

City of Valparaiso, Florida

Financial Statements

September 30, 2009

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the City Commission
City of Valparaiso, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valparaiso, Florida (hereinafter referred to as "City"), as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund and special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Niceville, Florida
June 1, 2010

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis (MD&A) of the City of Valparaiso, Florida's (the "City") financial performance provides an overview of financial activity, identifies changes in financial position, and assists the reader in focusing on significant financial issues for the fiscal year ended September 30, 2009. The MD&A provides summary level financial information; therefore, it should be read in conjunction with the accompanying financial statements.

HIGHLIGHTS

Financial Highlights

- Total assets decreased \$474,361.
- Net assets decreased by \$188,450.
- Total revenues decreased by 4% or \$248,256 and total expenses increased by 8% or \$462,809.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, as amended by Statement 37. The Statement of Net Assets and the Statement of Activities (on pages 8 and 9) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 10. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a whole

Government – Wide Statements

Our analysis of the City as a whole begins on page 4. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer that question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets - the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- *Governmental activities* – Most of the City's basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Taxes and intergovernmental revenues finance most of these activities.
- *Business-type activities* – The City charges fees to customers to help it cover the costs of certain services it provides. The City's utility, communication, and sanitation systems are included here.

Reporting the City's Funds

Fund Financial Statements

Our analysis of the City's funds begins on page 6. The fund financial statements begin on page 10 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

- ***Governmental funds*** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in the reconciliations on pages 11 and 13.
- ***Proprietary funds*** – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's proprietary fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for its employees' pension plan. All of the City's fiduciary activities are reported in separate Statements of Pension Trust Fund Net Assets and Changes in Pension Trust Fund Net Assets on pages 20 and 21.

We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (GOVERNMENT – WIDE FINANCIAL ANALYSIS)

The following table reflects the net assets of the City's governmental activities and business-type activities and is compared to the prior year.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>		<u>Total percentage change 2009-2008</u>
	2009	2008	2009	2008	2009	2008	
Assets							
Current and other assets	\$ 1,922,620	\$ 1,961,185	\$ 2,222,148	\$ 3,528,360	\$ 4,144,768	\$ 5,489,545	-24.50%
Capital assets, net	3,338,466	3,346,495	5,265,167	4,386,722	8,603,633	7,733,217	11.26%
Total assets	\$ 5,261,086	\$ 5,307,680	\$ 7,487,315	\$ 7,915,082	\$ 12,748,401	\$ 13,222,762	-3.59%
Liabilities							
Current liabilities	\$ 50,945	\$ 15,203	\$ 1,073,677	\$ 1,349,205	\$ 1,124,622	\$ 1,364,408	-17.57%
Other liabilities	155,811	148,914	4,062,680	4,115,702	4,218,491	4,264,616	-1.08%
Total liabilities	206,756	164,117	5,136,357	5,464,907	5,343,113	5,629,024	-5.08%
Net assets							
Invested in capital assets, net of debt	3,338,466	3,346,495	2,135,610	3,071,722	5,474,076	6,418,217	-14.71%
Restricted	8,752	8,706	1,098,223	2,279,479	1,106,975	2,288,185	-51.62%
Unrestricted	1,707,112	1,788,362	(882,875)	(2,901,026)	824,237	(1,112,664)	-174.08%
Total net assets	5,054,330	5,143,563	2,350,958	2,450,175	7,405,288	7,593,738	-2.48%
Total liabilities and net assets	\$ 5,261,086	\$ 5,307,680	\$ 7,487,315	\$ 7,915,082	\$ 12,748,401	\$ 13,222,762	-3.59%

For more detailed information, see the accompanying Statement of Net Assets.

Total assets decreased by \$474,361 during the fiscal year ended September 30, 2009. This decrease primarily was due to the use of current assets to reduce liabilities. Total liabilities decreased by \$285,911 at September 30, 2009 primarily due to payment of amounts owed for construction costs from the previous year. The City's combined net assets decreased by \$188,450.

The following table reflects the changes in net assets of the City's governmental activities and business-type activities and compares the current and previous fiscal year.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>		<u>Total percentage change</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009-2008</u>
Program revenues:							
Charges for services	\$ 356,701	\$ 387,659	\$ 2,780,981	\$ 2,685,991	\$ 3,137,682	\$ 3,073,650	2%
Operating grants and contributions	-	113,869	42,522	43,763	42,522	157,632	-73%
Capital grants and contributions	196,250	420,627	-	-	196,250	420,627	-53%
Total program revenues	552,951	922,155	2,823,503	2,729,754	3,376,454	3,651,909	-8%
General revenues:							
Property taxes	790,603	681,302	-	-	790,603	681,302	16%
Public service taxes & franchise fees	1,435,029	1,452,834	-	-	1,435,029	1,452,834	-1%
State shared revenues	295,774	329,105	-	-	295,774	329,105	-10%
Investment earnings	27,557	38,882	61,369	166,378	88,926	205,260	-57%
Sale of fixed assets	-	-	75,290	-	75,290	-	-
Miscellaneous	68,668	52,143	74,243	80,690	142,911	132,833	8%
Total general revenues	2,617,631	2,554,266	210,902	247,068	2,828,533	2,801,334	1%
Total revenues	3,170,582	3,476,421	3,034,405	2,976,822	6,204,987	6,453,243	-4%
Governmental activities:							
General government	965,174	688,796	-	-	965,174	688,796	40%
Public safety	1,242,759	1,281,517	-	-	1,242,759	1,281,517	-3%
Public works	174,624	145,924	-	-	174,624	145,924	20%
Transportation	266,464	285,330	-	-	266,464	285,330	-7%
Cemetery	81,376	77,786	-	-	81,376	77,786	5%
Culture and recreation	481,456	443,596	-	-	481,456	443,596	9%
Total governmental activities	3,211,853	2,922,949	-	-	3,211,853	2,922,949	10%
Business-type activities:							
Utility	-	-	1,044,321	986,641	1,044,321	986,641	6%
Communication	-	-	1,499,248	1,323,198	1,499,248	1,323,198	13%
Sanitation	-	-	638,015	697,840	638,015	697,840	-9%
Total business-type activities	-	-	3,181,584	3,007,679	3,181,584	3,007,679	6%
Total expenses	3,211,853	2,922,949	3,181,584	3,007,679	6,393,437	5,930,628	8%
Increase (decrease) in net assets	(41,271)	553,472	(147,179)	(30,857)	(188,450)	522,615	-136%
Transfers	(47,962)	(73,695)	47,962	73,695	-	-	0%
Change in net assets	(89,233)	479,777	(99,217)	42,838	(188,450)	522,615	-136%
Net assets beginning of year	5,143,563	4,554,680	2,450,175	2,407,337	7,593,738	6,962,017	9%
Prior period adjustment	-	109,106	-	-	-	109,106	-100%
Net assets beginning of year, as restated	5,143,563	4,663,786	2,450,175	2,407,337	7,593,738	7,071,123	7%
Net assets end of year	\$ 5,054,330	\$ 5,143,563	\$ 2,350,958	\$ 2,450,175	\$ 7,405,288	\$ 7,593,738	-2%

For more detailed information, see the accompanying Statements of Activities.

The City's total revenues decreased by 4% or \$248,256 and total expenses increased by 8% or \$462,809. The overall results were a \$188,450 decrease in net assets for fiscal year 2009. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The City’s revenue for governmental activities decreased by 9%, or \$305,839, while expenses for the governmental activities increased by 10% or \$288,904. Overall, the City’s revenues were consistent with prior year. However, during the year, the City experienced higher tax revenues that were offset by lower grant revenues. The increase in expenses can be attributed to increases in operating and capital expenditures in the general fund. Specifically, expenditure increases were noted in general government.

Business-type Activities

Revenues of the City’s business – type activities show an increase of 2% or \$57,583 from the previous fiscal year, while expenses increased 6% or \$173,905. The increase in expense was due to higher programming costs, internet subscriber costs, sewer operating costs and depreciation expense. The increase in revenues is due primarily to an increase in the business activity rates in the current fiscal year.

THE CITY’S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 10) reported a *combined* fund balance of \$1,790,763, which is \$78,957 lower than last year’s total of \$1,869,720. The decrease in fund balance is the result of a decrease in revenues and an increase in operating and capital expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City revised the City budget by approximately \$228,000. The reason for these budget increases were primarily to account for the increase in legal expenditures related to the City’s litigation with the United States Air Force and Okaloosa County regarding the Joint Strike fighter squadron coming to Eglin Air Force Base.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2009, the City had approximately \$8,604,000 invested in capital assets (net of depreciation). This amount represents a net increase (including additions and deductions) of \$870,416 or 11% over the fiscal year 2008 total. See note 4 for additional information. A listing of capital assets of governmental and business-type activities by major category, net of depreciation, for the current and prior year follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>		<u>Total percentage change 2009-2008</u>
	2009	2008	2009	2008	2009	2008	
Land	\$ 451,387	\$ 451,387	\$ 90,603	\$ 114,139	\$ 541,990	\$ 565,526	-4%
Construction in progress	-	288,003	-	1,184,076	-	1,472,079	-100%
Infrastructure	948,414	963,596	-	-	948,414	963,596	-2%
Buildings and improvements	1,228,948	986,695	2,676,665	2,715,877	3,905,613	3,702,572	5%
Furniture, vehicles, & equipment	577,745	496,508	2,300,207	275,756	2,877,952	772,264	273%
Assets under capital leases	131,972	160,306	197,692	96,874	329,664	257,180	28%
Totals	\$ 3,338,466	\$ 3,346,495	\$ 5,265,167	\$ 4,386,722	\$ 8,603,633	\$ 7,733,217	11%

Debt

At September 30, 2009, the City had \$4,117,360 in bonds outstanding, net of unamortized discount and deferred refunding expenses, versus \$4,312,847 in the prior year, a decrease of \$195,487 as shown below. The City also had \$142,780 in lease obligations versus \$87,011 in the prior year, an increase of \$55,769 due to a new lease for a truck and lease payments throughout the year as shown below.

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total Primary</u> <u>Government</u>		<u>Total</u> <u>percentage</u> <u>change</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009-2008</u>
Lease obligations	\$ -	\$ -	\$ 142,780	\$ 87,011	\$ 142,780	\$ 87,011	64.09%
Bonds and notes	-	-	4,117,360	4,312,847	4,117,360	4,312,847	-4.53%
Totals	\$ -	\$ -	\$ 4,260,140	\$ 4,399,858	\$ 4,260,140	\$ 4,399,858	-3.18%

The last payment on the debt is due in fiscal year 2026. The maximum debt service in any one year on this debt is estimated to be \$377,388 in 2019. The minimum debt service is estimated to be \$230,119 in 2021. The City pledged as security for payment of the principal and interest on the Water and Sewer Revenue Bonds all non-ad valorem revenues.

For additional information on debt, see note 6 in the accompanying financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Amounts available for appropriation in the general fund budget are \$3.2 million, a decrease of 6% over the final FY 2009 budget of \$3.4 million. Property taxes, municipal revenue sharing and sales tax revenues were decreased. The 2010 appropriations include \$62,500 from unrestricted reserves.

Budgeted expenditures are expected to remain somewhat constant at \$3.2 million. The City has added no major new programs to the FY 2010 budget. However, the City has approximately \$1 million in a project fund from bond proceeds received in FY 2007 that are available to finance capital projects.

The City has settled its litigation with the United States Air Force and Okaloosa County regarding the Joint Strike fighter squadron coming to Eglin Air Force Base. One suit involving a private individual remains outstanding with the potential outcome unknown.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office, 190 Valparaiso Parkway, Valparaiso, Florida 32578.

Basic Financial Statements

City of Valparaiso, Florida

Statement of Net Assets

<i>September 30,</i>	2009		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 892,855	\$ 1,052,773	\$ 1,945,628
Investments	244,756	-	244,756
Accounts receivable, net	105,701	185,862	291,563
Inventories	-	77,059	77,059
Taxes receivable, net	6,175	-	6,175
Interest receivable	17,160	-	17,160
Internal balances	645,411	(645,411)	-
Prepaid items	1,810	9,721	11,531
Restricted assets - cash and cash equivalents	8,752	1,228,673	1,237,425
Investment in joint venture	-	236,493	236,493
Bond issue costs, net	-	76,978	76,978
Capital assets			
Nondepreciable	451,387	90,603	541,990
Depreciable, net	2,887,079	5,174,564	8,061,643
Total assets	5,261,086	7,487,315	12,748,401
Liabilities			
Accounts payable	50,945	119,576	170,521
Contingency payable	-	302,949	302,949
Taxes payable	-	555	555
Accrued payroll	137,195	7,570	144,765
Accrued interest - contingency	-	314,955	314,955
Customer deposits - restricted	-	98,725	98,725
Payroll deductions and withholdings	13,595	-	13,595
Deposits from others	1,250	-	1,250
Deferred revenue	3,771	-	3,771
Noncurrent liabilities:			
Due within one year	-	229,347	229,347
Due in more than one year	-	4,062,680	4,062,680
Total liabilities	206,756	5,136,357	5,343,113
Net assets			
Invested in capital assets, net of related debt	3,338,466	2,135,610	5,474,076
Restricted for:			
Capital projects	-	1,098,223	1,098,223
Public safety	8,752	-	8,752
Unrestricted	1,707,112	(882,875)	824,237
Total net assets	\$ 5,054,330	\$ 2,350,958	\$ 7,405,288

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Activities

Year ended September 30,

2009

Function/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 965,174	\$ 286,894	\$ -	\$ -	\$ (678,280)	\$ -	\$ (678,280)
Public safety	1,242,759	28,223	-	121,499	(1,093,037)	-	(1,093,037)
Public works	174,624	-	-	-	(174,624)	-	(174,624)
Transportation	266,464	-	-	-	(266,464)	-	(266,464)
Cemetery	81,376	38,945	-	-	(42,431)	-	(42,431)
Culture and recreation	481,456	2,639	-	74,751	(404,066)	-	(404,066)
Total governmental activities	3,211,853	356,701	-	196,250	(2,658,902)	-	(2,658,902)
Business-type activities:							
Utility	1,044,321	873,338	4,649	-	-	(166,334)	(166,334)
Communication	1,499,248	1,180,809	37,873	-	-	(280,566)	(280,566)
Sanitation	638,015	726,834	-	-	-	88,819	88,819
Total business-type activities	3,181,584	2,780,981	42,522	-	-	(358,081)	(358,081)
Total primary government	\$ 6,393,437	\$ 3,137,682	\$ 42,522	\$ 196,250	(2,658,902)	(358,081)	(3,016,983)
General revenues							
Property taxes, levied for operational purposes					790,603	-	790,603
Public service taxes and franchise fees					1,435,029	-	1,435,029
State shared revenues					295,774	-	295,774
Investment earnings					27,557	61,369	88,926
Sale of fixed assets					-	75,290	75,290
Miscellaneous					68,668	74,243	142,911
Transfers					(47,962)	47,962	-
Total general revenues and transfers					2,569,669	258,864	2,828,533
Change in net assets					(89,233)	(99,217)	(188,450)
Net assets, October 1, 2008					5,143,563	2,450,175	7,593,738
Net assets, September 30, 2009					\$ 5,054,330	\$ 2,350,958	\$ 7,405,288

See accompanying notes to financial statements.

City of Valparaiso, Florida

Balance Sheet
Governmental Funds

September 30,

2009

	General Fund	Streets Fund	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 290,957	\$ 1,980	\$ 292,937
Cash and cash equivalents, reserved	441,088	158,830	599,918
Accounts receivable, net	79,442	17,658	97,100
Taxes receivable, net	6,175	-	6,175
Interest receivable	10,815	-	10,815
Interest receivable - reserved	-	6,345	6,345
Prepaid items	1,810	-	1,810
Due from other funds	645,411	47,339	692,750
Restricted assets - cash and cash equivalents	8,752	-	8,752
Investments	244,756	-	244,756
Total assets	\$ 1,729,206	\$ 232,152	\$ 1,961,358
Liabilities and fund balances:			
Liabilities			
Accounts payable	\$ 48,783	\$ 2,262	\$ 51,045
Accrued salaries and benefits	66,743	447	67,190
Deferred revenue	3,771	-	3,771
Other payables	1,250	-	1,250
Due to other funds	47,339	-	47,339
Total liabilities	167,886	2,709	170,595
Fund balances			
Reserved for restricted purposes	449,840	165,175	615,015
Reserved for advances to other funds	645,411	47,339	692,750
Unreserved	466,069	16,929	482,998
Total fund balances	1,561,320	229,443	1,790,763
Total liabilities and fund balances	\$ 1,729,206	\$ 232,152	\$ 1,961,358

See accompanying notes to financial statements.

Reconciliation of the Governmental Funds Balance Sheet to
the Statement of Net Assets

<u>September 30,</u>	<u>2009</u>
Total fund balances - governmental funds	\$ 1,790,763
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	3,338,466
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	(83,500)
Revenues not collected within 60 days of the fiscal year end in the governmental funds do not meet the requirements of the availability for revenue recognition.	8,601
<u>Total net assets - governmental activities</u>	<u>\$ 5,054,330</u>

Statements of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

<i>Year Ended September 30,</i>	2009		
	General Fund	Streets Fund	Total Governmental Funds
Revenues			
Property taxes	\$ 790,603	\$ -	\$ 790,603
Franchise taxes	404,466	-	404,466
Communication taxes	200,331	-	200,331
Gasoline taxes	-	158,347	158,347
Sales taxes	437,059	-	437,059
Utility taxes	234,826	-	234,826
Licenses and permits	55,880	-	55,880
Intergovernmental	174,414	121,360	295,774
Federal and state grants	197,250	-	197,250
Fines and forfeits	25,112	-	25,112
Charges for services	275,709	-	275,709
Interest	21,183	6,374	27,557
Rents	46,151	-	46,151
Miscellaneous	18,992	-	18,992
Sales of fixed assets	2,525	-	2,525
Total revenues	2,884,501	286,081	3,170,582
Expenditures			
General government	931,035	-	931,035
Public safety	1,127,703	-	1,127,703
Public works	169,255	-	169,255
Transportation	-	215,403	215,403
Cemetery	75,128	-	75,128
Culture and recreation	413,374	-	413,374
Capital outlay	220,288	49,391	269,679
Total expenditures	2,936,783	264,794	3,201,577
Excess (deficiency) of revenues over (under) expenditures	(52,282)	21,287	(30,995)
Other financing sources (uses)			
Transfers out	(33,890)	(14,072)	(47,962)
Total other financing sources (uses)	(33,890)	(14,072)	(47,962)
Net change in fund balances	(86,172)	7,215	(78,957)
Fund balances, October 1, 2008	1,647,492	222,228	1,869,720
Fund balances, September 30, 2009	\$ 1,561,320	\$ 229,443	\$ 1,790,763

See accompanying notes to financial statements.

Reconciliation of Governmental Funds Statements of Revenues,
Expenditures, and Changes in Fund Balances With the Statement of
Activities

<u>Year Ended September 30,</u>	<u>2009</u>
Net change in fund balances - total governmental funds	\$ (78,957)
Capital outlay, reported as expenditures in governmental funds, is shown as capital assets in Statement of Net Assets. This is the amount by which capital outlays (\$287,251) exceeds depreciation (\$295,280) in the current period.	(8,029)
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.	(2,247)
<u>Change in net assets of governmental activities</u>	<u>\$ (89,233)</u>

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual – General Fund

Year ended September 30,

2009

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 775,947	\$ 775,947	\$ 790,603	\$ 14,656
Franchise taxes	362,500	362,500	404,466	41,966
Communication taxes	232,493	232,493	200,331	(32,162)
Sales taxes	496,111	496,111	437,059	(59,052)
Utility taxes	242,125	242,125	234,826	(7,299)
Licenses and permits	56,100	56,150	55,880	(270)
Intergovernmental	325,023	325,023	174,414	(150,609)
Federal and state grants	138,489	123,489	197,250	73,761
Fines and forfeits	36,000	36,000	25,112	(10,888)
Charges for services	276,680	276,680	275,709	(971)
Interest	25,000	25,000	21,183	(3,817)
Rents	43,000	43,000	46,151	3,151
Miscellaneous	3,100	3,100	18,992	15,892
Sales of fixed assets	3,150	3,150	2,525	(625)
Total revenues	3,015,718	3,000,768	2,884,501	(116,267)
Expenditures				
General government	780,739	1,049,239	931,035	118,204
Public safety	1,305,171	1,303,371	1,127,703	175,668
Public works	145,612	169,412	169,255	157
Cemetery	135,353	135,353	75,128	60,225
Culture and recreation	453,853	391,403	413,374	(21,971)
Capital outlay	89,750	89,750	220,288	(130,538)
Total expenditures	2,910,478	3,138,528	2,936,783	201,745
Excess (deficiency) of revenues over (under) expenditures	105,240	(137,760)	(52,282)	85,478
Other financing sources (uses)				
Transfers out	(197,790)	(197,790)	(33,890)	163,900
Total other financing sources (uses)	(197,790)	(197,790)	(33,890)	163,900
Net change in fund balances	(92,550)	(335,550)	(86,172)	249,378
Fund balances, October 1, 2008	1,647,492	1,647,492	1,647,492	-
Fund balances, September 30, 2009	\$ 1,554,942	\$ 1,311,942	\$ 1,561,320	\$ 249,378

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Revenues, Expenditures and Changes
in Fund Balance – Budget and Actual – Streets Fund

Year ended September 30,

2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Gasoline taxes	\$ 182,130	\$ 182,130	\$ 158,347	\$ (23,783)
Intergovernmental	569,388	569,388	121,360	(448,028)
Interest	4,250	4,250	6,374	2,124
Total revenues	755,768	755,768	286,081	(469,687)
Expenditures				
Transportation	310,558	310,558	215,403	95,155
Capital outlay	-	-	49,391	(49,391)
Total expenditures	310,558	310,558	264,794	45,764
Excess of revenues over expenditures	445,210	445,210	21,287	(423,923)
Other financing sources (uses)				
Transfers out	-	-	(14,072)	(14,072)
Total other financing sources (uses)	-	-	(14,072)	(14,072)
Net change in fund balances	445,210	445,210	7,215	(437,995)
Fund balances, October 1, 2008	222,228	222,228	222,228	-
Fund balances, September 30, 2009	\$ 667,438	\$ 667,438	\$ 229,443	\$ (437,995)

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Net Assets – Proprietary Funds

	2009			
	Utility Fund	Communication Fund	Sanitation Fund	Total
September 30,				
Assets				
Current assets				
Cash and cash equivalents	\$ 282,614	\$ 688,415	\$ 81,744	\$ 1,052,773
Accounts receivable, net	113,755	7,605	64,502	185,862
Prepaid items	-	9,721	-	9,721
Inventories	47,079	29,980	-	77,059
Total current assets	443,448	735,721	146,246	1,325,415
Restricted assets				
Cash and cash equivalents	130,450	1,098,223	-	1,228,673
Total restricted assets	130,450	1,098,223	-	1,228,673
Bond issue costs, net	26,269	50,709	-	76,978
Investment in joint venture	236,493	-	-	236,493
Capital assets, net	2,808,479	2,240,133	216,555	5,265,167
Total assets	3,645,139	4,124,786	362,801	8,132,726
Liabilities				
Current Liabilities				
Accounts payable	46,330	58,149	15,097	119,576
Contingency payable	-	302,949	-	302,949
Customer deposits - restricted	98,725	-	-	98,725
Taxes payable	-	555	-	555
Interest payable - contingency	8,408	305,648	899	314,955
Salaries and benefits payable	1,722	2,653	3,195	7,570
Current portion of capital leases	-	-	34,347	34,347
Bonds payable - current	90,000	105,000	-	195,000
Due to other funds	197,760	331,669	115,982	645,411
Total current liabilities	442,945	1,106,623	169,520	1,719,088
Non-current liabilities:				
Bonds and leases payable	1,135,000	2,755,000	108,433	3,998,433
Accrued compensated absences	2,461	14,898	14,528	31,887
Unamortized bond premium	30,559	26,585	-	57,144
Deferred bond refunding costs	(24,784)	-	-	(24,784)
Total non-current liabilities	1,143,236	2,796,483	122,961	4,062,680
Total liabilities	1,586,181	3,903,106	292,481	5,781,768
Net assets				
Invested in capital assets, net of related debt	1,583,479	478,356	73,775	2,135,610
Restricted for capital projects	-	1,098,223	-	1,098,223
Unrestricted	475,479	(1,354,899)	(3,455)	(882,875)
Total net assets	\$ 2,058,958	\$ 221,680	\$ 70,320	\$ 2,350,958

See accompanying notes to financial statements.

Statement of Revenues, Expenses, and Changes in Fund Net Assets –
Proprietary Funds

Year Ended September 30,	2009			
	Enterprise Funds			
	Utility Fund	Communication Fund	Sanitation Fund	Total
Revenues				
Charges for service	\$ 868,535	\$ 1,177,013	\$ 726,834	\$ 2,772,382
Miscellaneous	4,803	3,796	-	8,599
Total revenues	873,338	1,180,809	726,834	2,780,981
Operating expenses				
Advertising	-	1,665	-	1,665
Salaries and benefits	252,930	288,456	398,912	940,298
Internal services	72,976	99,964	55,714	228,654
Utilities	88,329	25,759	-	114,088
Depreciation	169,509	150,186	34,222	353,917
Bad debts	1,852	866	1,496	4,214
Lease	-	40,032	3,336	43,368
Landfill costs	-	-	94,410	94,410
Repairs and maintenance	39,951	14,232	12,939	67,122
Professional services	10,488	35,020	1,465	46,973
Program costs	-	506,853	-	506,853
Regional plant operation	175,868	-	-	175,868
Insurance	8,034	11,983	2,693	22,710
Services and supplies	158,924	80,897	32,828	272,649
Telephone and internet	8,660	67,231	-	75,891
Total expenditures	987,521	1,323,144	638,015	2,948,680
Operating income (loss)	(114,183)	(142,335)	88,819	(167,699)
Non-operating revenues (expenses)				
Tap on fees	4,649	-	-	4,649
Sales of fixed assets	-	75,290	-	75,290
Sales taxes	-	37,873	-	37,873
Investment earnings	1,768	30,842	255	32,865
Rents	74,243	-	-	74,243
Interest expense	(54,258)	(173,150)	-	(227,408)
Amortization of bond costs	(2,542)	(2,954)	-	(5,496)
Income from joint venture	28,504	-	-	28,504
Total non-operating revenues (expenses)	52,364	(32,099)	255	20,520
Income (loss) before operating transfers	(61,819)	(174,434)	89,074	(147,179)
Other financing sources (uses)				
Operating transfers to other funds	-	(139,055)	-	(139,055)
Operating transfers from other funds	172,945	14,072	-	187,017
Change in net assets	111,126	(299,417)	89,074	(99,217)
Net assets, October 1, 2008	1,947,832	521,097	(18,754)	2,450,175
Net assets, September 30, 2009	\$ 2,058,958	\$ 221,680	\$ 70,320	\$ 2,350,958

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Cash Flows – Proprietary Funds

	2009			
	Enterprise Funds			
	Utility Fund	Communication Fund	Sanitation Fund	Total
Cash flows from operating activities				
Receipts from customers	\$ 858,247	\$ 1,173,512	\$ 718,976	\$ 2,750,735
Payments to employees	(253,775)	(294,305)	(398,011)	(946,091)
Payments to suppliers	(495,437)	(1,022,703)	(137,545)	(1,655,685)
Payments for internal services	(72,976)	(99,964)	(55,714)	(228,654)
Net cash provided (used) by operating activities	36,059	(243,460)	127,706	(79,695)
Cash flows from non-capital financing activities				
Receipts from sales taxes	-	37,873	-	37,873
Receipts from rents	74,243	-	-	74,243
Receipts (payments) on interfund loan	150,992	(171,217)	(11,363)	(31,588)
Net cash provided (used) by non-capital financing activities	225,235	(133,344)	(11,363)	80,528
Cash flows from capital and related financing activities				
Proceeds from tap on fees	16,220	-	-	16,220
Proceeds from sale of assets	-	98,826	-	98,826
Purchase and construction of capital assets	(184,182)	(972,663)	(43,283)	(1,200,128)
Principal paid on bonds	(90,000)	(105,000)	-	(195,000)
Interest paid on bonds	(53,683)	(125,486)	-	(179,169)
Net cash used by capital and related financing activities	(311,645)	(1,104,323)	(43,283)	(1,459,251)
Cash flows from investing activities				
Interest income	1,768	30,842	255	32,865
Net cash provided by investing activities	1,768	30,842	255	32,865
Net increase (decrease) in cash and cash equivalents	(48,583)	(1,450,285)	73,315	(1,425,553)
Cash and cash equivalents, beginning of year	461,647	3,236,923	8,429	3,706,999
Cash and cash equivalents, end of year	\$ 413,064	\$ 1,786,638	\$ 81,744	\$ 2,281,446
Displayed as:				
Cash and cash equivalents	\$ 282,614	\$ 688,415	\$ 81,744	\$ 1,052,773
Restricted assets - cash and cash equivalents	130,450	1,098,223	-	1,228,673
Total	\$ 413,064	\$ 1,786,638	\$ 81,744	\$ 2,281,446

(continued)

See accompanying notes to financial statements.

Statement of Cash Flows – Proprietary Funds (Continued)

	2009			
	Enterprise Funds			
	Utility Fund	Communication Fund	Sanitation Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (114,183)	\$ (142,335)	\$ 88,819	\$ (167,699)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Bad debts	1,852	866	1,496	4,214
Depreciation and amortization	169,509	150,186	34,222	353,917
Change in operating assets and liabilities:				
Accounts receivable, net	(10,074)	(7,160)	(7,858)	(25,092)
Prepaid items	-	(5,834)	-	(5,834)
Inventories	-	(988)	-	(988)
Accounts payable	(5,183)	(265,733)	10,126	(260,790)
Contingency payable	-	33,524	-	33,524
Customer deposits - restricted	1,085	-	-	1,085
Taxes payable	-	(137)	-	(137)
Deferred revenue	(6,102)	-	-	(6,102)
Salaries and benefits payable	(569)	(1,003)	(890)	(2,462)
Accrued compensated absences	(276)	(4,846)	1,791	(3,331)
Net cash provided (used) by operating activities	\$ 36,059	\$ (243,460)	\$ 127,706	\$ (79,695)
Non-cash investing, capital and financing activities:				
Income from joint venture	\$ 28,504	\$ -	\$ -	\$ 28,504
Amortization of bond issue costs, discounts, premiums, and deferred amounts	\$ 2,542	\$ 2,954	\$ -	\$ 5,496
Retirement of out of service fixed assets	\$ -	\$ 454,903	\$ 51,833	\$ 506,736

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Net Assets – Fiduciary Funds

<i>September 30,</i>	2009	
Assets		
Cash and cash equivalents	\$	8,177
Due from State of Florida		60,995
Employer receivable		5,596
Plan member receivable		573
Investments		626,051
Total assets	\$	701,392
Net assets		
Held in trust for pension benefits	\$	701,392

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Changes in Net Assets – Fiduciary Funds

<i>Year ended September 30,</i>	2009
Additions	
Employer contributions	\$ 37,995
Member contributions	7,593
State contributions	60,995
Investment gains (losses)	16,966
Total additions	123,549
Deductions	
Pension benefits	9,486
Administrative expense	1,225
Total deductions	10,711
Change in net assets	112,838
Net assets, October 1, 2008	588,554
Net assets, September 30, 2009	\$ 701,392

See accompanying notes to financial statements.

NOTE 1 – NATURE OF ORGANIZATION

The City of Valparaiso (hereinafter referred to as “City”) was incorporated on May 6, 1921 under the provisions of the Laws of Florida, ch. 9101 (1921). The City operates under a Commission-Mayor form of government and provides the following services: public safety (law enforcement and fire control), streets, utilities, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include, or exclude, a potential component unit in the reporting entity was made by applying the criteria set forth in Government Accounting Standards Board Statement 14. The basic - but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the City and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

Based upon the application of these criteria, the City of Valparaiso Cable Authority, established on June 11, 2007 by Ordinance No. 564 qualifies as a blended component unit and is designated as the Communication Fund in the Proprietary Fund financial statements. The City does not issue a separate financial statement for this component unit.

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental and financial reporting principles. The City’s business-type activities apply Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Related organizations are those legally separate entities for which the City is responsible for appointing the board members or Trustees and for which the City is not otherwise financially accountable. These organizations are not included in the primary governments’ financial statements as they are not considered to be part of the financial reporting entity. The only entity meeting these criteria is the Valparaiso Employees Internal Revenue Code (IRC) Section 457 deferred compensation plan. This plan is a trust fund established solely for the benefit of the plan participants. All record keeping, administration, and investing activities are handled by a third-party trustee.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Basis of Presentation

Government-wide Financial Statements – Government-wide financial statements, including the statement of net assets and statement of activities, present information about the City as a whole. These statements include the non-fiduciary financial activity of the primary government.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the City.

The effects of interfund activity have been eliminated from the government-wide financial statements.

The government-wide financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

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

Fund Financial Statements

Governmental Funds are used to account for the general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following major funds:

The General Fund is the City's primary operating fund. This fund accounts for all financial resources of the general government, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The Streets Fund is a special revenue fund used to account for state revenues restricted for the use and expenditures of transportation.

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds include the following fund types:

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The following is a description of the enterprise funds of the City:

- Utility Fund is used to account for the operations associated with potable water supply, treatment, transmission and distribution services to area residents and the operations associated with sewer collection, treatment and disposal services to area residents.
- Sanitation Fund is used to account for the operations associated with sanitation collection and disposal services for the residents of the City.
- Communication Fund is used to account for the operating activities of the City's cable television, internet, and security services.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales of water, sewer, and communication services. Operating expenses for enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement.

Pension Trust Fund is custodial in nature and does not present results of operations or have a measurement focus. Pension Trust Funds are accounted for using the modified accrual basis of accounting. The Pension Trust Fund accounts for the assets of the City's Police Officers' Retirement Trust Fund and the Firefighters' Retirement Trust Fund.

New Accounting Pronouncements

The Governmental Accounting Standards Board issued Statements No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" which becomes effective for the City for its fiscal year beginning October 1, 2009.

The City is analyzing the effects of this pronouncement and plans to adopt it by the effective date as required. The City does not anticipate a material impact with the adoption of this standard.

See note 8 for additional information.

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City maintains its deposits with banks that are qualified public depositories under Florida law. All deposits are insured by Federal depository insurance and/or collateralized pursuant to the Public Depository Security Act of the State of Florida.

Under this method, all the City's deposits are fully insured or collateralized at the highest level of security as defined by *Governmental Accounting Standards Board, Statement Number 40, Deposits and Investment Disclosures (An Amendment of Governmental Accounting Standards Board, Statement Number 3)*.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The City's investment policy, in compliance with state statutes, authorizes the Treasurer to invest in the following:

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

The City believes that by adhering to the above deposits and investments policy credit risk and custodial risk will be minimal. The City does not have a policy related to interest rate risk.

The police and firefighters pension trust funds are allowed to invest in corporate stocks and bonds subject to certain limitations. The police and firefighter pension plan investments consist primarily of mutual funds: Bond Fund, Growth Fund, Index Fund, Small Cap Equity and an International Fund. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. These investments are part of a local government investment pool and therefore, are considered an external investment pool for GASB reporting requirements.

Receivables and Payables

Internal Balances

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "internal balances."

Advances between funds, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables in governmental funds are shown net of an allowance for uncollectibles. At September 30, 2009, accounts receivable totaled \$97,100 net of an allowance of doubtful accounts of \$1,000.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Services provided, deemed to be at market, or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

Property Taxes

The City’s ad valorem taxes are assessed by the Okaloosa County Property Appraiser and collected by the Okaloosa County Tax Collector in accordance with Florida Statutes. The City retains the right and duty to set millage rates. Property taxes are not recorded as receivables at September 30th because, though legally assessed as of January 1, they are not due and payable until after the close of the fiscal year ended the following September 30th.

The following is the current property tax calendar.

Assessment date	January 1, 2008
Levy date	November 1, 2008
Due date	November 1, 2008
Delinquency date	April 1, 2009

Discounts of 1% for each month taxes are paid prior to March are granted.

Revenue recognition criteria for property taxes under GASB requires that only property taxes expected to be collected within 60 days of the current period be accrued. Property taxes which are uncollected as of the end of the fiscal year are generally immaterial in amount and highly susceptible to uncollectibility; therefore, they are not recorded as a receivable at the balance sheet date.

Enterprise Fund Receivables

Accounts receivable from customers are reported at the outstanding balance due from customers, net of any allowance for doubtful accounts. The City provides for doubtful accounts based on experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectible, they are written off by charging the allowance and crediting the receivable. At September 30, 2009, accounts receivable totaled \$185,862 net of an allowance for doubtful accounts of \$3,500.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories and Prepaids

Inventories in proprietary funds consist of expendable supplies held for consumption. They are reported at cost on a first-in, first-out basis or, in instances where cost is not determinable, at an approximate cost based upon current invoice prices. Maintenance and operation supplies are expensed when purchased rather than when consumed.

Prepaids record payments to vendors that benefit future reporting periods. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

Restricted Assets

An explanation of the purpose for restricted assets and a reconciliation of restricted assets to the balance sheet are presented for additional analysis.

General Fund

A police forfeiture fund was established to receive monies and proceeds from sale of confiscated property. Expenditures are made from this fund according to State Statute.

Proprietary Funds

Water and sewer meter deposits received from customers of the water and sewer system are placed in a Meter Deposit Account in the utility fund. The money is restricted to use as payment the final customer bill or returned to the customer upon settlement of final bill.

Certain resources set aside for capital improvements are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The “project” account is used to segregate bond proceeds for capital improvements in the communication fund.

<i>As of</i>	September 30, 2009
General Fund	
Police	\$ 8,752
Total General Fund	\$ 8,752
Proprietary Funds	
Utility Fund	
Meter Deposits	\$ 130,450
Total Utility Fund	130,450
Communication Fund	
Project	1,098,223
Total Communication Fund	1,098,223
Total Proprietary Funds	\$ 1,228,673

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable government or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an useful life in excess of one year. Such assets meeting these criteria are capitalized at historical cost, if purchased, while others are charged to expense. Donated assets are stated at fair value on the date donated.

The City's infrastructure asset records include only those infrastructure assets categorized during the past ten years. An estimation of infrastructure costs before this period has not been made. The City elected not to retroactively report major infrastructure assets before this time under GASB Statement No. 34. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Computer software costs are expensed as incurred. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 - 50
Building improvements	15 - 25
Infrastructure	20 - 50
Vehicles	5 - 10
Office equipment	5 - 10
Machinery and equipment	5 - 15
CATV system	5 - 15
Water and sewer systems	20 - 50

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Vested or accumulated leave (annual, personal and sick) that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. All vested or accumulated leave is accrued when incurred in the government-wide and proprietary fund financial statements. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay or personal leave benefits.

The policy of the City for sick leave is that all full-time, permanent employees accrue sick and vacation leave benefits in varying amounts to a maximum of 30 days depending on tenure and age. The estimated liabilities include required salary-related payments. Governmental funds report only matured compensated absences payable to currently terminating employees.

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are recorded as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported in the governmental fund financial statements only for the current portion of compensated absences expected to be paid using expendable available resources.

Long-Term Obligations

Long-term debt and other obligations financed by the proprietary funds are reported as liabilities in the fund and in the government-wide statement of net assets. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges net of accumulated amortization at September 30, 2009 of \$20,233.

Deferred Revenues

Revenues collected in advance are deferred and recognized as revenue in the period earned.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for the amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Unreserved undesignated fund balance is the portion of fund equity available for any lawful use. In the government-wide financial statements, equity is classified as net assets and displayed in three components:

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- a) Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and other assets financed by the related debt (e.g. bond issuance costs and restricted bond sinking and reserve accounts), reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net assets consist of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments or law through constitutional provisions or enabling legislation.
- c) Unrestricted net assets consist of all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Capital Contributions

Capital contributions in proprietary fund financial statements arise from grants or outside contributions of resources restricted to capital acquisition and construction.

Use of Estimates

The financial statements and related disclosures are prepared in conformity with principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the period reported. These estimates include assessing the collectibility of accounts receivable, the use and recoverability of inventory, pension and postretirement obligations and useful lives and impairment of tangible assets, the determination of the actuarially accrued liability for unpaid claims, which is prepared based upon certain assumptions pertaining to interest rates, inflation rates, etc., among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Although these estimates are based on management’s knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Budgetary Information

Annual appropriated budgets are adopted for the General Fund, Streets Fund, and Proprietary Funds. The annual budgets for the General Fund and Streets Fund are adopted using the cash basis of accounting, which is not in accordance with U.S. GAAP required for governmental fund types. The budgets for the Proprietary Funds also are adopted on the cash basis, which is not consistent with U.S. GAAP for proprietary fund types. Every appropriation, except an appropriation for a capital expenditure, lapses at the end of the year to the extent it has not been expended or encumbered.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The budget is adopted by resolution for all City funds on or before October 1 of each year as required by state statute. Budgets are amended through a resolution passed by a majority vote of the City Commission at a publicized meeting. The total revenue(s) and/or expenditure(s) must exceed \$5,000 before the amendment will be considered. All budget amounts presented in the accompanying supplementary information have been adjusted for legally authorized amendments.

Budgets for all funds are prepared on the cash receipts and disbursements basis of accounting which differs from the basis used for financial reporting purposes. These differences are usually not significant for the governmental funds, however, they are for the enterprise funds as the budget includes capital outlay and debt principal repayments as expense and does not include depreciation. Revenues are budgeted in the year receipt is expected and expenditures are budgeted in the year that the applicable purchase orders are expected to be issued. Occasionally, a portion of the unreserved fund balance from the previous year will be included as budgeted source for the current year.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personnel services, other services and charges, supplies, capital outlay, transfers, and debt service. Expenditures are not to exceed appropriations at the fund level.

Stewardship, Compliance and Accountability

- A. Compliance with Finance Related Legal and Contractual Provisions – The City has no material violations of finance related legal and contractual provisions including with respect to investment of funds and long-term debt covenants.
- B. Deficit Fund Balance or Fund Equity of Individual Funds – As of September 30, 2009, no individual fund had a deficit fund balance or net assets deficit.
- C. Excess of Expenditures Over Budget Appropriations in Individual Funds – For the year ended September 30, 2009, no budgetary fund had an excess of expenditures over appropriations.

Subsequent events

The City evaluates subsequent events through the date the financial statements are issued.

Notes to Financial Statements

NOTE 3 – CASH AND INVESTMENTS

The City has a beneficial interest in shares in a local government investment pool and not the individual securities held within each portfolio. As of September 30, 2009, the asset allocation for the defined benefit plan investment pool was as follows:

Investment Asset Allocation	Asset Allocation Percentage
Cash	1.29%
FMIvT Broad Market High Quality Bond Portfolio	41.29%
FMIvT High Quality Growth Portfolio	7.38%
FMIvT Russell 1000 Index Portfolio	22.55%
FMIvT Diversified Small Cap Equity Portfolio	10.49%
FMIvT International Blend Portfolio	9.26%
FMIvT Large Cap Diversified Value Portfolio	7.74%
Total	100.00%

Concentration risk – Investments issued or explicitly guaranteed by the U. S. government and investments in mutual funds or pools are excluded from the concentration of credit risk disclosure requirements.

Custodial credit risk – For an investment, custodial credit risk is the risk that the City will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The City is not exposed to custodial credit risk since all of its bank deposits and certificate of deposits are held with qualified public depositories or insured by the federal depository insurance.

Investment in money market, open-end mutual funds, and external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Credit Risk – State law limits investments in money market funds and mutual bond funds to funds with the highest credit quality rating from nationally recognized statistical rating organizations. As of September 30, 2009, the City’s investments were rated as follows:

Fixed Income Funds:	Credit Risk for Investment Pool	
	Fitch Rating	S&P Rating
FMIvT 0-2 Year High Quality Bond Portfolio		AAAf/S1
FMIvT Broad Market High Quality bond Portfolio	AA/V4	
Equity Funds:	Rating	
FMIvT High Quality Growth Portfolio		Not Rated
FMIvT Russell 1000 Index Portfolio		Not Rated
FMIvT Diversified Small Cap Equity Portfolio		Not Rated
FMIvT International Blend Portfolio		Not Rated
FMIvT Large Cap Diversified Value Portfolio		Not Rated

Notes to Financial Statements

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Interest rate risk – Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment’s fair value. GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation mode.

Fixed Income Funds:	Rate Risk Information	
	Duration (Effective)	WAM
FMIvT 0-2 Year High Quality Bond Portfolio	0.57 years	0.85 years
FMIvT Broad Market High Quality Bond Portfolio	3.57 years	4.81 years

A reconciliation of cash and investments as shown on the balance sheet and statement of net assets is as follows:

Deposits	\$	3,191,230
Investments		870,807
Total	\$	4,062,037
Cash and cash equivalents, primary government	\$	1,945,628
Investments, primary government		244,756
Restricted cash and equivalents, primary government		1,237,425
Total primary government		3,427,809
Cash and cash equivalents, fiduciary funds		8,177
Investment, fiduciary funds		626,051
Total fiduciary funds		634,228
Grand Total	\$	4,062,037

Notes to Financial Statements

NOTE 4 – CHANGES IN CAPITAL ASSETS

Changes in capital assets for the year ended September 30, 2009 are shown below:

	Beginning				Ending
	Balance	Additions	Deletions	Transfers	Balance
Governmental Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 451,387	\$ -	\$ -	\$ -	\$ 451,387
Construction in progress	288,003	-	-	(288,003)	-
Total capital assets not being depreciated	739,390	-	-	(288,003)	451,387
<i>Capital assets being depreciated:</i>					
Buildings and improvements	1,683,597	24,625	-	288,003	1,996,225
Infrastructure	1,848,197	67,108	-	-	1,915,305
Assets under capital leases	360,023	-	(45,005)	-	315,018
Machinery, equipment and vehicles	1,478,082	195,518	(82,268)	-	1,591,332
Total capital assets being depreciated	5,369,899	287,251	(127,273)	288,003	5,817,880
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	696,902	70,375	-	-	767,277
Infrastructure	884,601	82,290	-	-	966,891
Assets under capital leases	199,717	19,333	(45,005)	-	174,045
Machinery, equipment and vehicles	981,574	123,282	(82,268)	-	1,022,588
Total accumulated depreciation	2,762,794	295,280	(127,273)	-	2,930,801
Total capital assets being depreciated, net	2,607,105	(8,029)	-	288,003	2,887,079
Governmental activities capital assets, net	\$ 3,346,495	\$ (8,029)	\$ -	\$ -	\$ 3,338,466

Notes to Financial Statements

NOTE 4 – CHANGES IN CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Business-type Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 114,139	\$ -	\$ (23,536)	\$ -	\$ 90,603
Construction in progress	1,184,076	-	-	(1,184,076)	-
Total capital assets not being depreciated	1,298,215	-	(23,536)	(1,184,076)	90,603
<i>Capital assets being depreciated:</i>					
Buildings and improvements	6,013,524	256,482	-	-	6,270,006
Assets under capital leases	180,962	96,072	-	-	277,034
Machinery, equipment and vehicles	1,919,227	903,344	(506,736)	1,184,076	3,499,911
Total capital assets being depreciated	8,113,713	1,255,898	(506,736)	1,184,076	10,046,951
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	3,430,510	154,722	-	8,109	3,593,341
Assets under capital leases	56,442	22,900	-	-	79,342
Machinery, equipment and vehicles	1,538,254	176,295	(506,736)	(8,109)	1,199,704
Total accumulated depreciation	5,025,206	353,917	(506,736)	-	4,872,387
Total capital assets being depreciated, net	3,088,507	901,981	-	1,184,076	5,174,564
Business-type activities capital assets, net	\$ 4,386,722	\$ 901,981	\$ (23,536)	\$ -	\$ 5,265,167

Land with a cost of approximately \$100,000 was being leased out as of September 30, 2009.

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

Government activities:	
General government	\$ 40,673
Public safety	110,886
Public works	6,845
Transportation	64,203
Cemetery	6,145
Culture and recreation	66,528
Total depreciation expense, governmental activities	\$ 295,280
Business-type activities:	
Utility	\$ 169,509
Communication	150,186
Sanitation	34,222
Total depreciation expense, business-type activities	\$ 353,917

NOTE 5 – JOINT VENTURE

A regional sanitary sewer system designed to provide service to residents of Valparaiso, Niceville, and Okaloosa County was completed and placed in service during the fiscal year ending September 30, 1982. The project was funded 75% by U.S. Environmental Protection Agency (EPA) grants under provision of Public Law 92-500 and 25% by the local government applicants. Valparaiso currently owns 20% of the operating capacity of the expanded system. The City of Niceville is a 44% owner and Okaloosa County is a 36% owner. The in-service cost of the property, plant and equipment paid for through the initial combined funding of the participants and the EPA was recorded prorata on the accounting records of the individual participants. The City's portion of their assets is accounted for in its utility fund.

The net operating results of the system are accounted for as a joint venture and accounted for under the equity method. The City's prorata share of the total cost of operating the regional sewer facility for the period ended September 30, 2009, was \$310,859. The City's portion of the equity in the joint venture is \$236,493.

The system is managed and operated by a separate governing body (Niceville, Valparaiso, Okaloosa County Regional Sewer Board, Inc.) consisting of six members; two appointed by each of the three participants. The Board is responsible for preparing and approving its own budget. The cost of operations, including additional equipment, inventory purchases, etc. is accounted for, in total, on the books and financial statements of the Board.

The following is a condensed summary of the assets, liabilities and equity, and operating results of the Board's fiscal year ended June 30, 2009. The Regional Sewer Board's audited financial statements can be obtained from the City Clerk's office.

Summary of Assets, Liabilities and Net Assets		
Assets		
Current assets	\$	511,710
Restricted assets		211,793
Capital assets - net of accumulated depreciation		496,503
Other assets		2,166
Total assets	\$	1,222,172
Liabilities and net assets		
Liabilities	\$	126,859
Net assets		1,095,313
Total liabilities and net assets	\$	1,222,172
Summary of Operating Results		
Sewer operating revenues	\$	1,680,222
Operating expenses		1,554,297
Operating income (loss)		125,925
Non-operating revenues (expenses)		16,594
Net Income	\$	142,519

NOTE 6 – LONG-TERM DEBT

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended September 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities					
Compensated absences	\$ 86,880	\$ -	\$ (3,380)	\$ 83,500	\$ 83,500
Governmental activities liabilities	\$ 86,880	\$ -	\$ (3,380)	\$ 83,500	\$ 83,500
Business-type Activities					
Compensated absences	\$ 35,218	\$ -	\$ (3,331)	\$ 31,887	\$ -
Capital lease payable	87,011	96,072	(40,303)	142,780	34,347
Notes payable	4,280,000	-	(195,000)	4,085,000	195,000
Note premium	61,650	-	(4,506)	57,144	-
Deferred refunded costs	(28,803)	4,019	-	(24,784)	-
Business-type activities liabilities	\$ 4,435,076	\$ 100,091	\$ (243,140)	\$ 4,292,027	\$ 229,347

Florida Municipal Loan Council – Notes Payable

Series 2005A Note Payable

On February 1, 2005, the City entered into a loan agreement with the Florida Municipal Loan Council to borrow \$1,555,000 from the proceeds of the Florida Municipal Loan Council Revenue Bonds, Series, 2005A to current refund two prior bond issues. The note was issued at a premium of \$44,360 of which the net proceeds of \$1,561,227 (after payment of \$38,133 in underwriting fees, insurance and other issuance costs) were used to refund these prior issues. The loan has an outstanding balance of \$1,135,000 and calls for semi-annual payments due on February 1, and August 1, through February 1, 2020, and bears interest at varying rates ranging from 3% to 5%. This note is accounted for in the utility fund.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$43,539. This difference, reported in the accompanying financial statements as a deduction from notes payable, is being charged to operations through the year 2015 using the effective interest method.

The City has pledged all non-ad valorem revenues as collateral under these loans. Annual principal and interest payments on the bonds are 4% of pledged revenue. The total principal and interest remaining to be paid on the bond is \$1,569,568. Principal and interest paid for the current year and total pledged revenues were \$141,908 and \$3,357,018, respectively.

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Series 2006 Note Payable

On January 9, 2007 the City entered into a loan agreement with the Florida Municipal Loan Council to borrow \$2,965,000 from the proceeds of the Florida Municipal Loan Council Revenue Bonds, Series, 2006. The note was issued at a premium of \$30,972 of which the net proceeds of \$2,936,893 (after payment of \$59,079 in underwriting fees, insurance and other issuance costs) is to be used for the purposes of rebuilding a CATV distribution plant and updating technology fiber to the plant. The loan has an outstanding balance of \$2,755,000 and calls for semi-annual payments due on April 1, and October 1, through October 1, 2026, and bears interest at varying rates ranging from 4% to 5%. This note is accounted for in the communication fund.

Redemption Provisions

Optional Redemption: The bonds maturing on or before the October 1, 2016 are not subject to optional redemption prior to maturity. The bonds maturing after October 1, 2016 are subject to redemption at the option of the issuer on or after October 1, 2016 as a whole or in part at any time, in any manner as determined by the trustee in its discretion taking into consideration the maturity of the loan being prepaid by a particular borrower, at the redemption price equal to the principal amount of the bonds to be redeemed, plus accrued interest to the redemption date.

Extraordinary Mandatory Redemption: The bonds are also subject to extraordinary mandatory redemption as a result of acceleration of a loan pursuant to a loan agreement at any time, in whole or in part, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, but only with the approval of the Insurer, from all liquidation proceeds or insurance proceeds received by the trustee as a result of an acceleration of any loan.

The City has pledged all non-ad valorem revenues as collateral under these loans. Annual principal and interest payments on the bonds are 7% of pledged revenue. The total principal and interest remaining to be paid on the bond is \$4,045,669. Principal and interest paid for the current year and total pledged revenues were \$228,388 and \$3,357,018, respectively.

The City is required to meet certain financial ratios under this loan agreement. As of September 30, 2009, the City was in compliance with such requirements. The City established reserve funds required under the loan covenants by funding surety bonds at issuance.

Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Debt Service Requirement to Maturity

The annual debt service requirements to maturity for the Florida Municipal Council notes as of September 30, 2009, are as follows:

<i>Year ending September 30,</i>	Business-type Activities		
	Principal	Interest	Total
2010	\$ 195,000	\$ 173,833	\$ 368,833
2011	205,000	166,933	371,933
2012	215,000	158,733	373,733
2013	220,000	150,883	370,883
2014	230,000	141,833	371,833
2015-2019	1,325,000	551,480	1,876,480
2020-2024	1,050,000	255,894	1,305,894
2025-2027	645,000	54,038	699,038
Total	\$ 4,085,000	\$ 1,653,624	\$ 5,738,627

Specific years for payments of internal balances and compensated absences are not determinable and are not included in the table above.

Capital Leases Payable

The City's outstanding lease agreements include the acquisition of a sanitation vehicle at a cost of \$78,990 and a garbage truck at a cost of \$101,972. These leases qualify as capital leases. As of September 30, 2009, the outstanding balance owed on the above capital lease assets totaled \$142,780.

The cost and accumulated depreciation for capital leases are:

	Business-Type Activities Sanitation Fund	
Cost of assets	\$	198,044
Accumulated depreciation	\$	20,100

The annual debt service requirements to maturity for the capital leases as of September 30, 2009, are as follows:

<i>Year ending September 30,</i>	Principal	Interest	Total
2010	\$ 34,347	\$ 4,049	\$ 38,396
2011	35,165	3,231	38,396
2012	36,348	2,048	38,396
2013	21,283	954	22,237
2014	15,637	477	16,114
Total	\$ 142,780	\$ 10,759	\$ 153,539

NOTE 7 – PENSIONS

Florida Retirement System

Plan Description

The City contributes to the Florida Retirement System (FRS), a cost sharing multiple employer defined benefit pension plan administered by the State of Florida, Division of Retirement Services. The FRS provides retirement and disability benefits, to annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established under Chapter 121, Florida Statutes, which may be amended by the Florida Legislature. Beginning in 2002, a defined contribution plan alternative to the existing defined benefit plan known as the Public Employee Optional Retirement Program or the FRS Investment became available to FRS members. The complete financial report of the FRS may be obtained by writing the State of Florida Division of Retirement, 1317 Winewood Blvd., Building C, Tallahassee, Florida 32399-1560 or by calling 1-850-488-5706.

Funding Policy

The FRS funding policy provides for monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial funding method. If an unfunded actuarial liability reemerges as an unfunded actuarial liability would be amortized over 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount. Active plan members including the City was required to contribute 9.63% of the annual salary of regular class employees and 22.11% of special risk class employees. Required contributions and contribution percentages are presented below:

	2009	2008	2007
Required Contributions	\$ 46,532	\$ 75,476	\$ 70,084
Regular Class Contribution %	9.63%	9.63%	8.69%
Special Risk Class Contribution	22.11%	22.11%	19.76%
Percentage Contribution	100.00%	100.00%	100.00%

NOTE 7 – PENSIONS (CONTINUED)

Police Officers and Firefighters Retirement Plan

Plan Description

The Police Officers and Firefighters Retirement Plan is a single-employer defined benefit plan, established under Chapters 185 and 175 of the Florida Statutes, which covers all police officers and firefighters hired on or after January 1, 1996. The City of Valparaiso Board of Trustees assigns the authority to establish and amend benefit provisions to this plan. The City's payroll for employees covered by this plan applicable to the October 1, 2007, actuarial valuation was approximately \$316,269. As of October 1, 2007, employee membership data related to the plan was as follows:

Retirees and beneficiaries currently receiving benefits	0
Terminated employee entitled to benefits but not yet receiving them	3
Disabled employees currently receiving benefits	1
Current active employees	
Vested	0
Nonvested	9
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Total	13
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The Police Officers and Firefighters Retirement Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Employees who retire with 10 years of service and are age 55 or who retire with 25 years of service and are age 52 are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 3% of average rate of pay for the highest five years of the last ten years worked or the career average, whichever is greater. Employees with ten years of service may retire at or after age 50 and receive reduced retirement benefits. The normal form of benefit is a ten year contain and life annuity.

Funding Policy

The City's plan is funded by employer contributions at actuarially determined rates which expressed as percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The employees of the plan contribute at a rate of 2% of their annual salary. For 2009, the City contributed a total of \$37,995 to the plan and \$60,995 was contributed by the State. The employees' contributions to the plan for the current year totaled \$7,593. The contributions are deposited with the Florida Municipal Pension Trust Fund where they are invested in mutual funds. Administration costs of this plan are financed through investment earnings.

Notes to Financial Statements

NOTE 7 – PENSIONS (CONTINUED)

Actuarial Assumptions

<u>Actuarial Assumptions</u>	
Valuation date	October 1, 2007
Actuarial cost method	Aggregate cost method
Amortization method	N/A
Amortization period	N/A
Asset valuation method	Market Value
Investment rate of return	7.50%
Salary increases	5.00%
Inflation rate	3.75%
Cost-of-living adjustments	0.00%

The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

Three Year Trend Information

<u>Year Ended September 30,</u>	<u>Employer Annual Pension Cost (APC)</u>	<u>Employer Contribution</u>		<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
		City	State		
2009	\$ 102,297	\$ 37,995	\$ 60,995	97%	\$ 3,307
2008	97,072	38,072	123,299	166%	(64,299)
2007	42,806	36,381	47,660	196%	(41,235)

The City does not issue a stand-alone financial report for the plan.

A schedule of funding progress is not presented since the plan uses the aggregate actuarial cost method. The schedule of employer contributions is listed below:

<u>Year Ended September 30,</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2001	\$ 8,911	100%
2002	18,263	100%
2003	15,897	100%
2004	14,879	100%
2005	24,697	100%
2006	41,516	49%
2007	42,806	100%
2008	97,072	100%
2009	102,297	97%

Notes to Financial Statements

NOTE 7 – PENSIONS (CONTINUED)

Deferred Compensation Plan

The City established on January 8, 1996, a contributory deferred compensation plan pursuant to Internal Revenue Code Section 457. The City contributes 9% of an employee's compensation and the employees may elect to make voluntary contributions of up to 9% of compensation. Regular class employees who are hired after plan effective date are eligible to participate in the plan. The Plan's assets are not considered part of the reporting entity and are not included in these financial statements. Vesting rights vary according to years of service. The City contributed \$81,742 and the employees contributed \$28,302 to this plan during the fiscal year.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

NOTE 9 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is a summary of interfund receivables and payables reported in the fund financial statements:

<i>September 30, 2009</i>	Interfund	
	Receivables	Payables
<i>Governmental funds:</i>		
General Fund	\$ 645,411	\$ 47,339
Streets Fund	47,339	-
<i>Proprietary funds:</i>		
Utility Fund	-	197,760
Communication Fund	-	331,669
Sanitation Fund	-	115,982
Total	\$ 692,750	\$ 692,750

Notes to Financial Statements

NOTE 9 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

Other governmental fund interfund amounts represent monies from the general fund used to fund capital improvement expenditures in the proprietary funds.

The following is a summary of interfund transfers as reported in the fund financial statements:

<i>September 30, 2009</i>	Interfund	
	Transfers In	Transfers Out
<i>Between governmental and business-type columns:</i>		
General Fund	\$ -	\$ 33,890
Streets Fund	-	14,072
Utility Fund	172,945	-
Communicaiton Fund	14,072	139,055
Total	\$ 187,017	\$ 187,017

NOTE 10 – BENEFITS FUNDED BY THE STATE OF FLORIDA

For 2009, the State of Florida contributed on-behalf payments for City employees as follows:

Plan	Amount
Valparaiso Police Retirement Plan	\$ 36,614
Valparaiso Firefighters Retirement Plan	24,381
Total	\$ 60,995

State contributions are funded by allocation of the State’s insurance premium tax. The above plans are affiliated with the Florida Municipal Pension Trust Fund.

NOTE 11 – LEASE EXPENSE

The City leases utility poles from Gulf Power for pole attachment privileges granted in connection with the furnishing of cable television services. Rent is payable in advance semi-annually at the rate of \$40.60 per pole, effective January 1, 2002. Rent paid for the year ended September 30, 2009 was \$6,508 which is \$33,524 less than the amount billed under a disputed rate. The City has recorded the difference as a contingent rental expense. See note 14 for contingent liability for pole attachment fees.

Future minimum rental payments due under this lease for the next five years and thereafter are based on the current rates being charged since the current lease rates will remain in effect unless revised by Gulf Power. The rental payments will also vary depending on the number of poles attached to. Based on the current rate, the future annual minimum rental payments for the next five years and thereafter would be \$40,722.

NOTE 12 – LEASE REVENUE

Governmental Funds

The City leases certain property predominantly to wireless telecommunications companies. These are non-cancelable operating leases.

Minimum rentals on non-cancelable leases for the next five years are as follows:

	2010	2011	2012	2013	Total
Utility Fund	\$ 76,926	\$ 79,922	\$ 82,904	\$ 82,904	\$ 322,656
General Fund	\$ 42,749	\$ 43,653	\$ 44,302	\$ 44,302	\$ 175,006

The Utility Fund leases are for five years and can be renewed for 4 successive 5 year periods on similar terms and conditions. The annual rent on these leases will increase by 4% per year. There was no unearned rent at September 30, 2009.

The Communications Fund lease is also for five years with the option of renewing for successive five year periods. The annual rent of \$12,000 will be adjusted by the CPI index starting in year 2008. Because that figure is unknown at this time, minimum future rentals for this lease was determined by the lease rate in effect at fiscal year end.

The General Fund's lease with two telecommunication companies is for five years with the option of renewing for four additional terms of five years each on the same terms and conditions. The annual rent increases by two percent (2-3%) per year. The General Fund received a total of \$46,151 in rents during the current year.

The General Fund's second lease is for a five year term at an annual rent of \$15,000. A second five year renewal option is available at renegotiated annual rent. Unearned rent at September 30, 2009 was \$3,771.

Rental income for the current fiscal year received on proprietary fund leases was \$74,243. No contingent rental revenue was earned during fiscal year 2009.

NOTE 13 – FUND EQUITY

Reservation of Fund Balance

Reserve for Restricted Purposes – An account used to segregate a portion of fund balance for the excess of restricted assets over liabilities payable from restricted assets. The following is a description of what is included in the governmental funds reserved for restricted purposes at September 30, 2009.

Notes to Financial Statements

NOTE 13 – FUND EQUITY (CONTINUED)

Funds	Purpose	Amount
General Fund		
Fire	Impact fees	\$ 7,676
Cemetery	Beautification and perpetual care	154,108
Library	Library expansion	14,104
Police	Fines and forfeitures	8,752
Parks	Future capital expenditures	74,811
Streets	Future capital expenditures	190,389
Total General Fund		\$ 449,840
Streets Fund	Future capital expenditures	\$ 165,175

Reserve for Advances to Other Funds – An account used to segregate a portion of fund balance to indicate that interfund receivable over interfund payable to other funds do not represent available, spendable resources.

Unreserved Fund Balance

Unreserved Fund Balance – An account used to indicate the balance of a fund that represents available, spendable resources.

Net Asset Restrictions

The government-wide statement of net assets governmental activities reports \$8,752 of restricted net assets, all of which is restricted by enabling legislation. Business-type activities reports \$1,098,223 of restricted net assets, all of which is restricted by enabling legislation.

NOTE 14 – CONTINGENT LIABILITIES

Pole Attachment Fees

The City is waiting on the outcome of a Supreme Court appeal that will decide whether fees charged by Gulf Power for pole attachment privileges are fair compensation. The City has escrowed \$328,175 in savings in case of an unfavorable ruling. \$33,524 has been accrued for the current year in accordance with U.S. GAAP. In addition, the City has been accruing interest on this liability. The total accrued interest for this liability at September 30, 2009 is \$305,648.

Litigation

The City is a party to various claims and assessments arising from its actions in the course of carrying out its public services. The City carries general liability coverage and management believes its coverage is sufficient to cover all significant losses arising from the unsuccessful outcome of any pending and/or threatened litigation.

NOTE 15 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for all other risks of loss, including fidelity bond, accidental death and dismemberment and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 16 – FEDERAL AND STATE GRANTS

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, for the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability, if any, for reimbursement which may arise as the result of these audits is not believed to be material.

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 Members of the City Commission
City of Valparaiso, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valparaiso, Florida (hereinafter referred to as the "City"), as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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 significant deficiency is a deficiency, or 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. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

We consider the deficiencies described in the schedule of findings, on page 51, to be a material weaknesses in internal control over financial reporting.

The City's responses to the findings identified in our audit are included in the schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

Compliance and Other Matters

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

This report is intended solely for the information and use of the City Commission, management, the Florida Auditor General and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Carri Riggs & Ingram, L.L.C.

Niceville, Florida
June 1, 2010

09-01 (Prior Year 08-01) Significant Adjustments to the Financial Records

Significant adjustments to the financial records were made in order for the financial statements to conform to U.S. generally accepted accounting principles.

Managements Response

We realize that ideally our internal control system should be designed in a manner that ensures the accuracy of the financial statements and that the auditors should not have to recommend journal entries to see that they conform to U.S. generally accepted accounting principles.

09-02 Inadequate Design of Internal Controls

Inadequate design of internal control over the preparation of the financial statements being audited gives rise to a significant deficiency in internal control.

Managements Response

Our auditors assist us with the preparation of our financial statements. We do not feel that in the near future the benefits derived from investing in the in the resources necessary for us to prepare our own financial statements would outweigh the cost of those resources.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

The Honorable Mayor and Members of the City Commission
City of Valparaiso, Florida

We have audited the financial statements of the City of Valparaiso, Florida (hereinafter referred to as the "City"), as of and for the year ended September 30, 2009, and have issued our report thereon dated June 1, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our independent auditor's report on internal control over financial reporting and on compliance and other matters. Disclosures in that report, which is dated June 1, 2010, should be considered in conjunction with this management letter.

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

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken other than those comments repeated on the Schedule of Findings on page 51.

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. See Schedule of Findings on page 51.

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

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of

contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of Valparaiso, Florida, is incorporated under the provisions of the State of Florida (Laws of Florida, ch. 9101 (1921)). The information required is disclosed in the notes to the financial statements.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City met one of the conditions described in Section 218.503(1), Florida Statutes. For the second year, the City reports a combined net unrestricted deficit in its Proprietary Funds financial statements. For the year ended September 30, 2009 the deficit was \$(882,875). Although this represents an indicator of deteriorating financial condition, we conclude that the City has sufficient net assets available from City operations as a whole, and that this condition does not result in the condition of a financial emergency.

The condition was a result of monies unspent from a bond issuance in prior year that was restricted for capital outlay projects. This condition is expected to be temporary in that these funds will be converted to capital assets over the next fiscal year. The asset conversion from restricted assets to net assets in capital assets, net of related debt should alleviate the unrestricted deficit.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2009, filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2009. In connection with our audit, we determined that these two reports were in agreement.

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

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the City of Valparaiso, Florida's management, the City Commission, certain regulatory agencies, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Carly Riggs & Ingram, L.L.C.

Niceville, Florida
June 1, 2010