

**CITY OF VALPARAISO, FLORIDA**

**Financial Statements**

**September 30, 2012**



# **I. INTRODUCTORY SECTION**

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**CITY OF VALPARAISO, FLORIDA**

**Financial Statements**

**September 30, 2012**

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**Financial Statements**

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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, 2012, 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, 2012, and the respective changes in financial position, and, where applicable, cash flows, 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.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated March 19, 2013, 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.

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*

March 19, 2013

## **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, 2012. 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 \$264,000.
- Net assets increased by \$884,120.
- Total revenues increased by 7.1% or \$259,883 and total expenses increased by 2.5% or \$166,396.

### **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 reconciliation's 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, 2012 AND 2011

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Assets</b>						
Current and other assets	\$ 2,145,402	\$ 2,338,124	\$ 3,391,824	\$ 3,160,159	\$ 5,537,226	\$ 5,498,283
Capital assets, net	<u>4,274,829</u>	<u>3,827,549</u>	<u>4,751,898</u>	<u>4,974,121</u>	<u>9,026,727</u>	<u>8,801,670</u>
<b>Total assets</b>	<b><u>6,420,231</u></b>	<b><u>6,165,673</u></b>	<b><u>8,143,722</u></b>	<b><u>8,134,280</u></b>	<b><u>14,563,953</u></b>	<b><u>14,299,953</u></b>
<b>Liabilities</b>						
Current liabilities	323,272	260,524	531,741	388,486	855,013	649,010
Other liabilities	<u>1,026,494</u>	<u>909,749</u>	<u>4,133,551</u>	<u>5,076,419</u>	<u>5,160,045</u>	<u>5,986,168</u>
<b>Total liabilities</b>	<b><u>1,349,766</u></b>	<b><u>1,170,273</u></b>	<b><u>4,665,292</u></b>	<b><u>5,464,905</u></b>	<b><u>6,015,058</u></b>	<b><u>6,635,178</u></b>
<b>Net assets</b>						
Invested in capital assets, net of debt	3,391,684	2,901,686	1,907,172	2,085,154	5,298,856	4,986,840
Restricted	15,141	118,983	593,718	479,953	608,859	598,936
Unrestricted	<u>1,663,640</u>	<u>1,974,731</u>	<u>977,540</u>	<u>104,268</u>	<u>2,641,180</u>	<u>2,078,999</u>
<b>Total net assets</b>	<b><u>\$ 5,070,465</u></b>	<b><u>\$ 4,995,400</u></b>	<b><u>\$ 3,478,430</u></b>	<b><u>\$ 2,669,375</u></b>	<b><u>\$ 8,548,895</u></b>	<b><u>\$ 7,664,775</u></b>

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

Total assets increased slightly by \$264,000 during the fiscal year ended September 30, 2012. Total liabilities decreased by \$620,120 at September 30, 2012 primarily due to bond payments made during the year and no new debt was issued. The City's combined net assets increased by \$884,120.

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, 2012 AND 2011**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services (1)	\$ 517,917	\$ 515,712	\$ 3,389,448	\$ 3,321,088	\$ 3,907,365	\$ 3,836,800
Operating grants and contributions	43,516	56,749	-	-	43,516	56,749
Capital grants and contributions	<u>440,386</u>	<u>199,579</u>	<u>9,175</u>	<u>15,200</u>	<u>449,561</u>	<u>214,779</u>
Total revenues	<u>1,001,819</u>	<u>772,040</u>	<u>3,398,623</u>	<u>3,336,288</u>	<u>4,400,442</u>	<u>4,108,328</u>
<b>General revenues</b>						
Property taxes	713,914	708,088	-	-	713,914	708,088
Public service taxes	950,004	1,027,373	-	-	950,004	1,027,373
Franchise taxes	328,217	372,019	-	-	328,217	372,019
Intergovernmental, unrestricted	400,755	339,820	-	-	400,755	339,820
Investment earnings	5,109	4,319	6,582	6,226	11,691	10,545
Sales of fixed assets	530	7,947	-	1,190	530	9,137
Miscellaneous	<u>34,151</u>	<u>12,445</u>	<u>60,704</u>	<u>52,770</u>	<u>94,855</u>	<u>65,215</u>
Total general revenues	<u>2,432,680</u>	<u>2,472,011</u>	<u>67,286</u>	<u>60,186</u>	<u>2,499,966</u>	<u>2,532,197</u>
<b>TOTAL REVENUES</b>	<b><u>3,434,499</u></b>	<b><u>3,244,051</u></b>	<b><u>3,465,909</u></b>	<b><u>3,396,474</u></b>	<b><u>6,900,408</u></b>	<b><u>6,640,525</u></b>
<b>EXPENSES</b>						
<b>Governmental activities:</b>						
General government	965,354	781,653	-	-	965,354	781,653
Public safety	1,334,249	1,296,200	-	-	1,334,249	1,296,200
Physical environment	214,403	254,843	-	-	214,403	254,843
Transportation	334,400	298,730	-	-	334,400	298,730
Culture and recreation	465,927	450,849	-	-	465,927	450,849
Debt service interest*	<u>45,101</u>	<u>43,805</u>	<u>-</u>	<u>-</u>	<u>45,101</u>	<u>43,805</u>
Total governmental activities	<u>3,359,434</u>	<u>3,126,080</u>	<u>-</u>	<u>-</u>	<u>3,359,434</u>	<u>3,126,080</u>
<b>Business-type activities</b>						
Utility	-	-	1,151,752	1,097,803	1,151,752	1,097,803
Communication	-	-	1,597,187	1,697,188	1,597,187	1,697,188
Sanitation	-	-	<u>627,867</u>	<u>648,773</u>	<u>627,867</u>	<u>648,773</u>
Total business-type activities	<u>-</u>	<u>-</u>	<u>3,376,806</u>	<u>3,443,764</u>	<u>3,376,806</u>	<u>3,443,764</u>
<b>TOTAL EXPENSES</b>	<b><u>3,359,434</u></b>	<b><u>3,126,080</u></b>	<b><u>3,376,806</u></b>	<b><u>3,443,764</u></b>	<b><u>6,736,240</u></b>	<b><u>6,569,844</u></b>
<b>Increase (decrease) in net assets</b>	<b>75,065</b>	<b>117,971</b>	<b>89,103</b>	<b>(47,290)</b>	<b>164,168</b>	<b>70,681</b>
Transfers	-	14,848	-	(14,848)	-	-
Special item: change in estimate	-	-	<u>719,952</u>	<u>-</u>	<u>719,952</u>	<u>-</u>
<b>Total transfers and special items</b>	<u>-</u>	<u>14,848</u>	<u>719,952</u>	<u>(14,848)</u>	<u>719,952</u>	<u>-</u>
<b>Change in net assets</b>	<b>75,065</b>	<b>132,819</b>	<b>809,055</b>	<b>(62,138)</b>	<b>884,120</b>	<b>70,681</b>
<b>NET ASSETS BEGINNING</b>	<b><u>4,995,400</u></b>	<b><u>4,862,581</u></b>	<b><u>2,669,375</u></b>	<b><u>2,731,513</u></b>	<b><u>7,664,775</u></b>	<b><u>7,594,094</u></b>
<b>NET ASSETS ENDING</b>	<b><u>\$ 5,070,465</u></b>	<b><u>\$ 4,995,400</u></b>	<b><u>\$ 3,478,430</u></b>	<b><u>\$ 2,669,375</u></b>	<b><u>\$ 8,548,895</u></b>	<b><u>\$ 7,664,775</u></b>

(1) Restated to conform to current year presentation.

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

The City's total revenues increased by \$259,883 or 3.9% and total expenses increased by \$166,396, or less than 3%. Net assets increased by \$884,120 for fiscal year 2012. 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 overall taxes decreased slightly. Grant and contributions revenues increased significantly due grant reimbursements from Florida Department of Transportation for sidewalk project. Expenses increased \$233,354, or 7.5%, due primarily to an increase in salaries and wages and an increase in legal expense related to a litigation settlement.

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

Revenues of the City's business – type activities show an increase of 2.0% or \$69,435 from the previous fiscal year relating to interest earnings and cable and sewer income. Expenses decreased 1.9% or \$66,958 which was due to less interest expense on debt service in current fiscal year.

## **THE CITY'S FUNDS**

As the City completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of \$1.8 million, which is \$375 thousand lower than last year's total of \$2.2 million. The decrease in fund balance is the result of a significant increase in capital outlay expenditures.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **CAPITAL ASSETS**

At September 30, 2012, the City had approximately \$9 million invested in capital assets (net of depreciation). This amount represents a net increase (including additions and deductions) of \$225,057 or 2.6% over the fiscal year 2011 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, 2012 AND 2011**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 451,387	\$ 451,387	\$ 90,603	\$ 90,603	\$ 541,990	\$ 541,990
Construction in progress	-	81,333	-	-	-	81,333
Buildings and improvements	1,225,406	1,162,121	2,273,228	2,391,704	3,498,634	3,553,825
Infrastructure	1,955,982	1,471,029	-	-	1,955,982	1,471,029
Machinery, equipment and vehicles	<u>642,054</u>	<u>661,679</u>	<u>2,388,067</u>	<u>2,491,814</u>	<u>3,030,121</u>	<u>3,153,493</u>
<b>Total</b>	<b><u>\$ 4,274,829</u></b>	<b><u>\$ 3,827,549</u></b>	<b><u>\$ 4,751,898</u></b>	<b><u>\$ 4,974,121</u></b>	<b><u>\$ 9,026,727</u></b>	<b><u>\$ 8,801,670</u></b>

## DEBT

At September 30, 2012, the City had \$4.9 million in bonds outstanding, net of unamortized discount, premium and deferred refunding expenses, versus \$5.4 million in the prior year, a decrease of \$522,741 as shown below. The City also had \$59,948 in lease obligations versus \$153,846 in the prior year, a decrease of \$93,898 due to lease payments throughout the year as shown below.

Table 4

**City of Valparaiso, Florida**  
**OUTSTANDING DEBT**  
**SEPTEMBER 30, 2012 AND 2011**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Capital leases	\$ 23,084	\$ 45,413	\$ 36,864	\$ 108,433	\$ 59,948	\$ 153,846
Bonds	<u>860,061</u>	<u>880,450</u>	<u>4,056,718</u>	<u>4,559,070</u>	<u>4,916,779</u>	<u>5,439,520</u>
<b>Total</b>	<b><u>\$ 883,145</u></b>	<b><u>\$ 925,863</u></b>	<b><u>\$ 4,093,582</u></b>	<b><u>\$ 4,667,503</u></b>	<b><u>\$ 4,976,727</u></b>	<b><u>\$ 5,593,366</u></b>

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 \$463,683 in 2017. Unspent debt proceeds held in the Communications Fund were allocated to the Streets Fund in FY 2012. Thus, bonded debt decreased in the business-type and increased in the governmental activities in 2012. No new debt was issued in FY 2012.

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 \$2.8 million, compared to the final FY 2012 budget of \$3 million. The 2013 appropriations include \$35,000 carried over from 2012.

The City added no major new programs to the FY 2013 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, 2012**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,143,972	\$ 835,818	\$ 1,979,790
Accounts receivable, net	55,462	285,784	341,246
Internal balances	792,396	(792,396)	-
Due from other governments	106,668	-	106,668
Inventory, at cost	-	82,962	82,962
Prepaid items	14,594	13,629	28,223
Restricted assets			
Cash and cash equivalents	32,310	2,095,653	2,127,963
Capital assets			
Non-depreciable	451,387	90,603	541,990
Depreciable, net	3,823,442	4,661,295	8,484,737
Other assets			
Bond discounts and issue costs	-	101,734	101,734
Investment in joint venture	-	768,640	768,640
<b>TOTAL ASSETS</b>	<b><u>6,420,231</u></b>	<b><u>8,143,722</u></b>	<b><u>14,563,953</u></b>
<b>LIABILITIES</b>			
Accounts payable	273,948	334,462	608,410
Accrued liabilities	25,125	12,108	37,233
Accrued interest	13,287	441	13,728
Due to other governments	9,605	-	9,605
Deferred revenue	1,307	-	1,307
Payable from restricted assets			
Accrued interest	-	77,316	77,316
Customer deposits	-	107,414	107,414
Non-current liabilities			
Due within one year			
Compensated absences	135,431	39,969	175,400
Lease payable	23,084	20,913	43,997
Bonds payable	52,092	197,908	250,000
Due in more than one year			
Compensated absences	7,918	-	7,918
Lease payable	-	15,951	15,951
Bonds payable, net	807,969	3,858,810	4,666,779
<b>TOTAL LIABILITIES</b>	<b><u>1,349,766</u></b>	<b><u>4,665,292</u></b>	<b><u>6,015,058</u></b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,391,684	1,907,172	5,298,856
Restricted			
Debt service	-	550,066	550,066
Capital projects	-	43,652	43,652
Library	6,350	-	6,350
Public safety	8,791	-	8,791
Unrestricted	1,663,640	977,540	2,641,180
<b>TOTAL NET ASSETS</b>	<b><u>\$ 5,070,465</u></b>	<b><u>\$ 3,478,430</u></b>	<b><u>\$ 8,548,895</u></b>

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

**City of Valparaiso, Florida**  
**STATEMENT OF ACTIVITIES**  
**Year Ended September 30, 2012**

	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	\$ 965,354	\$ 392,546	\$ -	\$ 6,900	\$ (565,908)	\$ -	\$ (565,908)
Public safety	1,334,249	19,087	-	4,785	(1,310,377)	-	(1,310,377)
Physical environment	214,403	104,115	-	-	(110,288)	-	(110,288)
Transportation	334,400	-	-	428,701	94,301	-	94,301
Culture and recreation	465,927	2,169	43,516	-	(420,242)	-	(420,242)
Debt service interest	45,101	-	-	-	(45,101)	-	(45,101)
Total government activities	<u>\$ 3,359,434</u>	<u>\$ 517,917</u>	<u>\$ 43,516</u>	<u>\$ 440,386</u>	<u>\$ (2,357,615)</u>	<u>\$ -</u>	<u>\$ (2,357,615)</u>
Business-type activities							
Utility	\$ 1,151,752	\$ 1,148,516	\$ -	\$ 9,175	\$ -	\$ 5,939	\$ 5,939
Communication	1,597,187	1,492,272	-	-	-	(104,915)	(104,915)
Sanitation	627,867	748,660	-	-	-	120,793	120,793
Total business-type activities	<u>3,376,806</u>	<u>3,389,448</u>	<u>-</u>	<u>9,175</u>	<u>-</u>	<u>21,817</u>	<u>21,817</u>
Total primary government	<u>\$ 6,736,240</u>	<u>\$ 3,907,365</u>	<u>\$ 43,516</u>	<u>\$ 449,561</u>	<u>\$ (2,357,615)</u>	<u>\$ 21,817</u>	<u>\$ (2,335,798)</u>
General revenues							
Taxes							
Property taxes				\$ 713,914	\$ -	\$ 713,914	
Utility service taxes				554,579	-	554,579	
Sales taxes				395,425	-	395,425	
Franchise taxes				328,217	-	328,217	
Intergovernmental, unrestricted				400,755	-	400,755	
Investment earnings				5,109	6,582	11,691	
Equity earnings in joint venture				-	58,321	58,321	
Gain (loss) on sales of assets				530	-	530	
Miscellaneous				34,151	2,383	36,534	
Special item: change in estimate				-	719,952	719,952	
Total general revenues and transfers				<u>2,432,680</u>	<u>787,238</u>	<u>3,219,918</u>	
Change in net assets				75,065	809,055	884,120	
Net Assets - Beginning of year				<u>4,995,400</u>	<u>2,669,375</u>	<u>7,664,775</u>	
Net Assets - End of year				<u>\$ 5,070,465</u>	<u>\$ 3,478,430</u>	<u>\$ 8,548,895</u>	

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

**City of Valparaiso, Florida**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**September 30, 2012**

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 969,752	\$ 121,472	\$ 52,748	\$ 1,143,972
Accounts receivables, net	52,059	-	3,403	55,462
Due from other funds	418,930	58,984	3,082	480,996
Due from other governments	60,160	46,508	-	106,668
Prepaid items	14,594	-	-	14,594
Advances to other funds	384,989	-	-	384,989
Restricted assets				
Cash and cash equivalents	<u>32,310</u>	<u>-</u>	<u>-</u>	<u>32,310</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,932,794</u></b>	<b><u>\$ 226,964</u></b>	<b><u>\$ 59,233</u></b>	<b><u>\$ 2,218,991</u></b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities</b>				
Accounts payable	\$ 267,084	\$ 6,584	\$ 280	\$ 273,948
Accrued liabilities	24,004	1,121	-	25,125
Due to other funds	73,589	-	-	73,589
Due to other governments	9,605	-	-	9,605
Deferred revenue	<u>1,307</u>	<u>-</u>	<u>-</u>	<u>1,307</u>
<b>Total liabilities</b>	<b><u>375,589</u></b>	<b><u>7,705</u></b>	<b><u>280</u></b>	<b><u>383,574</u></b>
<b>Fund balance</b>				
Nonspendable	399,583	-	-	399,583
Restricted	15,141	-	-	15,141
Committed	164,182	-	58,953	223,135
Assigned	59,046	219,259	-	278,305
Unassigned	<u>919,253</u>	<u>-</u>	<u>-</u>	<u>919,253</u>
<b>Total fund balance</b>	<b><u>1,557,205</u></b>	<b><u>219,259</u></b>	<b><u>58,953</u></b>	<b><u>1,835,417</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 1,932,794</u></b>	<b><u>\$ 226,964</u></b>	<b><u>\$ 59,233</u></b>	<b><u>\$ 2,218,991</u></b>

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, 2012**

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Fund balance - total governmental fund (page 11) \$ 1,835,417

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	451,387	
Governmental depreciable assets	7,620,621	
Less accumulated depreciation	(3,797,179)	
		4,274,829

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

Bonds payable	(860,061)	
Accrued interest	(13,287)	
Capital leases	(23,084)	
Net pension obligation	(7,918)	
Compensated absences	(135,431)	
	(1,039,781)	(1,039,781)

Net assets of governmental activities (page 9) \$ 5,070,465

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, 2012**

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,147,800	\$ 185,281	\$ -	\$ 1,333,081
Permits and fees	349,831	-	-	349,831
Intergovernmental	602,126	574,130	-	1,176,256
Charges for services	432,335	-	45,359	477,694
Fines and forfeits	18,497	-	-	18,497
Miscellaneous	<u>78,884</u>	<u>200</u>	<u>57</u>	<u>79,141</u>
TOTAL REVENUES	<u>2,629,473</u>	<u>759,611</u>	<u>45,416</u>	<u>3,434,500</u>
EXPENDITURES				
Current				
General governmental services	910,612			910,612
Public safety	1,214,163			1,214,163
Physical environment	195,145		2,609	197,754
Transportation	-	222,738	-	222,738
Culture and recreation	379,536	-	-	379,536
Capital outlay	260,307	518,943	30,482	809,732
Debt service				
Principal and interest	<u>33,890</u>	<u>71,260</u>	<u>-</u>	<u>105,150</u>
TOTAL EXPENDITURES	<u>2,993,653</u>	<u>812,941</u>	<u>33,091</u>	<u>3,839,685</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(364,180)	(53,330)	12,325	(405,185)
OTHER FINANCING SOURCES (USES)				
Issuance of debt	<u>-</u>	<u>30,491</u>	<u>-</u>	<u>30,491</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>30,491</u>	<u>-</u>	<u>30,491</u>
NET CHANGE IN FUND BALANCE	(364,180)	(22,839)	12,325	(374,694)
FUND BALANCE - BEGINNING OF YEAR	<u>1,921,385</u>	<u>242,098</u>	<u>46,628</u>	<u>2,210,111</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,557,205</u>	<u>\$ 219,259</u>	<u>\$ 58,953</u>	<u>\$ 1,835,417</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, 2012**

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Net change in fund balance - total governmental fund (page 13) \$ (374,694)

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	809,732	
Less current year depreciation	<u>(362,452)</u>	447,280

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	(19,809)	
Accumulated depreciation associated with disposal	<u>19,809</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	(30,491)	
Principal payments on bond	50,880	
Principal payments on lease	22,329	
Change in accrued interest on long-term debt	<u>(13,160)</u>	29,558

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 net pension obligation	(7,918)	
Change in long-term compensated absences	<u>(19,161)</u>	<u>(27,079)</u>

Change in net assets of governmental activities (page 10) \$ 75,065

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, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 1,202,335	\$ 1,202,335	\$ 1,147,800	\$ (54,535)
Permits and fees	405,500	405,500	349,831	(55,669)
Intergovernmental	633,788	633,788	602,126	(31,662)
Charges for services	422,185	422,185	432,335	10,150
Fines and forfeits	11,500	11,500	18,497	6,997
Miscellaneous	<u>64,040</u>	<u>64,040</u>	<u>78,884</u>	<u>14,844</u>
TOTAL REVENUES	<u>2,739,348</u>	<u>2,739,348</u>	<u>2,629,473</u>	<u>(109,875)</u>
EXPENDITURES				
Current				
General government	804,090	801,290	910,612	(109,322)
Public safety	1,349,130	1,284,415	1,214,163	70,252
Physical environment	224,945	224,945	195,145	29,800
Culture and recreation	422,070	423,070	379,536	43,534
Capital outlay	92,400	205,849	260,307	(54,458)
Debt service				
Principal and interest	<u>-</u>	<u>33,890</u>	<u>33,890</u>	<u>-</u>
TOTAL EXPENDITURES	<u>2,892,635</u>	<u>2,973,459</u>	<u>2,993,653</u>	<u>(20,194)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(153,287)</u>	<u>(234,111)</u>	<u>(364,180)</u>	<u>(130,069)</u>
OTHER FINANCING SOURCES (USES)				
Transfer out	<u>(147,800)</u>	<u>(113,910)</u>	<u>-</u>	<u>(113,910)</u>
NET CHANGE IN FUND BALANCE	(301,087)	(348,021)	(364,180)	(243,979)
FUND BALANCE - BEGINNING OF YEAR	<u>301,087</u>	<u>348,021</u>	<u>1,921,385</u>	<u>1,573,364</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,557,205</u>	<u>\$ 1,329,385</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, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 163,570	\$ 163,570	\$ 185,281	\$ 21,711
Intergovernmental	126,645	126,645	574,130	447,485
Miscellaneous	<u>1,000</u>	<u>500</u>	<u>200</u>	<u>(300)</u>
TOTAL REVENUES	<u>291,215</u>	<u>290,715</u>	<u>759,611</u>	<u>468,896</u>
EXPENDITURES				
Current				
Transportation	307,715	217,215	222,738	(5,523)
Capital outlay	45,000	575,500	518,943	56,557
Debt service				
Principal and interest	82,300	82,300	71,260	11,040
Other debt service costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>435,015</u>	<u>875,015</u>	<u>812,941</u>	<u>62,074</u>
EXCESS (DEFICIENCY) OF REVENUES (OVER) EXPENDITURES	<u>(143,800)</u>	<u>(584,300)</u>	<u>(53,330)</u>	<u>530,970</u>
OTHER FINANCING SOURCES (USES)				
Issuance of debt	<u>-</u>	<u>-</u>	<u>30,491</u>	<u>(30,491)</u>
NET CHANGE IN FUND BALANCE	(143,800)	(584,300)	(22,839)	500,479
FUND BALANCE - BEGINNING OF YEAR	<u>143,800</u>	<u>584,300</u>	<u>242,098</u>	<u>342,202</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 219,259</u>	<u>\$ 158,277</u>

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

**City of Valparaiso, Florida**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**September 30, 2012**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total Enterprise Funds</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 68,828	\$ 486,558	\$ 280,432	\$ 835,818
Accounts receivables, net	180,159	23,055	82,570	285,784
Due from other funds	-	11,523	-	11,523
Inventory, at cost	36,192	46,770	-	82,962
Prepaid items	<u>-</u>	<u>13,629</u>	<u>-</u>	<u>13,629</u>
Total current assets	<u>285,179</u>	<u>581,535</u>	<u>363,002</u>	<u>1,229,716</u>
Non-current assets				
Restricted assets				
Cash and cash equivalents	<u>1,874,684</u>	<u>220,969</u>	<u>-</u>	<u>2,095,653</u>
Capital assets, net				
Non-depreciable	40,287	50,316	-	90,603
Depreciable, net	<u>2,750,117</u>	<u>1,700,950</u>	<u>210,228</u>	<u>4,661,295</u>
Total capital assets	<u>2,790,404</u>	<u>1,751,266</u>	<u>210,228</u>	<u>4,751,898</u>
Other assets				
Bond issue costs, net	59,887	41,847	-	101,734
Investment in joint venture	<u>768,640</u>	<u>-</u>	<u>-</u>	<u>768,640</u>
Total other assets	<u>828,527</u>	<u>41,847</u>	<u>-</u>	<u>870,374</u>
Total non-current assets	<u>5,493,615</u>	<u>2,014,082</u>	<u>210,228</u>	<u>7,717,925</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,778,794</u>	<u>\$ 2,595,617</u>	<u>\$ 573,230</u>	<u>\$ 8,947,641</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, 2012**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total Enterprise Funds</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 231,057	\$ 64,302	\$ 39,103	\$ 334,462
Accrued liabilities				
Compensated absences	3,157	19,424	17,388	39,969
Other	2,786	4,179	5,143	12,108
Accrued interest	-	-	441	441
Due to other funds	139,771	194,163	84,996	418,930
Advances from other funds	198,600	184,881	1,508	384,989
Payable from restricted assets				
Customer deposits	107,414	-	-	107,414
Accrued interest	44,260	33,056	-	77,316
Capital leases payable	-	-	20,913	20,913
Revenue bonds payable	<u>126,436</u>	<u>71,472</u>	<u>-</u>	<u>197,908</u>
Total current liabilities	<u>853,481</u>	<u>571,477</u>	<u>169,492</u>	<u>1,594,450</u>
Non-current liabilities				
Leases payable	-	-	15,951	15,951
Revenue bonds payable, net	<u>2,431,978</u>	<u>1,426,832</u>	<u>-</u>	<u>3,858,810</u>
Total non-current liabilities	<u>2,431,978</u>	<u>1,426,832</u>	<u>15,951</u>	<u>3,874,761</u>
<b>TOTAL LIABILITIES</b>	<u>3,285,459</u>	<u>1,998,309</u>	<u>185,443</u>	<u>5,469,211</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,466,711	267,096	173,365	1,907,172
Restricted for				
Debt service	343,230	206,836	-	550,066
Capital projects	43,652	-	-	43,652
Unrestricted	<u>639,742</u>	<u>123,376</u>	<u>214,422</u>	<u>977,540</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 2,493,335</u>	<u>\$ 597,308</u>	<u>\$ 387,787</u>	<u>\$ 3,478,430</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, 2012**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total Enterprise Funds</u>
REVENUES				
Charges for services	\$ 1,148,516	\$ 1,492,272	\$ 748,660	\$ 3,389,448
OPERATING EXPENSES				
Personal services	249,431	278,499	387,479	915,409
Operating	577,247	1,011,265	209,139	1,797,651
Depreciation	<u>225,738</u>	<u>226,246</u>	<u>29,490</u>	<u>481,474</u>
TOTAL OPERATING EXPENSES	<u>1,052,416</u>	<u>1,516,010</u>	<u>626,108</u>	<u>3,194,534</u>
OPERATING INCOME (LOSS)	<u>96,100</u>	<u>(23,738)</u>	<u>122,552</u>	<u>194,914</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest expense	(90,896)	(74,942)	(1,759)	(167,597)
Amortization expense	(1,981)	(2,954)	-	(4,935)
Other debt service costs	(6,459)	(3,281)	-	(9,740)
Equity earnings in joint venture	58,321	-	-	58,321
Interest	5,029	1,174	379	6,582
Miscellaneous	<u>2,331</u>	<u>52</u>	<u>-</u>	<u>2,383</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(33,655)</u>	<u>(79,951)</u>	<u>(1,380)</u>	<u>(114,986)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEM	<u>62,445</u>	<u>(103,689)</u>	<u>121,172</u>	<u>79,928</u>
CONTRIBUTIONS AND SPECIAL ITEM				
Capital grants and contributions	9,175	-	-	9,175
Special item: change in estimate	<u>-</u>	<u>719,952</u>	<u>-</u>	<u>719,952</u>
TOTAL CONTRIBUTIONS AND SPECIAL ITEMS	<u>9,175</u>	<u>719,952</u>	<u>-</u>	<u>729,127</u>
CHANGE IN NET ASSETS	71,620	616,263	121,172	809,055
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	<u>2,421,715</u>	<u>(18,955)</u>	<u>266,615</u>	<u>2,669,375</u>
NET ASSETS - END OF YEAR	<u>\$ 2,493,335</u>	<u>\$ 597,308</u>	<u>\$ 387,787</u>	<u>\$ 3,478,430</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, 2012**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total Enterprise Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 1,113,116	\$ 1,479,927	\$ 730,700	\$ 3,323,743
Payments to suppliers	(379,010)	(1,067,574)	(180,137)	(1,626,721)
Payments to employees	(254,924)	(283,544)	(381,984)	(920,452)
Miscellaneous income	<u>2,331</u>	<u>52</u>	<u>-</u>	<u>2,383</u>
Net cash provided (used) by operating activities	<u>481,513</u>	<u>128,861</u>	<u>168,579</u>	<u>778,953</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Receipts (payments) on interfund balances	6,233	(65,253)	(3,697)	(62,717)
Change in intergovernmental balances	<u>-</u>	<u>2,870</u>	<u>-</u>	<u>2,870</u>
Net cash provided (used) by non-capital financing activities	<u>6,233</u>	<u>(62,383)</u>	<u>(3,697)</u>	<u>(59,847)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital contributions	9,175	-	-	9,175
Purchase of capital assets related to Joint Venture	(254,956)	-	-	(254,956)
Purchase and construction of capital assets	(129,385)	(36,432)	(93,434)	(259,251)
Unspent debt proceeds (allocated to) received from other fund	-	(30,491)	-	(30,491)
Principal paid on bonds	(120,626)	(68,493)	(36,374)	(225,493)
Interest paid on bonds and leases	(80,946)	(100,829)	(2,021)	(183,796)
Other debt service costs	<u>(4,428)</u>	<u>(3,281)</u>	<u>-</u>	<u>(7,709)</u>
Net cash provided (used) by capital and related financing activities	<u>(581,166)</u>	<u>(239,526)</u>	<u>(131,829)</u>	<u>(952,521)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	<u>5,029</u>	<u>1,174</u>	<u>379</u>	<u>6,582</u>
Net cash provided (used) by investing activities	<u>5,029</u>	<u>1,174</u>	<u>379</u>	<u>6,582</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(88,391)	(171,874)	33,432	(226,833)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>2,031,903</u>	<u>879,401</u>	<u>247,000</u>	<u>3,158,304</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 1,943,512</u>	<u>\$ 707,527</u>	<u>\$ 280,432</u>	<u>\$ 2,931,471</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF</b>				
Current	\$ 68,828	\$ 486,558	\$ 280,432	\$ 835,818
Restricted	<u>1,874,684</u>	<u>220,969</u>	<u>-</u>	<u>2,095,653</u>
Total cash and cash equivalents	<u>\$ 1,943,512</u>	<u>\$ 707,527</u>	<u>\$ 280,432</u>	<u>\$ 2,931,471</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, 2012**

	<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)	\$ 96,100	\$ (23,738)	\$ 122,552	\$ 194,914
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Special item: change in estimate	-	719,952	-	-
Depreciation	225,738	226,246	29,490	481,474
Miscellaneous revenue	2,331	52	-	2,383
Decrease (increase) in assets				
Accounts receivable, net	(35,085)	(12,345)	(17,960)	(65,390)
Inventory	(1,287)	(22,143)	-	(23,430)
Prepaid items	-	(3,524)	-	(3,524)
Increase (decrease) in liabilities				
Accounts payable	199,524	(21,816)	29,002	206,710
Contingency payable	-	(728,778)	-	(728,778)
Customer deposits - restricted	(315)	-	-	(315)
Salaries and benefits payable	(2,986)	(5,650)	(1,137)	(9,773)
Accrued compensated absences	(2,507)	605	6,632	4,730
Net cash provided (used) by operating activities	<u>\$ 481,513</u>	<u>\$ 128,861</u>	<u>\$ 168,579</u>	<u>\$ 778,953</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>\$ 58,321</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,321</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, 2012**

	Pension Trust Fund
<b>ASSETS</b>	
Cash and cash equivalents	\$ 30,615
Investments, at fair value	
Fixed income mutual funds	493,660
Equity mutual funds	751,332
Due from State of Florida	9,605
Employer receivable	4,589
Plan member receivable	573
<b>TOTAL ASSETS</b>	<b>\$ 1,290,374</b>
<b>NET ASSETS</b>	
Held in trust for pension and employee retirement benefits	\$ 1,290,374
<b>TOTAL NET ASSETS</b>	<b>\$ 1,290,374</b>

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, 2012**

	Pension Trust Fund
<b>ADDITIONS</b>	
Contributions	
Employer	\$ 59,824
Plan members	7,477
State of Florida	<u>64,589</u>
Total contributions	<u>131,890</u>
Investment income	
Net appreciation (depreciation) in fair value of investments	175,024
Less investment expense	<u>(2,190)</u>
Net investment income	<u>172,834</u>
<b>TOTAL ADDITIONS</b>	<u><b>304,724</b></u>
<b>DEDUCTIONS</b>	
Pension benefits paid	7,487
Professional services	3,375
Administrative expense	<u>1,000</u>
<b>TOTAL DEDUCTIONS</b>	<u><b>11,862</b></u>
<b>CHANGE IN NET ASSETS</b>	<u><b>292,862</b></u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	
Beginning of year	<u>997,512</u>
End of year	<u><b>\$ 1,290,374</b></u>

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

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**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, 2012**

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**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, 2012**

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**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, 2012
Levy date	November 1, 2012
Due date	November 1, 2012
Delinquency date	April 1, 2013

One-percent discounts are granted for each month taxes are paid prior to March 2013.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**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.

Proprietary funds include the following fund types:

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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

**D. Basis of Presentation (Continued)**

**Proprietary (Continued)**

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, 2012**

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**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, 2012**

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**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 to Mid 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, 2012, accounts receivable totaled \$67,201, net of an allowance of doubtful accounts of \$11,739.

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, 2012**

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**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, 2012, accounts receivable totaled \$322,769, net of an allowance for doubtful accounts of \$36,985.

**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. 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, 2012**

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**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, 2012**

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**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, 2012 of \$101,734.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**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 the following:

- 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 (an Ordinance) of the government's highest level of decision making authority (City Commission). Commitments may be changed or lifted only by the City taking the same formal action (an Ordinance) 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 Commission or (b) a body (for example: a budget or finance committee) or official to which the City Commission has delegated the authority to assign amounts to be used for specific purposes. The City Commission is the body with authority to assign amounts. 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, 2012**

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

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

**Categories and Classification Fund Equity (Continued)**

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.

**Net Assets**

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.

**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, 2012**

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**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.

***Excess of Expenditures Over Appropriations in Individual Funds***

The City had expenditures exceed appropriations by \$20,194 in the General Fund for the fiscal year ended September 30, 2012. The accrual of legal services was not accounted for in the budget which caused the negative variance.

**B. Subsequent Events**

The City has evaluated subsequent events through March 19, 2013, which is the date the financial statements were available to be issued.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**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 \$2,582,743, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

**Investments**

As of September 30, 2012, 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, 2012, the asset allocation for the defined benefit plan investment pool was as follows:

Investment Asset Allocation	Asset Allocation Percentage
Cash	2.4 %
FMIvT Broad Market High Quality Bond Fund	38.7 %
FMIvT High Quality Growth Equity Fund	8.0 %
FMIvT Russell 1000 Index Fund	22.4 %
FMIvT Diversified Small to Mid-Cap Equity Fund	10.4 %
FMIvT International Blend Portfolio	9.9 %
FMIvT Diversified Value Fund	8.2 %
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, 2012**

**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, 2012, 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
<b>Equity Funds</b>	
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	4.66 years	5.42 years

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**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	\$ 4,138,328
Investments	<u>1,244,992</u>
Total	<u>\$ 5,383,320</u>
Cash and cash equivalents, primary government	\$ 1,979,750
Investments, primary government	-
Restricted cash and equivalents, primary government	<u>2,127,963</u>
Total primary government	<u>\$ 4,107,713</u>
Cash and cash equivalents, fiduciary funds	\$ 30,615
Investment, fiduciary funds	<u>1,244,992</u>
Total fiduciary funds	<u>1,275,607</u>
Grand total	<u>\$ 5,383,320</u>

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 4 - CHANGES IN CAPITAL ASSETS**

Capital assets activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
<b>Governmental activities</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 451,387	\$ -	\$ -	\$ 451,387
Construction in progress	81,333	-	(81,333)	-
Total capital assets not being depreciated	<u>532,720</u>	<u>-</u>	<u>(81,333)</u>	<u>451,387</u>
<i>Capital assets being depreciated</i>				
Buildings and improvements	2,081,299	141,120	-	2,222,419
Infrastructure	2,659,701	531,570	81,333	3,272,604
Machinery, equipment and vehicles	<u>2,008,365</u>	<u>137,042</u>	<u>(19,809)</u>	<u>2,125,598</u>
Total capital assets being depreciated	<u>6,749,365</u>	<u>809,732</u>	<u>61,524</u>	<u>7,620,621</u>
<i>Less accumulated depreciation</i>				
Buildings and improvements	(919,178)	(77,835)	-	(997,013)
Infrastructure	(1,188,672)	(127,950)	-	(1,316,622)
Machinery, equipment and vehicles	<u>(1,346,686)</u>	<u>(156,667)</u>	<u>19,809</u>	<u>(1,483,544)</u>
Total accumulated depreciation	<u>(3,454,536)</u>	<u>(362,452)</u>	<u>19,809</u>	<u>(3,797,179)</u>
Total capital assets being depreciated, net	<u>3,294,829</u>	<u>447,280</u>	<u>81,333</u>	<u>3,823,442</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 3,827,549</u>	<u>\$ 447,280</u>	<u>\$ -</u>	<u>\$ 4,274,829</u>
<b>Business-type activities</b>				
<i>Capital assets not being depreciated</i>				
Land	\$ 90,603	\$ -	\$ -	\$ 90,603
<i>Capital assets being depreciated</i>				
Buildings and improvements	6,301,116	42,714	-	6,343,830
Machinery, equipment and vehicles	<u>4,252,271</u>	<u>216,537</u>	<u>(28,018)</u>	<u>4,440,790</u>
Total capital assets being depreciated	<u>10,553,387</u>	<u>259,251</u>	<u>(28,018)</u>	<u>10,784,620</u>
<i>Less accumulated depreciation</i>				
Buildings and improvements	(3,909,412)	(161,190)	-	(4,070,602)
Machinery, equipment and vehicles	<u>(1,760,457)</u>	<u>(320,284)</u>	<u>28,018</u>	<u>(2,052,723)</u>
Total accumulated depreciation	<u>(5,669,869)</u>	<u>(481,474)</u>	<u>28,018</u>	<u>(6,123,325)</u>
Total capital assets being depreciated, net	<u>4,883,518</u>	<u>(222,223)</u>	<u>-</u>	<u>4,661,295</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 4,974,121</u>	<u>\$ (222,223)</u>	<u>\$ -</u>	<u>\$ 4,751,898</u>

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 4 - CHANGES IN CAPITAL ASSETS (CONTINUED)**

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

<b>Governmental activities</b>	
General government	\$ 34,452
Public safety	112,168
Physical environment	16,649
Transportation	112,791
Culture and recreation	<u>86,392</u>
Total depreciation expense - governmental activities	<u>\$ 362,452</u>
<b>Business-type activities</b>	
Utility	\$ 225,738
Communication	226,246
Sanitation	<u>29,490</u>
Total depreciation expense - business-type activities	<u>\$ 481,474</u>

**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. 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 initial portion of property, plant and equipment were accounted for in its Utility Fund; however, all current and future additions related to the regional sanitary sewer system obtained by the City are recorded to the investment in joint venture.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 5 - JOINT VENTURE (CONTINUED)**

In April 2012, the City of Niceville, Florida and Okaloosa County, Florida entered into an Amendment to the Operational Agreement which resulted in the transfer of Okaloosa County's share of wastewater treatment capacity at the plant to the City of Niceville. As a result of the transfer of capacity, Okaloosa County is no longer a member of the Board and the City of Niceville and Valparaiso are now 80% and 20% owners, respectively. In June 2012, the Board of Directors approved the change of the Board's name from Niceville, Valparaiso, Okaloosa County Regional Sewer Board to Niceville-Valparaiso Regional Sewer Board. In April 2012, the City of Niceville and the City of Valparaiso entered into a memorandum of understanding. As part of this agreement, Niceville agrees that the cost for treatment of non-flow proportional related expenses of the City of Valparaiso will remain the same as if Okaloosa County's wastewater was still being treated at the Board's facility. Niceville will continue to assume responsibility for these additional costs until such time as Niceville's annual flow is equal to the sum of its flow and Okaloosa County's flow for the immediately preceding 12 months once Okaloosa diverts its flow from the Board's facility.

The net operating results of the system are accounted for as a joint venture and accounted for under the equity method. The City's investment in joint venture increased \$58,321 for the period ended September 30, 2012. The City's portion of the equity in the joint venture is \$768,640.

The system is managed and operated by a separate governing body (Niceville-Valparaiso Regional Sewer Board, Inc.) consisting of four members; two appointed by each of the two 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, 2012. The Regional Sewer Board's audited financial statements can be obtained from the City Clerk's office.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 5 - JOINT VENTURE (CONTINUED)**

**Summary of Assets, Liabilities and Net Assets**

<b>Assets</b>		
Current assets		\$ 1,624,014
Capital assets - net of accumulated depreciation		<u>977,608</u>
Total assets		<u><u>\$ 2,601,622</u></u>
<b>Liabilities and net assets</b>		
Liabilities		\$ 120,350
Net assets		<u>2,481,272</u>
Total liabilities and net assets		<u><u>\$ 2,601,622</u></u>

**Summary of Operating Results**

Sewer operating revenue	\$ 1,885,623
Operating expenses	<u>1,604,853</u>
Operating income (loss)	<u>280,770</u>
Non-operating revenues (expenses)	<u>10,836</u>
Net income	<u><u>\$ 291,606</u></u>

**NOTE 6 - LONG-TERM DEBT**

**Changes in Long-Term Liabilities**

Long-term liability activity for the fiscal year ended September 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Adjustments*	Ending Balance	Due within One Year
<b>Governmental activities</b>						
Compensated absences	\$ 116,270	\$ 119,800	\$ (100,639)	\$ -	\$ 135,431	\$ 135,431
Capital lease payable	45,413	-	(22,329)	-	23,084	23,084
Bonds payable	<u>880,450</u>	<u>-</u>	<u>(50,880)</u>	<u>30,491</u>	<u>860,061</u>	<u>52,092</u>
Governmental activities liabilities	<u><u>\$ 1,042,133</u></u>	<u><u>\$ 119,800</u></u>	<u><u>\$ (173,848)</u></u>	<u><u>\$ 30,491</u></u>	<u><u>\$ 1,018,576</u></u>	<u><u>\$ 210,607</u></u>
<b>Business-type activities</b>						
Compensated absences	\$ 35,239	\$ 85,655	\$ (80,925)	\$ -	\$ 39,969	\$ 39,969
Capital lease payable	73,238	-	(36,374)	-	36,864	20,913
Bonds payable	4,269,550	-	(189,119)	(30,491)	4,049,940	197,908
Bond premium	48,132	-	(4,506)	-	43,626	-
Bond discount	(24,982)	-	861	-	(24,121)	-
Deferred refunded costs	<u>(16,746)</u>	<u>-</u>	<u>4,019</u>	<u>-</u>	<u>(12,727)</u>	<u>-</u>
Business-type activities liabilities	<u><u>\$ 4,384,431</u></u>	<u><u>\$ 85,655</u></u>	<u><u>\$ (306,044)</u></u>	<u><u>\$ (30,491)</u></u>	<u><u>\$ 4,133,551</u></u>	<u><u>\$ 258,790</u></u>

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

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

**Description of Long-Term Debt Outstanding**

	Current	Long-Term	Total
<b>GOVERNMENTAL ACTIVITIES</b>			
<b><i>Revenue Bonds</i></b>			
\$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	\$ 193,200	\$ 216,200
\$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>29,092</u>	<u>614,769</u>	<u>643,861</u>
<b><i>Total revenue bonds</i></b>	<u>52,092</u>	<u>807,969</u>	<u>860,061</u>
<b><i>Leases</i></b>			
\$88,825 capital lease payable, 2009, due in semi-annual installments of \$11,833 through December 2013, collateralized by a street sweeper.	<u>23,084</u>	<u>-</u>	<u>23,084</u>
<b><i>Accrued Compensated Absences</i></b>			
Accumulated, vested vacation and sick leave for governmental fund types.	<u>135,431</u>	<u>-</u>	<u>135,431</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ 210,607</u></u>	<u><u>\$ 807,969</u></u>	<u><u>\$ 1,018,576</u></u>
<b>BUSINESS-TYPE ACTIVITIES</b>			
<b><i>Revenue Bonds</i></b>			
\$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	\$ 646,800	\$ 723,800
Plus unamortized bond premium	-	21,687	21,687
Less unamortized deferred loss on refunding	-	(12,727)	(12,727)
	<u>77,000</u>	<u>655,760</u>	<u>732,760</u>

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

**Description of Long-Term Debt Outstanding (Continued)**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>BUSINESS-TYPE ACTIVITIES (CONTINUED)</b>			
<b><i>Revenue Bonds (Continued)</i></b>			
\$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.	90,908	1,795,232	1,886,140
Plus unamortized bond premium	<u>-</u>	<u>21,939</u>	<u>21,939</u>
	<u>90,908</u>	<u>1,817,171</u>	<u>1,908,079</u>
\$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.	30,000	1,410,000	1,440,000
Less unamortized bond discount	<u>-</u>	<u>(24,121)</u>	<u>(24,121)</u>
	<u>30,000</u>	<u>1,385,879</u>	<u>1,415,879</u>
<b><i>Total revenue bonds</i></b>	<u>197,908</u>	<u>3,858,810</u>	<u>4,056,718</u>
<b><i>Leases</i></b>			
\$96,072 capital lease payable, 2009, due in semi-annual installments of \$8,170 through June 2014, collateralized by a sanitation clamshell loader.	15,445	15,951	31,396
\$101,972 capital lease payable, 2008, due in quarterly installments of \$5,514 through November 2012, collateralized by a garbage truck.	<u>5,468</u>	<u>-</u>	<u>5,468</u>
<b><i>Total leases</i></b>	<u>20,913</u>	<u>15,951</u>	<u>36,864</u>
<b><i>Accrued Compensated Absences</i></b>			
Accumulated, vested annual compensation for Enterprise Funds.	<u>39,969</u>	<u>-</u>	<u>39,969</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u>\$ 258,790</u>	<u>\$ 3,874,761</u>	<u>\$ 4,133,551</u>
<b>GRAND TOTAL LONG-TERM DEBT</b>			<u>\$ 5,152,127</u>

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

**Description of Long-Term Debt Outstanding (Continued)**

The City is required to comply with certain debt covenants under the 2005A, 2006, and 2010C bond agreement. As of September 30, 2012, the City is not aware of any material noncompliance. The City established reserve funds required under the 2005A and 2006 bond covenants by funding surety bonds at issuance.

**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.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

**Redemption Provisions (Continued)**

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.

**Annual Requirements to Amortize Debt Outstanding**

The annual requirements to amortize all debt outstanding except accrued and annual leave as of September 30, 2012, are as follows:

**Governmental Activities**

<u>Year Ending September 30,</u>	<u>Capital Leases</u>			<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 23,084	\$ 582	\$ 23,666	\$ 53,539	\$ 36,913	\$ 90,452
2014	-	-	-	55,961	34,780	90,741
2015	-	-	-	58,384	32,626	91,010
2016	-	-	-	62,079	29,991	92,070
2017	-	-	-	64,501	27,142	91,643
2018-2022	-	-	-	302,200	89,137	391,337
2023-2027	-	-	-	263,397	33,488	296,885
2028-2032	-	-	-	-	-	-
2033-2037	-	-	-	-	-	-
2038-2041	-	-	-	-	-	-
Total	<u>\$ 23,084</u>	<u>\$ 582</u>	<u>\$ 23,666</u>	<u>\$ 860,061</u>	<u>\$ 284,077</u>	<u>\$ 1,144,138</u>

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

**Business-Type Activities**

<u>Year Ending September 30,</u>	<u>Capital Leases</u>			<u>Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 20,913	\$ 942	\$ 21,855	\$ 196,461	\$ 169,170	\$ 365,631
2014	15,951	390	16,341	204,039	161,941	365,980
2015	-	-	-	211,616	154,663	366,279
2016	-	-	-	222,921	145,933	368,854
2017	-	-	-	235,499	136,541	372,040
2018-2022	-	-	-	1,097,800	525,399	1,623,199
2023-2027	-	-	-	981,604	328,424	1,310,028
2028-2032	-	-	-	255,000	180,675	435,675
2033-2037	-	-	-	325,000	117,225	442,225
2038-2041	-	-	-	320,000	36,675	356,675
Total	<u>\$ 36,864</u>	<u>\$ 1,332</u>	<u>\$ 38,196</u>	<u>\$ 4,049,940</u>	<u>\$ 1,956,646</u>	<u>\$ 6,006,586</u>

**Capital Leases**

The cost and accumulated depreciation for capital leases are:

<u>Assets</u>	<u>Governmental Activities - Streets Fund</u>	<u>Business-Type Activities - Sanitation Fund</u>
Sanitation clamshell loader	\$ -	\$ 96,072
Garbage truck	-	101,972
Street sweeper	<u>88,825</u>	-
Total leases acquired	88,825	198,044
Accumulated depreciation	<u>(22,207)</u>	<u>(79,512)</u>
Net assets acquired by lease	<u>\$ 66,618</u>	<u>\$ 118,532</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.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**Florida Retirement System (Continued)**

Plan Description

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](http://www.dms.myflorida.com).

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 in 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.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**Florida Retirement System (Continued)**

**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.

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 (10/1/11 - 6/30/12)	Contribution Rates (7/1/12 - 9/30/12)
Regular	4.91 %	5.18 %
Special Risk - Regular	14.10 %	14.90 %
Senior Management Service Class	6.27 %	6.30 %
Elected Officials	11.14 %	10.23 %
Deferred Retirement Option Plan (DROP)	4.42 %	5.44 %

Required contributions for the years ended September 30, 2012, 2011, and 2010 were \$15,766, \$32,094 and \$35,172, respectively. Percentage of covered payroll was 4.8% for 2012, 9.8% for 2011, and 10.5% for 2010.

Covered payroll for each of the years ended September 30, 2012, 2011 and 2010 was approximately \$327,400, \$327,000 and \$333,000, respectively.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**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, 2012 actuarial valuation was approximately \$297,343. As of October 1, 2012, 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	<u>10</u>
Total	<u><u>13</u></u>

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 final compensation (average of the highest five years of compensation out of the last 10 years of employment) 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 2012, the City contributed a total of \$59,824 to the plan and \$64,589 was contributed by the State. The employees' contributions to the plan for the current year totaled \$7,477. 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.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**Police Officers and Firefighters Defined Benefit Pension Plan (Continued)**

**Actuarial Assumptions**

As of October 1, 2012, actuarial assumptions are as follows:

Valuation date	October 1, 2012
Actuarial cost method	Aggregate cost method
Amortization method	Level percentage, open
Amortization period	30 years
Asset valuation method	Market value
Investment rate of return	5.00%
Salary increases	3.00%

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

**Three-Year Trend Information**

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Employer Contribution</u>		<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation (Asset)</u>
		<u>City</u>	<u>State</u>		
September 30, 2012	\$ 94,935	\$ 59,824	\$ 64,589	111 %	\$ 7,918
September 30, 2011	\$ 152,400	\$ 58,088	\$ 63,195	92 %	\$ 18,188
September 30, 2010	\$ 144,133	\$ 57,801	\$ 60,138	96 %	\$ 5,546

The funded status of the plan as of September 30, 2012, is as follows:

<u>Actuarial Value of Assets (a) 1</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as % of Payroll</u>
\$ 1,124,489	\$ 1,281,863	\$ 157,374	87.72 %	\$ 297,343	52.93 %

1At September 30, 2012, the City had excess contributions made by the City above actuarially required amounts of \$156,281 which have been deducted from the actuarial value of assets.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)**

***Police Officers and Firefighters Defined Benefit Pension Plan (Continued)***

The schedule of employer required contributions is listed below:

<u>Year Ending</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
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 %
September 30, 2012	\$ 95,004	111 %

The components of net pension cost, the increase in Net Pension Obligation, and the Net Pension Obligation for the year ended September 30, 2012, for the Police Officers' and Firefighters' Retirement Fund is as follows:

Annual pension cost	\$ 94,935
Contribution made	<u>105,205</u>
Change in net pension obligation	10,270
Net pension obligation - beginning of year	<u>(18,188)</u>
Net pension obligation - end of year	<u>\$ (7,918)</u>

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

**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, and are not already enrolled in the FRS plan, are eligible to participate in this plan, where as, all other regular class employees hired before plan effective date are active participants in the FRS plan only. 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 \$90,209 and the employees contributed \$29,279 to this plan during the fiscal year.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**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:

<b>September 30, 2012</b>	<b>Receivables</b>	<b>Payables</b>
<i>Governmental funds</i>		
General Fund	\$ 418,930	\$ 73,589
Streets Fund	58,984	-
Stormwater Fund	3,082	-
<i>Proprietary funds</i>		
Utility Fund	-	139,771
Communication Fund	11,523	194,163
Sanitation Fund	-	84,996
Total	<u>\$ 492,519</u>	<u>\$ 492,519</u>

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

<b>September 30, 2012</b>	<b>Advances To</b>	<b>Advances From</b>
<i>Governmental funds</i>		
General Fund	\$ 384,989	\$ -
<i>Proprietary funds</i>		
Utility Fund	-	198,600
Communication Fund	-	184,881
Sanitation Fund	-	1,508
Total	<u>\$ 384,989</u>	<u>\$ 384,989</u>

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

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**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. The new agreement states rent is payable in advance annually at the rate of \$7.27 for the calendar year 2012, which will increase by 2% each calendar year extended. Rent paid for the year ended September 30, 2012 was \$8,529.

Future minimum rental payments due under this lease are as follows:

	<u>Communication Fund</u>
2013	\$ 9,634
2014	9,828
2015	<u>1,025</u>
Total	<u>\$ 20,487</u>

**NOTE 12 - LEASE REVENUE**

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>
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>\$ 199,780</u>	<u>\$ 195,717</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, 2012.

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, 2012 was \$1,307.

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 \$47,643 and \$56,002, respectively, in lease revenues during the current year.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

**NOTE 13 - CHANGE IN ESTIMATE**

During the year ended September 30, 2012, the City's dispute with Gulf Power over pole attachment privilege rates was resolved. The City will not be obligated to pay the accrued contingency and related interest for the difference in pole attachment privileges charged by Gulf Power and those deemed reasonable by the FCC. The change in estimate resulted in a gain of \$719,952 for the year ending September 30, 2012 and is recorded as a special item in the Communication Fund.

**NOTE 14 - GOVERNMENTAL FUND BALANCES**

At September 30, 2012, 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	\$ 14,594	\$ -	\$ -	\$ 14,594
Advance to other funds	<u>384,989</u>	<u>-</u>	<u>-</u>	<u>384,989</u>
Total nonspendable	<u>399,583</u>	<u>-</u>	<u>-</u>	<u>399,583</u>
Restricted for				
Library	6,350	-	-	6,350
Law enforcement	<u>8,791</u>	<u>-</u>	<u>-</u>	<u>8,791</u>
Total restricted	<u>15,141</u>	<u>-</u>	<u>-</u>	<u>15,141</u>
Committed				
Cemetery maintenance	153,294	-	-	153,294
Public safety	10,888	-	-	10,888
Stormwater	<u>-</u>	<u>-</u>	<u>58,953</u>	<u>58,953</u>
Total committed	<u>164,182</u>	<u>-</u>	<u>58,953</u>	<u>223,135</u>
Assigned to				
Library	6,877	-	-	6,877
Parks	17,169	-	-	17,169
Transportation	-	219,259	-	219,259
FY 2013 budget appropriation	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>35,000</u>
Assigned	<u>59,046</u>	<u>219,259</u>	<u>-</u>	<u>278,305</u>
Unassigned	<u>919,253</u>	<u>-</u>	<u>-</u>	<u>919,253</u>
<b>TOTAL FUND BALANCE</b>	<u><u>\$ 1,557,205</u></u>	<u><u>\$ 219,259</u></u>	<u><u>\$ 58,953</u></u>	<u><u>\$ 1,835,417</u></u>

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 15 - CONTINGENT LIABILITIES**

**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 - NON-RECURRING TRANSACTIONS**

During the fiscal year ended September 30, 2012, the City incurred legal costs in the amount \$182,291, which were the attorney fees of the plaintiff who prevailed in the lawsuit between he and the City. The legal costs were accrued for fiscal year 2012, increasing accounts payable and general government legal fees, and approved in November 2012 upon City Commission's motion to accept.

**NOTE 17 - 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 18 - 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.

**City of Valparaiso, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012**

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**NOTE 19 - GASB PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED**

In June 2012, the GASB issued GASB Statement No. 67, Financial Reporting for Pension Plans - an amendment to Statement No. 25. This Statement enhances the financial reporting by state and local governmental pension plans. This Statement replaces the requirement of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement enhances note disclosures and required supplemental information (RSI) for both defined benefit and defined contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10 year RSI schedules. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013, which requires the City to implement this statement in FY 2013-2014.

In June 2012, the GASB issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment to Statement No. 27. This Statement enhances the financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. It also enhances accountability and transparency through revised and new note disclosures and required supplementary information. Management believes GASB Statement No. 68 could have a significant impact on the financial position and changes in net assets of the City; however, the amounts are not quantifiable as of the date of this report. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, which requires the City to implement this statement in FY 2014-2015.

### **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, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 19, 2013. 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses, that we consider to be significant deficiencies in internal control over financial reporting [2012-1, 2012-2, 2012-3, 2011-2, 2011-3]. 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.

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 March 19, 2013.

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*  
March 19, 2013

**City of Valparaiso, Florida**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended September 30, 2012**

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

**I. CURRENT YEAR AUDIT FINDINGS**

***FINDING 2012-1: LIMITED SEGREGATION OF DUTIES***

**Criteria** – Proper segregation of duties does not allow the person who records cash disbursements in the financial records of an organization (record keeping) to also print and issue checks (authorization).

**Condition** – Currently, the accounts payable clerk receives purchases orders and invoices from department heads, records activity in the computer system, prints checks, and receives checks back after signing by the appropriate official to mail out.

**Cause** – Due to the limited number of people working in the office, some critical duties are combined.

**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.

**Recommendations** – We recommend that the employee who records the disbursement in the accounting system is separate from the employee that prints and issues checks; however, if limited number of people prevent this detail of segregation, have a different employee mail the payment after signatures are obtained. Further access to the module for creating new vendors in the accounting system should not be accessible by the accounts payable clerk.

**Views of the Responsible Officials and Planned Corrective Action** - Due to the City's limited staff it is not feasible to incorporate another employee to separate the duties of printing and issuing checks; however, the City will restrict the rights to the vendor master file by the accounts payable clerk to help mitigate this deficiency.

***FINDING 2012-2: INVENTORY VALUATION***

**Criteria** – According to the City's accounting policy, inventories consist of expendable supplies held for consumption and 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.

**Condition** – For the fiscal year ended September 30, 2012, an adjusting journal entry was necessary to record the change in inventory. The City had not performed an annual inventory count at the end of the fiscal year 2012. During the audit, an inventory of the utility fund and communication fund was performed by the City and a new inventory valuation was determined. Upon review of the City's inventory calculation, it was noted that the unit prices used in the calculation had not been updated to reflect current pricing.

**City of Valparaiso, Florida**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended September 30, 2012**

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**I. CURRENT YEAR AUDIT FINDINGS (CONTINUED)**

***FINDING 2012-2: INVENTORY VALUATION (CONTINUED)***

**Cause** – The City had not performed an annual inventory count at the end of the fiscal year 2012 or updated inventory to current invoice prices.

**Effect** – The current policy for inventory valuation is not properly followed, which could allow misstatements of inventory on hand.

**Recommendations** – We recommend that the City perform an annual inventory of all expendable supplies held for consumption, compare unit prices used to value inventory to current invoice prices, and adjust ending inventory as necessary as of fiscal year end.

**Views of the Responsible Officials and Planned Corrective Action** - The City will perform inventory counts each year-end of all expendable supplies held for consumption, and update unit valuation prices as needed. Slow moving or obsolete inventory will also be identified in the counts.

***FINDING 2012-3: UTILITY DEPOSITS PAYABLE***

**Criteria** – Utility meter deposits received from customers of the utility system are placed in a meter deposit account in the Utility Fund. The funds are restricted to use as payment for the final customer bill or returned to the customer upon settlement of final bill.

**Condition** – The subledger of utility deposits by customer did not reconcile to the utility deposit payable or restricted meter deposit cash account in the City's general ledger at September 30, 2012.

**Cause** – City personnel believe the information was not accurately transferred to the Accufund software during conversion.

**Effect** – Utility deposits due to customers is possibly misstated in the financial statements of the City.

**Recommendations** – We recommend that the City reconcile the utility deposit subledger to the restricted meter deposit cash account and adjust the utility deposit payable control account in the accounting system as necessary.

**Views of the Responsible Officials and Planned Corrective Action** - The City is in the process of reconciling the utility deposit subledger to the restricted utility deposit cash account. This will be an ongoing effort until the City can determine its true utility deposit amount on hand, detailed by customer and amount.

**City of Valparaiso, Florida**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended September 30, 2012**

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**II. SUMMARY OF SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

***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 and to record liabilities for services rendered and known settlements prior to year end.

**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** – During the year ended September 30, 2012, three audit adjustments were made to correct the trial balance: 1.) record grant revenues earned in the Streets special revenue fund, 2.) record legal settlement costs incurred in the General fund, and 3.) record regional sewer upgrades incurred in the Utility Fund.

**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 eliminating the amount of entries necessary for conversion.

**View of Responsible Official and Planned Corrective Actions** – The City will add the review of grant accounting and recurring expenses to the year-end checklist and monitor subsequent payments for proper accrual.

**City of Valparaiso, Florida**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended September 30, 2012**

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**II. SUMMARY OF SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**

***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.

**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** - The City will implement the recommendations provided surrounding the Volunteer Fire Department.

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, 2012, and have issued our report thereon dated March 19, 2013.

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 are dated March 19, 2013, 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 and in this report under the heading "Prior Year Comments."

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 or grant agreements, fraud, illegal acts, 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 1 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, 2012, 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 (AFR) for the fiscal year ended September 30, 2012. 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***

### **COMMENT 2011-4: FINANCIAL CONDITION OF COMMUNICATION FUND**

#### ***Prior Year Comment Summarized***

The Communication Fund had deficit unrestricted total net assets of approximately \$772,000 at September 30, 2011. 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.

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

***PRIOR YEAR COMMENTS (CONTINUED)***

**COMMENT 2011-4: FINANCIAL CONDITION OF COMMUNICATION FUND (CONTINUED)**

***Status***

During fiscal year ending September 30, 2012, the legal dispute with Gulf Power over pole attachment privilege rates was resolved and the City is not obligated to repay the contingency payable and related interest accrued in prior years. The accrual totaling approximately \$720,000 was removed and reported as a special item on the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets of the Communication Fund. At September 30, 2012, \$338,371 is owed to the General fund of which \$198,600 is considered an advance as it has not been paid back to the General Fund in the normal course of operations. This comment has been closed; however, Commission and management should continue to monitor the Communication Fund to determine fiscal viability of the business enterprise, and formalize a plan to repay or provide permanent transfer of loaned amounts from the General Fund.

**COMMENT 2011-5: INTERFUND RECEIVABLES, PAYABLES, AND ADVANCES**

***Prior Year Comment Summarized***

A significant amount of interfund receivables/payables and advances exist as of 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.

***Status***

The City continues to have a significant amount of interfund receivables/payables and advances exit as of September 30, 2012 between the enterprise funds owing money primarily to the general fund; however, the amount owed between the funds for monthly operational reimbursements is transferred timely at the beginning of the subsequent month. The advances are an accumulation of prior years' interfund activity that lacks documentation. The City has not incorporated "pooled" cash to help reduce the number of bank accounts and transfers among funds.

***Recommendation***

Long term amounts owed between the funds should be evaluated and a formal plan to repay the General Fund amounts loaned or the approval of a permanent transfer should be incorporated into the FY 14 budget process. 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 believes the balances owed between the funds may have originated as year-end or audit adjustments in previous years and the necessary cash transfers not made. After further research, management will place the issue before the Commission to determine if the interfund advances should be repaid or a permanent transfer approved.

***PRIOR YEAR COMMENTS (CONTINUED)***

**COMMENT 2011-6: COST ALLOCATION**

***Prior Year Comment Summarized***

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.

***Status***

The City has not formalized a cost allocation plan.

***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.

**COMMENT 2011-7: UAS AND AFR SUBMISSION**

***Prior Year Comment Summarized***

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 (AFR) 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.

***Status***

During the fiscal year ended September 30, 2012 and as of the date of this report, the City continues to modify its chart of accounts to comply with UAS. The AFR for the year ending September 30, 2011 was not submitted within 45 days of the audit report; however, it was submitted within nine months after year end. This comment has been closed.

**COMMENT 2011-8: FIXED ASSET ACCOUNTING**

***Prior Year Comment Summarized***

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.

***PRIOR YEAR COMMENTS (CONTINUED)***

**COMMENT 2011-8: FIXED ASSET ACCOUNTING (CONTINUED)**

***Status***

During the fiscal year ending September 30, 2012, the UAS chart of accounts had not been implemented; however, the City did segregate fixed asset additions from repair and maintenance accounts based on the City's current account structure. This comment has been closed.

**COMMENT 2011-9: OPEB REPORTING**

***Prior Year Comment Summarized***

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.

***Status***

As of September 30, 2012, the City has not engaged an actuary to perform an assessment, and we continue to modify our auditor's opinion.

***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.

***Management's Response***

City management will consider an actuarial assessment in FY2013 as it relates to the potential liability because of the concept of an implicit rate study.

***CURRENT YEAR COMMENTS***

**COMMENT 2012-1: WATER AND SEWER REVENUE BILLING**

***Observation***

The City's internal controls surrounding meter readings and the follow-up to meter reader exceptions should be reviewed. During the fiscal year ended September 30, 2012, a sample of 8 meter readings from the "meter reading proof list" were examined. Of the eight selected, six meter readings had exceptions that were not documented with the follow-up procedures taken. If the service location was not read by the meter reader or the meter reader reported a malfunction, the City either took an average of prior billings or manually input a minimum bill.

An analysis of water/sewer revenue and consumption from month to month and year to year was evaluated in the audit process and several inconsistencies were noted. Computer billing system errors occurred in one month requiring the City to minimum charge all customers and manually calculate the amounts to charge in the subsequent month to make up for the error.

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

***CURRENT YEAR COMMENTS (CONTINUED)***

**COMMENT 2012-1: WATER AND SEWER REVENUE BILLING (CONTINUED)**

***Recommendation***

The City's internal control policy over utility billing is properly documented; however, it is not being properly implemented and monitored. We recommend the City implement its procedures to provide an effective internal control structure over utility billings.

***Management's Response***

City management has met with utility department supervisors in charge of meter readings to communicate the necessary procedures of following up to meter reader exceptions. The City Clerk will analyze water and sewer revenue versus gallons billed on a monthly basis to determine if any inconsistencies exist, and if so, document the reasons why and how the issue was corrected.

**COMMENT 2012-2: ANTI-FRAUD PROGRAM**

***Observation***

The City maintains a strong ethical culture and positive environment to deter fraud and promote ethical behavior. None the less, fraud can occur in any entity and the City would benefit by formally reviewing its fraud prevention, detection and reaction programs on an annual basis. Executive management's approach to ethics speaks volumes to the rest of the organization and can have a dramatic impact on the bottom line, both in terms of fraud prevention and the more difficult to calculate reputational damage.

***Recommendation***

City Commission and senior management would strengthen its anti-fraud program with the adoption of the following:

- Periodic documented fraud risk assessments
- A written fraud response plan
- Training for City employees on warning signs of fraud and what to do if they suspect fraud is occurring
- Implementation of a whistleblower policy

The Association of Certified Fraud Examiners has a fraud risk assessment tool that could be used by senior management to accomplish these recommendations.

***Management's Response***

City management will explore the Association of Certified Fraud Examiners website for fraud risk assessment tools and determine how to document an anti-fraud program in to the City's policies.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, and applicable management, 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*  
March 19, 2013