**Audit Report** 

September 30, 2018



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#### INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Town Council Town of Callahan, Florida

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Callahan, Florida (the "Town"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

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

#### **Auditors' Responsibility**

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

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

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

#### **Summary of Opinions**

Opinion UnitType of OpinionGovernmental ActivitiesUnmodifiedBusiness-Type ActivitiesQualifiedGeneral FundUnmodifiedWater and Sewer FundQualified

#### Basis for Qualified Opinions on Business-type Activities and Water and Sewer Fund

Management was unable to provide sufficient and appropriate audit evidence for water and sewer revenue in the Water and Sewer Fund as of and for the year ended September 30, 2018, due to unreliable data from the water and sewer billing and usage systems. Accounting principles generally accepted in the United States of America require the proper recognition of revenues, associated receivables and resulting net position. The amount by which this departure would affect the assets, revenues, and net position of the Business-type Activities and Water and Sewer Fund has not been determined.

#### **Qualified Opinions**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions on Business-type Activities and Water and Sewer Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and Water and Sewer Fund of the Town, as of September 30, 2018, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Town, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Other Matters

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension trend information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2019 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.

St. Augustine, Florida

Can Rigge & Ingram, L.L.C.

#### **Management's Discussion and Analysis**

This discussion and analysis of the Town of Callahan's (the "Town") financial performance provides an overview of the Town's financial activities for the fiscal year ended September 30, 2018. Please read it in conjunction with the Town's financial statements, which follow this section.

#### **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

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

#### **Government-wide Financial Statements**

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

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

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

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

#### **Fund Financial Statements**

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

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

#### **Management's Discussion and Analysis**

Proprietary fund – The Water and Sewer Fund is the Town's only proprietary fund. The proprietary
fund is reported using the accrual basis of accounting and, accordingly, there is a correlation
between the amounts reported in the fund financial statements and the amounts reported in the
government-wide financial statements.

#### **CONDENSED FINANCIAL INFORMATION**

The following tables present condensed, government-wide comparative data about net position and changes in net position.

	Govern	ımen	ıtal	Busine	ss-ty	pe			
	Acti	vities		Activ	/ities		То	tal	
No.	2017		2018	2017		2018	2017		2018
Assets									
Non-capital assets	\$ 1,124,404	\$	1,447,684	\$ 965,172	\$	801,181	\$ 2,089,576	\$	2,248,865
Capital assets	757,960		796,846	6,818,270		7,204,535	7,576,230		8,001,381
Total assets	1,882,364		2,244,530	7,783,442		8,005,716	9,665,806		10,250,246
Deferred outflows of resources	91,672		91,550	78,090		77,985	169,762		169,535
Liabilities									
Current liabilities	72,645		93,996	132,455		195,294	205,100		289,290
Long-term liabilities	245,726		232,048	1,212,147		1,144,104	1,457,873		1,376,152
Total liabilities	318,371		326,044	1,344,602		1,339,398	1,662,973		1,665,442
Deferred inflows	14,553		23,511	12,399		20,030	26,952		43,541
Net position									
Net investment in capital assets	684,744		745,084	5,927,617		6,368,200	6,612,361		7,113,284
Restricted	-		-	475,850		419,117	475,850		419,117
Unrestricted	956,368		1,241,441	101,064		(63,044)	1,057,432		1,178,397
Total net position	\$ 1,641,112	ş	1,986,525	\$ 6,504,531	\$	6,724,273	\$ 8,145,643	\$	8,710,798

## Town of Callahan, Florida Management's Discussion and Analysis

#### **CONDENSED FINANCIAL INFORMATION (CONTINUED)**

		Govern				Business-t	**	T 1	
	,—	Activ 2017	rittes	2018		Activitie 2017	2018	Total	2018
								2027	2010
Program revenues									
Charges for services	\$	148,403	Ş	88,132	Ş	686,672 \$	1,319,262 \$	835,075 \$	1,407,394
General revenues									
Capital grants and contributions		-		107,500		-	-	-	107,500
Property taxes		234,356		248,301		-	-	234,356	248,301
Intergovernmental and other		471,881		683,413		•	-	471,881	683,413
Miscellaneous		29,871		32,216				29,871	32,216
Total revenues		884,511		1,159,562		686,672	1,319,262	1,571,183	2,478,824
Program expenses									
General government		359,832		333,936		-	-	359,832	333,936
Public safety		185,454		173,818		-	-	185,454	173,818
Transportation		324,809		305,748		-	-	324,809	305,748
Economic environment		11,150		13,686		-	-	11,150	13,686
Human services		13,982		3,500		-	-	13,982	3,500
Culture and recreation		20,982		52,937		-	-	20,982	52,937
Interest on long-term debt		4,718		1,331		-	-	-	1,331
Water and sewer				-		1,194,931	1,028,713	1,194,931	1,028,713
Total expenses		920,927		884,956		1,194,931	1,028,713	2,115,858	1,913,669
Transfers		59,092		70,807		(59,092)	(70,807)	-	
Change in net position		22,676		345,413		(567,351)	219,742	(544,675)	565,155
Beginning net position		1,618,436		1,641,112		7,071,882	6,504,531	8,690,318	8,145,643
Ending net position	\$	1,641,112	\$	1,986,525	\$	6,504,531 \$	6,724,273 \$	8,145,643 \$	8,710,798

#### Management's Discussion and Analysis

#### **OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS**

#### **Governmental Activities**

The governmental activities generated \$88,132 in program revenues and \$1,071,430 in general revenues, and incurred \$884,956 of program expenses, and received transfers of \$70,807 from the Water and Sewer Fund. This resulted in a \$345,413 increase in net position.

#### **Business-type Activities**

Revenues of the Water and Sewer Fund were \$1,319,262 compared to expenses and transfers of \$1,099,520. This resulted in a \$219,742 increase in net position.

#### THE TOWN'S INDIVIDUAL FUNDS

#### **General Fund**

The General Fund's fund balance increased by \$303,123 from \$1,078,987 to \$1,382,110. The increase was primarily the result of an increase in utility service taxes, expenditures being below amounts anticipated and budgeted, and transfers from the Water and Sewer Fund being above amounts anticipated and budgeted.

#### **Water and Sewer Fund**

The Water and Sewer Fund's net position increased by \$219,742 from \$6,504,531 to \$6,724,273. The increase was primarily the result of grant revenue of \$624,453 for the year end September 30, 2018, of which most was used for capital improvements and included in construction in progress at year end. Additionally, depreciation expense decreased for the year ended September 30, 2018.

#### **BUDGETARY HIGHLIGHTS**

Revenues of the General Fund were more than budgeted amounts. The largest variance between final budget amounts and actual results occurred with utility service taxes, intergovernmental revenues and grants.

General Fund expenditures were below budgeted amounts in total. General Government and Transportation expenditure categories accounted for the largest variances between budget and actual amounts.

#### **Management's Discussion and Analysis**

#### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### **Capital Assets**

The Town purchased capital assets of approximately \$897,500, including land, building improvements, equipment and construction in progress. Please refer to a note to the accompanying financial statements entitled, *Capital Asset Activity* for more detailed information about the Town's capital asset activity.

#### **Debt Administration**

The Town incurred no new long-term debt during the year.

Please refer to a note to the accompanying financial statements entitled *Long-term Obligations* for more detailed information about the Town's long-term debt activity.

#### **ECONOMIC FACTORS**

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

#### **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Town Hall at PO Box 5016; Callahan, FL 32012.

Town of Callahan, Florida

### Statement of Net Position September 30, 2018

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and equivalents	\$ 1,379,874	\$ 295,430	\$ 1,675,304
Accounts receivable	-	55,101	55,101
Internal balances	33,899	(33,899)	_
Due from other governments	33,911		33,911
Inventories	-	52,453	52,453
Prepaid expenses	-	12,979	12,979
Restricted cash and equivalents	-	419,117	419,117
Capital assets:			
Non-depreciable	363,781	868,222	1,232,003
Depreciable, net	433,065	6,336,313	6,769,378
Total assets	2,244,530	8,005,716	10,250,246
Deferred outflows of resources			
Pension related	91,550	77,985	169,535
Liabilities			
Accounts payable and accrued expenses	65,574	91,914	157,488
Deposits	-	49,730	49,730
Noncurrent liabilities:			
Due within one year	28,422	53,650	82,072
Due in more than one year	232,048	1,144,104	1,376,152
Total liabilities	326,044	1,339,398	1,665,442
Deferred inflows of resources			
Pension related	23,511	20,030	43,541
Tension related	23,311	20,030	45,541
Net position			
Net investment in capital assets	774,259	6,368,201	7,142,460
Restricted for debt service	***	84,425	84,425
Restricted for renewal and replacement	-	179,550	179,550
Restricted for capital projects	-	155,142	155,142
Unrestricted	1,212,266	(63,045)	 1,149,221
Total net position	\$ 1,986,525	\$ 6,724,273	\$ 8,710,798

Town of Callahan, Florida

# Statement of Activities Year ended September 30, 2018

ctions/Programs Sovernmental activities: General government Public safety Transportation Economic environment						
ctions/Programs Sovernmental activities: General government Public safety Transportation Economic environment	000000000	Charges for	Gove	Governmental	Business- type	
Sovernmental activities: General government Public safety Transportation Economic environment	Expenses	Services	Act	Activities	Activities	Total
General government Public safety Transportation Economic environment						
Public safety Transportation Economic environment Human services	\$ 333,936 \$	42,472	-ζ>	(291,464) \$	<b>₹</b>	(291,464)
Transportation Economic environment Human services	173,818	33,550		(140,268)	,	(140,268)
Economic environment Human cervices	305,748	12,110		(293,638)	1	(293,638)
Human services	13,686	,		(13,686)	,	(13,686)
	3,500	•		(3,500)		(3,500)
Culture and recreation	52,937	,		(52,937)	1	(52,937)
Interest on long-term debt	1,331			(1,331)	1	(1,331)
Total governmental activities	884,956	88,132		(796,824)		(796,824)
susiness-type activities						
Water and sewer	1,028,713	1,319,262	l		290,549	290,549
Total	\$ 1,913,669 \$	1,407,394		(796,824)	290,549	(506,275)
	General revenues:					
	Property taxes			248,301		248,301
	Sales tax and other shared revenues	shared revenues		146,386	•	146,386
	Discretionary sales surtaxes	urtaxes		173,032		173,032
	Franchise fees			139,447		139,447
	Utility taxes			162,497	1	162,497
	Communications service tax	vice tax		62,051	1	62,051
	Captial grants and contributions	ontributions		107,500	1	107,500
	Miscellaneous			32,216	ŧ	32,216
	Transfers			70,807	(70,807)	
	Total general revenues and transfers	es and transfers		1,142,237	(70,807)	1,071,430
	Change in net position			345,413	219,742	565,155
	Net position – beginning of year	ng of year		1,641,112	6,504,531	8,145,643
	Net position – end of year	ear	\$	1,986,525 \$	6,724,273 \$	8,710,798

Business-type activities Water and sewer

Governmental activities: General government

Functions/Programs

#### Balance Sheet Governmental Fund September 30, 2018

	Gener	al Fund
Assets		
Cash and equivalents	\$ 1,	379,874
Due from other fund		33,899
Due from other governments		33,911
Total assets	\$ 1,	447,684
Liabilities		
Accounts payable and accrued expenses	\$	65,574
Total liabilities		65,574
Fund balance		
Unassigned	1,:	382,110
Total liabilities and fund balance	\$ 1,4	147,684

#### Reconciliation of the Balance Sheet to the Statement of Net Position Governmental Fund September 30, 2018

Fund balance – governmental fund	\$ 1,382,110
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not reported in	
the governmental fund.	
Capital assets – net	796,846
Deferred outflows and inflows of resources associated with pensions are not reported in the governmental fund.	
Deferred outflows of resources	91,550
Deferred inflows of resources	(23,511)
Long-term liabilities are not reported in the governmental fund.	
Note payable	(22,586)
Compensated absences	(5,775)
Net pension liability	(232,109)
Net position of governmental activities	\$ 1,986,525

#### Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Fund Year ended September 30, 2018

	Genera Fund	I
	Turid	
Revenues		
Taxes	\$ 666,	
Permits, fees and special assessments	154,	
Intergovernmental	245,	
Charges for services		788
Fines and forfeitures	-	355
Miscellaneous	32,	216
Total revenues	1,159,	562
Expenditures		
Current:		
General government	369,	048
Public safety	161,	
Transportation	298,	
Economic environment		686
Human services		500
Culture and recreation	-	812
Debt service:	3.,	
Principal	21	929
Interest		331
Total expenditures	927,	246
Excess of revenues		
over expenditures	232,	316
Other financing sources		
Transfers in	70,	807
Total other financing sources	70,	807
Net change in fund balance	303,	
Fund balance – beginning of year	1,078,	987
Fund balance – end of year	\$ 1,382,	110

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities Governmental Fund Year ended September 30, 2018

Net change in fund balance – governmental fund	\$ 303,123
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However,	
in the statement of activities the cost of those assets is depreciated over their estimated useful lives.	
Acquisitions of capital assets	122,081
Current year depreciation expense	(83,195)
Repayment of debt principal is an expenditure in governmental funds, but the repayment does not effect net position of governmental activities.	
Principal payments on long-term debt	21,929
The net change in net pension liability and deferred outflows and inflows are	
reported in the statement of activities, but not in the governmental funds.	
Change in net pension liability	(8,488)
Change in deferred outflows related to pensions	(122)
Change in deferred inflows related to pensions	(8,958)
Some expenses reported in the statement of activities do not require the use	
of current financial resources and therefore are not reported as	
expenditures in governmental funds.	
Compensated absences	(957)
Change in net position of governmental activities	\$ 345,413

#### Statement of Net Position Proprietary Fund September 30, 2018

	Water and
	Sewer Fund
Current assets	
Cash and equivalents	\$ 295,430
Accounts receivable	55,101
Inventories	52,453
Prepaid expenses	12,979
Total current assets	 415,963
Noncurrent assets	
Restricted cash and equivalents	419,117
Capital assets, net	7,204,535
Total noncurrent assets	7,623,652
Total assets	 8,039,615
Deferred outflows	
Pension related	77,985
Current liabilities	
Accounts payable	91,914
Deposits	49,730
Due to other fund	33,899
Current portion of noncurrent liabilities	53,650
Total current liabilities	229,193
Noncurrent liabilities	 1,144,104
Total liabilities	1,373,297
Deferred inflows	
Pension related	20,030
Net position	
Net investment in capital assets	6,368,201
Restricted for debt service	84,425
Restricted for renewal and replacement	179,550
Restricted for capital projects	155,142
Unrestricted	(63,045)
Total net position	\$ 6,724,273

## Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Fund Year ended September 30, 2018

	Water and
	Sewer Fund
Operating revenues	
User fees - water	\$ 300,213
User fees - sewer	312,467
User fees - garbage	67,019
Operating Grant revenues - water	305,982
Operating Grant revenues - sewer	318,471
Other operating revenues - water	7,403
Other operating revenues - sewer	7,707
Total operating revenues	1,319,262
Operating expenses	
Personal services - water	102,400
Personal services - sewer	102,400
Operating expenses - water	172,166
Operating expenses - sewer	222,754
Depreciation and amortization - water	77,830
Depreciation and amortization - sewer	311,321
Total operating expenses	988,871
Operating income	330,391
Nonoperating expenses	
Interest expense - water	(19,921)
Interest expense - sewer	(19,921)
Income before transfers	290,549
Transfers out	(70,807)
Change in net position	219,742
Net position – beginning of year	6,504,531
Net position – end of year	\$ 6,724,273

## Statement of Cash Flows Proprietary Fund Year ended September 30, 2018

	_	Vater and ewer Fund
Operating activities		
Receipts from customers	\$	697,101
Capital grants		624,453
Payments to suppliers		(332,236)
Payments to employees		(186,472)
Net cash provided by operating activities		802,846
Noncapital financing activities		
Net transfers out		(57,298)
Principal paid on noncapital debt		(21,000)
Net cash used by noncapital financing activities		(78,298)
Capital and related financing activities		
Acquisitions of capital assets		(775,416)
Principal paid on capital-related debt		(54,319)
Interest paid on capital-related debt		(39,842)
Net cash used by capital and related financing activities		(869,577)
Change in cash and restricted cash and equivalents		(145,029)
Cash and restricted cash and equivalents — beginning of year		859,576
Cash and restricted cash and equivalents – end of year	\$	714,547
Reconciliation of operating income to net cash provided		
by operating activities		
Operating income	\$	330,391
Depreciation and amortization		389,151
Change in:		
Accounts receivable		163
Inventories		2,923
Accounts payable		57,394
Deferred outflows of resources for pensions		105
Compensated absences		3,361
Net pension liability		7,231
Deposits		2,129
Prepaid expenses		2,367
Deferred inflows of resources for pensions		7,631

#### **Notes to Financial Statements**

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### Reporting Entity

The Town is a political subdivision of the State of Florida established by Chapter 6333, Laws of Florida. It is governed by an elected Mayor and Town Council. As required by generally accepted accounting principles, the accompanying financial statements present the Town as a primary government. Component units are entities for which a primary government is considered to be financially accountable.

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.

There are no component units included in the Town's financial reporting entity.

The Town did not participate in any joint ventures during the fiscal year.

#### **Basis of Presentation**

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

#### **Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees charged to external parties.

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

#### **Notes to Financial Statements**

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Fund Financial Statements**

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. The governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental fund.

The Town reports the following major governmental fund:

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

The Town reports the following major enterprise fund:

Water and Sewer Fund – to account for the assets, operation, and maintenance of the Town-owned water and sewer system.

#### Measurement Focus and Basis of Accounting

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

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

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Intergovernmental revenues constitute the most significant source of revenue considered susceptible to accrual. In governmental funds, expenditures are generally recognized when the related liability is incurred. However, debt service expenditures, and expenditures for compensated absences and claims and judgments, are recorded only when payment is due.

#### **Notes to Financial Statements**

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Cash and Cash Equivalents

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

#### **Deposits and Investments**

The Town's cash and equivalents consist of legally authorized demand deposits. The institutions in which these deposits are kept are certified as Qualified Public Depositories under the Florida Public Deposits Act. Therefore, these balances on deposit at September 30, 2018 are insured or collateralized through the Bureau of Collateral Management, Division of Treasury, State Department of Financial Services.

As its investment policy, the Town follows Section 218.415, Florida Statutes, which authorizes the Town to invest excess public funds in the following:

- Direct obligations of the U.S. Treasury;
- Savings accounts and certificates of deposit in qualified public depositories;
- The Local Government Surplus Funds Trust Fund and authorized intergovernmental pools;
- Securities and Exchange Commission registered money market funds with the highest credit quality rating.

#### Accounts Receivable

Receivables are stated at net realizable value. An allowance for uncollectible accounts was not considered necessary.

#### **Inventories**

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

#### **Prepaid Expenses**

Prepaid expenses consist of payments for commercial insurance for a policy with coverage for the next fiscal year.

#### Capital Assets

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

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

#### **Notes to Financial Statements**

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	<u>rears</u>
Buildings and improvements	10 – 50
Public domain infrastructure	30 – 50
System infrastructure	5 – 45
Vehicles, furniture and equipment	5 – 45

For its business-type activities, the Town's policy is to capitalize construction period interest costs on projects funded specifically through debt financing. No interest costs were capitalized during 2018.

#### **Compensated Absences**

The Town's policy is to allow limited vesting of employee vacation pay. In the governmental fund financial statements, a liability has not been reported because it will not be liquidated with expendable available financial resources. A liability for compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements.

#### **Long-Term Obligations**

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

In the fund financial statements, the face amount of debt issued is reported as other financing sources, while payments on principal are recognized as expenditures in the year paid.

#### **Property Taxes**

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

Lien date January 1
Levy date October 1

Discount period November - February

No discount period March
Delinquent date April 1

#### **Notes to Financial Statements**

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Operating Revenues and Expenses**

The enterprise fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### Restricted Net Position

In the accompanying government-wide and proprietary fund statements of net position, *restricted net position* is subject to restrictions beyond the Town's control. The restriction is either externally imposed (for instance, by creditors, grantors, contributors, or laws/regulations of other governments) or is imposed by law through constitutional provisions or enabling legislation.

As of September 30, 2018, approximately \$155,100 included in restricted net position was restricted by enabling legislation.

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

#### **Fund Balance**

The Town follows the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions to classify fund balances for governmental funds into specifically defined classifications. The classifications comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

Fund balance classifications are described below:

Nonspendable Fund Balance – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – Committed fund balances are amounts that can only be used for specific purposes as a result of constraints imposed by formal action of the Town's highest level of decision-making authority, which is an ordinance of the Town Council. Committed amounts cannot be used for any other purpose unless the Town removes those constraints by taking the same type of action.

#### **Notes to Financial Statements**

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned Fund Balance – Assigned fund balances are amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Town Council (b) a body or official to which the Council has delegated the authority to assign amounts to be used for specific purposes.

*Unassigned Fund Balance* – Unassigned fund balance is the residual classification for the General Fund.

The Town's policy is to expend resources in the following order: restricted, committed, assigned, and unassigned.

#### **Pensions**

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

#### Deferred Outflows/Inflows of Resources

A deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period.

A deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period.

#### **Use of Estimates**

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

#### **NOTE 2 - INTERFUND BALANCES AND TRANSFERS**

Due to and due from other funds are summarized below and represent temporary advances.

	ue from nd Sewer Fund	Due to General Fund			
General Fund Water and Sewer Fund	\$ 33,899 -	\$	33,899		
Totals	\$ 33,899	\$	33,899		

#### **Notes to Financial Statements**

#### NOTE 2 – INTERFUND BALANCES AND TRANSFERS (CONTINUED)

Interfund transfers are summarized below. They are consistent with the purpose of the fund making the transfer.

	Transfer In	Transfer Out
General Fund Water and Sewer Fund	\$ 70,807 -	\$ - 70,807
Totals	\$ 70,807	\$ 70,807

#### **NOTE 3 – CAPITAL ASSET ACTIVITY**

During the year ended September 30, 2018, the following changes in capital assets occurred:

Governmental Activities	Balance October 1, 2017 Increases Decreases							Balance September 30, 2018			
Capital assets not being depreciated:											
Land	\$	345,450	\$	18,331	\$	-	\$	363,781			
Capital assets being depreciated:											
Building improvements		913,359		29,450		-		942,809			
Equipment, furniture, fixtures and vehicles		675,863		74,300		-		750,163			
Total capital assets being depreciated		1,589,222		103,750		-		1,692,972			
Less accumulated depreciation		1,176,712		83,195		_		1,259,907			
Total capital assets being depreciated, net		412,510		20,555		-		433,065			
Governmental activities capital assets, net	<b>"</b> \$	757,960	\$	38,886	\$	_	\$	796,846			

#### **Notes to Financial Statements**

#### **NOTE 3 – CAPITAL ASSET ACTIVITY (CONTINUED)**

	C	Balance October 1,					Se	Balance eptember 30,
Business-type Activities		2017		Increases		ecreases		2018
Capital assets not being depreciated:								
Land	\$	85,441	\$	-	\$	_	\$	85,441
Construction in progress		79,400		703,381				782,781
Total capital assets not being depreciated		164,841		703,381		_		868,222
Capital assets being depreciated:								
Equipment, building, utility system, and								
improvements		11,543,261		72,035		-		11,615,296
Less accumulated depreciation		4,889,832		389,151				5,278,983
Total capital assets being depreciated, net		6,653,429		(317,116)		-		6,336,313
Business-type activities capital assets, net	\$	6,818,270	\$	386,265	\$		\$	7,204,535

#### Depreciation expense was charged to functions as follows:

## General government \$ 10,233 Public safety \$ 50,717 Transportation \$ 6,520 Culture and recreation \$ 15,725 Total depreciation expense – governmental activities \$ 83,195 Business-type activities: Water and sewer \$ 389,151

#### **Notes to Financial Statements**

#### **NOTE 4 - LONG-TERM OBLIGATIONS**

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

#### **Governmental Activities**

	Balance October 1,					Se	Balance otember 30,		Due Within
	2017 Additions		De	Deductions		2018		ne Year	
Note payable Compensated absences Net pension liability	\$ 44,515 4,818 223,621	\$	- 10,270 8,487	\$	21,929 9,313 -	\$	22,586 5,775 232,108	\$	22,586 4,216 1,620
Total	\$ 272,954	\$	18,757	\$	31,242	\$	260,469	\$	28,422

#### **Business-type Activities**

	(	Balance October 1,					Se	Balance ptember 30,	,	Due Within
( <del>)</del>		2017		Additions Deductions		2018		One Year		
Due to governmental agencies	\$	60,000	\$	_	\$	5,000	\$	55,000	\$	5,000
Grant repayment agreement		112,000		-		16,000		96,000		16,000
Bond payable-rural development		890,653		-		54,319		836,334		22,000
Compensated absences		9,337		12,763		9,402		12,698		9,270
Net pension liability		190,491		7,231		-		197,722		1,380
Total	\$	1,262,481	\$	19,994	\$	84,721	\$	1,197,754	\$	53,650

#### **Due to Governmental Agencies**

The Town signed a note payable to repay a portion of the cost of relocating water lines as part of a Florida Department of Transportation (FDOT) road widening project. The note is non-interest bearing and is payable in annual installments of \$5,000 through 2029. At September 30, 2018, the Town had a remaining balance of \$55,000, payable from the Water and Sewer Fund.

#### **Notes to Financial Statements**

#### NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

#### **Grant Repayment Agreement**

\$320,000 note, payable to the Florida Department of Transportation at 0% interest. The note is payable in annual installments of \$16,000 through 2024, from the Water and Sewer Fund.

\$ 96,000

#### Rural Development Bond Payable

\$1,434,000, 2008 Water and Sewer Revenue Bonds for construction of a wastewater treatment facility. Due in annual installments varying from \$15,000 to \$57,000 plus interest at 4.375% through September 1, 2041. The revenues of the water and sewer system are pledged as collateral. The approximate amount of the pledge is equal to the remaining principal and interest of approximately \$1,350,000. During 2018, \$612,680 of water and sewer revenue was recognized and \$54,319 was paid for debt service.

\$ 836,334

#### Note Payable

\$87,111 Equipment loan, payable in annual installments of \$23,261, including interest at 2.99%, through June 2019. Non-ad valorem revenues are pledged as collateral.

\$ 22,586

Aggregate maturities of long-term debt are as follows:

Year Ending	Ge	overnmenta	l Activ		Business-ty	type Activities			
September 30,	P	Principal		terest	F	rincipal		Interest	
2019	\$	22,586	\$	676	\$	43,000	\$	36,519	
2020		-		-		44,000		35,556	
2021		-		-		45,000		34,550	
2022		-		-		46,000		33,500	
2023		-		-		47,000		32,406	
2024-2028		-		-		191,000		143,830	
2029-2033		-		-		191,000		107,911	
2034-2038		-		-		230,000		63,593	
2039-2041		-		-		150,334		27,853	
Totals	\$	22,586	\$	676	\$	987,334	\$	515,718	

#### **Notes to Financial Statements**

#### NOTE 5 - STATE OF FLORIDA PENSION PLANS

#### **Defined Benefit Plans**

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

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

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

#### Benefits Provided

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

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

#### **Notes to Financial Statements**

#### NOTE 5 – STATE OF FLORIDA PENSION PLANS (CONTINUED)

#### **Contributions**

The contribution requirements of plan members and the employer are established and may be amended by the Florida Legislature. Employees are required to contribute 3.00% of their salary to the FRS Pension Plan. The employer's contribution rates as of September 30, 2018, were as follows:

	FRS	HIS
Regular class	6.60%	1:66%
Special risk class	22.84%	1.66%
Senior management service class	22.40%	1.66%
Elected officials	47.04%	1.66%
DROP from FRS	12.37%	1.66%

The employer's contributions for the year ended September 30, 2018, were \$29,967 to the FRS Pension Plan and \$6,423 to the HIS Program.

#### Pension Liabilities and Pension Expense

In its financial statements for the year ended September 30, 2018, the Town reported a liability for its proportionate shares of the net pension liabilities of the FRS Pension Plan and its proportionate share of the net pension liability of the HIS program. The net pension liabilities were measured as of June 30, 2018.

The Town's proportions of the net pension liabilities were based on its share of contributions to the pension plans relative to the contributions of all participating entities, actuarially determined.

	FRS				
Net pension liability	\$ 306,312	\$	123,518		
Proportion at:					
Current measurement date	0.0010%		0.0012%		
Prior measurement date	0.0010%		0.0011%		
Pension expense (benefit)	\$ 58,661	\$	10,264		

#### **Notes to Financial Statements**

#### NOTE 5 – STATE OF FLORIDA PENSION PLANS (CONTINUED)

#### Deferred Outflows/Inflows of Resources Related to Pensions

At September 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		ł	RS		HIS			
		Deferred	Deferred		Deferred		D	eferred
	(	Outflows Inflows		C	utflows	1	nflows	
	of	Resources	of Resources		of	Resources	of Resources	
Differences between expected and actual experience	\$	25,949	\$	942	\$	1,891	\$	210
Changes of assumptions		100,088		-		13,737		13,059
Net difference between projected and actual earnings								
on pension plan investments		-		23,666		75		-
Changes in proportion and differences between employer								
contributions and proportionate share of contributions		12,421		3,521		5,829		2,143
Employer contributions subsequent to the measurement date		7,957		-		1,588		-
Total	\$	146,415	\$	28,129	\$	23,120	\$	15,412

Deferred outflows of resources related to employer contributions paid subsequent to the measurement date and prior to the employer's fiscal year end will be recognized as a reduction of the net pension liability in the reporting period ending September 30, 2019. Other pension-related amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending September 30,	FRS	HIS		
2019	\$ 45,586	\$ 2,777		
2020	27,987	2,777		
2021	3,876	1,466		
2022	18,627	715		
2023	12,925	(1,313)		
Thereafter	1,328	(302)		
Total	\$ 110,329	\$ 6,120		

#### **Notes to Financial Statements**

#### NOTE 5 - STATE OF FLORIDA PENSION PLANS (CONTINUED)

#### **Actuarial Assumptions**

The total pension liability for each of the defined benefit plans was measured as of June 30, 2018. The total pension liability for the FRS Pension Plan was determined by an actuarial valuation dated July 1, 2018. For the HIS Program, the total pension liability was determined by an actuarial valuation dated July 1, 2018. The individual entry age normal actuarial cost method was used for each plan, along with the following significant actuarial assumptions:

	FRS	HIS
Inflation	2.60%	2.60%
Salary increases	3.25%	3.25%
Investment rate of return	7.00%	N/A
Discount rate	7.00%	3.87%

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

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

The following changes in key actuarial assumptions occurred in 2018:

FRS: The long-term expected rate of return and the discount rate used to determine the total pension liability decreased from 7.10% to 7.00%.

HIS: The municipal bond index rate and the discount rate used to determine the total pension liability increased from 3.58% to 3.87%.

The long-term expected investment rate of return was not based on historical returns, but instead was based on a forward-looking capital market economic model. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. For the FRS Pension Plan, the table below summarizes the consulting actuary's assumptions based on the long-term target asset allocation:

#### **Notes to Financial Statements**

#### NOTE 5 - STATE OF FLORIDA PENSION PLANS (CONTINUED)

Asset Class	Target Allocation	Annual Arithmetic Return	Compound Annual (Geometric) Return		
Cash	1%	2.9%	2.9%		
Fixed income	18%	4.4%	4.3%		
Global equity	54%	7.6%	6.3%		
Real estate	11%	6.6%	6.0%		
Private equity	10%	10.7%	7.8%		
Strategic investments	6%	6.0%	5.7%		
	100%				

#### Discount Rate

The discount rate used to measure the total pension liability for the FRS Pension Plan was 7.00%. FRS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Because the HIS Program is essentially funded on a pay-as-you-go basis, a municipal bond rate of 3.87% was used to determine the total pension liability for the program. The Bond Buyer General Obligation Bond 20-Bond Municipal Bond Index was used as the applicable municipal bond index.

#### **Sensitivity Analysis**

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the employer's proportionate share of the net pension liability if the discount rate was 1.00% higher or 1.00% lower than the current discount rate.

		FRS				HIS						
		Current				Current Discount						
		Discount										
	1% Decrease		Rate 1% Increase		1% Decrease			Rate		1% Increase		
		(6.00%) (7.00%)		(8.00%) (2.87%)		(2.87%)	(3.87%)		(4.87%)			
Employer's proportionate share												
of the net pension liability	\$	559,032	\$	306,312	\$	96,413	\$	140,680	\$	123,518	\$	109,213

#### **Notes to Financial Statements**

#### NOTE 5 – STATE OF FLORIDA PENSION PLANS (CONTINUED)

#### Pension Plans' Fiduciary Net Position

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

#### **Defined Contribution Plan**

Pursuant to Chapter 121, Florida Statutes, the Florida Legislature created the Florida Retirement Investment Plan ("FRS Investment Plan"), a defined contribution pension plan qualified under Section 401(a) of the Internal Revenue Code. The FRS Investment Plan is an alternative available to members of the Florida Retirement System in lieu of the defined benefit plan. There is a uniform contribution rate covering both the defined benefit and defined contribution plans, depending on membership class. Required employer contributions made to the plan during the year ended September 30, 2018, totaled \$10,540.

#### **NOTE 6 – CHANGE IN ACCOUNTING ESTIMATE**

During 2018, the Town increased its estimate of the useful life of a wastewater treatment plant to reflect a more accurate representation of the projected life of the plant. This change increased net position for the year ended September 30, 2018 by \$121,829 in the Water and Sewer Fund and business-type activities.

#### **NOTE 7 - RISK MANAGEMENT**

The Town is exposed to various risks of loss for which it carries commercial insurance. There have been no insurance settlements in excess of insurance coverage in the last three years.

#### **NOTE 8 – FUTURE ACCOUNTING PRONOUNCEMENTS**

The Governmental Accounting Standards Board has issued statements that will become effective in fiscal year 2019. The statements address:

- Asset retirement obligations; and
- Disclosures related to debt.

The Town is currently evaluating the effects that these statements will have on its 2019 financial statements.



# Town of Callahan, Florida

# Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual – General Fund Year ended September 30, 2018

					Variance
	 Budgeted	Amo		Actual	with Final
	 Original		Final	Amounts	Budget
Revenues					
Taxes	\$ 524,200	\$	524,200	\$ 666,674	\$ 142,474
Permits, fees and special assessments	125,000		125,000	154,326	29,326
Intergovernmental	242,000		242,000	245,203	3,203
Charges for services	51,000		51,000	58,788	7,788
Fines and forfeitures	2,500		2,500	2,355	(145
Grants	-		-	-	_
Miscellaneous	500		500	32,216	31,716
Total revenues	945,200		945,200	1,159,562	 214,362
Expenditures					
Current:					
General government	302,800		303,140	369,048	(65,908)
Public safety	122,300		122,300	161,301	(39,001
Transportation	396,000		396,000	298,639	97,361
Economic environment	15,500		15,500	13,686	1,814
Human services	20,000		20,000	3,500	16,500
Culture and recreation	114,000		114,000	57,812	56,188
Debt service:					
Principal	23,600		21,929	21,929	_
Interest	-		1,331	1,331	-
Total expenditures	994,200		994,200	927,246	66,954
Excess of revenues (under) over					
expenditures	(49,000)		(49,000)	232,316	281,316
Other financing sources					
Transfers in	49,000		49,000	70,807	 21,807
Total other financing sources	49,000		49,000	70,807	21,807
Net change in fund balances	-		-	303,123	303,123
Fund balances – beginning of year				1,078,987	1,078,987
Fund balances – end of year	\$ -	\$	_	\$ 1,382,110	\$ 1,382,110

# Town of Callahan, Florida

## Notes to Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund

The Town adopts an annual budget for the General Fund. The Town generally follows these procedures in establishing the budgetary data reflected in the schedule:

- 1. Prior to September 1, the Town Clerk submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- 2. A public hearing is conducted to obtain taxpayer comments.
- 3. Prior to September 30, the budget is legally enacted through passage of an ordinance.
- 4. Any revision that alters the expenditures of any fund must be approved by the Town Council. The fund is the legal level of control.

The budget amounts presented in the accompanying schedule were prepared on a basis that does not materially differ from the modified accrual basis of accounting.

# Schedules of Proportionate Share of Net Pension Liability Last 10 Fiscal Years (1)

	Florida Retirement System	2015		2016		2017		2018
Employer's proportion of the net pension								
liability (asset)		0.0010%		0.0010%		0.0010%		0.0010%
Employer's proportionate share of the net								
pension liability (asset)		\$ 133,103	\$	250,435	\$	292,504	\$	306,312
Employer's covered payroll (2)		\$ 342,059	\$	353,914	\$	362,837	\$	381,166
Employer's proportionate share of the net								
pension liability (asset) as a percentage								
of its covered payroll		38.91%		70.76%		80.62%		80.36%
Plan fiduciary net position as a percentage								
of the total pension liability		92.00%		84.88%		83.89%		84.26%
	Health Insurance Subsidy Program	2015		2016		2017		2018
Employer's proportion of the net pension								
liability (asset)		0.0011%		0.0011%		0.0011%		0.0012%
Employer's proportionate share of the net								
Employer's proportionate share of the net pension liability (asset)		\$ 114,985	\$	133,613	\$	121,608	\$	123,518
		\$ 114,985 342,059	\$	133,613 353,914	·	121,608 362,837	\$	123,518 381,166
pension liability (asset)		•	•	ŕ	·	,	•	,
pension liability (asset)  Employer's covered payroll (2)  Employer's proportionate share of the net pension liability (asset) as a percentage		342,059	•	353,914	·	362,837	•	381,166
pension liability (asset)  Employer's covered payroll (2)  Employer's proportionate share of the net		•	•	ŕ	·	,	•	,
pension liability (asset)  Employer's covered payroll (2)  Employer's proportionate share of the net pension liability (asset) as a percentage		342,059	•	353,914	·	362,837	•	381,166

### Notes to schedules:

- (1) The amounts presented for each fiscal year were determined as of the measurement date, which was June 30th of the current fiscal year.
- (2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

GASB Statement No. 68 was implemented in 2015. Until a full 10-year trend is compiled, information for those years for which it is available will be presented.

## Town of Callahan, Florida

## Schedules of Employer Contributions Last 10 Fiscal Years

Florida Retirement System	2015	2016		2017	2018
Contractually required contribution	\$ 24,667	\$ 25,664	\$	25,514	\$ 29,967
Contributions in relation to the					
contractually required contribution	24,667	25,664	_	25,514	29,967
Contribution deficiency (excess)	\$	\$ 	\$		\$ 
Employer's covered payroll (1)	\$ 342,238	\$ 357,225	\$	366,080	\$ 386,831
Contributions as a percentage of covered payroll	7.21%	7.18%		6.97%	7.75%
Health Insurance Subsidy Program	2015	2016		2017	2018
Contractually required contribution	\$ 4,646	\$ 5,931	\$	6,073	\$ 6,423
Contributions in relation to the contractually required contribution	4,646	5,931		6,073	6,423
Contribution deficiency (excess)	\$ - 1,010	\$ -	\$	3,0.0	\$ 
Employer's covered payroll (1)	\$ 342,238	\$ 357,225	\$	366,080	\$ 386,831
Contributions as a percentage of covered payroll	1.36%	1.66%		1.66%	1.66%

#### Notes to schedules:

(1) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

GASB Statement No. 68 was implemented in 2015. Until a full 10-year trend is compiled, information for those years for which it is available will be presented.

# Additional Elements Required by the Rules of the Auditor General



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#### **MANAGEMENT LETTER**

To the Honorable Mayor and Town Council Town of Callahan, Florida

#### Report on the Financial Statements

We have audited the financial statements of the Town of Callahan, Florida (the "Town") as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated August 26, 2019. That report includes departures from unmodified opinions, and should be considered in conjunction with this management letter.

#### **Auditors' Responsibility**

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.

### **Other Reporting Requirements**

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountants' Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated August 26, 2019, should be considered in conjunction with this management letter.

### **Prior Audit Findings**

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding financial audit report. If the audit findings in the preceding audit report are uncorrected, we are required to identify those findings that were also included in the second preceding audit report.

Tabulation of Uncorrected Audit Findings					
Current Year Finding #	2016-17 FY Finding #	2015-16 FY Finding #			
2018-001	2017-001	2016-001			
2018-002	2017-002	2016-002			
2018-003	2017-003	-			

#### Financial Condition and Management

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

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

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

#### **Additional Matters**

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

#### Purpose of this Letter

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

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

St. Augustine, Florida

Caux Rigge & Ingram, L.L.C.

August 26, 2019



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

The Honorable Mayor and Town Council Town of Callahan, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Callahan, Florida (the "Town") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated August 26, 2019. In our report, our opinions on the financial statements of the business-type activities and water and sewer fund were qualified due to unreliable data from the water and sewer billing and usage systems, which affects the proper reporting of assets, revenues and net position in accordance with accounting principles generally accepted in the United States of America.

#### **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. We consider the deficiencies described in the accompanying Schedule of Findings as items 2018-001, 2018-002, 2018-003 and 2018-004 to be material weaknesses.

#### **Compliance and Other Matters**

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

#### The Town's Response to Findings

The Town's response to the findings identified in our audit accompanies this report. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### **Purpose of this Report**

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

Caux Rigge & Ingram, L.L.C.
St. Augustine, Florida

August 26, 2019



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#### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES

The Honorable Mayor and Town Council
Town of Callahan, Florida

We have examined the Town of Callahan's (the "Town") compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2018. Management is responsible for the Town's compliance with the specified requirements. Our responsibility is to express an opinion on the Town's compliance with the specified requirements based on our examination.

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

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

In our opinion, the Town complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.

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

St. Augustine, Florida

Can Rigge & Ingram, L.L.C.

August 26, 2019

## Town of Callahan, Florida

## Schedule of Findings

2018-001 (Reported in previous audit reports as items 2017-001 and 2016-001.)

**Criteria:** Adequate controls should be in place to allow management or personnel, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements in a timely basis. Although the small size of the business office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one individual should have access to both physical assets and the related accounting records or to all phases of a transaction.

**Condition:** Billing of utilities is performed by the same person that collects payments for utilities and keys into the accounting system.

**Cause:** Because of a limited number of available personnel, it is not always possible to adequately segregate incompatible duties so that no one individual has access to both physical assets and the related accounting records, or to all phases of a transaction.

**Effect:** Incompatible duties are not adequately separated. The result is that intentional or unintentional errors could be made and not detected.

**Recommendation:** To the extent possible, given available personnel, steps should be taken to separate duties so that no one individual has access to both physical assets and the related accounting records, or to all phases of a transaction.

2018-002 (Reported in previous audit reports as items 2017-002 and 2016-002.)

**Criteria:** Financial statements must be presented in accordance with generally accepted accounting principles.

**Condition:** As part of the audit process, we proposed material adjustments to the Town's financial statements for the 2018 balances. It was also necessary for us to assist with the preparation of the Town's financial statements.

**Cause:** The Town does not perform adequate financial statement closing processes to detect misstatements.

Effect: The Town could have material misstatements in the financial statements.

**Recommendation:** The Town should consider and evaluate the costs and benefits of improving internal controls relative to the financial reporting process.

## **Town of Callahan, Florida**

## **Schedule of Findings**

2018-003 (Reported in previous audit report as item 2017-003.)

**Criteria:** Adequate input controls should be in place to allow management or personnel, to reasonably assure that utility billing data is processed accurately and recorded in accordance with generally accepted accounting principles.

**Condition:** As part of the audit process, we were unable to gain comfort over the water and sewer revenue, therefore having a qualified opinion over the business-type activities.

Cause: The Town needs to update the utility meters and utility billing software.

Effect: The Town could have material misstatements in the financial statements.

**Recommendation:** The Town should consider and evaluate the costs and benefits of implementing new processes over utility meter reading and utility billing.

2018-004 **Criteria:** The Town is responsible for maintaining management oversight and effective internal controls over financial transactions and reporting.

**Condition:** During the audit, several instances of lack of management oversight and not maintaining effective controls were noted. They are as follows:

- (a) The Town should have someone review the monthly bank reconciliations that are prepared by the third party CPA.
- (b) The Town did not maintain proper documentation and controls over vendor files.
- (c) The Town wrote several checks to "Cash" throughout the audit period that did not have supporting documentation.
- (d) The Town did not present all check runs to the Board for review in accordance with the Town's policy.

Cause: Limited number of finance personnel.

**Effect:** Misappropriation of assets and risk of misstatements of financial information is elevated.

**Recommendation:** We recommend that the Town review the monthly bookkeeping work performed by the third party CPA. Additionally, we recommend that the Town improve controls over their vendor file information, adding new vendors and changes to existing vendors. The vendor list should be reviewed periodically and a secondary review be implemented before new vendors are added, or changes to existing vendors are made. We also recommend that periodically an appropriate individual in management review

# Town of Callahan, Florida Schedule of Findings

vendor lists for any unusual patterns, such as names that may be similar, but not identical to the names of approved vendors and vendors that have multiple addresses. In addition, this individual should periodically inspect files of unpaid invoices and vendor statements to look for invoices that appear different from the norm; consecutive vendor invoice numbers; preprinted and not customized forms; different delivery addresses; different telephone numbers, purchase order numbers, item descriptions, prices, or other unusual patterns; old or unusual vendors who recently had an address change; or current activity on an old or outdated vendor. We also recommend that the vendor lists be reviewed periodically to remove inactive vendors. This will assist with keeping the listing current and reduce the risk of fraud from potentially paying a vendor that has gone out of business. An aged activity report could be generated by vendor to assist with this review. We also recommend that checks written to "cash" be avoided whenever possible. If no other option available and cash is taken for a specific purpose, a receipt should be obtained. Also, if checks written to "cash" for a specific purpose and the entire amount of funds is not used for that purpose, the amount of leftover funds should be tracked with the original check for funds to be sure all funds are accounted for properly. Additionally, we recommend that all checks written since the last Board meeting be presented at the next Board meeting for their review in accordance with the Town's policy.



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August 26, 2019

The Honorable Mayor and Town Council Town of Callahan, Florida

We are pleased to present the results of our audit of the 2018 financial statements.

This communication summarizes our audit, the report issued and various analyses and observations related to the financial accounting and reporting practices followed. The document also contains the communications required by our professional standards.

The audit was designed, primarily, to express an opinion on the 2018 financial statements. We considered an assessment of risks that could materially affect the financial statements and aligned our audit procedures accordingly. We conducted the audit with the objectivity and independence that you expect. We received the full support and assistance of your personnel.

At Carr, Riggs & Ingram, LLC ("CRI"), we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to provide any feedback you believe is appropriate to ensure that we do not overlook a single detail as it relates to the quality of our services.

This information is intended solely for the information and use of you and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate this opportunity to work with you. If you have any questions or comments, please contact us.

Very truly yours,

CARR, RIGGS & INGRAM, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Can Rigge & Ingram, L.L.C.

As discussed with management during our planning process, our audit plan represented an approach responsive to the assessment of risk for the Town. Specifically, we planned and performed our audit to:

- Perform audit services in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States, in order to express an opinion on the financial statements as of and for the year ended September 30, 2018;
- Communicate directly with management regarding the results of our procedures;
- Anticipate and respond to your concerns and those of management; and
- Other audit-related projects as they arise and upon request.

We have audited the financial statements as of and for the year ended September 30, 2018, and have issued our report thereon dated August 26, 2019. Professional standards require that we provide you with the following information related to our audit:

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
Auditors' responsibility under Generally Accepted Auditing Standards	As stated in our engagement letter dated July 8, 2016 and amended on August 11, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities.  As part of our audit, we considered the internal control of the Town. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
Client's responsibility	Management, with oversight from those charged with governance, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with the applicable framework. Management is responsible for the design and implementation of programs and controls to prevent and detect fraud.
Planned scope and timing of the audit	Our initial audit plan was not significantly altered during our fieldwork.
Management judgments and accounting estimates The process used by management in forming particularly sensitive accounting estimates and the basis for the auditors' conclusion regarding the reasonableness of those estimates.	Please see the following section titled "Accounting Policies, Judgments and Sensitive Estimates and CRI Comments on Quality."
Potential effect on the financial statements of any significant risks and exposures Major risks and exposures facing the Town and how they are disclosed.	No such risks or exposures were noted.

## MATTER TO BE COMMUNICATED **AUDITORS' RESPONSE** Significant accounting policies, including critical See "Note 1 - Summary of Significant Accounting accounting policies and alternative treatments Policies" of the financial statements for details. within generally accepted accounting principles and the auditors' judgment about the quality of accounting principles The initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions; and effect of significant policies in controversial or emerging areas for which there is a lack of authoritative quidance or consensus. The auditor should also discuss the auditors' judgment about the quality, not just the acceptability, of the Town's accounting policies as applied in its financial reporting. The discussion should include such matters as consistency of accounting policies and their application, and clarity and completeness of the financial statements. includina disclosures. Critical accounting policies and practices applied by the Town in its financial statements and our assessment of management's disclosures regarding such policies and practices (including any significant modifications to such disclosures proposed by us but rejected by management), the reasons why certain policies and practices are or are not considered critical, and how current and anticipated future events impact those determinations; Alternative treatments within GAAP for accounting policies and practices related to material items, including recognition, measurement, presentation and disclosure alternatives, that have been discussed with client management during the current audit period, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor; Furthermore, if the accounting policy selected by management is not the policy preferred by us, discuss the reasons why management selected that policy, the policy preferred by us, and the reason we preferred the other policy.

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
Significant difficulties encountered in the audit Any significant difficulties, for example, unreasonable logistical constraints or lack of cooperation by management.	None.
Disagreements with management Disagreements, whether or not subsequently resolved, about matters significant to the financial statements or auditors' report. This does not include those that came about based on incomplete facts or preliminary information.	None.
Other findings or issues  Matters significant to oversight of the financial reporting practices by those charged with governance. For example, an entity's failure to obtain the necessary type of audit, such as one under Government Auditing Standards, in addition to GAAS.	None.
Matters arising from the audit that were discussed with, or the subject of correspondence with, management Business conditions that might affect risk or discussions regarding accounting practices or application of auditing standards.	None.
Corrected and uncorrected misstatements All significant audit adjustments arising from the audit, whether or not recorded by the Town, that could individually or in the aggregate have a significant effect on the financial statements. We should also inform the Committee about uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Any internal control deficiencies that could have prevented the misstatements.	Please see the following section titled "Summary of Audit Adjustments."

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
Major issues discussed with management prior to retention	None.
Any major accounting, auditing or reporting issues discussed with management in connection with our initial or recurring retention.	
Consultations with other accountants	None of which we are aware.
When management has consulted with other accountants about significant accounting or auditing matters.	
Written representations	See "Management Representation Letter" section.
A description of the written representations the auditor requested (or a copy of the representation letter).	
Internal control deficiencies  Any significant deficiencies or material weaknesses in the design or operation of internal control that came to the auditors' attention during the audit.	See "Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards" and "Schedule of Findings", respectively, of the financial statements.
Fraud and illegal acts  Fraud involving senior management, the Town  Administrator or those responsible for internal controls, or causing a material misstatement of the financial statements, where the auditor determines there is evidence that such fraud may exist. Any illegal acts coming to the auditors' attention involving senior management and any other illegal acts, unless clearly inconsequential.	We are unaware of any fraud or illegal acts involving management or causing material misstatement of the financial statements.
Other information in documents containing audited financial statements  The external auditors' responsibility for information in a document containing audited financial statements, as well as any procedures performed and the results.	Our responsibility related to documents (including annual reports, websites, etc.) containing the financial statements is to read the other information to consider whether:  • Such information is materially inconsistent with the financial statements; and  • We believe such information represents a material misstatement of fact.  We have not been provided any such items to date and are unaware of any other documents that contain the audited financial statements.

### MATTER TO BE COMMUNICATED

## **Required supplementary information**

The auditors' responsibility for required supplementary information accompanying the financial statements, as well as any procedures performed and the results.

## **AUDITORS' RESPONSE**

We applied certain limited procedures to the required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

# Accounting Policies, Judgments and Sensitive Estimates & CRI Comments on Quality

We are required to communicate our judgments about the quality, not just the acceptability, of the Town's accounting principles as applied in its financial reporting. We are also required to communicate critical accounting policies and sensitive accounting estimates. The Committee may wish to monitor throughout the year the process used to compute and record these accounting estimates. The table below summarizes our communications regarding these matters.

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS & SENSITIVE ESTIMATE	COMMENTS ON QUALITY OF ACCOUNTING POLICY & APPLICATION
Capital Asset Depreciation	Capital assets are depreciated over the expected remaining useful life of the individual asset unless they are inexhaustible or are intangible assets deemed to have indefinite useful lives.	X	Management's estimate of the useful lives of capital assets is based on the historical lives of similar assets and market prices.	We examined the key factors and assumptions used to develop the estimate and evaluated the estimate and found it to be reasonable in relation to the financial statements taken as a whole.
Pension-related Balances	The Town participates a multiple-employer defined benefit pension plan – the Florida Retirement System (administered by the State of Florida) and follows the requirements of GASB 68.	X	The State of Florida utilizes an independent actuary to provide an actuarial valuation specific to each participating employer. The Town relies on audited valuations from the actuary for the estimated value of the Town's net pension liability and pension related balances. The actuarial valuation is based on financial information, utilizing various assumptions (see note 7 for details).	We evaluated the assumptions used by the actuary in estimating the pension-related balances and found them to be in accordance with the provisions of GASB 68 and reasonable in relation to the financial statements taken as a whole.

During the course of our audit, we accumulate differences between amounts recorded by the Town and amounts that we believe are required to be recorded under GAAP reporting guidelines. Those adjustments are either recorded (corrected) by the Town or passed (uncorrected).

Below is a summary of the corrected misstatements.

Adjusting	Journal Entries - General Fund	f	
Adjusting To conden	Journal Entries JE # 1 se the 3rd party CPAs entries for the land purchase and portion of the land sale /n, per the board minutes.		
001- 364107 001- 572108	Sale of Land Property Auction	15,626	15,626
Total	Property Addition	15,626	15,626
	Journal Entries JE # 2 le fund balance.		
001- 516601 001-	Miscellaneous General Fund	1	
280000 <b>Total</b>	Fund Balance	1	1
	ring Journal Entries - General Fund		
Reclassify	ring Journal Entries JE # 3 grant expenditures and revenues incorrectly recorded in both funds (will correct		
001- 363102	CDBG Grant	3,207	
001- 513805	Grant - CDBG	17,206	
001- 360101	Miscellaneous Revenue		3,207
001- 572103	Housing Grant - CDBG		17,206
Total		20,413	20,413
	ring Journal Entries JE # 4 grant expenditures and revenues incorrectly recorded in both funds (will correct y).		
001- 363102 001-	CDBG Grant	364,537	
513805	Grant - CDBG		364,537
Total		364,537	364,537
	ring Journal Entries JE # 4 refunded permit fees recorded to misc revenue.		
001- 360101 001-	Miscellaneous Revenue	8,000	
322101	Building Permits		8,000
Total		8,000	8,000

Reclassif	ring Journal Entries JE # 5		
	Florida Blue checks coded to wrong account during the entire audit period.		
001			
001- 516101 001-	Group Insurance	35,293	
541301 001-	Group Medical Insurance	8,781	
516101	Group Insurance		8,781
001- 541301	Group Medical Insurance		35,293
Total		44,074	44,074
	ing Journal Entries JE # 6		
001-	Nov '17 and June '18 revenue payments to proper account,		
314603 001-	UTILITY TAX-GAS	1,527	
314603 001-	UTILITY TAX-GAS	11,889	
314103	UTILITY SERVICE TAX-FPL		13,416
Total		13,416	13,416
Adjusting	Journal Entries - Water & Sewer Fund		
	Journal Entries JE # 7  CDBG account payable for work performed before year-end.		
400- 538908	CDBG Grant Expenditures	78,928	
400- 202000	Accounts Payable		78,928
Total		78,928	78,928
	Journal Entries JE # 8		
	hange in compensated absences during current year.		
400- 535302 400-	Public Works Director	3,361	
202700 400-	Accrued Compensated Absences-cu		2,454
218700	Accrued Comp. Absences		907
Total		3,361	3,361
	Journal Entries JE # 9 equipment purchased that the was incorrectly recorded to misc expense.		
400-			
400000			
166300 400-	Property, Plant, Equipment	19,200	
	Property, Plant, Equipment Miscellaneous		19,200
400-		19,200 <b>19,200</b>	19,200 <b>19,200</b>
400- 538902 <b>Total</b> Adjusting			
400- 538902 Total Adjusting To move the	Miscellaneous  Journal Entries JE # 10  e CDBG project expenditures to CIP, as the project was not completed as of		
400- 538902 Total Adjusting To move tr 9/30/18. 400- 166400 400-	Journal Entries JE # 10 e CDBG project expenditures to CIP, as the project was not completed as of Construction In Progress	19,200	19,200
400- 538902 Total Adjusting To move th 9/30/18. 400- 166400	Miscellaneous  Journal Entries JE # 10  e CDBG project expenditures to CIP, as the project was not completed as of	19,200	

	depreciation expense for W&S Fund.		
400- 581001 400-	Depreciation	389,151	
167300	Allowance/Depreciation		389,151
Total		389,151	389,151
	Journal Entries JE # 12 prepaid insurance to actual for the current year end.		
400- 536302	Insurance & Bonds	2,367	
400- 151000	Prepaid Insurance	2,007	2,367
Total	Topda mediane	2,367	2,367
	Journal Entries JE # 13		
To record	change in net pension liability, deferred outflows and inflows and pension or GASB 68.		
400- 541500 400-	Florida Retirement System	19,356	
168000	Deferred Outflows-pension		3,894
400- 168000	Deferred Outflows-pension		601
400- 218800	Net Pension Liability		7,230
400- 228000	Deferred Inflows-pension		7,631
Total		19,356	19,356
	Journal Entries JE # 14 deferred outflows for contributions subsequent to the measurement date for		
400- 168000	Deferred Outflows-pension	4,390	
400- 541500	Florida Retirement System	1,000	4 200
Total	Florida Retirement System	4,390	4,390 4,390
	Journal Entries JE # 15	4,550	7,030
	ze current portion of pension liability.		
400- 218850	Contra LTD Pension Liability	1,380	
400- 202800	Current Portion Pension Liability	•	1,380
Total	,	1,380	1,380
Adiustina	Journal Entries JE # 16		
	opening net pension liablilities.		
400- 202800	Current Portion Pension Liability	1,518	
400- 218800	Net Pension Liability	-	1,518
Total		1,518	1,518
Reclassify	ring Journal Entries - Water & Sewer Fund		
	ring Journal Entries JE # 17		

460	Miscellaneous		
300	Net Assets, Invested in Capital Assets, Net of Related Debt		
230	Long-Term Due to Other Govt		
220	Current Portion Due to Other Govt		
310	Unrestricted Net Assets		562,12
280	Deferred Inflows-pension		14,55
240	Net pension liability		223,62
239	Loans Payable		22,58
231	Long Term - Compensated Absences		1,30
229	Current Portion-Loans Payable		21,92
221	Current Portion - Compensated Absences		3,51
180	Deferred Outflows-pension	91,672	
160	Capital Assets, Net of A/D	412,510	
150	Capital Assets Not Depreciated	345,450	
	Journal Entries JE # 1 the beginning balances.		
djusting	Journal Entries - Government Activities		
otal		289,025	289,02
280152	Restricted for Renewal and Repl		16,20
280151 400-	Restricted for Debt Service		
280000 400-	Retained Earnings-Unreserved		56,73
101200 400-	Cash - Water & Sewer Fund		216,08
280153 400-	Restricted for Capital Projects	72,940	
400- 100201 400-	Cash-Water and Sewer Fund Restricted - (FS only)	216,085	
	ying Journal Entries JE # 19 ify restricted cash and net assets for FS presentation.		
otal		1,000	1,0
202200	Notes Payable-Rural DevCurr		1,00
400- 211200 400-	Notes Payable-Rural Development	1,000	
	ying Journal Entries JE # 18 amount as current portion for note payables.		
Total		13,140	13,1
538202	Operations for Wastewater Plant		13,1
400- 360101 400-	Misc Revenue	13,140	

511	General Government - Depreciation Expense	10,233	
521	Public Safety - Depreciation Expense	50,717	
541	Transportation - Depreciation Expense	6,520	
571	Culture and Recreation - Depreciation Expense	15,725	
160	Capital Assets, Net of A/D		83,195
Total		83,195	83,195
	e January Entrino 1542		
	g Journal Entries JE # 3 I current year change in compensated absences.		
513	General Government - Current Year Change in Compensated Absenses	368	
542	Transporation - Current Year Change in Compensated Absenses	589	
221	Current Portion - Compensated Absences		699
231	Long Term - Compensated Absences		258
Total		957	957
Adjustin	g Journal Entries JE # 4		
	s invested in capital assets net of related debt.		
310	Unrestricted Net Assets	745,084	
300	Net Assets, Invested in Capital Assets, Net of Related Debt		745,084
Total		745,084	745,084
	g Journal Entries JE # 5 te revenues per allocation.		
410	Taxes	666,674	
420	Discretionary Sales Surtaxes	154,326	
430	Sales tax and Other Shared Revenues	245,203	
440	Charges for Services-General Government	58,788	
450	Fines and Forfeitures	2,355	
410	Taxes		248,301
420	Discretionary Sales Surtaxes		173,032
425	Franchise Fees		139,447
430	Sales tax and Other Shared Revenues		146,386
435	Utility Taxes		162,497
436	Communications Service Tax		62,051
440	Charges for Services-General Government		42,472
441	Charges for Services - Public Safety		33,550
442	Charges for Services - Transportation		12,110
480	Capital Grants and Contributions		107,500
Total		1,127,346	1,127,346
	g Journal Entries JE # 6 sify current year payments for KS State Bank.		
239	Loans Payable	21,929	
514	General Government - Current Year Principal Paid on Due to KS StateBank	21,020	21,929
Total	23 25	21,929	21,929
I GLAI		21,323	£ 1,323

	g Journal Entries JE # 7 et current portion of long-term debt or obligations.		
239	Loans Payable	657	
229	Current Portion-Loans Payable		657
Total		657	657
Adjustin	g Journal Entries JE # 8		
	s new additions.		
161	Current Year Additions to PPE-Assets being depreciatied	103,750	
162	Current Year Addition to Assets that aren't depreciated	18,331	
510	General Government - Other Expense		44,950
510	General Government - Other Expense		18,331
520	Public Safety- Other Expense		38,200
570	Culture and Recreation - Other Expense		20,600
Total		122,081	122,081
	change in pension liability, deferred outflows and inflows and pension expense ity) for GASB 68.		
510	General Government - Other Expense	22,722	
180	Deferred Outflows-pension		4,571
180	Deferred Outflows-pension		705
240	Net pension liability		8,488
280	Deferred Inflows-pension		8,958
Total		22,722	22,722
	g Journal Entries JE # 10 deferred outflows for contributions subsequent to the measurement date for		
180	Deferred Outflows-pension	5,154	
510	General Government - Other Expense		5,154
Total		5,154	5,154
	g Journal Entries JE # 11 nize current portion of pension liability.		
233	Contra LTD Pension Liability	1,620	
223	Current Portion of Pension Liability		1,620
Total		1,620	1,620

# Below is a summary of the uncorrected misstatements.

Passed Journal Entries  Passed Journal Entries JE # 1  To record rent revenue per the rent agreement				
001-120200	Accounts Receivable	2,281		
001-362100	Rent and Royalties		2,281	
Total		2,281	2,281	
	nal Entries JE # 2 t of franchise fee revenue per confirmation			
001-120200	Accounts Receivable		1,174	
001-313103	Franchise Fees - FPL	1,174		
Total		1,174	1,174	
Passed Journal Entries JE # 3 Overstatement of tax revenues per confirmation				
001-120200	Accounts Receivable		2,782	
001-314803	Discretionary Sales Tax	2,782		
Total		2,782	2,782	
	nal Entries JE # 4 nce (cash vs. accrual) for permit fee revenue			
001-120200	Accounts Receivable	2,910		
001-322101	Building Permits		2,910	
Total		2,910	2,910	
Passed Journal Entries JE # 5 Unrecorded bad debt expense for utility billings				
	Bad Debt Expense	8,946		
	Allowance of Doubtful Accounts - W&S revenue		8,946	
Total		8,946	8,946	

#### **QUALITATIVE MATERIALITY CONSIDERATIONS**

In evaluating the materiality of audit differences when they do arise, we consider both quantitative and qualitative factors, for example:

- Whether the difference arises from an item capable of precise measurement or whether it arises from an estimate, and, if so, the degree of imprecision inherent in the estimate.
- Whether the difference masks a change in earnings or other trends.
- Whether the difference changes a net decrease in assets to addition, or vice versa.
- Whether the difference concerns an area of the Town's operating environment that has been identified as playing a significant role in the Town's operations or viability.
- Whether the difference affects compliance with regulatory requirements.
- Whether the difference has the effect of increasing management's compensation for example, by satisfying requirements for the award of bonuses or other forms of incentive compensation.
- Whether the difference involves concealment of an unlawful transaction.



# TOWN OF CALLAHAN

Post Office Box 5016 • Callahan, Florida 32011

Chartered 1911

August 26, 2019

Carr, Riggs & Ingram, LLC 1301 Plantation Island Dr. Suite#205A Saint Augustine, Florida 32080

In connection with your examination of the Town of Callahan's (the "Town") compliance with Section 218.415 for the year ended September 30, 2018, for the purpose of expressing an opinion about whether the Town has complied with the aforementioned statutes, in all material respects, we confirm, to the best of our knowledge and belief, the following representations made to you during the course of your engagement:

- 1) We are responsible for complying with Section 218.415, Florida Statutes.
- 2) We are responsible for establishing and maintaining effective internal control over compliance.
- We have performed an evaluation of the Town's compliance with Section 218.415, Florida Statutes.
- 4) All relevant matters are reflected in the measurement or evaluation of the Town's compliance with the specified requirements.
- 5) We are responsible for selecting the specified requirements and for determining that the specified requirements are appropriate for our purposes.
- 6) We have disclosed to you all knowledge of actual, suspected or alleged fraud or noncompliance with laws or regulations affecting the Town's compliance with Section 218.415, Florida Statutes, including noncompliance after September 30, 2018.
- 7) We have provided you with all relevant information and access to information and personnel in connection with your examination of compliance with Section 218.415, Florida Statutes.
- 8) We have disclosed to you all known matters that may contradict the Town's compliance with the specified requirements and we have disclosed to you all communications from regulatory agencies, internal auditors, other independent accountants or consultants, and others regarding possible noncompliance with Section 218.415, Florida Statutes, including communications received between September 30, 2018 and August 26, 2019.
- 9) We have responded fully to all inquiries made to us by you during the engagement.

Signature:		
Title:	8/26/2019	



# TOWN OF CALLAHAN

Post Office Box 5016 • Callahan, Florida 32011

Chartered 1911

August 26, 2019

Carr, Riggs, & Ingram, LLC 1301 Plantation Island Drive, Suite 205A St. Augustine, FL 32080

This representation letter is provided in connection with your audits of the financial statements of the Town of Callahan (the "Town"), which comprise the respective financial position of the governmental activities, the business-type activities, and each major fund as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of August 26, 2019, the following representations made to you during your audit.

#### Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 8, 2016 and amended August 11, 2018, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We agree with the basis for qualified opinions on business-type activities and the Water and Sewer Fund due to not being able to provide reliable data from the water and sewer billing and usage systems.

- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 6) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable
- 7) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 8) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 9) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
- 10) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the accounts.
- 11) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 12) Guarantees, whether written or oral, under which the Town is contingently liable, if any, have been properly recorded or disclosed.

#### Information Provided

- 13) We have provided you with:
  - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the Town from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of the Town of Callahan or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 14) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 15) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 16) We have no knowledge of any fraud or suspected fraud that affects the Town and involves—
  - Management,
  - Employees who have significant roles in internal control, or
  - Others where the fraud could have a material effect on the financial statements.

- 17) We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's financial statements communicated by employees, former employees, regulators, or others.
- 18) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 19) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 20) We have disclosed to you the identity of the Town's related parties and all the related party relationships and transactions of which we are aware.

#### **Government-specific**

- 21) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 22) We have a process to track the status of audit findings and recommendations.
- 23) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 24) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 25) The Town has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
- 26) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 27) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 28) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 29) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 30) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 31) As part of your audit, you assisted with preparation of the financial statements, related notes and related journal entries, maintenance of capital asset depreciation schedules, and preparation of the annual financial report. We acknowledge our responsibility as it relates to those nonaudit services and any other nonaudit services you provided, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted

- responsibility for those financial statements, related notes and related journal entries, capital asset depreciation schedules, and the annual financial report.
- 32) The Town has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 33) The Town has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 34) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 35) The financial statements properly classify all funds and activities in accordance with GASB Statement No. 34.
- 36) All funds that meet the quantitative criteria in <u>GASBS Nos. 34</u> and <u>37</u> for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 37) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 38) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 39) Provisions for uncollectible receivables have been properly identified and recorded.
- 40) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 41) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 42) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 43) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 44) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 45) We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- 46) We have appropriately disclosed the Town's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 47) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 48) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

	- 1 0 MM -
Signature:	Signature:
Title: Mayor	Title: Town Manager



# TOWN OF CALLAHAN

Post Office Box 5016 • Callahan, Florida 32011

Chartered 1911.

September 5th 2019

RE: Response to Audit Findings from FY 2018 Audit

Finding 2018-001 (Separation of Duties)

Condition: Billing of utilities is performed by the same person that collects payments for utilities and keys into accounting system.

Response: The Town has only three office personnel, who perform all administrative duties. Town's income currently doesn't support additional personnel.

Finding 2018-002 (Material Adjustments)

Condition: As part of the audit process we proposed material adjustments to the Town's financial statements for the 2018 balances. It was also necessary for us to assist with the preparation of the Town's financial statements.

Response: Town contracts with an outside CPA firm, the firm was notified of the prior year's deficiencies in the financial statements. A meeting prior to annual audit, with a member of the auditing firm and CPA's was conducted to attempt to clear up any accounting deficiencies. The CPA firm was contacted during the Audit, to correct items and provide addition information. The Town has issued a Request for Proposals (RFP) for CPA's going forward.

Finding 2018-003 (Water Billing)

Condition: As part of the audit process, we were unable to gain comfort over the water and sewer revenue, therefore having a qualified opinion over the business-type activities.

Response: As stated in 2017 audit the Town moved to a new billing software, this software was in place until January 2017, the Town has moved back to the prior software, which was updated to be compatible with the new meter reading software and equipment. The Town currently has 60% of the system on Radio read meters, and should complete by mid-2020. The revenue increased from 599,109 in 2017 to 612,680 in 2018 with the addition of only 16 accounts.

Finding: 2018-004 (Management Oversight)

Condition: During the audit, several instances of lack of management oversight and not maintaining effective controls were noted.

Response: By Item:

- (A) The Town did review monthly reports by CPA's and requested changes or explanations for misstatements, CPA firm would have 2 or 3 months financials in process at times. This was also reason for the Town advertising for a CPA firm.
- (B) Auditor noted some Vendor checks without supporting documentation, Vendor files noted during audit were corrected, documentation was attached. Our checks have are a three part document, parts one and 2 go to vendor, part 3 stays in house and has annotation of use. Accounting department will ensure documentation (invoices) attached going forward.
- (C) Checks to Cash: Similar to above. Has been addressed as above.

(D) Checks to Board: A bills for payment will be presented to Council iaw, Charter item C-16. Accounting department aware of this requirement.

Martin Fontes Mayor

Town of Callahan

Michael A. Williams Town Manager Town of Callahan

Telephone 904 879 3801 \* Fax: 904 879-6151 \* E-Mail: pwd@townofcallahan-fl.gov