

City of Valparaiso, Florida

Financial Statements

September 30, 2010

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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, 2010, 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.

As discussed in note 8 to the financial statements, the City has not implemented the provisions of GASB statement no. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The effects of this departure from accounting principles generally accepted in the United States of America on the governmental activities, the business-type activities and the governmental funds are not reasonably determinable.

In our opinion, except for the effects of not implementing the provisions of GASB Statement No. 45, as described in the preceding paragraph, 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, 2010, 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 August 1, 2011, 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 8, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Carly Riggs & Ingram, L.L.C.

Certified Public Accountants
August 1, 2011

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, 2010. 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 increased \$1,517,240.
- Net assets increased by \$188,806.
- Total revenues increased by 6% or \$388,418 and total expenses increased by less than 1% or \$11,162.

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 9 and 10) 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 11. 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 5. 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 7. The fund financial statements begin on page 11 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 12 and 14.
- ***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 21 and 22.

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.

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2010	2009	2010	2009	2010	2009	2010-2009
Assets							
Current and other assets	\$ 2,011,079	\$ 1,922,620	\$ 3,105,170	\$ 2,222,148	\$ 5,116,249	\$ 4,144,768	23.44%
Capital assets, net	3,898,167	3,338,466	5,251,225	5,265,167	9,149,392	8,603,633	6.34%
Total assets	5,909,246	5,261,086	8,356,395	7,487,315	14,265,641	12,748,401	11.90%
Liabilities							
Current liabilities	43,334	50,945	1,168,487	1,073,677	1,211,821	1,124,622	7.75%
Other liabilities	201,371	155,811	5,258,355	4,062,680	5,459,726	4,218,491	29.42%
Total liabilities	244,705	206,756	6,426,842	5,136,357	6,671,547	5,343,113	24.86%
Net assets							
Invested in capital assets, net of debt	3,898,167	3,338,466	142,862	2,135,610	4,041,029	5,474,076	-26.18%
Restricted	7,149	8,752	1,748,112	1,098,223	1,755,261	1,106,975	58.56%
Unrestricted	1,759,225	1,707,112	38,579	(882,875)	1,797,804	824,237	118.12%
Total net assets	\$ 5,664,541	\$ 5,054,330	\$ 1,929,553	\$ 2,350,958	\$ 7,594,094	\$ 7,405,288	2.55%

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

Total assets increased by \$1,517,240 during the fiscal year ended September 30, 2010, primarily due acquisition of assets. Total liabilities increased by \$1,328,434 at September 30, 2010 primarily due to bonds issued during the year. The City's combined net assets increased by \$188,806.

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.

	Governmental Activities		Business-type Activities		Total Primary Government		Total % Change
	2010	2009	2010	2009	2010	2009	2010-2009
Program revenues:							
Charges for services	\$ 413,563	\$ 356,701	\$ 3,091,564	\$ 2,780,981	\$ 3,505,127	\$ 3,137,682	12%
Operating grants and contributions	-	-	67,994	42,522	67,994	42,522	60%
Capital grants and contributions	139,160	196,250	-	-	139,160	196,250	-29%
Total program revenues	552,723	552,951	3,159,558	2,823,503	3,712,281	3,376,454	10%
General revenues:							
Property taxes	806,362	790,603	-	-	806,362	790,603	2%
Public service taxes & franchise fees	1,455,833	1,435,029	-	-	1,455,833	1,435,029	1%
State shared revenues	277,011	295,774	-	-	277,011	295,774	-6%
Investment earnings	12,985	27,557	184,952	61,369	197,937	88,926	123%
Sale of fixed assets	-	-	1,020	75,290	1,020	75,290	-99%
Miscellaneous	74,317	68,668	68,644	74,243	142,961	142,911	0%
Total general revenues	2,626,508	2,617,631	254,616	210,902	2,881,124	2,828,533	2%
Total revenues	3,179,231	3,170,582	3,414,174	3,034,405	6,593,405	6,204,987	6%
Governmental activities:							
General government	764,115	965,174	-	-	764,115	965,174	-21%
Public safety	1,248,015	1,242,759	-	-	1,248,015	1,242,759	0%
Public works	160,050	174,624	-	-	160,050	174,624	-8%
Transportation	292,359	266,464	-	-	292,359	266,464	10%
Stormwater	1,147	-	-	-	1,147	-	-
Cemetery	82,199	81,376	-	-	82,199	81,376	1%
Culture and recreation	463,273	481,456	-	-	463,273	481,456	-4%
Total governmental activities	3,011,158	3,211,853	-	-	3,011,158	3,211,853	-6%
Business-type activities:							
Utility	-	-	1,030,734	1,044,321	1,030,734	1,044,321	-1%
Communication	-	-	1,707,864	1,499,248	1,707,864	1,499,248	14%
Sanitation	-	-	654,843	638,015	654,843	638,015	3%
Total business-type activities	-	-	3,393,441	3,181,584	3,393,441	3,181,584	7%
Total expenses	3,011,158	3,211,853	3,393,441	3,181,584	6,404,599	6,393,437	0%
Increase (decrease) in net assets	168,073	(41,271)	20,733	(147,179)	188,806	(188,450)	-200%
Transfers	442,138	(47,962)	(442,138)	47,962	-	-	0%
Change in net assets	610,211	(89,233)	(421,405)	(99,217)	188,806	(188,450)	-200%
Net assets beginning of year	5,054,330	5,143,563	2,350,958	2,450,175	7,405,288	7,593,738	-2%
Net assets end of year	\$ 5,664,541	\$ 5,054,330	\$ 1,929,553	\$ 2,350,958	\$ 7,594,094	\$ 7,405,288	3%

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

The City's total revenues increased by \$388,418 or 6% and total expenses increased by \$11,162, less than 1%. Net assets increased by \$188,806 for fiscal year 2010. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The City’s revenue for governmental activities was consistent with the prior year. Overall, the City’s revenues from charges for services and taxes increased slightly, while grant revenues and shared revenues from the state decreased slightly. Expenses decreased \$200,695, or 6%, due primarily to a decrease in operating expenses.

Business-type Activities

Revenues of the City’s business – type activities show an increase of 13% or \$379,769 from the previous fiscal year, while expenses increased 7% or \$211,857. The increase in expense was due to higher programming costs, internet subscriber costs, costs and depreciation expense. The increase in revenues is due primarily to an increase in the business activity rates.

THE CITY’S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a *combined* fund balance of \$1,935,395, which is \$144,632 higher than last year’s total of \$1,790,763. The increase in fund balance is the result of increases in revenues and operating expenditures, and transfers in from other funds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2010, the City had approximately \$9,149,000 invested in capital assets (net of depreciation). This amount represents a net increase (including additions and deductions) of \$546,000 or 6% over the fiscal year 2009 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:

	Governmental Activities		Business-type Activities		Total Primary Government		Total % change
	2010	2009	2010	2009	2010	2009	2010-2009
Land	\$ 451,387	\$ 451,387	\$ 90,603	\$ 90,603	\$ 541,990	\$ 541,990	0%
Buildings and improvements	1,209,491	1,228,948	2,526,055	2,676,665	3,735,546	3,905,613	-4%
Infrastructure	1,474,428	948,414	-	-	1,474,428	948,414	55%
Furniture, vehicles, & equipment	762,861	709,717	2,634,567	2,497,899	3,397,428	3,207,616	6%
Totals	\$ 3,898,167	\$ 3,338,466	\$ 5,251,225	\$ 5,265,167	\$ 9,149,392	\$ 8,603,633	6%

Debt

At September 30, 2010, the City had \$5,358,511 in bonds and notes outstanding, net of unamortized discount, premium and deferred refunding expenses, versus \$4,117,360 in the prior year, an increase of 1,241,151 as shown below. The City also had \$175,446 in lease obligations versus \$142,780 in the prior year, an increase of \$32,666 due the addition of a new lease and lease payments throughout the year as shown below.

	Governmental Activities		Business-type Activities		Total Primary Government		Total % change
	2010	2009	2010	2009	2010	2009	2010-2009
Lease obligations	\$ 67,013	\$ -	\$ 108,433	\$ 142,780	\$ 175,446	\$ 142,780	22.88%
Bonds and notes	-	-	5,358,511	4,117,360	5,358,511	4,117,360	30.14%
Totals	\$ 67,013	\$ -	\$ 5,466,944	\$ 4,260,140	\$ 5,533,957	\$ 4,260,140	29.90%

The last payment on the debt is due in fiscal year 2041. The maximum debt service in any one year on this debt is estimated to be \$466,053 in 2019. The minimum debt service is estimated to be \$88,822 in 2041. 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 \$2.8 million, compared to the final FY 2010 budget of \$3.4 million.

The City added no major new programs to the FY 2011 budget.

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report was prepared by the City. For questions about this report or 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>	2010		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 892,508	\$ 2,458,729	\$ 3,351,237
Investments	254,534	-	254,534
Accounts receivable, net	117,137	258,029	375,166
Inventories	-	81,647	81,647
Interest receivable	6,926	-	6,926
Internal balances	721,385	(721,385)	-
Prepaid items	11,440	6,810	18,250
Restricted assets - cash and cash equivalents	7,149	498,927	506,076
Investment in joint venture	-	409,256	409,256
Bond issue costs, net	-	113,157	113,157
Capital assets			
Nondepreciable	451,387	90,603	541,990
Depreciable, net	3,446,780	5,160,622	8,607,402
Total assets	5,909,246	8,356,395	14,265,641
Liabilities			
Accounts payable	43,334	102,127	145,461
Contingency payable	-	336,473	336,473
Taxes payable	-	549	549
Accrued payroll	126,831	8,869	135,700
Accrued interest - contingency	-	378,440	378,440
Customer deposits - restricted	-	101,834	101,834
Payroll deductions and withholdings	3,377	-	3,377
Deposits from others	1,250	-	1,250
Deferred revenue	2,900	-	2,900
Noncurrent liabilities:			
Due within one year	21,600	240,195	261,795
Due in more than one year	45,413	5,258,355	5,303,768
Total liabilities	244,705	6,426,842	6,671,547
Net assets			
Invested in capital assets, net of related debt	3,898,167	142,862	4,041,029
Restricted for:			
Capital projects	-	1,748,112	1,748,112
Public safety	7,149	-	7,149
Unrestricted	1,759,225	38,579	1,797,804
Total net assets	\$ 5,664,541	\$ 1,929,553	\$ 7,594,094

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Activities

Year ended September 30,

2010

Function/Program	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets - Primary Government		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 764,115	\$ 332,142	\$ -	\$ -	\$ (431,973)	\$ -	\$ (431,973)
Public safety	1,248,015	26,409	-	1,124	(1,220,482)	-	(1,220,482)
Public works	160,050	-	-	-	(160,050)	-	(160,050)
Transportation	292,359	-	-	-	(292,359)	-	(292,359)
Stormwater	1,147	-	-	-	(1,147)	-	(1,147)
Cemetery	82,199	50,350	-	-	(31,849)	-	(31,849)
Culture and recreation	463,273	4,662	-	138,036	(320,575)	-	(320,575)
Total governmental activities	3,011,158	413,563	-	139,160	(2,458,435)	-	(2,458,435)
Business-type activities:							
Utility	1,030,734	1,010,806	22,599	-	-	2,671	2,671
Communication	1,707,864	1,332,511	45,395	-	-	(329,958)	(329,958)
Sanitation	654,843	748,247	-	-	-	93,404	93,404
Total business-type activities	3,393,441	3,091,564	67,994	-	-	(233,883)	(233,883)
Total primary government	\$ 6,404,599	\$ 3,505,127	\$ 67,994	\$ 139,160	(2,458,435)	(233,883)	(2,692,318)
General revenues							
Property taxes, levied for operational purposes					806,362	-	806,362
Public service taxes and franchise fees					1,455,833	-	1,455,833
State shared revenues					277,011	-	277,011
Investment earnings					12,985	184,952	197,937
Sales of fixed assets					-	1,020	1,020
Miscellaneous					74,317	68,644	142,961
Transfers					442,138	(442,138)	-
Total general revenues and transfers					3,068,646	(187,522)	2,881,124
Change in net assets					610,211	(421,405)	188,806
Net assets, October 1, 2009					5,054,330	2,350,958	7,405,288
Net assets, September 30, 2010					\$ 5,664,541	\$ 1,929,553	\$ 7,594,094

See accompanying notes to financial statements.

City of Valparaiso, Florida

Balance Sheet
Governmental Funds

September 30,

2010

	General Fund	Streets Fund	Stormwater Fund	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 538,045	\$ 2,663	\$ -	\$ 540,708
Cash and cash equivalents, reserved	186,625	165,175	-	351,800
Accounts receivable, net	79,555	26,356	2,625	108,536
Interest receivable	4,201	-	-	4,201
Interest receivable - reserved	-	2,726	-	2,726
Prepaid items	11,440	-	-	11,440
Due from other funds	722,470	28,763	-	751,233
Restricted assets - cash and cash cash equivalents	7,149	-	-	7,149
Investments	254,534	-	-	254,534
Total assets	\$ 1,804,019	\$ 225,683	\$ 2,625	\$ 2,032,327
Liabilities and fund balances:				
Liabilities				
Accounts payable	\$ 43,200	\$ 134	\$ -	\$ 43,334
Accrued salaries and benefits	18,660	939	-	19,599
Deferred revenue	2,900	-	-	2,900
Other payables	1,250	-	-	1,250
Due to other funds	28,763	-	1,086	29,849
Total liabilities	94,773	1,073	1,086	96,932
Fund balances				
Reserved for restricted purposes	193,774	167,901	-	361,675
Reserved for advances to other funds	722,470	28,763	-	751,233
Unreserved	793,002	27,946	1,539	822,487
Total fund balances	1,709,246	224,610	1,539	1,935,395
Total liabilities and fund balances	\$ 1,804,019	\$ 225,683	\$ 2,625	\$ 2,032,327

See accompanying notes to financial statements.

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

<u>September 30,</u>	<u>2010</u>
Total fund balances - governmental funds	\$ 1,935,395
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	3,898,167
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	(110,609)
Payments on capital leases are not due and payable in the current period and therefore are not reported in the governmental funds.	(67,013)
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>\$ 5,664,541</u>

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

Year Ended September 30,

2010

	General Fund	Streets Fund	Stormwater Fund	Total Governmental Funds
Revenues				
Property taxes	\$ 806,362	\$ -	\$ -	\$ 806,362
Franchise taxes	415,667	-	-	415,667
Communication taxes	190,913	-	-	190,913
Gasoline taxes	-	166,702	-	166,702
Sales taxes	423,882	-	-	423,882
Utility taxes	258,669	-	-	258,669
Licenses and permits	77,816	-	-	77,816
Intergovernmental	166,026	110,985	-	277,011
Federal and state grants	139,660	-	-	139,660
Fines and forfeits	22,938	-	-	22,938
Charges for services	310,123	-	-	310,123
Interest	10,201	2,784	-	12,985
Rents	47,823	-	-	47,823
Miscellaneous	21,561	-	-	21,561
Lease purchase	-	88,825	-	88,825
Stormwater	-	-	2,686	2,686
Sales of fixed assets	2,563	1,870	-	4,433
Total revenues	2,894,204	371,166	2,686	3,268,056
Expenditures				
General government	721,780	-	-	721,780
Public safety	1,118,914	-	-	1,118,914
Public works	160,429	-	-	160,429
Transportation	-	228,646	-	228,646
Stormwater	-	-	1,147	1,147
Cemetery	71,524	-	-	71,524
Culture and recreation	444,951	-	-	444,951
Capital outlay	194,790	623,381	-	818,171
Total expenditures	2,712,388	852,027	1,147	3,565,562
Excess (deficiency) of revenues over (under) expenditures	181,816	(480,861)	1,539	(297,506)
Other financing sources (uses)				
Transfers in (out)	(33,890)	476,028	-	442,138
Total other financing sources (uses)	(33,890)	476,028	-	442,138
Net change in fund balances	147,926	(4,833)	1,539	144,632
Fund balances, October 1, 2009	1,561,320	229,443	-	1,790,763
Fund balances, September 30, 2010	\$ 1,709,246	\$ 224,610	\$ 1,539	\$ 1,935,395

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>2010</u>
Net change in fund balances - total governmental funds	\$ 144,632
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 (\$818,171) exceeds depreciation (\$346,019) in the current period.	472,152
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.	(6,573)
<u>Change in net assets of governmental activities</u>	<u>\$ 610,211</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,

2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 789,861	\$ 789,861	\$ 806,362	\$ 16,501
Franchise taxes	352,000	352,000	415,667	63,667
Communication taxes	237,980	237,980	190,913	(47,067)
Sales taxes	405,464	405,464	423,882	18,418
Utility taxes	248,800	248,800	258,669	9,869
Licenses and permits	43,000	43,000	77,816	34,816
Intergovernmental	289,164	289,164	166,026	(123,138)
Federal and state grants	203,000	203,000	139,660	(63,340)
Fines and forfeits	36,000	36,000	22,938	(13,062)
Charges for services	369,688	369,688	310,123	(59,565)
Interest	25,000	25,000	10,201	(14,799)
Rents	47,500	47,500	47,823	323
Miscellaneous	5,000	5,000	21,561	16,561
Sales of fixed assets	3,000	3,000	2,563	(437)
Total revenues	3,055,457	3,055,457	2,894,204	(161,253)
Expenditures				
General government	966,725	1,037,725	721,780	315,945
Public safety	1,275,917	1,275,917	1,118,914	157,003
Public works	157,805	169,905	160,429	9,476
Cemetery	134,649	134,649	71,524	63,125
Culture and recreation	386,450	416,450	444,951	(28,501)
Capital outlay	269,500	363,400	194,790	168,610
Total expenditures	3,191,046	3,398,046	2,712,388	685,658
Excess (deficiency) of revenues over (under) expenditures	(135,589)	(342,589)	181,816	524,405
Other financing sources (uses)				
Transfers out	-	-	(33,890)	(33,890)
Total other financing sources (uses)	-	-	(33,890)	(33,890)
Net change in fund balance	(135,589)	(342,589)	147,926	490,515
Fund balance, October 1, 2009	1,561,320	1,561,320	1,561,320	-
Fund balance, September 30, 2010	\$ 1,425,731	\$ 1,218,731	\$ 1,709,246	\$ 490,515

See accompanying notes to financial statements.

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

Year ended September 30,

2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Gasoline taxes	\$ 182,130	\$ 182,130	\$ 166,702	\$ (15,428)
Intergovernmental	111,796	111,796	110,985	(811)
Interest	4,000	4,000	2,784	(1,216)
Lease purchase	-	88,825	88,825	-
Sale of fixed assets	-	-	1,870	1,870
Total revenues	297,926	386,751	371,166	(15,585)
Expenditures				
Transportation	278,900	297,900	228,646	69,254
Capital outlay	35,000	654,000	623,381	30,619
Total expenditures	313,900	951,900	852,027	99,873
Excess (deficit) of revenues over (under) expenditures	(15,974)	(565,149)	(480,861)	84,288
Other financing sources (uses)				
Transfers in	-	-	476,028	476,028
Total other financing sources (uses)	-	-	476,028	476,028
Net change in fund balance	(15,974)	(565,149)	(4,833)	560,316
Fund balance, October 1, 2009	229,443	229,443	229,443	-
Fund balance, September 30, 2010	\$ 213,469	\$ (335,706)	\$ 224,610	\$ 560,316

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Net Assets – Proprietary Funds

	2010			
	Business-Type Activities			Total
	Utility Fund	Communication Fund	Sanitation Fund	
Assets				
Current assets				
Cash and cash equivalents	\$ 1,643,458	\$ 674,309	\$ 140,962	\$ 2,458,729
Accounts receivable, net	163,339	21,579	73,111	258,029
Prepaid items	-	6,810	-	6,810
Inventories	47,064	34,583	-	81,647
Total current assets	1,853,861	737,281	214,073	2,805,215
Restricted assets				
Cash and cash equivalents	143,857	355,070	-	498,927
Total restricted assets	143,857	355,070	-	498,927
Bond issue costs, net	65,402	47,755	-	113,157
Investment in joint venture	409,256	-	-	409,256
Capital assets, net	2,959,546	2,113,785	177,894	5,251,225
Total other assets	3,434,204	2,161,540	177,894	5,773,638
Total assets	5,431,922	3,253,891	391,967	9,077,780
Liabilities				
Current Liabilities				
Accounts payable	23,459	68,526	10,142	102,127
Contingency payable	-	336,473	-	336,473
Customer deposits - restricted	101,834	-	-	101,834
Taxes payable	-	549	-	549
Interest payable - contingency	16,631	360,845	964	378,440
Salaries and benefits payable	2,009	3,375	3,485	8,869
Current portion of capital leases	-	-	35,195	35,195
Bonds payable - current	95,000	110,000	-	205,000
Due to other funds	250,144	378,057	93,184	721,385
Total current liabilities	489,077	1,257,825	142,970	1,889,872
Non-current liabilities:				
Bonds and leases payable	2,505,000	2,645,000	73,238	5,223,238
Accrued compensated absences	2,636	15,271	11,180	29,087
Unamortized bond premium	1,759	25,036	-	26,795
Deferred bond refunding costs	(20,765)	-	-	(20,765)
Total non-current liabilities	2,488,630	2,685,307	84,418	5,258,355
Total liabilities	2,977,707	3,943,132	227,388	7,148,227
Net assets				
Invested in capital assets, net of related debt	359,546	(286,145)	69,461	142,862
Restricted for capital projects	1,393,042	355,070	-	1,748,112
Unrestricted	701,627	(758,166)	95,118	38,579
Total net assets	\$ 2,454,215	\$ (689,241)	\$ 164,579	\$ 1,929,553

See accompanying notes to financial statements.

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

Year Ended September 30,	2010			
	Business-Type Activities			
	Utility Fund	Communication Fund	Sanitation Fund	Total
Revenues				
Charges for services	\$ 1,006,006	\$ 1,327,656	\$ 748,247	\$ 3,081,909
Miscellaneous	4,800	4,855	-	9,655
Total revenues	1,010,806	1,332,511	748,247	3,091,564
Operating expenses				
Advertising	-	1,666	-	1,666
Salaries and benefits	242,943	289,185	381,002	913,130
Internal services	85,097	112,952	56,072	254,121
Utilities	89,589	23,127	-	112,716
Depreciation	189,756	229,412	38,661	457,829
Bad debts	4,402	5,431	4,774	14,607
Lease	-	40,032	4,114	44,146
Landfill costs	-	-	103,777	103,777
Repairs and maintenance	35,006	18,685	20,525	74,216
Professional services	14,061	46,191	799	61,051
Program costs	-	596,985	-	596,985
Regional plant operation	203,409	-	-	203,409
Insurance	6,036	10,178	2,671	18,885
Services and supplies	92,433	62,137	42,448	197,018
Telephone and internet	5,372	93,993	-	99,365
Total expenditures	968,104	1,529,974	654,843	3,152,921
Operating income (loss)	42,702	(197,463)	93,404	(61,357)
Non-operating revenues (expenses)				
Tap on fees	22,599	-	-	22,599
Sales of fixed assets	425	-	595	1,020
Sales taxes	-	45,395	-	45,395
Investment earnings	2,591	9,338	260	12,189
Rents	68,644	-	-	68,644
Interest expense	(58,380)	(174,936)	-	(233,316)
Amortization of bond costs	(4,250)	(2,954)	-	(7,204)
Income from joint venture	172,763	-	-	172,763
Total non-operating revenues (expenses)	204,392	(123,157)	855	82,090
Income (loss) before operating transfers	247,094	(320,620)	94,259	20,733
Other financing sources (uses)				
Transfers to other funds	-	(590,301)	-	(590,301)
Transfers from other funds	148,163	-	-	148,163
Change in net assets	395,257	(910,921)	94,259	(421,405)
Net assets, October 1, 2009	2,058,958	221,680	70,320	2,350,958
Net assets, September 30, 2010	\$ 2,454,215	\$ (689,241)	\$ 164,579	\$ 1,929,553

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Cash Flows – Proprietary Funds

Year ended September 30,

2010

	Business-Type Activities			
	Utility Fund	Communication Fund	Sanitation Fund	Total
Cash flows from operating activities				
Receipts from customers	\$ 957,905	\$ 1,313,101	\$ 734,864	\$ 3,005,870
Payments to employees	(242,481)	(288,090)	(384,060)	(914,631)
Payments to suppliers	(468,777)	(850,785)	(179,289)	(1,498,851)
Payments for internal services	(85,097)	(112,952)	(56,072)	(254,121)
Net cash provided by operating activities	161,550	61,274	115,443	338,267
Cash flows from non-capital financing activities				
Receipts from sales taxes	-	45,395	-	45,395
Receipts from rents	68,644	-	-	68,644
Receipts (payments) on interfund loan	200,547	(543,914)	(22,733)	(366,100)
Net cash provided (used) by non-capital financing activities	269,191	(498,519)	(22,733)	(252,061)
Cash flows from capital and related financing activities				
Proceeds from tap on fees	22,614	-	-	22,614
Proceeds from sale of assets	425	-	595	1,020
Proceeds from issue of bonds	1,439,157	-	-	1,439,157
Purchase and construction of capital assets	(340,823)	(103,064)	(34,347)	(478,234)
Principal paid on bonds	(90,000)	(105,000)	-	(195,000)
Interest paid on bonds	(90,454)	(121,288)	-	(211,742)
Net cash provided (used) by capital and related financing activities	940,919	(329,352)	(33,752)	577,815
Cash flows from investing activities				
Interest income	2,591	9,338	260	12,189
Net cash provided by investing activities	2,591	9,338	260	12,189
Net increase (decrease) in cash and cash equivalents	1,374,251	(757,259)	59,218	676,210
Cash and cash equivalents, beginning of year	413,064	1,786,638	81,744	2,281,446
Cash and cash equivalents, end of year	\$ 1,787,315	\$ 1,029,379	\$ 140,962	\$ 2,957,656
Displayed as:				
Cash and cash equivalents	\$ 1,643,458	\$ 674,309	\$ 140,962	\$ 2,458,729
Restricted assets - cash and cash equivalents	143,857	355,070	-	498,927
Total	\$ 1,787,315	\$ 1,029,379	\$ 140,962	\$ 2,957,656

(continued)

See accompanying notes to financial statements.

Statement of Cash Flows – Proprietary Funds (Continued)

Year ended September 30,	2010			
	Business-Type Activities			
	Utility Fund	Communication Fund	Sanitation Fund	Total
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 42,702	\$ (197,463)	\$ 93,404	\$ (61,357)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Bad debts	4,402	5,430	4,774	14,606
Depreciation and amortization	189,756	229,414	38,661	457,831
(Increase) decrease in assets:				
Accounts receivable, net	(53,986)	(19,405)	(13,383)	(86,774)
Prepaid items	-	2,911	-	2,911
Inventories	-	(4,603)	-	(4,603)
Increase (decrease) in liabilities:				
Accounts payable	(22,871)	10,377	(4,955)	(17,449)
Contingency payable	-	33,524	-	33,524
Customer deposits - restricted	1,085	-	-	1,085
Taxes payable	-	(6)	-	(6)
Deferred revenue	-	-	-	-
Salaries and benefits payable	287	722	290	1,299
Accrued compensated absences	175	373	(3,348)	(2,800)
Net cash provided by operating activities	\$ 161,550	\$ 61,274	\$ 115,443	\$ 338,267
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

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Net Assets – Fiduciary Funds

<i>September 30,</i>	2010	
Assets		
Cash and cash equivalents	\$	3,450
Due from State of Florida		7,943
Employer receivable		5,539
Plan member receivable		692
Investments		858,973
<hr/>		
Total assets	\$	876,597
<hr/> <hr/>		
Net assets		
Held in trust for pension benefits	\$	876,597
<hr/> <hr/>		

See accompanying notes to financial statements.

City of Valparaiso, Florida

Statement of Changes in Net Assets – Fiduciary Funds

<i>Year ended September 30,</i>	2010
Additions	
Employer contributions	\$ 57,801
Member contributions	7,196
State contributions	59,608
Investment gains (losses)	65,045
Total additions	189,650
Deductions	
Pension benefits	7,487
Administrative expense	6,958
Total deductions	14,445
Change in net assets	175,205
Net assets, October 1, 2009	701,392
Net assets, September 30, 2010	\$ 876,597

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.

The Stormwater Fund is used to account for revenues and expenditures related to storm drainage.

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.

Cash and Cash Equivalents

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

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)*.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 uncollectible amounts. At September 30, 2010, accounts receivable totaled \$117,137, net of an allowance of doubtful accounts of \$5,297.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following is the current property tax calendar.

Assessment date	January 1, 2009
Levy date	November 1, 2009
Due date	November 1, 2009
Delinquency date	April 1, 2010

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, 2010, accounts receivable totaled \$258,029, net of an allowance for doubtful accounts of \$18,107.

Inventories and Prepaid Items

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.

Payments to vendors that benefit future reporting periods are recorded as prepaid items. Both inventories and prepaid items 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 as of September 30, 2010 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Governmental activities - public safety	\$ 7,149
<hr/>	
Business-type activities	
Reserve fund	\$ 91,028
Capital projects - utility fund	1,302,014
Capital projects - communication fund	355,070
<hr/>	
Total business-type activities	\$ 1,748,112
<hr/>	

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 governmental 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets are depreciated using the straight-line method generally 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

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

Deferred Revenues

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

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, 2010 of \$113,157.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

- 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 of America. 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 collectability 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Subsequent events

The City has evaluated subsequent events through August 1, 2011, which is the date the financial statements were available to be 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, 2010, the asset allocation for the defined benefit plan investment pool was as follows:

Investment Asset Allocation	Asset Allocation Percentage
Cash	0.40%
FMIvT Broad Market High Quality Bond Fund	37.80%
FMIvT High Quality Growth Equity Fund	8.20%
FMIvT Russell 1000 Index Fund	23.50%
FMIvT Diversified Small to Mid Cap Equity fund	11.40%
FMIvT International Blend Portfolio	10.70%
FMIvT Diversified Value Fund	8.00%
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, 2010, the City’s investments were rated as follows:

Fixed Income Funds:	Credit Risk for Investment Pool Fitch Rating
FMIvT Broad Market High Quality Bond Fund	AA
Equity Funds:	Rating
FMIvT High Quality Growth Equity Fund	Not Rated
FMIvT Russell 1000 Index Fund	Not Rated
FMIvT Diversified Small to Mid Cap Equity fund	Not Rated
FMIvT International Blend Portfolio	Not Rated
FMIvT Diversified Value Fund	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 Broad Market High Quality Bond Portfolio	3.7 years	4.9 years

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

Deposits	\$	3,860,763
Investments		1,113,507
Total	\$	4,974,270
Cash and cash equivalents, primary government	\$	3,351,237
Investments, primary government		254,534
Restricted cash and equivalents, primary government		506,076
Total primary government		4,111,847
Cash and cash equivalents, fiduciary funds		3,450
Investment, fiduciary funds		858,973
Total fiduciary funds		862,423
Grand Total	\$	4,974,270

NOTE 4 – CHANGES IN CAPITAL ASSETS

Land with a cost of approximately \$100,000 included in governmental activities was being leased out as of September 30, 2010.

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

Governmental activities:		
General government	\$	40,493
Public safety		127,609
Public works		7,059
Transportation		84,693
Cemetery		9,336
Culture and recreation		76,829
Total depreciation expense, governmental activities	\$	346,019
Business-type activities:		
Utility	\$	189,756
Communicaiton		229,412
Sanitation		38,661
Total depreciation expense, business-type activities	\$	457,829

Notes to Financial Statements

NOTE 4 – CHANGES IN CAPITAL ASSETS (CONTINUED)

Changes in capital assets for the year ended September 30, 2010 are shown below:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 451,387	\$ -	\$ -	\$ 451,387
<i>Capital assets being depreciated:</i>				
Buildings and improvements	1,996,225	56,100	-	2,052,325
Infrastructure	1,915,305	627,172	-	2,542,477
Machinery, equipment and vehicles	1,906,350	222,448	(100,881)	2,027,917
Total capital assets being depreciated	5,817,880	905,720	(100,881)	6,622,719
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	767,277	75,557	-	842,834
Infrastructure	966,891	101,158	-	1,068,049
Machinery, equipment and vehicles	1,196,633	169,304	(100,881)	1,265,056
Total accumulated depreciation	2,930,801	346,019	(100,881)	3,175,939
Total capital assets being depreciated, net	2,887,079	559,701	-	3,446,780
Governmental activities capital assets, net	\$ 3,338,466	\$ 559,701	\$ -	\$ 3,898,167
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 90,603	\$ -	\$ -	\$ 90,603
<i>Capital assets being depreciated:</i>				
Buildings and improvements	6,270,006	6,915	-	6,276,921
Machinery, equipment and vehicles	3,776,945	436,972	(41,414)	4,172,503
Total capital assets being depreciated	10,046,951	443,887	(41,414)	10,449,424
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	3,593,341	157,525	-	3,750,866
Machinery, equipment and vehicles	1,279,046	300,304	(41,414)	1,537,936
Total accumulated depreciation	4,872,387	457,829	(41,414)	5,288,802
Total capital assets being depreciated, net	5,174,564	(13,942)	-	5,160,622
Business-type activities capital assets, net	\$ 5,265,167	\$ (13,942)	\$ -	\$ 5,251,225

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, 2010, was \$335,756. The City's portion of the equity in the joint venture is \$409,256.

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, 2010. 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	\$ 1,417,645
Capital assets - net of accumulated depreciation	668,491
Other assets	2,166
Total assets	\$ 2,088,302
Liabilities and net assets	
Liabilities	\$ 129,173
Net assets	1,959,129
Total liabilities and net assets	\$ 2,088,302

Summary of Operating Results

Sewer operating revenues	\$ 1,870,422
Operating expenses	1,678,782
Operating income (loss)	191,640
Non-operating revenues (expenses)	672,176
Net Income	\$ 863,816

Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT**Changes in Long-Term Liabilities**

Long-term liability activity for the fiscal year ended September 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities					
Compensated absences	\$ 83,500	\$ 27,109	\$ -	\$ 110,609	\$ 110,609
Capital lease payable	-	88,825	(21,812)	67,013	21,600
Governmental activities liabilities	\$ 83,500	\$ 115,934	\$ (21,812)	\$ 177,622	\$ 132,209
Business-type Activities					
Compensated absences	\$ 31,887	\$ -	\$ (281)	\$ 31,606	\$ -
Capital lease payable	142,780	-	(34,347)	108,433	35,195
Notes payable	4,085,000	1,465,000	(195,000)	5,355,000	205,000
Note premium	57,144	-	(4,506)	52,638	-
Note discount	-	(27,746)	861	(26,885)	-
Deferred refunded costs	(24,784)	-	2,542	(22,242)	-
Business-type activities liabilities	\$ 4,292,027	\$ 1,437,254	\$ (230,731)	\$ 5,498,550	\$ 240,195

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 \$1,429,123. Principal and interest paid for the current year and total pledged revenues were \$141,908 and \$3,644,537, 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 6% of pledged revenue. The total principal and interest remaining to be paid on the bond is \$3,940,669. Principal and interest paid for the current year and total pledged revenues were \$228,388 and \$3,644,537, respectively.

The City is required to meet certain financial ratios under this loan agreement. As of September 30, 2010, the City was in compliance with such requirements. The City established reserve funds required under the loan covenants by funding surety bonds at issuance.

NOTE 6 – LONG-TERM DEBT (CONTINUED)

Series 2010C Note Payable

On August 1, 2010, the City entered into a loan agreement with the Florida Municipal Loan Council to borrow \$1,465,000 from the proceeds of the Florida Municipal Loan Council Revenue Bonds, Series 2010C. The note was issued at an original discount of \$27,746 and an additional premium of \$1,902 of which the net proceeds of \$1,439,157 (after payment of \$46,156 in underwriting fees, insurance and other issuance costs) is to be used for the purposes of financing or refinancing the cost of, or receiving reimbursement for the equity in, the construction and renovation to Niceville-Valparaiso-Okaloosa wastewater treatment (portion of costs allocated to City of Valparaiso as a member) and other capital improvements to the City of Valparaiso's sewer system, and for depositing a portion of the proceeds in the amount of \$91,405 into the Reserve Fund. The loan has an outstanding balance of \$1,465,000 and calls for semi-annual payments due on April 1, and October 1, through October 1, 2040, and bears interest at varying rates ranging from 2% to 4.5%. This note is accounted for in the utility fund.

Redemption Provisions

The bonds maturing on or before the October 1, 2020 are not subject to optional redemption prior to maturity. The bonds maturing after October 1, 2020 are subject to redemption at the option of the issuer on or after October 1, 2020 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.

The bonds maturing on October 1, 2032 are subject to mandatory redemption, in part, by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning on October 1, 2024 and on each October 1 thereafter.

The City has pledged all non-ad valorem revenues as collateral under these loans. Annual principal and interest payments on the bonds are 2% of pledged revenue. The total principal and interest remaining to be paid on the bond is \$2,635,545. The first interest payment is due April 1, 2011 and principal payments begin October 1, 2011. Total pledged revenues were \$3,644,537.

The City is required to meet certain financial ratios under this loan agreement. As of September 30, 2010, 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, 2010, are as follows:

<i>Year ending September 30,</i>	Business-type Activities		
	Principal	Interest	Total
2011	\$ 205,000	\$ 166,933	\$ 371,933
2012	240,000	222,340	462,340
2013	250,000	208,208	458,208
2014	260,000	198,558	458,558
2015	270,000	189,283	459,283
2016-2020	1,560,000	759,448	2,319,448
2021-2025	1,140,000	456,488	1,596,488
2026-2030	675,000	229,706	904,706
2031-2035	295,000	144,450	439,450
2036-2040	375,000	71,100	446,100
2041	85,000	3,822	88,822
Total	\$ 5,355,000	\$ 2,650,336	\$ 8,005,336

Capital Leases Payable

The City's outstanding lease agreements include the acquisition of a sanitation vehicle at a cost of \$78,990, a garbage truck at a cost of \$101,972 and a street sweeper at a cost of \$88,825. These leases qualify as capital leases. As of September 30, 2010, the outstanding balance owed on the above capital lease assets totaled \$175,446.

The cost and accumulated depreciation for capital leases are:

	Governmental Activities - Streets Fund	Business-Type Activities - Sanitation Fund
Cost of assets	\$ 88,825	\$ 198,044
Accumulated depreciation	\$ 4,441	\$ 39,904

The annual debt service requirements to maturity for the capital leases as of September 30, 2010, are as follows:

<i>Year ending September 30,</i>	Principal	Interest	Total
2011	\$ 56,795	\$ 5,266	\$ 62,061
2012	58,704	3,357	62,061
2013	43,996	1,523	45,519
2014	15,951	390	16,341
Total	\$ 175,446	\$ 10,536	\$ 185,982

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. The City was required to contribute the percentages presented in the following table:

	July 1, 2010 through September 30, 2010	July 1, 2009 through June 30, 2010
Regular Class Contribution %	10.77%	9.85%
Special Risk Class Contribution	23.25%	20.92%
Deferred Retirement Option Program	12.25%	10.91%
Percentage Contribution	100.00%	100.00%

Required contributions for the years ended September 30, 2010, 2009, and 2008 were \$35,172, \$46,532 and \$75,476, respectively. Percentage of covered payroll was 10.5% for 2010, 12.4% for 2009, and 12.4% for 2008.

Covered payroll for each of the years ended September 30, 2010, 2009 and 2008 was approximately \$333,000, \$374,000 and \$606,000, respectively.

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, 2009, actuarial valuation was approximately \$374,161. As of October 1, 2009, employee membership data related to the plan as follows:

Retirees and beneficiaries currently receiving benefits	0
Terminated employee entitled to benefits but not yet receiving them	0
Disabled employees currently receiving benefits	1
Current active employees	
Vested	0
Nonvested	11
<hr/>	
Total	12
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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 6 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 2010, the City contributed a total of \$57,801 to the plan and \$59,608 was contributed by the State. The employees’ contributions to the plan for the current year totaled \$7,196. 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

Valuation date	October 1, 2009
Actuarial cost method	Aggregate cost method
Amortization method	Level percentage, open
Amortization period	30 years
Asset valuation method	Market Value
Investment rate of return	7.50%
Salary increases	6.10%

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

Three Year Trend Information

Year Ended September 30,	Employer Annual Pension Cost (APC)	Employer Contribution		Percentage of APC Contributed	Net Pension Obligation (Asset)
		City	State		
2010	\$ 144,143	\$ 57,801	\$ 59,608	81%	\$ 26,734
2009	102,297	37,995	60,995	97%	3,307
2008	97,072	38,072	123,299	166%	(64,299)

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:

Year Ended September 30,	Annual Required Contribution	Percent Contributed
2001	\$ 8,911	100%
2002	18,263	100%
2003	15,897	100%
2004	14,879	100%
2005	24,697	100%
2006	40,791	100%
2007	42,806	100%
2008	97,072	100%
2009	102,297	100%
2010	144,143	81%

The City has made \$168,117 in contributions to the plan in excess of the minimum required contributions. The City may apply all or any portion of the advance employer contribution towards the minimum required contribution for the 2009/10 plan year or for any later plan year.

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 \$92,905 and the employees contributed \$29,627 to this plan during the fiscal year.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The City provides other postemployment benefits (OPEB) to its employees by providing retirement health care benefits.

The City has not implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities, note disclosures, and required supplementary information.

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, 2010</i>	Receivables	Payables
<i>Governmental funds:</i>		
General Fund	\$ 721,385	\$ -
<i>Proprietary funds:</i>		
Utility Fund	-	250,144
Communication Fund	-	378,057
Sanitation Fund	-	93,184
Total	\$ 721,385	\$ 721,385

Interfund amounts represent monies from the general fund used to fund capital improvement expenditures and operations in the proprietary funds.

Notes to Financial Statements

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

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

<i>September 30, 2009</i>	Transfers In	Transfers Out
<i>Between governmental and business-type columns:</i>		
General Fund	\$ -	\$ 33,890
Streets Fund	476,028	
Utility Fund	148,163	-
Communicaiton Fund	-	590,301
Total	\$ 624,191	\$ 624,191

Transfers were made between funds for capital improvements and operations.

NOTE 10 – BENEFITS FUNDED BY THE STATE OF FLORIDA

For 2010, the State of Florida contributed on-behalf payments for City employees as follows:

Plan	Amount
Valparaiso Police Retirement Plan	\$ 35,227
Valparaiso Firefighters Retirement Plan	24,381
Total	\$ 59,608

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, 2010 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 attachments. 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 remaining terms are as follows:

	2011	2012	2013	Total
Utility Fund	\$ 79,922	\$ 82,904	\$ 82,904	\$ 245,730
General Fund	\$ 43,653	\$ 44,302	\$ 44,302	\$ 132,257

The utility fund leases had original terms of 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, 2010.

The communications fund lease had an original term of 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 were 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 \$47,823 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, 2010 was \$2,900.

Rental income for the current fiscal year received on proprietary fund leases was \$68,644. No contingent rental revenue was earned during fiscal year 2010.

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. A description of what is included in the governmental funds reserved for restricted purposes at September 30, 2010 follows on the next page.

Notes to Financial Statements

NOTE 13 – FUND EQUITY (CONTINUED)

Funds	Purpose	Amount
General Fund		
Fire	Impact fees	\$ 11,176
Cemetery	Beautification and perpetual care	135,602
Library	Library expansion	9,933
Police	Fines and forfeitures	7,149
Parks	Future capital expenditures	29,914
Total General Fund		\$ 193,774
Streets Fund	Future capital expenditures	\$ 167,901

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 \$7,149 of restricted net assets, all of which is restricted by enabling legislation. Business-type activities reports \$1,748,112 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 \$362,552 in savings in case of an unfavorable ruling. \$57,297 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, 2010 is \$360,845.

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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 1, 2011. 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified certain deficiencies in internal control over financial reporting 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of an entity'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 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.

Caru, Riggs & Ingram, L.L.C.

Certified Public Accountants
August 1, 2011

10-01 (Prior Year 09-01) 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.

10-02 (Prior Year 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, 2010, and have issued our report thereon dated August 1, 2011.

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 August 1, 2011, 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 occurred, or are likely to have occurred, 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 provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control 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 of Valparaiso, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2010, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2010. 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.

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

Certified Public Accountants
August 1, 2011