

Vale of Paradise



City of Valparaiso, Florida
Financial Statements
September 30, 2011

CITY OF VALPARAISO, FLORIDA

Financial Statements

September 30, 2011

I. INTRODUCTORY SECTION

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Financial Statements

September 30, 2011

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II. FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Valparaiso, Florida, as of and for the year ended September 30, 2011, 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 of Valparaiso, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 9 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, and each major fund of the City of Valparaiso, Florida, as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund and Streets 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 a report dated April 12, 2012, on our consideration of the City of Valparaiso, Florida's internal control over financial reporting and 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.

To the Honorable Mayor and
Members of the City Commission
City of Valparaiso, Florida
Independent Auditor's Report (Continued)

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

Warren Averett, LLC

April 12, 2012

A. 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, 2011. The MD&A provides summary level financial information; therefore, it should be read in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS

- Total assets increased \$34,312.
- Net assets increased by \$70,681.
- Total revenues increased by 0.7% or \$47,120 and total expenses increased by 3.0% or \$165,245.

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 - 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 FINANCIAL 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, cemetery, library, parks, 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 a separate Statement of Net Assets and Statement of Changes in Net Assets on pages 22 and 23.

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.

Table 1

STATEMENT OF NET ASSETS AS OF SEPTEMBER 30, 2011 AND 2010

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Assets						
Current and other assets	\$ 2,338,124	\$ 2,011,079	\$ 3,160,159	\$ 3,105,170	\$ 5,498,283	\$ 5,116,249
Capital assets, net	<u>3,827,549</u>	<u>3,898,167</u>	<u>4,974,121</u>	<u>5,251,225</u>	<u>8,801,670</u>	<u>9,149,392</u>
Total assets	<u>6,165,673</u>	<u>5,909,246</u>	<u>8,134,280</u>	<u>8,356,395</u>	<u>14,299,953</u>	<u>14,265,641</u>
Liabilities						
Current liabilities*	260,524	115,534	388,486	291,722	649,010	407,256
Other liabilities*	<u>909,749</u>	<u>931,131</u>	<u>5,076,419</u>	<u>5,333,160</u>	<u>5,986,168</u>	<u>6,264,291</u>
Total liabilities	<u>1,170,273</u>	<u>1,046,665</u>	<u>5,464,905</u>	<u>5,624,882</u>	<u>6,635,178</u>	<u>6,671,547</u>
Net assets						
Invested in capital assets, net of debt*	2,901,686	3,096,207	2,085,154	944,822	4,986,840	4,041,029
Restricted	118,983	7,149	479,953	1,748,112	598,936	1,755,261
Unrestricted*	<u>1,974,731</u>	<u>1,759,225</u>	<u>104,268</u>	<u>38,579</u>	<u>2,078,999</u>	<u>1,797,804</u>
Total net assets	<u>\$ 4,995,400</u>	<u>\$ 4,862,581</u>	<u>\$ 2,669,375</u>	<u>\$ 2,731,513</u>	<u>\$ 7,664,775</u>	<u>\$ 7,594,094</u>

*2010 amounts are restated.

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

Total assets increased slightly by \$34,312 during the fiscal year ended September 30, 2011. Total liabilities decreased by \$36,369 at September 30, 2011 primarily due to bond payments made during the year and no new debt was issued. The City's combined net assets increased by \$70,681.

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.

Table 2

**CHANGE IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
REVENUES						
Program revenues						
Charges for services	\$ 887,731	\$ 874,597	\$ 3,321,088	\$ 3,091,564	\$ 4,208,819	\$ 3,966,161
Operating grants and contributions	56,749	60,441	-	67,994	56,749	128,435
Capital grants and contributions	199,579	62,639	15,200	-	214,779	62,639
Total revenues	<u>1,144,059</u>	<u>997,677</u>	<u>3,336,288</u>	<u>3,159,558</u>	<u>4,480,347</u>	<u>4,157,235</u>
General revenues						
Property taxes	708,088	806,362	-	-	708,088	806,362
Public service taxes	1,027,373	1,040,165	-	-	1,027,373	1,040,165
Intergovernmental, unrestricted	339,820	274,812	-	-	339,820	274,812
Investment earnings	4,319	12,985	52,333	184,952	56,652	197,937
Sales of fixed assets	7,947	4,433	1,190	1,020	9,137	5,453
Miscellaneous	12,445	42,797	6,663	68,644	19,108	111,441
Total general revenues	<u>2,099,992</u>	<u>2,181,554</u>	<u>60,186</u>	<u>254,616</u>	<u>2,160,178</u>	<u>2,436,170</u>
TOTAL REVENUES	<u>3,244,051</u>	<u>3,179,231</u>	<u>3,396,474</u>	<u>3,414,174</u>	<u>6,640,525</u>	<u>6,593,405</u>
EXPENSES						
Governmental activities:						
General government	781,653	765,262	-	-	781,653	765,262
Public safety	1,296,200	1,248,015	-	-	1,296,200	1,248,015
Physical environment	254,843	242,249	-	-	254,843	242,249
Transportation	298,730	292,359	-	-	298,730	292,359
Culture and recreation	450,849	463,273	-	-	450,849	463,273
Debt service interest*	43,805	43,781	-	-	43,805	43,781
Total governmental activities	<u>3,126,080</u>	<u>3,054,939</u>	<u>-</u>	<u>-</u>	<u>3,126,080</u>	<u>3,054,939</u>
Business-type activities						
Utility*	-	-	1,097,803	1,017,544	1,097,803	1,017,544
Communication*	-	-	1,697,188	1,677,273	1,697,188	1,677,273
Sanitation	-	-	648,773	654,843	648,773	654,843
Total business-type activities	<u>-</u>	<u>-</u>	<u>3,443,764</u>	<u>3,349,660</u>	<u>3,443,764</u>	<u>3,349,660</u>
TOTAL EXPENSES	<u>3,126,080</u>	<u>3,054,939</u>	<u>3,443,764</u>	<u>3,349,660</u>	<u>6,569,844</u>	<u>6,404,599</u>
Increase (decrease) in net assets	117,971	124,292	(47,290)	64,514	70,681	188,806
Transfers*	<u>14,848</u>	<u>-</u>	<u>(14,848)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	132,819	124,292	(62,138)	64,514	70,681	188,806
NET ASSETS BEGINNING, RESTATED*	<u>4,862,581</u>	<u>4,738,289</u>	<u>2,731,513</u>	<u>2,666,999</u>	<u>7,594,094</u>	<u>7,405,288</u>
NET ASSETS ENDING	<u>\$ 4,995,400</u>	<u>\$ 4,862,581</u>	<u>\$ 2,669,375</u>	<u>\$ 2,731,513</u>	<u>\$ 7,664,775</u>	<u>\$ 7,594,094</u>

*2010 amounts are restated.

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

The City's total revenues increased by \$47,120 or 0.7% and total expenses increased by \$165,245, or less than 3%. Net assets increased by \$70,681 for fiscal year 2011. 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 increased slightly, while taxes decreased slightly. Grant and contributions revenues increased significantly due to a private donation of \$105,500 for TJ Brooks Park and grant reimbursements from Florida Department of Transportation for sidewalk project. Expenses increased \$71,141, or 2.3%, due primarily to an increase in operating expenses and depreciation expense.

Business-type Activities

Revenues of the City's business – type activities show a decrease of 0.5% or \$17,700 from the previous fiscal year relating to interest earnings, while expenses increased 2.8% or \$94,104. The increase in expense was due to higher cable programming costs, engineering services, and depreciation expense.

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 \$2.2 million, which is \$275 thousand higher than last year's total of \$1.9 million. The increase in fund balance is the result of a decrease in capital outlay expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At September 30, 2011, the City had approximately \$9 million invested in capital assets (net of depreciation). This amount represents a net decrease (including additions and deductions) of \$347,722 or 3.8% over the fiscal year 2010 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:

Table 3

City of Valparaiso, Florida
CAPITAL ASSETS
(Net of Depreciation)
SEPTEMBER 30, 2011 AND 2010

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 451,387	\$ 451,387	\$ 90,603	\$ 90,603	\$ 541,990	\$ 541,990
Construction in progress	81,333	-	-	-	81,333	-
Buildings and improvements	1,162,121	1,209,491	2,391,704	2,526,055	3,553,825	3,735,546
Infrastructure	1,471,029	1,474,428	-	-	1,471,029	1,474,428
Machinery, equipment and vehicles	661,679	762,861	2,491,814	2,634,567	3,153,493	3,397,428
Total	\$ 3,827,549	\$ 3,898,167	\$ 4,974,121	\$ 5,251,225	\$ 8,801,670	\$ 9,149,392

DEBT

At September 30, 2011, the City had \$5,156,404 in bonds and notes outstanding, net of unamortized discount, premium and deferred refunding expenses, versus \$5,361,030 in the prior year, a decrease of \$204,626 as shown below. The City also had \$118,651 in lease obligations versus \$175,446 in the prior year, a decrease of \$56,795 due to lease payments throughout the year as shown below.

Table 4

City of Valparaiso, Florida
OUTSTANDING DEBT
SEPTEMBER 30, 2011 AND 2010

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Capital leases	\$ 45,413	\$ 67,013	\$ 73,238	\$ 108,433	\$ 118,651	\$ 175,446
Bonds and notes*	<u>880,450</u>	<u>801,960</u>	<u>4,275,954</u>	<u>4,559,070</u>	<u>5,156,404</u>	<u>5,361,030</u>
Total	<u>\$ 925,863</u>	<u>\$ 868,973</u>	<u>\$4,349,192</u>	<u>\$4,667,503</u>	<u>\$5,275,055</u>	<u>\$5,536,476</u>

*2010 amounts are restated.

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 2017. Unspent debt proceeds held in the Communications Fund were allocated to the Streets and Utility Funds in FY 2011. Thus, bonded debt decreased in the business-type and increased in the governmental activities in 2011. No new debt was issued in FY 2011.

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 approximately \$3 million, compared to the final FY 2011 budget of \$2.7 million. The 2012 appropriations include \$156,000 from unrestricted reserves and \$77,000 carried over from 2011.

The City added no major new programs to the FY 2012 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, 465 Valparaiso Parkway, Valparaiso, Florida 32580.

City of Valparaiso, Florida
STATEMENT OF NET ASSETS
September 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,204,282	\$ 587,532	\$ 1,791,814
Accounts receivable, net	13,025	220,394	233,419
Internal balances	855,113	(855,113)	-
Due from other governments	116,048	2,870	118,918
Inventory, at cost	-	59,532	59,532
Prepaid items	14,148	10,105	24,253
Restricted assets			
Cash and cash equivalents	135,508	2,570,772	2,706,280
Capital assets			
Non-depreciable	532,720	90,603	623,323
Depreciable, net	3,294,829	4,883,518	8,178,347
Other assets			
Bond discounts and issue costs	-	108,704	108,704
Investment in joint venture	-	455,363	455,363
TOTAL ASSETS	<u>6,165,673</u>	<u>8,134,280</u>	<u>14,299,953</u>
LIABILITIES			
Accounts payable	70,671	127,752	198,423
Accrued liabilities	48,195	21,881	70,076
Accrued interest	127	703	830
Accrued interest - contingency	-	358,781	358,781
Due to other governments	8,143	-	8,143
Deferred revenue	1,004	-	1,004
Payable from restricted assets			
Contingency payable	-	369,997	369,997
Accrued interest	-	93,631	93,631
Customer deposits	-	107,729	107,729
Non-current liabilities			
Due within one year			
Compensated absences	116,270	35,239	151,509
Lease payable	22,703	36,375	59,078
Bonds payable	50,880	189,120	240,000
Due in more than one year			
Lease payable	22,710	36,863	59,573
Bonds payable, net	829,570	4,086,834	4,916,404
TOTAL LIABILITIES	<u>1,170,273</u>	<u>5,464,905</u>	<u>6,635,178</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,901,686	2,085,154	4,986,840
Restricted			
Debt service	-	436,348	436,348
Capital projects	-	43,605	43,605
Library	4,706	-	4,706
Public safety	8,777	-	8,777
Park improvements	105,500	-	105,500
Unrestricted	1,974,731	104,268	2,078,999
TOTAL NET ASSETS	<u>\$ 4,995,400</u>	<u>\$ 2,669,375</u>	<u>\$ 7,664,775</u>

The accompanying notes are an integral
part of these financial statements.

City of Valparaiso, Florida
STATEMENT OF ACTIVITIES
Year Ended September 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Function/program activities							
Government activities							
General government	\$ 781,653	\$ 814,802	\$ 7,883	\$ -	\$ 41,032	\$ -	\$ 41,032
Public safety	1,296,200	24,585	-	8,888	(1,262,727)	-	(1,262,727)
Physical environment	254,843	45,123	-	-	(209,720)	-	(209,720)
Transportation	298,730	-	-	81,801	(216,929)	-	(216,929)
Culture and recreation	450,849	3,221	48,866	108,890	(289,872)	-	(289,872)
Debt service interest	43,805	-	-	-	(43,805)	-	(43,805)
Total government activities	<u>\$ 3,126,080</u>	<u>\$ 887,731</u>	<u>\$ 56,749</u>	<u>\$ 199,579</u>	<u>\$ (1,982,021)</u>	<u>\$ -</u>	<u>\$ (1,982,021)</u>
Business-type activities							
Utility	\$ 1,097,803	\$ 1,123,493	\$ -	\$ 15,200	\$ -	\$ 40,890	\$ 40,890
Communication	1,697,188	1,449,504	-	-	-	(247,684)	(247,684)
Sanitation	648,773	748,091	-	-	-	99,318	99,318
Total business-type activities	<u>3,443,764</u>	<u>3,321,088</u>	<u>-</u>	<u>15,200</u>	<u>-</u>	<u>(107,476)</u>	<u>(107,476)</u>
Total primary government	<u>\$ 6,569,844</u>	<u>\$ 4,208,819</u>	<u>\$ 56,749</u>	<u>\$ 214,779</u>	<u>\$ (1,982,021)</u>	<u>\$ (107,476)</u>	<u>\$ (2,089,497)</u>
General revenues							
Property taxes					\$ 708,088	\$ -	\$ 708,088
Utility service taxes					576,844	-	576,844
Sales taxes					450,529	-	450,529
Intergovernmental, unrestricted					339,820	-	339,820
Investment earnings					4,319	52,333	56,652
Gain (loss) on sales of assets					7,947	1,190	9,137
Miscellaneous					12,445	6,663	19,108
Transfers					14,848	(14,848)	-
Total general revenues and transfers					<u>2,114,840</u>	<u>45,338</u>	<u>2,160,178</u>
Change in net assets					132,819	(62,138)	70,681
Net Assets - Beginning of year, Restated					<u>4,862,581</u>	<u>2,731,513</u>	<u>7,594,094</u>
Net Assets - End of year					<u>\$ 4,995,400</u>	<u>\$ 2,669,375</u>	<u>\$ 7,664,775</u>

The accompanying notes are an integral part of these financial statements.

City of Valparaiso, Florida
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2011

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 968,597	\$ 193,105	\$ 42,580	\$ 1,204,282
Accounts receivables, net	9,636	-	3,389	13,025
Due from other funds	418,203	23,698	659	442,560
Due from other governments	60,180	55,868	-	116,048
Prepaid items	14,148	-	-	14,148
Advances to other funds	436,910	-	-	436,910
Restricted assets				
Cash and cash equivalents	<u>135,508</u>	<u>-</u>	<u>-</u>	<u>135,508</u>
TOTAL ASSETS	<u><u>\$ 2,043,182</u></u>	<u><u>\$ 272,671</u></u>	<u><u>\$ 46,628</u></u>	<u><u>\$ 2,362,481</u></u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 43,320	\$ 27,351	\$ -	\$ 70,671
Accrued liabilities	44,973	3,222	-	48,195
Due to other funds	24,357	-	-	24,357
Due to other governments	8,143	-	-	8,143
Deferred revenue	<u>1,004</u>	<u>-</u>	<u>-</u>	<u>1,004</u>
Total liabilities	<u>121,797</u>	<u>30,573</u>	<u>-</u>	<u>152,370</u>
Fund balance				
Nonspendable	451,059	-	-	451,059
Restricted	118,983	-	-	118,983
Committed	155,327	-	46,628	201,955
Assigned	100,394	242,098	-	342,492
Unassigned	<u>1,095,622</u>	<u>-</u>	<u>-</u>	<u>1,095,622</u>
Total fund balance	<u>1,921,385</u>	<u>242,098</u>	<u>46,628</u>	<u>2,210,111</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 2,043,182</u></u>	<u><u>\$ 272,671</u></u>	<u><u>\$ 46,628</u></u>	<u><u>\$ 2,362,481</u></u>

The accompanying notes are an integral part of these financial statements.

City of Valparaiso, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
September 30, 2011

Fund balance - total governmental fund (page 11) \$ 2,210,111

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Governmental non-depreciable assets	532,720	
Governmental depreciable assets	6,749,365	
Less accumulated depreciation	<u>(3,454,536)</u>	3,827,549

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Bonds payable	(880,450)	
Accrued interest	(127)	
Capital leases	(45,413)	
Compensated absences	<u>(116,270)</u>	<u>(1,042,260)</u>

Net assets of governmental activities (page 9) \$ 4,995,400

The accompanying notes are an integral part of these financial statements.

City of Valparaiso, Florida
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Year Ended September 30, 2011

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,186,313	\$ 161,815	\$ -	\$ 1,348,128
Permits and fees	400,056	-	-	400,056
Intergovernmental	652,792	179,725	-	832,517
Charges for services	417,911	-	45,463	463,374
Fines and forfeits	23,995	-	-	23,995
Miscellaneous	<u>183,458</u>	<u>1,103</u>	<u>22</u>	<u>184,583</u>
TOTAL REVENUES	<u>2,864,525</u>	<u>342,643</u>	<u>45,485</u>	<u>3,252,653</u>
EXPENDITURES				
Current				
General governmental services	738,732		396	739,128
Public safety	1,168,793			1,168,793
Physical environment	236,147			236,147
Transportation	-	193,881	-	193,881
Culture and recreation	366,610	-	-	366,610
Capital outlay	108,214	193,224	-	301,438
Debt service				
Principal and interest	33,890	81,570	-	115,460
Other debt service costs	<u>-</u>	<u>418</u>	<u>-</u>	<u>418</u>
TOTAL EXPENDITURES	<u>2,652,386</u>	<u>469,093</u>	<u>396</u>	<u>3,121,875</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	212,139	(126,450)	45,089	130,778
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	14,848	-	14,848
Debt proceeds	<u>-</u>	<u>129,090</u>	<u>-</u>	<u>129,090</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>143,938</u>	<u>-</u>	<u>143,938</u>
NET CHANGE IN FUND BALANCE	212,139	17,488	45,089	274,716
FUND BALANCE - BEGINNING OF YEAR	<u>1,709,246</u>	<u>224,610</u>	<u>1,539</u>	<u>1,935,395</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,921,385</u>	<u>\$ 242,098</u>	<u>\$ 46,628</u>	<u>\$ 2,210,111</u>

The accompanying notes are an integral part of these financial statements.

City of Valparaiso, Florida
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2011

Net change in fund balance - total governmental fund (page 13)		\$ 274,716
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities, the cost of those assets is depreciated over the estimated useful lives of the assets.		
Expenditures for capital assets	301,438	
Less current year depreciation	<u>(371,795)</u>	(70,357)
The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, donations) is to decrease net assets		
		(261)
Governmental funds do not report capital assets on the balance sheet; however, they are reported in the government-wide financial statements. Accordingly, proceeds received for disposals of capital assets are shown in the governmental financial statements and a gain or loss is reported in the statement of activities.		
Disposal of capital asset	(93,459)	
Accumulated depreciation associated with disposal	<u>93,459</u>	-
Repayment of principal on long-term debt consumes the current financial resources of governmental funds and is reported as an expenditure in the governmental funds, but reduces the liability in the statement of net assets.		
Bond proceeds	(129,090)	
Principal payments on bond	50,600	
Principal payments on lease	21,600	
Change in accrued interest on long-term debt	<u>(127)</u>	(57,017)
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.		
Change in long-term compensated absences		(5,661)
Some revenues reported in the statement of activities do not provide current financial resources, therefore, those revenues are not reported as revenues in governmental funds		
Change in accounts receivable		<u>(8,601)</u>
Change in net assets of governmental activities (page 10)		<u>\$ 132,819</u>

The accompanying notes are an integral part of these financial statements.

City of Valparaiso, Florida
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND
Year Ended September 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 1,219,621	\$ 1,219,621	\$ 1,186,313	\$ (33,308)
Permits and fees	385,000	385,000	400,056	15,056
Intergovernmental	716,398	716,398	652,792	(63,606)
Charges for services	411,570	411,570	417,911	6,341
Fines and forfeits	20,500	20,500	23,995	3,495
Miscellaneous	<u>72,840</u>	<u>72,840</u>	<u>183,458</u>	<u>110,618</u>
TOTAL REVENUES	<u>2,825,929</u>	<u>2,825,929</u>	<u>2,864,525</u>	<u>38,596</u>
EXPENDITURES				
Current				
General government	782,570	782,570	738,732	43,838
Public safety	1,211,795	1,211,795	1,168,793	43,002
Physical environment	250,505	250,505	236,147	14,358
Culture and recreation	392,630	392,630	366,610	26,020
Capital outlay	30,000	62,000	108,214	(46,214)
Debt service				
Principal and interest	<u>-</u>	<u>-</u>	<u>33,890</u>	<u>(33,890)</u>
TOTAL EXPENDITURES	<u>2,667,500</u>	<u>2,699,500</u>	<u>2,652,386</u>	<u>47,114</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>158,429</u>	<u>126,429</u>	<u>212,139</u>	<u>85,710</u>
OTHER FINANCING SOURCES (USES)				
Transfer out	<u>(153,390)</u>	<u>(153,390)</u>	<u>-</u>	<u>(153,390)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(153,390)</u>	<u>(153,390)</u>	<u>-</u>	<u>(153,390)</u>
NET CHANGE IN FUND BALANCE	5,039	(26,961)	212,139	(67,680)
FUND BALANCE - BEGINNING OF YEAR	<u>(5,039)</u>	<u>26,961</u>	<u>1,709,246</u>	<u>1,682,285</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,921,385</u>	<u>\$ 1,614,605</u>

The accompanying notes are an integral
part of these financial statements.

City of Valparaiso, Florida
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
STREETS FUND
Year Ended September 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 163,365	\$ 163,365	\$ 161,815	\$ (1,550)
Intergovernmental	32,770	114,270	179,725	65,455
Miscellaneous	<u>500</u>	<u>500</u>	<u>1,103</u>	<u>603</u>
TOTAL REVENUES	<u>196,635</u>	<u>278,135</u>	<u>342,643</u>	<u>64,508</u>
EXPENDITURES				
Current				
Transportation	264,145	264,145	193,881	70,264
Capital outlay	21,000	193,000	193,224	(224)
Debt service				
Principal and interest	24,000	24,000	81,570	(57,570)
Other debt service costs	<u>-</u>	<u>-</u>	<u>418</u>	<u>(418)</u>
TOTAL EXPENDITURES	<u>309,145</u>	<u>481,145</u>	<u>469,093</u>	<u>12,052</u>
EXCESS (DEFICIENCY) OF REVENUES (OVER) EXPENDITURES	<u>(112,510)</u>	<u>(203,010)</u>	<u>(126,450)</u>	<u>76,560</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	14,848	(14,848)
Debt proceeds	<u>-</u>	<u>-</u>	<u>129,090</u>	<u>(129,090)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>143,938</u>	<u>(143,938)</u>
NET CHANGE IN FUND BALANCE	(112,510)	(203,010)	17,488	(67,378)
FUND BALANCE - BEGINNING OF YEAR	<u>112,510</u>	<u>203,010</u>	<u>224,610</u>	<u>21,600</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 242,098</u>	<u>\$ (45,778)</u>

The accompanying notes are an integral
part of these financial statements.

City of Valparaiso, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2011

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total Enterprise Funds</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 268,546	\$ 71,986	\$ 247,000	\$ 587,532
Accounts receivables, net	145,074	10,710	64,610	220,394
Due from other governments	-	2,870	-	2,870
Inventory, at cost	34,905	24,627	-	59,532
Prepaid items	<u>-</u>	<u>10,105</u>	<u>-</u>	<u>10,105</u>
Total current assets	<u>448,525</u>	<u>120,298</u>	<u>311,610</u>	<u>880,433</u>
Non-current assets				
Restricted assets				
Cash and cash equivalents	<u>1,763,357</u>	<u>807,415</u>	<u>-</u>	<u>2,570,772</u>
Capital assets, net				
Non-depreciable	40,287	50,316	-	90,603
Depreciable, net	<u>2,846,470</u>	<u>1,890,764</u>	<u>146,284</u>	<u>4,883,518</u>
Total capital assets	<u>2,886,757</u>	<u>1,941,080</u>	<u>146,284</u>	<u>4,974,121</u>
Other assets				
Bond issue costs, net	63,903	44,801	-	108,704
Investment in joint venture	<u>455,363</u>	<u>-</u>	<u>-</u>	<u>455,363</u>
Total other assets	<u>519,266</u>	<u>44,801</u>	<u>-</u>	<u>564,067</u>
Total non-current assets	<u>5,169,380</u>	<u>2,793,296</u>	<u>146,284</u>	<u>8,108,960</u>
TOTAL ASSETS	<u>\$ 5,617,905</u>	<u>\$ 2,913,594</u>	<u>\$ 457,894</u>	<u>\$ 8,989,393</u>

Continued...

The accompanying notes are an integral part of these financial statements.

City of Valparaiso, Florida
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
September 30, 2011

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total Enterprise Funds</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 31,533	\$ 86,118	\$ 10,101	\$ 127,752
Accrued liabilities				
Compensated absences	5,664	18,819	10,756	35,239
Other	5,772	9,829	6,280	21,881
Accrued interest	-	-	703	703
Accrued interest - contingency	-	358,781	-	358,781
Due to other funds	154,014	203,000	61,189	418,203
Advances from other funds	178,124	229,774	29,012	436,910
Payable from restricted assets				
Customer deposits	107,729	-	-	107,729
Contingency payable	-	369,997	-	369,997
Accrued interest	36,237	57,394	-	93,631
Capital leases payable	-	-	36,375	36,375
Revenue bonds payable	120,626	68,494	-	189,120
Total current liabilities	<u>639,699</u>	<u>1,402,206</u>	<u>154,416</u>	<u>2,196,321</u>
Non-current liabilities				
Leases payable	-	-	36,863	36,863
Revenue bonds payable, net	2,556,491	1,530,343	-	4,086,834
Total non-current liabilities	<u>2,556,491</u>	<u>1,530,343</u>	<u>36,863</u>	<u>4,123,697</u>
TOTAL LIABILITIES	<u>3,196,190</u>	<u>2,932,549</u>	<u>191,279</u>	<u>6,320,018</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,515,356	496,752	73,046	2,085,154
Restricted for				
Debt service	180,181	256,167	-	436,348
Capital projects	43,605	-	-	43,605
Unrestricted	682,573	(771,874)	193,569	104,268
TOTAL NET ASSETS	<u>\$ 2,421,715</u>	<u>\$ (18,955)</u>	<u>\$ 266,615</u>	<u>\$ 2,669,375</u>

The accompanying notes are an integral part of these financial statements.

City of Valparaiso, Florida
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended September 30, 2011

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total Enterprise Funds</u>
REVENUES				
Charges for services	\$ 1,123,493	\$ 1,449,504	\$ 748,091	\$ 3,321,088
OPERATING EXPENSES				
Personal services	206,706	298,439	379,840	884,985
Operating	562,272	1,036,842	235,757	1,834,871
Depreciation	212,219	234,009	33,176	479,404
TOTAL OPERATING EXPENSES	<u>981,197</u>	<u>1,569,290</u>	<u>648,773</u>	<u>3,199,260</u>
OPERATING INCOME (LOSS)	<u>142,296</u>	<u>(119,786)</u>	<u>99,318</u>	<u>121,828</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest expense	(109,465)	(122,178)	-	(231,643)
Amortization expense	(6,862)	(2,954)	-	(9,816)
Other debt service costs	(279)	(2,766)	-	(3,045)
Equity earnings in joint venture	46,107	-	-	46,107
Gain (loss) on disposal of capital assets	-	-	1,190	1,190
Interest	4,120	1,796	310	6,226
Miscellaneous	5,303	143	1,217	6,663
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(61,076)</u>	<u>(125,959)</u>	<u>2,717</u>	<u>(184,318)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CONTRIBUTIONS	<u>81,220</u>	<u>(245,745)</u>	<u>102,035</u>	<u>(62,490)</u>
OPERATING TRANSFERS AND CONTRIBUTIONS				
Transfers in	2,962	-	-	2,962
Transfers out	-	(17,810)	-	(17,810)
Capital grants and contributions	15,200	-	-	15,200
TOTAL OPERATING TRANSFERS AND CONTRIBUTIONS	<u>18,162</u>	<u>(17,810)</u>	<u>-</u>	<u>352</u>
CHANGE IN NET ASSETS	99,382	(263,555)	102,035	(62,138)
NET ASSETS (DEFICIT) - BEGINNING OF YEAR, RESTATED	<u>2,322,333</u>	<u>244,600</u>	<u>164,580</u>	<u>2,731,513</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 2,421,715</u>	<u>\$ (18,955)</u>	<u>\$ 266,615</u>	<u>\$ 2,669,375</u>

The accompanying notes are an integral
part of these financial statements.

City of Valparaiso, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended September 30, 2011

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,147,653	\$ 1,460,373	\$ 756,592	\$ 3,364,618
Payments to suppliers	(542,039)	(979,614)	(235,798)	(1,757,451)
Payments to employees	(199,915)	(288,437)	(377,469)	(865,821)
Miscellaneous income	<u>5,303</u>	<u>143</u>	<u>1,217</u>	<u>6,663</u>
Net cash provided (used) by operating activities	<u>411,002</u>	<u>192,465</u>	<u>144,542</u>	<u>748,009</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Receipts (payments) on interfund balances	81,994	54,717	(2,983)	133,728
Change in intergovernmental balances	-	(2,870)	-	(2,870)
Transfers in	2,962	-	-	2,962
Transfers out	<u>-</u>	<u>(17,810)</u>	<u>-</u>	<u>(17,810)</u>
Net cash provided (used) by non-capital financing activities	<u>84,956</u>	<u>34,037</u>	<u>(2,983)</u>	<u>116,010</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	15,200	-	-	15,200
Proceeds from disposal of capital assets	-	-	1,190	1,190
Purchase and construction of capital assets	(139,430)	(61,304)	(1,566)	(202,300)
Unspent debt proceeds (allocated to) received from other fund	54,638	(183,728)	-	(129,090)
Principal paid on bonds	(92,317)	(62,083)	-	(154,400)
Principal paid on capital leases	-	-	(35,195)	(35,195)
Interest paid on bonds and leases	(87,936)	(68,395)	(260)	(156,591)
Other debt service costs	<u>(5,645)</u>	<u>(2,766)</u>	<u>-</u>	<u>(8,411)</u>
Net cash provided (used) by capital and related financing activities	<u>(255,490)</u>	<u>(378,276)</u>	<u>(35,831)</u>	<u>(669,597)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	<u>4,120</u>	<u>1,796</u>	<u>310</u>	<u>6,226</u>
Net cash provided (used) by investing activities	<u>4,120</u>	<u>1,796</u>	<u>310</u>	<u>6,226</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	244,588	(149,978)	106,038	200,648
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,787,315</u>	<u>1,029,379</u>	<u>140,962</u>	<u>2,957,656</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,031,903</u>	<u>\$ 879,401</u>	<u>\$ 247,000</u>	<u>\$ 3,158,304</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF				
Current	\$ 268,546	\$ 71,986	\$ 247,000	\$ 587,532
Restricted	<u>1,763,357</u>	<u>807,415</u>	<u>-</u>	<u>2,570,772</u>
Total cash and cash equivalents	<u>\$ 2,031,903</u>	<u>\$ 879,401</u>	<u>\$ 247,000</u>	<u>\$ 3,158,304</u>

Continued...

The accompanying notes are an integral part of these financial statements.

City of Valparaiso, Florida
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended September 30, 2011

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total Enterprise Funds</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 142,296	\$ (119,786)	\$ 99,318	\$ 121,828
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	212,219	234,009	33,176	479,404
Miscellaneous revenue	5,303	143	1,217	6,663
Decrease (increase) in assets				
Accounts receivable, net	18,265	10,869	8,501	37,635
Inventory	12,159	9,956	-	22,115
Prepaid items	-	(3,295)	-	(3,295)
Increase (decrease) in liabilities				
Accounts payable	8,074	17,592	(41)	25,625
Contingency payable	-	33,524	-	33,524
Customer deposits - restricted	5,895	-	-	5,895
Taxes payable	-	(549)	-	(549)
Salaries and benefits payable	3,763	6,454	2,795	13,012
Accrued compensated absences	3,028	3,548	(424)	6,152
Net cash provided (used) by operating activities	<u>\$ 411,002</u>	<u>\$ 192,465</u>	<u>\$ 144,542</u>	<u>\$ 748,009</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS				
Amortization of bond issue costs	<u>\$ 4,015</u>	<u>\$ 2,954</u>	<u>\$ -</u>	<u>\$ 6,969</u>
Amortization of discounts, premiums, and deferred amounts	<u>\$ 7,837</u>	<u>\$ 1,549</u>	<u>\$ -</u>	<u>\$ 9,386</u>
Equity earnings in joint venture	<u>\$ 46,107</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,107</u>

The accompanying notes are an integral part of these financial statements.

City of Valparaiso, Florida
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
Year Ended September 30, 2011

	<u>Pension Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ 17,695
Investments, at fair value	
Fixed income mutual funds	423,694
Equity mutual funds	541,660
Due from State of Florida	8,143
Employer receivable	5,618
Plan member receivable	<u>702</u>
TOTAL ASSETS	<u>\$ 997,512</u>
NET ASSETS	
Held in trust for pension and employee retirement benefits	<u>\$ 997,512</u>
TOTAL NET ASSETS	<u>\$ 997,512</u>

The accompanying notes are an integral
part of these financial statements.

City of Valparaiso, Florida
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
Year Ended September 30, 2011

	Pension Trust Fund
ADDITIONS	
Contributions	
Employer	\$ 58,088
Plan members	7,256
State of Florida	<u>63,195</u>
Total contributions	<u>128,539</u>
Investment income	
Net appreciation (depreciation) in fair value of investments	4,920
Less investment expense	<u>(1,894)</u>
Net investment income	<u>3,026</u>
TOTAL ADDITIONS	<u>131,565</u>
DEDUCTIONS	
Pension benefits paid	9,650
Administrative expense	<u>1,000</u>
TOTAL DEDUCTIONS	<u>10,650</u>
CHANGE IN NET ASSETS	<u>120,915</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>876,597</u>
End of year	<u><u>\$ 997,512</u></u>

The accompanying notes are an integral
part of these financial statements.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Valparaiso, Florida (the 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.

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (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 following is a summary of the more significant accounting policies of the City:

A. The Reporting Entity

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.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. The Reporting Entity (Continued)

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. There were no entities meeting these criteria.

B. Government-Wide and Fund 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.

C. Measurement Focus and Basis of Accounting

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.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Fund financial statements 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.

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.

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

The following is the current property tax calendar:

Assessment date	January 1, 2011
Levy date	November 1, 2011
Due date	November 1, 2011
Delinquency date	April 1, 2012

One-percent discounts are granted for each month taxes are paid prior to March 2012.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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.

D. Basis of Presentation

The following three broad classifications are used to categorize the fund types used by the City:

Governmental

Governmental funds include the following major funds:

General Fund - 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.

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

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

Proprietary

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.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

Proprietary (Continued)

Proprietary funds include the following fund types:

Enterprise Funds - 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 - 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 - used to account for the operations associated with sanitation collection and disposal services for the residents of the City.
- Communication Fund - used to account for the operating activities of the City's cable television, internet, telephone, and security services.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

Fiduciary

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 - 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.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity

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.

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.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Investments (Continued)

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 nonspendable fund balance 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, 2011, accounts receivable totaled \$26,579, net of an allowance of doubtful accounts of \$13,554.

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.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Receivables and Payables (Continued)

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, 2011, accounts receivable totaled \$284,540, net of an allowance for doubtful accounts of \$64,146.

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

Certain resources in the following funds are restricted for specific purposes:

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. Park donations in the amount of \$105,500 from a private source are for the improvement to TJ Brooks Park. A library fund was established to receive donations from private sources to be used for the operating activities of the library.

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 for 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 and Utility Fund.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable 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 a 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. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40-50 years
Building improvements	15-25 years
Infrastructure	20-50 years
Vehicles	5-10 years
Office equipment	5-10 years
Machinery and equipment	5-15 years
CATV system	5-15 years
Water and sewer systems	20-50 years

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Compensated Absences

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

The policy of the City for sick leave is that all full-time, permanent employees accrue 80 hours or 10 days per calendar year to a maximum of 240 hours. The policy of the City for vacation leave is that all full-time, permanent employees accrue vacation leave benefits in varying amounts to a maximum of 240 hours depending on length of employment. 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, 2011 of \$108,704.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

Categories and Classification Fund Equity

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54, are comprised of Nonspendable, Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of restraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification with the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance. The City does not have a formal fund balance policy.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Capital Contributions

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

F. 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.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. 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. 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.

Annual appropriated budgets are adopted by resolution for all governmental and proprietary funds on or before October 1 of each year as required by state statute. However, budgets for proprietary funds are not legally required to be reported on and are not included in these financial statements. 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. 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 unassigned 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.

B. Subsequent Events

The City has evaluated subsequent events through April 12, 2012, which is the date the financial statements were available to be issued.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 3 - CASH AND INVESTMENTS

Deposits

Custodial Credit Risk - It is the City's policy to maintain its deposits only with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. The provisions of this statute allow "Qualified Public Depositories" to participate in a multiple financial institution collateral pool to ensure the security for public deposits. All qualified public depositories must place with or in the name of the Chief Financial Officer of the State of Florida, collateral in the amount of the average daily balance of public deposits multiplied by the average monthly balance of public deposits or 125 percent of the average daily balance of public deposits greater than capital. In the event of default by a qualified public depository, excess losses over insurance and collateral will be recovered through assessments to all qualified public depositories of the same type as the depository in default. Under this method, all City deposits, including certificates of deposit, are considered fully insured.

At year-end, the value of the City's deposits was \$2,640,923, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

Investments

As of September 30, 2011, the City's investments consist of those held in the pension trust funds. The types of investments, which can be made by the City, are restricted by state statutes, retirement fund plan documents, and other contractual agreements. A description of the requirements and the types of investments allowed can be found in Note 1-E.

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, 2011, the asset allocation for the defined benefit plan investment pool was as follows:

Investment Asset Allocation	Asset Allocation Percentage
Cash	1.8 %
FMIvT Broad Market High Quality Bond Fund	43.1 %
FMIvT High Quality Growth Equity Fund	7.0 %
FMIvT Russell 1000 Index Fund	21.6 %
FMIvT Diversified Small to Mid-Cap Equity Fund	10.3 %
FMIvT International Blend Portfolio	8.9 %
FMIvT Diversified Value Fund	7.3 %
Total	100 %

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

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

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. The City's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.

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, 2011, the City's investments were rated as follows:

Credit Risk for Investment Pool	
Fixed Income Funds	Fitch Rating
FMIvT Broad Market High Quality Bond Fund	AA/V4
Equity Funds	
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

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. Interest rate risk disclosures are required for all debt investments as well as investments in mutual funds, external investment pools, and other pooled investments that do not meet the definition of a 2a7-like pool.

Fixed Income Funds	Interest Rate Risk Information	
	Duration (Effective)	WAM
FMIvT Broad Market High Quality Bond Fund	5.11 years	6.74 years

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

Deposits	\$ 4,515,749
Investments	<u>965,354</u>
Total	<u>\$ 5,481,103</u>
Cash and cash equivalents, primary government	\$ 1,791,774
Investments, primary government	-
Restricted cash and equivalents, primary government	<u>2,706,280</u>
Total primary government	<u>\$ 4,498,054</u>
Cash and cash equivalents, fiduciary funds	\$ 17,695
Investment, fiduciary funds	<u>965,354</u>
Total fiduciary funds	<u>983,049</u>
Grand total	<u>\$ 5,481,103</u>

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 4 - CHANGES IN CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
Governmental activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 451,387	\$ -	\$ -	\$ 451,387
Construction in progress	<u>-</u>	<u>81,333</u>	<u>-</u>	<u>81,333</u>
Total capital assets not being depreciated	<u>451,387</u>	<u>81,333</u>	<u>-</u>	<u>532,720</u>
<i>Capital assets being depreciated</i>				
Buildings and improvements	2,052,325	28,974	-	2,081,299
Infrastructure	2,542,477	117,224	-	2,659,701
Machinery, equipment and vehicles	<u>2,027,917</u>	<u>73,907</u>	<u>(93,459)</u>	<u>2,008,365</u>
Total capital assets being depreciated	<u>6,622,719</u>	<u>220,105</u>	<u>(93,459)</u>	<u>6,749,365</u>
<i>Less accumulated depreciation</i>				
Buildings and improvements	(843,095)	(76,083)	-	(919,178)
Infrastructure	(1,068,049)	(120,623)	-	(1,188,672)
Machinery, equipment and vehicles	<u>(1,265,056)</u>	<u>(175,089)</u>	<u>93,459</u>	<u>(1,346,686)</u>
Total accumulated depreciation	<u>(3,176,200)</u>	<u>(371,795)</u>	<u>93,459</u>	<u>(3,454,536)</u>
Total capital assets being depreciated, net	<u>3,446,519</u>	<u>(151,690)</u>	<u>-</u>	<u>3,294,829</u>
Governmental activities capital assets, net	<u>\$ 3,897,906</u>	<u>\$ (70,357)</u>	<u>\$ -</u>	<u>\$ 3,827,549</u>
Business-type activities				
<i>Capital assets not being depreciated</i>				
Land	<u>\$ 90,603</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,603</u>
<i>Capital assets being depreciated</i>				
Buildings and improvements	6,276,921	24,195	-	6,301,116
Machinery, equipment and vehicles	<u>4,172,503</u>	<u>178,105</u>	<u>(98,337)</u>	<u>4,252,271</u>
Total capital assets being depreciated	<u>10,449,424</u>	<u>202,300</u>	<u>(98,337)</u>	<u>10,553,387</u>
<i>Less accumulated depreciation</i>				
Buildings and improvements	(3,750,866)	(158,546)	-	(3,909,412)
Machinery, equipment and vehicles	<u>(1,537,936)</u>	<u>(320,858)</u>	<u>98,337</u>	<u>(1,760,457)</u>
Total accumulated depreciation	<u>(5,288,802)</u>	<u>(479,404)</u>	<u>98,337</u>	<u>(5,669,869)</u>
Total capital assets being depreciated, net	<u>5,160,622</u>	<u>(277,104)</u>	<u>-</u>	<u>4,883,518</u>
Business-type activities capital assets, net	<u>\$ 5,251,225</u>	<u>\$ (277,104)</u>	<u>\$ -</u>	<u>\$ 4,974,121</u>

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 4 - CHANGES IN CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 36,493
Public safety	127,408
Physical environment	18,696
Transportation	104,959
Culture and recreation	<u>84,239</u>
Total depreciation expense - governmental activities	<u>\$ 371,795</u>
Business-type activities	
Utility	\$ 212,219
Communication	234,009
Sanitation	<u>33,176</u>
Total depreciation expense - business-type activities	<u>\$ 479,404</u>

Construction Commitments

The City began phases 1-4 of a sidewalk project which remains open at year-end. The project is to design and construct sidewalks connecting neighborhoods to a school and park. As of September 30, 2011, \$81,333 has been spent. This project is funded by a grant from the State of Florida Department of Transportation not to exceed \$800,000 in the Streets Fund.

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 pro-rata 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 pro-rata share of the total cost of operating the regional sewer facility for the period ended September 30, 2011, was \$326,714. The City's portion of the equity in the joint venture is \$455,363.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 5 - JOINT VENTURE (CONTINUED)

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, 2011. The Regional Sewer Board's audited financial statements can be obtained from the City Clerk's office.

Summary of Assets, Liabilities and Net Assets

<hr/>	
Assets	
Current assets	\$ 1,471,497
Capital assets - net of accumulated depreciation	<u>808,618</u>
Total assets	<u>\$ 2,280,115</u>
Liabilities and net assets	
Liabilities	\$ 90,449
Net assets	<u>2,189,666</u>
Total liabilities and net assets	<u>\$ 2,280,115</u>

Summary of Operating Results

<hr/>	
Sewer operating revenue	\$ 1,863,294
Operating expenses	<u>1,633,569</u>
Operating income (loss)	<u>229,725</u>
Non-operating revenues (expenses)	<u>812</u>
Net income	<u>\$ 230,537</u>

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 6 - LONG-TERM DEBT

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments*</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental activities						
Compensated absences	\$ 110,609	\$ 135,161	\$ (129,500)	\$ -	\$ 116,270	\$ 116,270
Capital lease payable	67,013	-	(21,600)	-	45,413	22,703
Bonds payable	801,960	-	(50,600)	129,090	880,450	50,880
Governmental activities liabilities	<u>\$ 979,582</u>	<u>\$ 135,161</u>	<u>\$ (201,700)</u>	<u>\$ 129,090</u>	<u>\$ 1,042,133</u>	<u>\$ 189,853</u>
Business-type activities						
Compensated absences	\$ 31,606	\$ 93,454	\$ (89,821)	\$ -	\$ 35,239	\$ 35,239
Capital lease payable	108,433	-	(35,195)	-	73,238	36,375
Bonds payable	4,553,040	-	(154,400)	(129,090)	4,269,550	189,120
Bond premium	52,638	-	(4,506)	-	48,132	-
Bond discount	(25,843)	-	861	-	(24,982)	-
Deferred refunded costs	(20,765)	-	4,019	-	(16,746)	-
Business-type activities liabilities	<u>\$ 4,699,109</u>	<u>\$ 93,454</u>	<u>\$ (279,042)</u>	<u>\$ (129,090)</u>	<u>\$ 4,384,431</u>	<u>\$ 260,734</u>

*Adjustments are for unspent debt proceeds used in governmental activities.

Description of Long-Term Debt Outstanding

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES			
<i>Revenue Bonds</i>			
\$1,555,000 Florida Municipal Loan Council Revenue Bonds, Series 2005A, due in semi-annual installments of \$75,000 to \$135,000 through 2020; interest at 3% to 5%. Issue is pro-rated between General Fund and Utility Fund. Available non-ad valorem revenues from Utility Fund are pledged for payment of the bonds. This note was issued to current refund two prior bond issues. The original proceeds were used for renovations to the City Hall complex.	\$ 23,000	\$ 216,200	\$ 239,200
\$2,965,000 Florida Municipal Loan Council Revenue Bonds, Series 2006, due in semi-annual installments of \$105,000 to \$225,000 through 2026; interest at 4% to 5%. Issue is pro-rated between Streets Fund, Utility Fund, and Communications Fund. Available non-ad valorem revenues from Communication Fund are pledged for payment of the bonds. Proceeds used for street improvement projects.	<u>27,880</u>	<u>613,370</u>	<u>641,250</u>
Total revenue bonds	<u>50,880</u>	<u>829,570</u>	<u>880,450</u>

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES (CONTINUED)			
<i>Leases</i>			
\$88,825 capital lease payable, 2009, due in semi-annual installments of \$11,833 through December 2013, collateralized by a street sweeper.	22,703	22,710	45,413
<i>Accrued Compensated Absences</i>			
Accumulated, vested vacation and sick leave for governmental fund types.	116,270	-	116,270
TOTAL GOVERNMENTAL ACTIVITIES	\$ 189,853	\$ 852,280	\$ 1,042,133
 BUSINESS-TYPE ACTIVITIES			
<i>Revenue Bonds</i>			
\$1,555,000 Florida Municipal Loan Council Revenue Bonds, Series 2005A, due in semi-annual installments of \$75,000 to \$135,000 through 2020; interest at 3% to 5%. Issue is pro-rated between General Fund and Utility Fund. Available non-ad valorem revenues from Utility Fund are pledged for payment of the bonds. This note was issued to current refund two prior bond issues. The original proceeds were used for improvements to the water system.	\$ 77,000	\$ 723,800	\$ 800,800
Plus unamortized bond premium	-	24,645	24,645
Less unamortized deferred loss on refunding	-	(16,746)	(16,746)
	77,000	731,699	808,699
 \$2,965,000 Florida Municipal Loan Council Revenue Bonds, Series 2006, due in semi-annual installments of \$105,000 to \$225,000 through 2026; interest at 4% to 5%. Issue is pro-rated between Streets, Utility, and Communication Funds. Available non-ad valorem revenues from Communication Fund are pledged for payment of the bonds. Proceeds used for rebuilding a CATV distribution plant and updating technology fiber to the plant.	87,120	1,916,630	2,003,750
Plus unamortized bond premium	-	23,487	23,487
	87,120	1,940,117	2,027,237

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Description of Long-Term Debt Outstanding (Continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
BUSINESS-TYPE ACTIVITIES (CONTINUED)			
<i>Revenue Bonds (Continued)</i>			
\$1,465,000 Florida Municipal Loan Council Revenue Bonds, Series 2010C, due in semi-annual installments of \$25,000 to \$85,000 through 2040; interest at 2% to 4.5%. Available non-ad valorem revenues from Utility Fund are pledged for payment of the bonds. Proceeds 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, Florida as a member) and other capital improvements to the City of Valparaiso, Florida's sewer system, and for depositing a portion of the proceeds in the amount of \$91,025 into the Reserve Fund.	25,000	1,440,000	1,465,000
Less unamortized bond discount	-	(24,982)	(24,982)
	<u>25,000</u>	<u>1,415,018</u>	<u>1,440,018</u>
<i>Total revenue bonds</i>	<u>189,120</u>	<u>4,086,834</u>	<u>4,275,954</u>
<i>Leases</i>			
\$96,072 capital lease payable, 2009, due in semi-annual installments of \$8,170 through June 2014, collateralized by a sanitation clamshell loader.	14,955	31,395	46,350
\$101,972 capital lease payable, 2008, due in quarterly installments of \$5,514 through November 2012, collateralized by a garbage truck.	21,420	5,468	26,888
<i>Total leases</i>	<u>36,375</u>	<u>36,863</u>	<u>73,238</u>
<i>Accrued Compensated Absences</i>			
Accumulated, vested annual compensation for Enterprise Funds.	35,239	-	35,239
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 260,734</u>	<u>\$ 4,123,697</u>	<u>\$ 4,384,431</u>
GRAND TOTAL LONG-TERM DEBT			<u>\$ 5,426,564</u>

The City is required to comply with certain debt covenants under the 2005A, 2006, and 2010C bond agreement. As of September 30, 2011, the City was in compliance with such requirements. The City established reserve funds required under the 2005A and 2006 bond covenants by funding surety bonds at issuance.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Advance Refunding

Series 2005A Bond Payable

The \$1,555,000 Florida Municipal Loan Council Revenue Bonds, Series, 2005A was issued 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 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.

Redemption Provisions

Series 2006 Bond Payable

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.

Series 2010C Bond Payable

Optional Redemption: 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.

Mandatory Redemption: 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.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding except accrued and annual leave as of September 30, 2011, are as follows:

Governmental Activities

Year Ending September 30,	Capital Leases			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 22,329	\$ 1,336	\$ 23,665	\$ 50,880	\$ 37,936	\$ 88,816
2013	23,084	582	23,666	52,093	36,074	88,167
2014	-	-	-	54,455	33,932	88,387
2015	-	-	-	56,817	31,875	88,692
2016	-	-	-	60,391	29,382	89,773
2017-2021	-	-	-	311,251	101,972	413,223
2022-2026	-	-	-	240,014	41,802	281,816
2027-2031	-	-	-	54,549	2,250	56,799
2032-2036	-	-	-	-	-	-
2037-2041	-	-	-	-	-	-
Total	\$ 45,413	\$ 1,918	\$ 47,331	\$ 880,450	\$ 315,223	\$ 1,195,673

Business-Type Activities

Year Ending September 30,	Capital Leases			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 36,375	\$ 2,021	\$ 38,396	\$ 189,120	\$ 184,405	\$ 373,525
2013	20,913	942	21,855	197,907	172,134	370,041
2014	15,950	390	16,340	205,545	164,626	370,171
2015	-	-	-	213,183	157,408	370,591
2016	-	-	-	224,609	148,814	373,423
2017-2021	-	-	-	1,173,749	587,960	1,761,709
2022-2026	-	-	-	949,986	368,711	1,318,697
2027-2031	-	-	-	415,451	198,731	614,182
2032-2036	-	-	-	310,000	131,175	441,175
2037-2041	-	-	-	390,000	54,225	444,225
Total	\$ 73,238	\$ 3,353	\$ 76,591	\$ 4,269,550	\$ 2,168,189	\$ 6,437,739

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Capital Leases

The cost and accumulated depreciation for capital leases are:

<u>Assets</u>	Governmental Activities - Streets Fund	Business-Type Activities - Sanitation Fund
Sanitation clamshell loader	\$ -	\$ 96,072
Garbage truck	-	101,972
Street sweeper	<u>88,825</u>	<u>-</u>
Total leases acquired	88,825	198,044
Accumulated depreciation	<u>(13,324)</u>	<u>(59,708)</u>
Net assets acquired by lease	<u>\$ 75,501</u>	<u>\$ 138,336</u>

NOTE 7 - DEFINED BENEFIT PENSION PLANS

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 Boulevard, Building C, Tallahassee, Florida 32399-1560 or by calling 1-850-488-5706.

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 Plan became available to FRS members. Under this plan, the employer makes contributions to an account set up in the participant's name, and the participant controls where the contributions are invested among the plan's investment funds. New employees are by default enrolled in the defined benefit plan; however, they will have five months after the month of hire to elect to participate in the FRS Investment Plan. The FRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on the State of Florida Department of Management Services website at www.dms.myflorida.com.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Florida Retirement System (Continued)

FRS Plan Changes

Effective July 1, 2011, the Florida Legislature passed Senate Bill 2100 that made substantive changes to the Florida Retirement System (FRS). The new Bill requires all FRS Investment and Pension Plan members (except those in DROP) to now pay a 3% employee contribution, on a pretax basis, beginning on or after July 1, 2011. Cost of living adjustments (COLA) on or after July 1, 2011 are not automatic at 3%, but based on total years of service earned prior to July 1, 2011 to total years of service at retirement, multiplied by 3%.

New members enrolling into FRS for the first time after July 1, 2011 will be subject to additional changes including 1) an increased vesting period from 6 years to 8 years, 2) a change calculation of benefits using Average Final Compensation (AFC) on the highest eight years of compensation as compared to highest five years. In addition, the normal retirement date for Regular, Senior Management Service, Elected Officers', and Special Risk Administrative Support Classes was modified to be age 65, with 8 years of service or 33 years of service regardless of age. Normal retirement for Special Risk Class members now at age 60, with 8 years of service, or 30 years of special risk class service OR age 57, with 30 years of combined special risk class service and military service. For those members participating in the DROP program, the Legislature reduced the annual interest rate used for benefits from 6.5% to 1.3%. The funding policy relative to the FRS plan is disclosed below.

Funding Policy

Contribution requirements of the plan are established in Florida Statutes Chapter 121 and may only be amended by legislative action. Effective July 1, 2011, the Florida Legislature passed Senate Bill 2100 requiring all employee members to contribute 3% to the Plan. Formerly, only employers were required to contribute to the FRS Plan. The FRS funding policy now provides for monthly employer and employee 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 re-emerges as a result of future plan benefit changes, assumption changes, or methodology changes, it is assumed any 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.

In July 2002, the Florida Legislature established a uniform contribution rate system for the FRS, which remained in effect with the passage of Senate Bill 2100. The uniform contribution system covers both the FRS Pension Plan and the FRS Investment Plan. Employers and employees contribute a percentage of the total payroll for each class of FRS membership.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Florida Retirement System (Continued)

Funding Policy (Continued)

The actuarially determined employer contribution rates (including HIS of 1.11%) for each class of employee expressed as a percentage of covered pre and post Senate Bill 2100 are listed below:

Class	Contribution Rates (6/30/11)	Contribution Rates (7/1/11)
Regular	10.77 %	4.91 %
Special Risk - Regular	23.25 %	14.10 %
Senior Management Service Class	14.57 %	6.27 %
Elected Officials	18.64 %	11.14 %
Deferred Retirement Option Plan (DROP)	12.25 %	4.42 %

Required contributions for the years ended September 30, 2011, 2010, and 2009 were \$32,094, \$35,172 and \$46,532, respectively. Percentage of covered payroll was 10.2% for 2011, 10.5% for 2010, and 12.4% for 2009.

Covered payroll for each of the years ended September 30, 2011, 2010 and 2009 was approximately \$327,000, \$333,000 and \$374,000, respectively.

Police Officers and Firefighters Defined Benefit Pension 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, 2011 actuarial valuation was approximately \$337,623. As of October 1, 2011, 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
Inactive employees due a refund of contributions	
Current active employees	
Vested	0
Nonvested	10
Total	<u>13</u>

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Police Officers and Firefighters Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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 multiplied by credited service. 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 2011, the City contributed a total of \$58,088 to the plan and \$63,195 was contributed by the State. The employees' contributions to the plan for the current year totaled \$7,256. 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.

Actuarial Assumptions

As of October 1, 2011, actuarial assumptions are as follows:

Valuation date	October 1, 2011
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	5.75%

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

Three-Year Trend Information

Year Ending	Annual Pension Cost (APC)	Employer Contribution		Percentage of APC Contribution	Net Pension Obligation (Asset)
		City	State		
September 30, 2011	\$ 152,400	\$ 58,088	\$ 63,195	92 %	\$ 18,188
September 30, 2010	\$ 144,133	\$ 57,801	\$ 60,138	96 %	\$ 5,546
September 30, 2009	\$ 102,297	\$ 37,995	\$ 66,936	100 %	\$ -

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Police Officers and Firefighters Defined Benefit Pension Plan (Continued)

Three-Year Trend Information (Continued)

The funded status of the plan as of September 30, 2011, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Payroll
\$ 850,835	\$ 822,988	\$ -	103.38 %	\$ 337,623	- %

The schedule of employer required contributions is listed below:

Year Ending	Annual Required Contribution	Percent Contributed
September 30, 2002	\$ 18,263	100 %
September 30, 2003	\$ 15,897	100 %
September 30, 2004	\$ 14,879	100 %
September 30, 2005	\$ 24,697	100 %
September 30, 2006	\$ 40,791	100 %
September 30, 2007	\$ 42,806	100 %
September 30, 2008	\$ 97,072	100 %
September 30, 2009	\$ 102,297	100 %
September 30, 2010	\$ 144,143	96 %
September 30, 2011	\$ 152,421	92 %

The components of net pension cost, the increase in Net Pension Obligation, and the Net Pension Obligation for the year ended September 30, 2011, for the Police Officers' and Firefighters' Retirement Fund is as follows:

Annual pension cost	\$ 152,400
Contribution made	139,758
Change in net pension obligation	(12,642)
Net pension obligation - beginning of year	(5,546)
Net pension obligation - end of year	<u>\$ (18,188)</u>

The City has made \$138,535 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 2011/12 plan year or for any later plan year.

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

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 8 - 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 \$87,884 and the employees contributed \$28,159 to this plan during the fiscal year.

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The City provides other postemployment benefits (OPEB) to its employees by providing retirement health care benefits. The City does not pay for any premiums but allows retirees to participate in the health insurance plan.

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 10 - INTERFUND RECEIVABLES, PAYABLES, ADVANCES, AND TRANSFERS

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

September 30, 2011	Receivables	Payables
<i>Governmental funds</i>		
General Fund	\$ 418,203	\$ 24,357
Streets Fund	23,698	-
Stormwater Fund	659	-
<i>Proprietary funds</i>		
Utility Fund	-	154,014
Communication Fund	-	203,000
Sanitation Fund	-	61,189
Total	<u>\$ 442,560</u>	<u>\$ 442,560</u>

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

**NOTE 10 - INTERFUND RECEIVABLES, PAYABLES, ADVANCES, AND TRANSFERS
(CONTINUED)**

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

<u>September 30, 2011</u>	<u>Advances To</u>	<u>Advances From</u>
<i>Governmental funds</i>		
General Fund	\$ 436,910	\$ -
<i>Proprietary funds</i>		
Utility Fund	-	178,124
Communication Fund	-	229,774
Sanitation Fund	-	29,012
Total	<u>\$ 436,910</u>	<u>\$ 436,910</u>

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

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

<u>September 30, 2010</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<i>Governmental funds</i>		
General Fund	\$ -	\$ -
Streets Fund	14,848	-
<i>Proprietary funds</i>		
Utility Fund	2,962	-
Communication Fund	-	17,810
Total	<u>\$ 17,810</u>	<u>\$ 17,810</u>

Transfers were made between funds for interest earnings on unspent bond proceeds recognized as income in the Communications Fund but used for projects in the Streets and Utility Funds.

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 semiannually at the rate of \$40.60 per pole, effective January 1, 2002. Rent paid for the year ended September 30, 2011 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 13 for contingent liability for pole attachment fees.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 11 - LEASE EXPENSE (CONTINUED)

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 \$40,032.

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:

	<u>General Fund</u>	<u>Utility Fund</u>
2012	\$ 50,409	\$ 56,003
2013	55,848	58,021
2014	43,554	60,113
2015	52,121	38,031
2016	<u>48,257</u>	<u>39,552</u>
Total	<u>\$ 250,189</u>	<u>\$ 251,720</u>

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 3-4% per year. There was no unearned rent at September 30, 2011.

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. Unearned rent at September 30, 2011 was \$1,004.

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.

The General Fund and Utility Fund received a total of \$46,925 and \$54,055, respectively, in lease revenues during the current year.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 13 - GOVERNMENTAL FUND BALANCES

In accordance with Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

- *Nonspendable* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, deposits, prepaid items, and advances to other funds.
- *Restricted* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed* – includes fund balance amounts that can be used only for the specific purposes that are internally imposed by a formal action of the government's highest level of decision making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint initially. Contractual obligations are included to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual obligations.
- *Assigned* – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Intent is expressed by (a) the City Council or (b) a body (for example: a budget or finance committee) or official to which the City Council has delegated the authority to assign amounts to be used for specific purposes. This indicates that resources in these funds are, at a minimum, intended to be used for the purposes of that fund.
- *Unassigned* – includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 13 - GOVERNMENTAL FUND BALANCES (CONTINUED)

At September 30, 2011, the City's governmental fund balances were classified as follows:

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
Nonspendable				
Prepaid items	\$ 14,148	\$ -	\$ -	\$ 14,148
Advance to other funds	<u>436,911</u>	<u>-</u>	<u>-</u>	<u>436,911</u>
Total nonspendable	<u>451,059</u>	<u>-</u>	<u>-</u>	<u>451,059</u>
Restricted for				
Park improvements	105,500	-	-	105,500
Library	4,706	-	-	4,706
Law enforcement	<u>8,777</u>	<u>-</u>	<u>-</u>	<u>8,777</u>
Total restricted	<u>118,983</u>	<u>-</u>	<u>-</u>	<u>118,983</u>
Committed				
Cemetery maintenance	143,541	-	-	143,541
Public safety	11,786	-	-	11,786
Stormwater	<u>-</u>	<u>-</u>	<u>46,628</u>	<u>46,628</u>
Total committed	<u>155,327</u>	<u>-</u>	<u>46,628</u>	<u>201,955</u>
Assigned to				
Library	6,870	-	-	6,870
Parks	16,524	-	-	16,524
Transportation	-	242,098	-	242,098
FY 2012 budget appropriation	<u>77,000</u>	<u>-</u>	<u>-</u>	<u>77,000</u>
Assigned	<u>100,394</u>	<u>242,098</u>	<u>-</u>	<u>342,492</u>
Unassigned	<u>1,095,622</u>	<u>-</u>	<u>-</u>	<u>1,095,622</u>
TOTAL FUND BALANCE	<u>\$ 1,921,385</u>	<u>\$ 242,098</u>	<u>\$ 46,628</u>	<u>\$ 2,210,111</u>

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 14 - PRIOR PERIOD ADJUSTMENT

In prior years the City issued debt in its proprietary funds, a portion of which was used for improvements in the General and Streets Funds, and those funds are responsible for their portion of the debt repayment. Further debt issued in the Communications Fund was used for certain improvements in the Utility Fund. The security interest of the 2005 and 2006 bonds were the basis for recording the debt in the financial statements. However, generally accepted accounting principles require the debt to be recorded in the funds for which it is directly related (used) and intended to be repaid. Consequently, a prior period adjustment was made which decreased the fund balance of the Governmental Activities and increased debt payable at September 30, 2010. Prior period adjustments were made in the Utility and Communications Funds to adjust equity and correct debt payable at September 30, 2010 as follows:

Governmental Activities

Net assets as originally stated at September 30, 2010	\$ 5,664,541
Record debt payable of governmental funds	<u>(801,960)</u>
Net assets as restated at September 30, 2010	<u>\$ 4,862,581</u>

Business-Type Activities

Net assets as originally stated at September 30, 2010	\$ 1,929,553
Record debt payable of governmental funds	<u>801,960</u>
Net assets as restated at September 30, 2010	<u>\$ 2,731,513</u>

Utilities Fund

Net assets as originally stated at September 30, 2010	\$ 2,454,212
Record debt payable	<u>(131,879)</u>
Net assets as restated at September 30, 2010	<u>\$ 2,322,333</u>

Communications Fund

Net assets (deficit) as originally stated at September 30, 2010	\$ (689,239)
Record debt payable of Utility and governmental funds	<u>933,839</u>
Net assets as restated at September 30, 2010	<u>\$ 244,600</u>

NOTE 15 - 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 \$396,738 in savings in case of an unfavorable ruling. In the current year, \$33,524 has been accrued in accordance with GAAP. In addition, the City has been accruing interest on this liability. The total accrued interest for this liability at September 30, 2011 is \$358,781.

City of Valparaiso, Florida
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

NOTE 15 - CONTINGENT LIABILITIES (CONTINUED)

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 16 - 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 17 - 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.

III. COMPLIANCE SECTION

- **COMPLIANCE MATTERS**
- **SCHEDULE OF FINDINGS AND RESPONSES**
- **MANAGEMENT LETTER**
- **RESPONSES TO MANAGEMENT LETTER**

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

**INDEPENDENT AUDITOR'S 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***

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Valparaiso, Florida as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 12, 2012. 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

Management of the City of Valparaiso, Florida is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Valparaiso, Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Valparaiso, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Valparaiso, Florida'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, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2011-1 described in the accompanying Schedule of Findings and Responses to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies 2011-2 and 2011-3 described in the accompanying Schedule of Findings and Responses to be significant deficiencies.

To the Honorable Mayor and
Members of the City Commission
City of Valparaiso, Florida
Independent Auditor's 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* (Continued)

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Valparaiso, Florida in a separate letter dated April 12, 2012.

City of Valparaiso, Florida's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Valparaiso, Florida's response and, accordingly, we express no opinion on it.

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

Warren Averett, LLC
April 12, 2012

City of Valparaiso, Florida
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended September 30, 2011

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED
TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED
GOVERNMENTAL AUDITING STANDARDS (GAGAS)**

FINDING 2011-1 ACCOUNTING FOR DEBT

Criteria – Generally accepted accounting principles requires debt to be recorded in the funds for which it is directly related (used) and intended to be repaid.

Condition – Material audit entries were proposed to properly account for debt that was used and being repaid by certain funds but recorded as liabilities in the proprietary funds that held the security interest for the debt issued.

Cause – The security interest of the 2005 and 2006 bonds (non ad-valorem revenues from Utility and Communications Funds) was the basis for recording the debt in the financial statements rather than the projects related to the debt and the funds responsible for repayment of the debt.

Effect – The City’s financial statements before posting of the prior period adjustment and other current year adjustments were materially misstated.

Recommendation – Debt that is used for multiple projects across multiple funds should be clearly documented as to purpose and intended source of repayment to ensure such transactions are properly accounted for in the financial statements. Governmental accounting and financial reporting standards as it relates to debt accounting should be reviewed by City management and the CPA engaged to make year-end accounting entries.

View of Responsible Official and Planned Corrective Actions – Documentation relating to use of debt proceeds and intent of repayment will be enhanced in future debt issues if such proceeds will be used for projects in multiple funds.

FINDING 2011-2 YEAR-END CLOSE PROCESS

Criteria – Generally accepted accounting principles require the application of the matching principal for grant revenues and expenditures and the accrual of liabilities for good received or services rendered prior to year end.

Condition – Adjusting journal entries were necessary to proper match grant revenue with expenditures incurred for grant revenues earned in the Streets special revenue fund and to record the September 2011 health and life insurance invoice in all funds to satisfy the completion assertion as there were only 11 months of such expenditures/expenses recorded prior to the posting of the audit adjustment.

City of Valparaiso, Florida
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended September 30, 2011

FINDING 2011-2 YEAR-END CLOSE PROCESS (CONTINUED)

Cause – The City keeps their books on a cash basis during the year requiring extensive journal entries at year end to present the governmental activities on a modified accrual basis and the enterprise functions on a full accrual basis. The conversion is done by a qualified CPA; however the process to convert is extensive expanding the opportunity for error.

Effect – Two significant audit adjustments were necessary to correct the trial balance.

Recommendations –

- Review of grant accounting should be added to the year-end checklist.
- Review of recurring expenses should also be reviewed to ensure completeness of expenses for recurring services and expenses/expenditures.
- The City should consider keeping their books on the required basis during the year thus elimination the amount of entries necessary for conversion.

View of Responsible Official and Planned Corrective Actions – Grant accounting and review of recurring expenses will be added to the year-end checklist.

FINDING 2011-3 INTERNAL CONTROLS REGARDING VOLUNTEER FIRE DEPARTMENT TRANSACTIONS

Criteria – Proper segregation of duties does not allow the person who handles cash receipts to also record activity in the financial records of an organization.

Condition – While the financial activity of the Volunteer Fire Department is not material to the City of Valparaiso, Florida the current system of internal control is not adequate and citizen scrutiny over public funds should also be considered by City Management. The Volunteer Fire Department is primarily funded via the City. Currently the fire department treasurer pays the volunteer stipends in cash (\$15 per fire/medical call) and reimburses herself for supplies purchased/stipends disbursed via checks written to her. \$200 per month is provided by the City for food provisions. The bank account is reconciled by the Treasurer. The monthly statement of expenses is prepared by the Treasurer and reviewed with the Chief prior to sending to the City for reimbursement. A volunteer pay book and receipts exist to support the amounts paid.

Cause – The current system has been in place for a number of years and since the financial impact is not significant internal controls over the process have not been evaluated.

Effect – The current system of internal controls is not properly designed, which could allow errors to occur and not be detected in a timely manner.

City of Valparaiso, Florida
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended September 30, 2011

FINDING 2011-3 INTERNAL CONTROLS REGARDING VOLUNTEER FIRE DEPARTMENT TRANSACTIONS (CONTINUED)

Recommendations –

The City should issue monthly stipend checks to volunteers based on calls made certified by the Chief. This will allow the City to enhance internal control and monitor funds disbursed to ensure 1099's are issued when prescribed by IRS guidelines.

The City should establish a petty cash fund at the station and require petty cash reconciliation with receipts to reimburse the petty cash drawer on a monthly basis or more frequently as necessary.

Views of the Responsible Officials and Planned Corrective Action - Internal controls and processes surrounding the Volunteer Fire Department will be re-evaluated by management.

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

MANAGEMENT LETTER

We have audited the financial statements of the City of Valparaiso, Florida as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated April 12, 2012.

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 Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and Schedule of Findings and Responses which is dated April 12, 2012, and 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 or schedule:

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

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Valparaiso, Florida complied with the provisions of 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. Our comments and recommendations are reported under the heading "Current Year Comments."

Sections 10.554(1)(i)4., *Rules of Auditor General*, requires that we address violations of provisions of contracts and 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.

To the Honorable Mayor and
Members of the City Commission
City of Valparaiso, Florida
Management Letter (Continued)

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 the 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 have such findings. Our comments and recommendations are reported under the heading "Current Year Comments."

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 information can be found in Note 2 of 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 governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions 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 of Valparaiso, Florida for the fiscal year ended September 30, 2011, filed with the Florida Department of Financial Services to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. The AFR was not available for our review at the time of audit issuance.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the 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 same.

PRIOR YEAR COMMENTS

None noted.

CURRENT YEAR COMMENTS

FINANCIAL CONDITION OF COMMUNICATION FUND

Observation

The Communication Fund has deficit unrestricted total net assets of approximately \$772,000 at September 30, 2011 including deficit unrestricted net assets. The fund had an operating loss of \$119K and a total loss of \$263K after incurring interest. The deficit in unrestricted net assets is approximately the amount accrued to Gulf Power for disputes in the pole attachment privileges. The rate structure currently utilized by the City may not be adequate to cover its operating costs should the fees be determined fair.

Money has been borrowed from the General fund to provide the Communication Fund cash on which to operate. At September 30, 2011 \$433,000 is owed to the General fund of which \$230,000 is considered an advance as it has not been paid back to the General Fund in the normal course of operations.

Recommendation

Rates and costs in the Communication Fund need to be examined in order to determine the fiscal viability of the business enterprise. A formal business plan would be beneficial. A formal plan to repay the General Fund amounts loaned or the approval of a permanent transfer should also be incorporated into the FY 13 budget process.

CURRENT YEAR COMMENTS (CONTINUED)

FINANCIAL CONDITION OF COMMUNICATION FUND (CONTINUED)

Management's Response

In 2012, the City tentatively agreed to a new rate with Gulf Power for future pole attachment fees providing for a clearer understanding of future direct costs in the fund. The potential liability for past fees remains unresolved at the date of this report. Management and City Commission will review the financial performance and condition of the fund during FY 2012 and determine if corrective action is needed.

INTERFUND RECEIVABLES, PAYABLES, AND ADVANCES

Observation

A significant amount of interfund receivables/payables and advances exist at September 30, 2011 between the enterprise funds owing money primarily to the general fund. The City has multiple bank accounts, and receipts money into one account and then at the beginning of the month after transactions are reconciled makes transfers to distribute funds to the proper account. In our observation, funds are not always transferred timely, in some cases due to cash flow, and as a result the amounts due between the funds are not clearing out.

Recommendation

Amounts owed between the funds should be promptly cleared in the normal course of monthly accounting procedures. Should cash flow problems be apparent, these should be brought to the attention of the Members of the City Commission, to allow for classification as an advance, but also to ensure Members of the City Commission are aware of any business operation that is not generating sufficient cash flow streams. Finally, the City should consider the use of "pooled" cash to reduce the number of bank accounts and efficiency associated with the pooled cash concept.

Management's Response

City Management was not aware that certain interfund balances between the General Fund, Utility and Sanitation funds are not clearing timely. It is believed the balances may have originated as year-end or audit adjustments and the necessary cash transfers have not taken place. Management will review this with the contracted CPA and correct in FY 2012. Management is aware certain amounts between the General Fund and Communications Fund have not been repaid due to cash flow issues in the Communications Fund. Such amounts will be documented and presented to the City Commission.

COST ALLOCATION

Observation

The City has historically allocated certain percentages of types of revenue in the enterprise fund's to the General Fund to provide reimbursement to the General Fund for certain overhead costs, such as payroll processing, purchasing, IT, etc.

Recommendation

As part of its strategic plan and future growth, City management should consider a formal cost allocation plan. The objective is to ensure that all City wide functions such as overall management, accounting, purchasing, human resources, etc. are allocated equitably between the respective funds as well as provide documented consistency in the budget process.

Management's Response

City management believes the current cost structure is a fair and consistent allocation of overhead costs to other City funds.

CURRENT YEAR COMMENTS (CONTINUED)

UAS AND AFR SUBMISSION

Observation

Florida Statue 218.33 requires governmental reporting unit's use the Uniform Accounting System chart of accounts as an integral part of their accounting system so that the preparation of their annual financial reports will be consistent with other reporting entities. The City of Valparaiso, Florida does not use UAS in its chart of accounts design. Florida Statue also requires that the Annual Financial Report be submitted within 45 days of the audit report date or nine months after year end. The AFR was submitted late for the year ending September 30, 2010.

Recommendation

The City should revise its chart of accounts to comply with UAS. The deadlines for AFR submission should be monitored and complied with.

Management's Response

The City will work to modify its current chart of accounts structure in FY 2012. The AFR was submitted late in 2010 due to late receipt of the City's audit.

FIXED ASSET ACCOUNTING

Observation

Several reclassification entries were necessary in the Governmental Funds during the audit process to properly record assets qualifying for capitalization vs. repairs and maintenance. The Florida UAS chart of accounts and governmental accounting require assets qualifying for capitalization should be accumulated in a particular set of accounts.

Recommendation

Once the proper UAS accounts are established the City should code capital asset expenditures separate from repairs and maintenance in the trial balance. Until this is accomplished the reclass entries should be added to the year-end conversion checklist done by the CPA.

Management's Response

City personnel will make the necessary reclassifications in its Governmental Funds in FY2012 to clearly segregate fixed asset additions from repair and maintenance costs.

OPEB REPORTING

Observation

The City has not engaged an actuary to perform an analysis of other post-employment benefit liability since retirees can participate in their medical insurance plan paying full rates. However, a potential liability continues to exist due to the concept of an implicit rate subsidy outlined in GASB 45. As such, our auditor's opinion has been modified as we do not know if the amount of the potential liability is material to the City's financial position, although that is not our expectation based on the facts represented by management. The City has not engaged an actuary due to the cost involved.

Recommendation

We would recommend the City engage an actuary to perform an assessment. While we understand the desire by management to make prudent financial decisions the modified opinion could impact the City's ability to acquire future debt. Furthermore the expectation of the Florida Auditor General in the audit process required by Statue is the attainment of an unqualified audit opinion.

To the Honorable Mayor and
Members of the City Commission
City of Valparaiso, Florida
Management Letter (Continued)

CURRENT YEAR COMMENTS (CONTINUED)

OPEB REPORTING (CONTINUED)

Management's Response

City management will consider an actuarial assessment in FY2012 as it relates to the potential liability because of the concept of an implicit rate study.

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 management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

We sincerely hope these comments and recommendations will be of assistance in the administration and operation of the City. Please feel free to contact us regarding the preceding or any other aspect of the audit of your financial statements.

We greatly appreciate the assistance and cooperation extended to us during our audit.

Warren Averett, LLC

April 12, 2012