- (2) Operating Expenses for 1999-2007 include all water and sewer fund operating expenses except depreciation.
- (3) Special Capital Extension Fees are the pledged revenue source for the revenue bonds shown for 2008. No Special Capital Extension Fees were collected in fiscal year 2008. The City has covenanted to budget and appropriate non-ad valorem revenues in amounts sufficient to cure any such shortfall.
- (4) Interest amount is shown prior to adjustment for capitalized interest and premium amortization.

City of Callaway, Florida
Demographic Statistics (unaudited)
Last Ten Fiscal Years

Fiscal Year	Estimated Population (City)**	Estimated Population (County)*	Personal Income (County) (in thousands)*	Per Capita Income (Bay County)*	Unemployment Rates (Bay County)*
1999	14,610	150,119	3,353,267	\$22,634	6.10%
2000	14,290	148,217	3,521,822	\$23,756	4.60%
2001	14,306	150,287	3,675,638	\$24,540	5.90%
2002	14,452	152,186	3,870,336	\$25,436	5.90%
2003	14,524	154,827	4,119,403	\$26,638	5.40%
2004	14,480	158,437	4,523,549	\$28,678	4.50%
2005	14,415	161,721	4,920,141	\$30,473	3.70%
2006	14,173	165,515	5,284,971	\$32,242	3.10%
2007	13,947	167,631	5,414,654	\$33,106	3.50%
2008	13,899	169,562	N/A	N/A	9.50%



* Source: Florida Legislature Office of Economic and Demographic Research

** Source: U.S. Census Bureau

N/A - Information not yet available

City of Callaway, Florida
Miscellaneous Statistical Data (unaudited)

Date of Incorporation: November 18, 1963

Date Original Charter Adopted: July 1, 1964

Date Present Chartered Adopted: April 26, 1996

Form of Government: Commissioner/City Manager with mayor elected every four years and commissioners elected for four year overlapping terms. At the first regular meeting following an election, the City Commission appoints one of its members as Mayor Pro Tem. The City Commission at its pleasure appoints a City Manager and City Clerk.

Location and Area: The City of Callaway is an urban community in Bay County east of Panama City, in the Panhandle Region of Northwest Florida. Being situated in the northern shores of East Bay, this community is separated from the Gulf of Mexico by East Bay and a peninsula occupied by Tyndall Air Force Base. Two other communities to the west of Callaway, Springfield and Parker, separate it from Panama City.

Comprised of an area of approximately twelve square miles, the City of Callaway is served by two major roadways: U.S. 98 on its western boundary, and S.R. 22 located in the northern portion of the City.

Police Protection: The City is served by the Bay County Sheriff's Office by contractual agreement. A substation is located within the City for the benefit of its citizens.

Fire Protection: The City provides its own fire protection with a paid staff of full-time firefighters, many of which are also certified as Emergency Medical Technicians. The City's Fire Department has also contracted to provide fire protection to some of the unincorporated areas of Bay County.

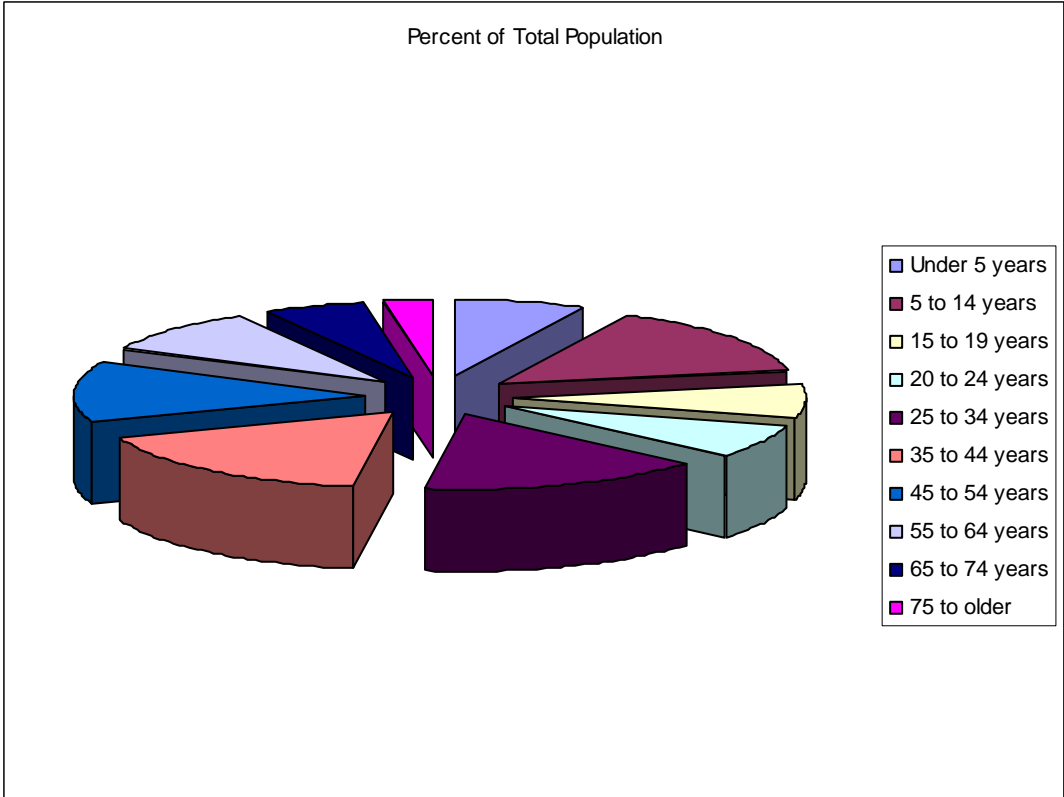
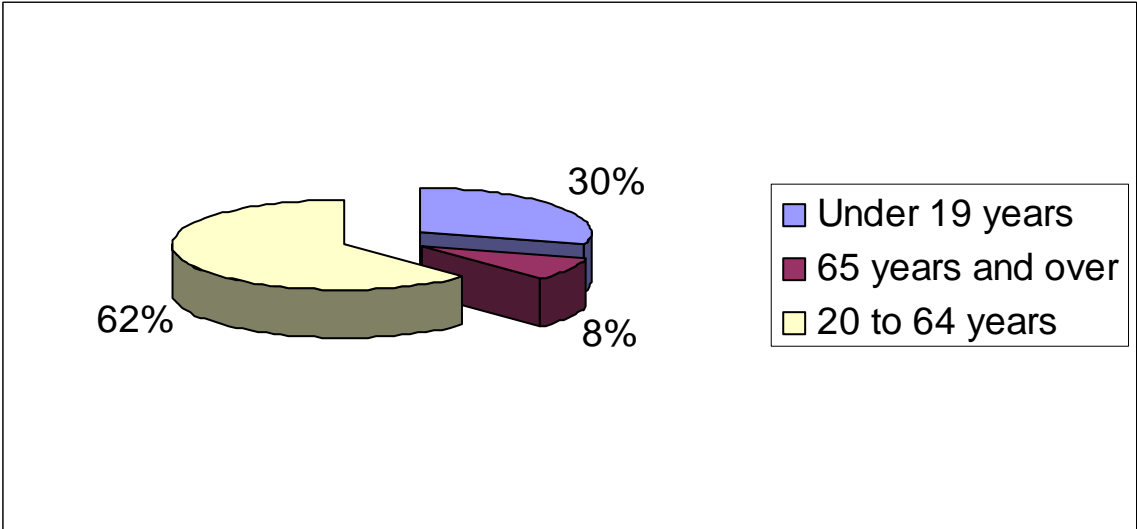
Total Households as of September 30, 2000: 5,541 (Source: U.S. Dept. of Commerce, 2000 Census)

Elections: Registered Voters – 8,340 (Source: Bay County Supr. of Elections)

Population: Total Population - 14,233 (U.S. Dept. of Commerce, 2000 Census)
Estimated population as of 7/1/08 – 13,899 (U.S. Census Bureau)

- Building Permits:** Building permits for the City are issued by an Independent Contractor.
- Water System:** Water is purchased from Bay County Water System. The City maintains the distribution system.
- Sewer System:** Wastewater is treated by the Military Point Advanced Wastewater Treatment Facility – a joint venture owned and governed by Bay County, and the cities of Callaway, Parker, and Springfield.
- Solid Waste Services:** The City provides weekly curbside pick-up for non-household trash. There are currently five privately owned companies which are licensed by the City to provide citizens with garbage service for their homes and businesses.
- Recreational Parks & Facilities:**
- Arts & Conference Center – Consists of a large auditorium/banquet room, Commission Meeting Room, small meeting room, full service catering kitchen, and an outdoor agricultural/farmers market.
 - Callaway Community Center/Gore Park – Consists of 1 baseball field, 2 baseball/softball fields, 2 tennis courts, 1 basketball court, a clubhouse and public restrooms, a boat ramp with a boat dock, and a picnic area. Paved parking is provided.
 - Callaway Recreational Complex – Consists of 2 t-ball fields, 2 baseball fields and 3 baseball/softball fields, a concession stand with a full service kitchen, bleachers, roadways, 2 batting cages, 3 soccer fields, 1 soccer/football field and a stocked fishing pond.
 - Patterson Park - Consists of large waterfront picnic area with a pathway looping through the park.
 - Collinfurst Square Park - Consists of walking track around a pond and three covered picnic tables.
 - Veterans Park - Consists of exercise/playground facilities for different age groups, including a walking track, picnic pavilion and observation pier overlooking a creek.
 - Brittany Woods Park - Consists of approximately 4 acres of land including a walking track.

CITY OF CALLAWAY POPULATION BY AGE GROUP 2000 CENSUS



City of Callaway, Florida
Principal Employers
Current Year and Two Years Ago*

<u>Employer</u>	<u>2009</u>			<u>2007</u>	
	<u>#</u> <u>Employees</u>	<u>Rank</u>	<u>Percentage of</u> <u>Total City</u> <u>Employment</u>	<u>#</u> <u>Employees</u>	<u>Rank</u>
Walmart	400	1	24.7%	400	1
Emerald Shores Health Care	95	2	5.9%	95	2
Applebees	59	3	3.6%	56	3
Beef O-Brady's	50	4	3.1%		
Kmart	49	5	3.0%	49	4
Po Folks	40	6	2.5%	40	5
Waste Management	40	7	2.5%	40	6
Burger King	37	8	2.3%		
Chik Fil A	34	9	2.1%	34	7
Sonic	31	10	1.9%	30	8
CVS Pharmacy				23	9
Wendy's				22	10
	<u>835</u>		<u>51.5%</u>	<u>789</u>	

* The City first began tracking this information in fiscal year 2007

Source: As reported to City on Business License Tax Applications

City of Callaway, Florida
Full Time Employees by Function/Program (unaudited)
Last Ten Fiscal Years

<u>Function/Program</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Government	16	17	16	14	12	12	12	14	14	14
Fire	11	11	11	11	11	13	13	14	14	15
Streets	7	8	7	14	13	13	13	13	13	9
Maintenance	2	2	2	3	3	3	3	3	3	3
Parks & Recreation	3	4	3	5	6	8	9	9	10	10
Water	10	10	10	10	11	11	13	14	13	13
Sewer	8	8	8	12	12	13	14	13	14	15
Solid Waste	4	4	4	5	4	6	6	6	6	5
TOTAL	61	64	61	74	72	79	83	86	87	84

Source: Filled positions as of September 30 of each year per City's records. (Includes elected officials)

City of Callaway, Florida
Operating Indicators by Function/Program (unaudited)
Last Five Fiscal Years

<u>Function/Program</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Government					
Building Permits Issued (incl. New, Remodels, Additions)	200	114	91	73	42
Business Licenses Issued	474	389	484	381	292
Police					
Sworn Deputies	14	15	15	15	16
Calls for Service	13,269	12,852	13,084	13,009	13,707
Traffic Stops	1,525	1,753	2,007	1,133	1,282
Citations & Infractions	1,031	1,207	1,373	680	606
Arrests	969	879	1,116	905	932
Fire					
Full-time Certified Firefighters	13	13	14	14	14
Firefighters also Certified as EMT or Paramedic	4	4	7	11	12
Emergency Responses	468	501	522	680	1,182
Streets					
Miles Resurfaced within the city	2.64	2.54	2.19	2.20	2.41
Parks & Recreation					
Public Parks	5	5	5	5	5
Recreational (sports) Facilities	2	2	2	2	2
Conference / Community Centers	2	2	2	2	2
Conference Center Admissions	7,016	13,211	7,333	10,760	7,786
Water					
Average number of customers per month	7,153	7,461	7,584	7,627	7,773
Total annual gallons billed (in thousands)	429,898	512,897	503,159	464,036	455,789
Base Rate Charge*	\$ 7.38	\$ 7.57	\$ 8.12	\$ 9.34	\$ 10.05
Usage fee per 1,000 gallons*	\$ 2.48	\$ 2.54	\$ 2.72	\$ 3.13	\$ 3.37
Sewer					
Average number of customers per month	5,807	6,083	6,173	6,193	6,292
Total annual gallons billed (in thousands)	371,291	411,957	399,695	381,922	378,549
Base Rate Charge*	\$ 23.91	\$ 24.51	\$ 24.51	\$ 28.19	\$ 28.89
Usage fee per 1,000 gallons*	\$ 2.90	\$ 2.97	\$ 2.97	\$ 3.42	\$ 3.51
Solid Waste					
Average number of customers per month	5,513	5,744	5,815	5,820	5,896
Total annual tonnage (hauled to landfill & grinder)	9,477	8,006	4,896	3,475	4,590
Rate of Flat Monthly Fee*	\$ 3.65	\$ 5.65	\$ 5.65	\$ 7.35	\$ 7.54

Sources: Various City departments.

* Fees are prorated during initial & final months of service. Rates shown are those in effect as of September 30 of each year for service within the City limits.

City of Callaway, Florida
Capital Asset Statistics by Function/Program (unaudited)
Last Six Fiscal Years

<u>Function/Program</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Government						
Administration Building (City Hall)	1	1	1	1	1	1
Modular Office Building (Planning)	-	-	-	-	1	1
Records Storage Building	1	1	1	1	1	1
Laserfiche Records System	1	1	1	1	1	1
Computer File Server	1	1	1	2	2	2
Public Safety						
Fire Station w/crew quarters & equip. bays	1	1	1	1	1	1
Fire Engines	2	2	2	2	2	2
Tanker Trucks	2	2	2	2	2	2
Rescue Vehicle w/response equipment	1	1	1	1	1	1
Brush Truck	1	1	1	1	1	1
Law Enforcement Sub-station (office)	1	1	1	1	1	1
Law Enforcement Patrol Units (fully equipped)*	14	14	15	15	15	15
* Provided by contractual agreement with Bay County Sheriff's Office.						
Highways & Streets						
Street Miles	81	81	81	81	81	84.1
Street Lights	60	60	61	61	60	72
Traffic Signals	9	9	9	9	9	9
Maintenance						
Shop Building	1	1	1	1	1	1
Service Truck	1	1	1	1	1	1
Fuel Inventory/Usage Tracking System	1	1	1	1	1	1
Fuel Tanks (above ground)	2	2	2	2	2	2
Parks & Recreation						
Public Parks	5	5	5	5	5	5
Community / Conference Centers	1	2	2	2	2	2
Boat Ramp	1	1	1	1	1	1
Baseball / Softball Fields	8	8	10	10	10	10
Football / Soccer Fields	5	5	5	5	7	7
Tennis Courts	2	2	2	2	2	2
Basketball Court	1	1	1	1	1	1
Walking Trails	3	3	3	3	3	4
Water						
Active water meters, annual average	7,168	7,153	7,461	7,584	7,627	7,773
Active Fire Hydrants (approx.)	350	350	350	400	396	418
Fieldbook Line Mapping System	-	-	1	1	1	1
Sewer						
Flow Capacity - reserved (Millions of gallons)	2.13812	2.13812	2.13812	2.13812	2.13812	2.13812
Lift stations in city	32	32	32	33	33	33
Vac-Con Trucks	2	2	2	2	2	2
Cues Camera-Equipped Truck	1	1	1	2	2	2
Solid Waste						
Trash Collection Trucks	3	3	4	4	4	4
Tub grinder	1	1	1	1	1	1

Compliance Section

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, Members of the
City Commission and City Manager
City of Callaway, 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 Callaway, Florida, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements and have issued our report dated March 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Callaway, Florida'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 of Callaway, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Callaway, Florida's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Callaway, Florida's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Callaway, Florida's financial statements that is more than inconsequential will not be prevented or detected by the City of Callaway, Florida's internal control.

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 City of Callaway, Florida'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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Callaway, Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 test disclosed no instances noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City of Callaway, Florida's management, City Commission, others within the entity, and appropriate federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Carri Riggs & Ingram, L.L.C.

Panama City Beach, Florida
March 9, 2010

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

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

We have audited the financial statements of the City of Callaway, Florida, as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated March 9, 2010.

We conducted our audit in accordance with United States generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our 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*, our Report on Compliance with Requirements Applicable to each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 9, 2010, should be considered in conjunction with this management letter.

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

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

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

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

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

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

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Callaway, Florida for the fiscal year ended September 30, 2009, 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, 2009. In connection with our audit, we determined that these two reports were in agreement.

Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended for the information and use of management, the City commission, and the 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.

Panama City Beach, Florida
March 9, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of City of Callaway, Florida, (the City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City's, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on

the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

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

Panama City Beach, Florida
March 9, 2010

City of Callaway, Florida
Schedule of Findings and Questioned Costs
Federal Awards
Year Ended September 30, 2009

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

Material weaknesses identified? Yes No

Significant deficiencies identified not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes No

Significant Deficiencies identified not considered to be material weaknesses? Yes None reported

Type of auditors' report issued on compliance for major federal programs and state projects: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs / state projects:

<u>CFDA Number</u>	<u>Name of Federal Agency/Program</u>
10.766	U. S Department of Agriculture Community Facilities Loans and Grants

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

Auditee qualified as low-risk auditee for Federal Single Audit? Yes No

City of Callaway, Florida
Schedule of Findings and Questioned Costs
Federal Awards
Year Ended September 30, 2009
(continued)

Section II - Financial Statement Findings

There were no findings.

Section III – Findings and Questioned Costs – Major Federal Award Programs

There were no findings.

There were no prior year audit findings.

City of Callaway, Florida
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2009

Federal Agency/Federal Program	CFDA No.	Contract/ No.	Expenditures
U.S. Department of Agriculture			
Community Facilities Loans and Grants	10.766	NA	\$ 2,100,000

Notes to Schedule

1. The City follows the modified accrual basis of accounting in preparing this schedule. This method is consistent with the preparation of the City's financial statements.