



**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
OF  
THE CITY OF NICEVILLE, FLORIDA**

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**FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2011**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
OF  
THE CITY OF NICEVILLE, FLORIDA**

**FISCAL YEAR ENDED  
SEPTEMBER 30, 2011**

**Prepared By:**

**Finance Department**

**Dan Doucet  
City Clerk**

**The City of Niceville, Florida  
PRINCIPAL OFFICIALS  
Year Ended September 30, 2011**

**CITY COUNCIL 2010-2011**

Judith Boudreaux  
(October 2010 to July 2011)

Daniel Henkel

Heath Rominger  
(Elected August 2011)

Bill Schaetzle  
(Elected August 2011)

Bill Smith

Al Swihart  
(October 2010 to July 2011)

William Thomas

**CITY OFFICIALS**

**Mayor**

Randall Wise

**City Manager**

Lannie Corbin

**City Clerk**

Dan Doucet

**City Attorney**

Gillis Powell, Sr.

**Director of Public Works**

Bruce Price

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**City of Niceville, Florida**  
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**Year Ended September 30, 2011**

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Lannie L. Corbin  
City Manager



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Niceville, Florida 32578  
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Fax: (850) 729-4013

*“Home of the Boggy Bayou Mullet Festival”*

Honorable Mayor, City Council Members  
and Citizens  
City of Niceville, Florida

The comprehensive annual financial report of the City of Niceville, Florida for the fiscal year ended September 30, 2011, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operation of the government. All disclosures necessary to enable the reader to gain an understanding of the City’s financial activities have been included.

The Comprehensive Annual Financial Report (CAFR) is presented in four sections as follows:

- *Introductory section* – includes this transmittal letter, a copy of the GFOA Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended September 30, 2010, and the City’s organizational chart of principal officials.
- *Financial section* – includes the Independent Auditor’s Report, Management’s Discussion and Analysis (MD&A), basic financial statements and the individual fund statement.
- *Statistical section (unaudited)* – presents detailed information as a context for understanding what the information in the financial statements and note disclosures says about the City’s overall financial health.
- *Compliance section* – includes the Schedule of Expenditures of State Awards, Notes to the Schedule of Expenditures of State Awards, 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*, Independent Auditor’s Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with Chapter 10.550, Rules of the Auditor General, Schedule of Findings and Questioned Costs and the Management Letter.

Generally accepted accounting principles require that management provides a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the MD&A. This letter is designed to complement the MD&A and should be read in conjunction with it. The City of Niceville’s MD&A can be found immediately following the Independent Auditor’s Report, located in the financial section.

## **CITY PROFILE**

The City provides a full range of services. These services include police and fire protection, protective inspections, emergency and disaster relief, sanitation, construction and maintenance of highways, streets and infrastructure, recreational activities and cultural events. The City evaluated various other entities within the vicinity of the City, which could possibly be subject to inclusion as a component unit within the City's financial statements under criteria established to define the reporting entity. The Niceville, Valparaiso, Okaloosa County Regional Sewer Board, Inc., the Niceville Housing Authority and the East Niceville Fire District have not met the established criteria for inclusion in the reporting entity and, accordingly, are excluded from this report. However, the City is a joint venture participant in the Niceville, Valparaiso, Okaloosa County Regional Sewer Board, Inc. and, as such, does include its respective share of the joint venture profits and losses within the City's Water and Sewer Enterprise Fund.

## **OKALOOSA COUNTY PROFILE**

Nestled in the central portion of the 100 mile long "Miracle Strip" area of the Northwest Florida Panhandle, Okaloosa County is known as the Playground of the Gulf Coast. Whether it's fishing, boating, swimming, sunning, sailing, sports, scuba diving, or just relaxing, we have it all in this land of sunshine!

Our natural, unspoiled, sugar white beaches are the most beautiful in the world. Blue green waters lap the brilliant white sands of the Gulf of Mexico, which is why it is called the "Emerald Coast" - a true jewel to the eye of the beholder. Quiet bayous, lazy rivers and thick green forests complement the dazzling shoreline, making this region an all around place of beauty, enjoyment and peacefulness.

Okaloosa County encompasses an area of 1,003 square miles, including 59 miles of inland waters and has a total population of approximately 182,000. An estimated 30,500 people live in the Niceville area. The Eglin Military Reservation, three miles west of Niceville, is the world's largest installation of its kind. Its facilities, including undeveloped acreage, are located in the central and southern portions of the County.

This region provides a recreational paradise. The bayous and rivers surrounding Niceville flow into Choctawhatchee Bay (a 30 mile long fisherman's paradise providing flounder, blue crab, speckled trout, red fish, mullet, and drum). Eight miles across the bay is the Destin East Pass which provides deep-sea anglers easy access to the Gulf of Mexico, breeding ground of much of the South Atlantic's food and game fish. These same waters offer a sparkling setting for swimming, waterskiing, scuba diving, boating, leisure sailing and competitive racing and regattas sponsored by many area sailing clubs. The local woods and forests offer camping and hiking facilities as well as excellent deer, turkey, duck, quail and dove hunting.

There are three outstanding community golf courses. Eglin Air Force Base maintains two courses in the heart of Niceville. Rocky Bayou Country Club has a challenging course in surroundings of unsurpassed beauty and Bluewater Bay offers 36 holes of golf on one of the best courses in the Southeast.

## **HISTORY**

Early Indian cultures, Spanish explorers, and pirates all contributed to the colorful past of this part of Florida. In the first years of settlement, lumber and naval stores (tar, pitch, spirits of turpentine and resin) were abundant in this region and furnished much of the livelihood for the sparse population. The early pioneers were self-sufficient hunters, farmers, and fishermen with water as their sole means of transportation.

Okaloosa County was created on September 7, 1915, by an act of Florida Legislature from parts of two other counties. The name “Okaloosa” is an Indian derivation meaning water (oka) and black (lusa). Another Indian derivative means pleasant place.

## **CLIMATE**

One of the most valued natural assets of the area is the semitropical climate. With four mild seasons and an average annual temperature of 67.2 degrees, it provides just enough temperature change to mark the passing of the seasons. Summer high temperatures range from 80 to 91 degrees and winter highs range from 50 to 75 degrees. Rainfall averages between 50 and 60 days per year providing continuous outdoor enjoyment throughout each season.

## **NICEVILLE AND VALPARAISO - HISTORY AND FACTS**

Niceville and Valparaiso (the “Twin Cities”) are surrounded by the majestic waters of Boggy Bayou, Tom’s Bayou, Valparaiso Bay and Choctawhatchee Bay as well as the east boundaries of the Eglin Military Installation. However, these cities share more than just common boundaries. They are united in their civic organizations, Chambers of Commerce, educational programs and medical facilities for the betterment of their communities.

Indian and Spanish predecessors have left a history of romantic folklore. Moss-laden oaks tower over the clean, sandy bays that produce some of the most delicious mullet in the country which is celebrated locally each October during the “Boggy Bayou Mullet Festival.”

Niceville’s modern history began in the 1800s as a tiny fishing village named Boggy, for the bayou on which it was located. The fishing industry thrived on the tasty mullet that was salted, sold, traded and used as food by resident fishermen and their families. As the area grew, the name Boggy was deemed unattractive by residents, so in 1910 the city was renamed Niceville. In 1919 the name was changed to Valparaiso, Spanish for “Vale of Paradise.”

During this time, John Perrine was developing a new community only a mile outside of Valparaiso on the 16,000 acres he had purchased. Originally hailing from Valparaiso, Indiana, he named his city “New Valparaiso” after his hometown. With similar names, complications developed between the two adjacent communities, particularly affecting mail delivery. In 1925 the situation was rectified when Valparaiso renamed itself Niceville and New Valparaiso became Valparaiso, as they are today.

## **ECONOMIC CONDITION AND OUTLOOK**

The City of Niceville, Florida, is located in the northwestern “Panhandle” area of the state, approximately 60 miles east of Pensacola, in central Okaloosa County. It is adjacent to Eglin Air Force Base, the world’s largest military reservation and is the County’s largest employer which performs munitions development and testing. The Base has an economic impact on the area exceeding \$600,000,000 annually with numerous defense industry affiliated personnel in the area providing hi-tech resources for approximately 300 defense related businesses. Due to its geographic location combined with the presence of Eglin Air Force Base, the City has not experienced an economic recession in a measurable degree.

Located outside the City, is the new \$30 million North West Florida Regional Airport with a more spacious passenger terminal and built to handle the largest jets. Six airlines operate flights between the airport and Atlanta, Memphis, St. Louis, Dallas, Houston and Tampa, serving 520,000 passengers a year. The Department of Defense realigned over 4,000 military personnel to our area in the last year and plan to bring in an additional 2,500 over the next two years. With the accompanying family dependents, that’s a total population growth of 15,000 residents to our area.

The Science, Technology, Engineering and Math (STEM) industries are the desirable high growth and high wage industries of the future which are sustainable in Okaloosa County and the City of Niceville. Anchored by the military presence, Okaloosa County is the technology leader in Northwest Florida, and home to the University of Florida’s Research and Engineering Education Facility in a nearby town. The innovative world of unmanned vehicles and remotely piloted aircraft is crossing our horizon in order to protect our men and women in the military, police and fire departments. The UF REEF along with other Okaloosa County educational institutions and research facilities are tethering the technology transfer and commercialization of this industry to our STEM industries to further diversify our stable economy

Features that make Niceville a wonderful place to live also make it a good place to do business. Hardworking, dependable, educated people are available for employment. In addition, the active and retired military personnel who live in this area greatly stimulate the economy. Many residents have served our great country all over the world and have chosen Niceville and Okaloosa County as the place they prefer to make their home. Following are related statistics concerning labor and industry and educational achievements.

## **LABOR AND INDUSTRY**

Opportunities abound for continued advanced education. The University of West Florida, Troy University and the University of Florida all have extension centers in Okaloosa County. Northwest Florida State College (NWFSC), located in Niceville, continues to set the standard for labor training with its Leadership Institute which provides corporate training and consulting for local business and industry to augment the training provided by the college’s more than 60 career and certificate programs of study. The college is also a designated Florida Center for Manufacturing Competitiveness and works closely with local economic development groups and the local Workforce Development Board in providing customized training for new companies as well as in-house training for expanding firms.

With its proximity to Interstate 10 and excellent connections to secondary roads, Okaloosa County is one day closer to most major markets than the rest of the state and can provide 24 hour or same day delivery to southeastern markets. Deep-water ports of Pensacola, Panama City and the Gulf Intercoastal Waterway provide competitive, convenient access to markets through barge traffic on the Apalachicola River.

Over 52% of the county's population is between the prime working ages of 15 and 44 years old and continues to experience steady growth with the most significant increase in the Niceville and Valparaiso area. Okaloosa County's average hourly manufacturing wage (excluding military and government) is significantly lower than the national average.

## **EDUCATIONAL ACHIEVEMENTS**

Niceville schools are considered among the best in the county, and even the state. Niceville High School (NHS) is recognized by federal education officials as one of the most outstanding high schools in the nation and an example of innovative and successful educational methods. The United States Department of Education has honored Niceville High School twice in recent years as a "New American High School."

The Collegiate High School, located on the Niceville Campus of Northwest Florida State College, consistently ranks in the top 5 high schools in Florida on DOE school accountability measures and was the highest scoring "A+" school in Florida in 2010. The school has also been named a national Blue Ribbon School. The school enrolls 275 students in grades 10, 11 and 12 in an advanced program of study that provides the opportunity to earn a traditional high school diploma and a 2-year college degree or transferable college credits simultaneously.

Niceville High School is consistently at the top when it comes to academics, athletics and extracurricular activities. Seniors earn in excess of \$10 million in scholarships every year. Recognized throughout the state and nation, Niceville High School's reputation as a formidable foe continues to strengthen. Principal Linda Smith, along with an instructional staff of over 110, and a non-instructional staff of almost 40, are successfully educating approximately 1863 students every day. Accredited by the Southern Association of Colleges and Schools, Niceville High School has been named a New American High School by the U. S. Department of Education, acclaimed nationally as a Blue Ribbon School of Excellence and rated an "A" school in 2001, 2002, 2003, 2004, 2006, 2007, 2008 and 2010 by Florida's Commissioner of Education. Niceville High School is the recipient of the Florida Department of Education's prestigious Five Star Award given to schools which show evidence of exemplary community and parent involvement.

Niceville High School strives to meet the needs of its students by offering extensive courses in Art, English, Family and Consumer Science, Foreign Language, Gifted Studies, Leadership, Math, Music, Physical Education, ROTC, Science and Social Studies. It offers 21 Advanced Placement courses as well as 10 courses through the Academic International Certificate of Education (AICE) Program from the University of Cambridge in Cambridge, England. In addition, Niceville High School is home to a state-of-the-art Information Technology Institute which offers 17 industry certifications, giving its students a financially viable skill. Classes are also offered for those students needing additional resources in reading, math and science through our Intensive Studies Program. Niceville High School's aim is to prepare students for a successful transition into college, vocational school or the work place. All of its programs are open to any student up for

the challenge. Visit its website at [www.nicevillehighschool.org](http://www.nicevillehighschool.org) to learn more about the many outstanding opportunities unique to Niceville High School.

Ruckel Middle School, a recent United States Department of Education Blue Ribbon School of Excellence recipient, offers students the International Baccalaureate program to help raise academic standards and prepare students for companion programs at Niceville High School. Ruckel Middle School Knowledge Masters recently took first place in the state, as well as nationally and internationally while competing against 815 other middle school teams worldwide in the Knowledge Masters Open annual competition.

Advanced math and science courses are offered for high school credit to advanced eighth grade students at Ruckel, Lewis and Destin middle schools. Academic and social organizations exist for middle school students, as do a variety of athletic programs, including interscholastic cross-country, basketball for both boys and girls, football for boys, and volleyball for girls.

Bluewater, Edge, Plew and Valparaiso are the four public kindergarten to fifth grade (K-5) elementary schools. These schools routinely outscore other district schools on standardized student performance tests. Plew Elementary is also the first district school to offer a K-5 International Baccalaureate elementary program. In addition, Edge Elementary was named one of the 35 top Title 1 schools in the nation by the U.S. Department of Education in 2004. Niceville is also home to two private schools; Rocky Bayou Christian School and Agape Christian Academy. Rocky Bayou enrolls approximately 800 students on two campuses for pre-kindergarten through twelfth grade classes featuring an environment based on religious principles. The school employs a two track grade system with one track for advanced students and offers programs for learning disabled students. Agape Christian Academy, which enrolls approximately 60 students for K-5, focuses on small classrooms with individual student attention.

Northwest Florida State College is a public college, accredited to award bachelors and associate degrees, which serves more than 16,500 students annually at seven area campuses and centers. The college's 265 acre main campus is located at 100 College Boulevard in Niceville. This campus houses the college administration and major facilities such as the Mattie Kelly Fine and Performing Arts Center, a sports complex, Learning Resources Center (library) and facilities for the college's various health instructional programs such as nursing (RN and BSN), dental assisting, radiography, EMT and Paramedic. The Mattie Kelly Fine and



*Performing Arts Center at  
Northwest Florida State College*

Performing Arts Center at NWFSC in Niceville is the region's premiere venue for outstanding entertainment and hosts Broadway's best touring shows, art exhibits, and the Northwest Florida Symphony Orchestra, as well as music and cultural performances of all genres. The \$25 million, 12-acre complex feature a main stage theater with seating up to 1,650, a smaller theater venue with seating for 195, art galleries which feature touring art exhibits and house the college's multi-million dollar permanent art collection, a recital hall, a visual arts building, a music wing, an



*Northwest Florida State College  
Entire Campus (left) and Community Services Complex/EOC (right)*

amphitheater which accommodates up to 3,500 people for outdoor events, and other cultural and instructional facilities.

## **MAJOR INITIATIVES**

### *Fire Insurance Classification*

Our Fire Insurance Protection Classification is a low Class 5 which provides for a lower property insurance premium calculation for many insured properties within the City.

### *National Flood Insurance Program*

As part of the National Flood Insurance Program's (NFIP) Community Rating System (CRS) program, the City initiated a Stream Maintenance Standard Operating Procedure (SOP) which specifies responsibilities and procedures for inspecting and cleaning the creeks, streams, channels, and ditches in the City of Niceville. These procedures help insure proper functioning of the City's drainage systems.

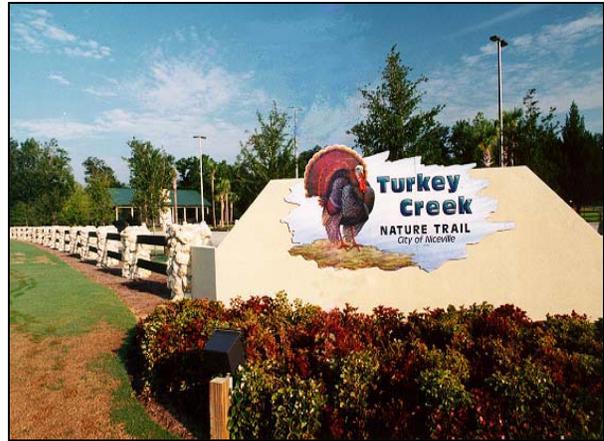
### *Recreation Trails*

The ongoing expansion of recreational trails winding throughout the City is being extended along Valparaiso Boulevard as a result of a donation of approximately 30 acres of land containing a flowing stream and a wetland area for recreation use. The City has received four grants from the Department of Environmental Protection's (DEP) Florida Recreational Development Assistance Program (FRDAP) for our Turkey Creek Walk project. We have completed construction of a pavilion, deck, bridges across the 4,000 feet of elevated boardwalk up the Creek. Okaloosa County also provided construction of the project. The City received partnership money from the U.S. Fish & Wildlife Service to pay for interpretative signage describing native flora and fauna along the boardwalk. In addition, we received a grant under the Florida Communities Trust Preservation 2000 Program and purchased a parcel of land at the northern end of the Creek. We were awarded two FRDAP grants to develop facilities on the parcel at the northern end of the Creek. Construction of these facilities are complete and include an access trail and observation

deck, restroom facilities, driveway access from College Boulevard and parking/landscaping improvements.

### *Recreation Facilities*

The Youth Center includes a bicycle facility, a skateboard arena pad, a basketball court, installed equipment, outdoor lighting system and utilities, access walkways, bathrooms and other buildings to include a vending area. Experienced personnel are on duty during the facility’s hours of operation to ensure safety for everyone. The City received two FRDAP grants totaling \$262,500 to help fund this facility.



*Turkey Creek Nature Trail*

The recreation complex also features Children’s Park, with key emphasis on site accessibility and mobility for people of all ages and physical conditions while providing hazard-free facilities and numerous modern play stations that provide both safety and fun. The open-air, semi-circular amphitheater encompasses sloping, grass seating areas with a raised platform designed for performance and multiple activities. The playground’s construction was primarily funded by private and corporate donations, underscoring Niceville’s strong community spirit.

Also located in the Niceville Civic Complex is the Children’s Park. The Children’s Park is open five days each week and staffed for the safety of our guests. There is emphasis on site accessibility and mobility for people of all ages and physical conditions while providing hazard-free facilities and numerous modern play stations that provide both safety and fun. The playground’s construction was primarily funded by private and corporate donations, underscoring Niceville’s strong community spirit.



*Skateboard Area Pad*



*Children’s Park*

In 2006, the City added a water splash park to the facility and children of all ages love to cool off during the warm weather here in our City. An estimated three hundred to five hundred guests visit and enjoy the park in an average week. Articles featuring the park have appeared in national recreation and park association magazines, and landscape architect publications. This park has truly added to the quality of life in Niceville.

### ***Niceville Library***

The Niceville Public library, opened in 2000 as a \$2.5 million, 17,500 square foot state-of-the-art facility. The City received a \$500,000 construction grant from the State of Florida to help build this library for our community. The library draws a constant stream of visitors daily while contributing to the overall beauty within the heart of the City. The City was then awarded a \$400,000 construction grant for the expansion of the library and in December 2006, the library opened the doors to the 5000 square feet addition to give us a 22,500 square foot facility. We have approximately 22,000 memberships, an estimated 70,000 items in the collection, and the library circulates approximately 200,000 items each year. The library is a member of the Okaloosa County Public Library Cooperative and is located in the heart of the City complex.



***Exterior of Niceville Library***



***Interior of Niceville Library***

### ***Niceville Community Center***

The Granny Edge Community Center, located next door to the Niceville Library on Partin Drive, can comfortably accommodate 250 people in the big hall and 20 people in the classroom. The building is used year-around for weddings, receptions, meetings, presentations, and other functions. Visitors to the complex enjoy sitting in the courtyard in front of the Community Center to relax and enjoy the weather, sometimes with a meal and a friend.



***Lion's Park***

Lion's Park, named because of its affiliation with the local Lion's Club, is one of the favorite local swimming and boat launching areas in Niceville. In the early 1950s, members of the local Lion's Club renovated this area and turned it over to the City to maintain. The City constructed several gazebos and water fountains and every 4th of July the annual fireworks display is held in the waters adjacent to the park.

## RECREATION/OPEN SPACE EXISTING NICEVILLE FACILITIES

<u>Facility</u>	<u>Classification</u>	<u>General Activities Provided</u>	<u>Size</u>
Palm Park	Mini Park	Open space	0.3 acres
Pinewood Park	Mini Park	Open space	1.5 acres
Sherry Park	Mini Park	Open space	0.6 acres
<b>Total Mini Parks</b>			<b><u>2.4 acres</u></b>
Cedar Park	Neighborhood	Swings, gazebo	0.5 acres
Dana Park	Neighborhood	Open space	3.6 acres
Finck & 21 <sup>st</sup> Street Park	Neighborhood	Swings, benches, tables	0.5 acres
Kelly Hill Park (Eddy Howell)	Neighborhood	Basketball court, play equipment	1.0 acres
Kiwanis Park	Neighborhood	Open space, fishing, swings	1.2 acres
Magnolia Shores Park	Neighborhood	Open space	1.5 acres
McElroy Court East Park	Neighborhood	Open space	0.3 acres
Meigs Park	Neighborhood	Tables, tennis courts, basketball courts, playground equipment	6.0 acres
<b>Total Neighborhood Parks</b>			<b><u>14.6 acres</u></b>
Children's Park	Community	Benches, gazebos, playground equipment, tables, amphitheater	1.0 acres
City Hall Park	Community	Gazebos, swings, benches, golf putting green	0.5 acres
Edgewater North Park	Community	Open space	4.0 acres
Leota Miller Park	Community	Open space	4.5 acres
Lion's Park	Community	Boat ramps, picnic tables, gazebos	2.0 acres
Mullet Festival Site	Community	Open space	36.3 acres
Niceville City Park	Community	Tables, baseball fields, concession stands	8.0 acres
SR 20 Wildflower Park	Community	Open space, benches	1.0 acres
Shirk's Bayou	Community	Open space	1.0 acres
Twin Oaks Park	Community	Baseball field, 2 soccer fields, concession stands, horseshoe pits, multi-use fields	10.6 acres
Turkey Creek Park	Community	Open space and conservation area, pavilion, tables, grills, bridge, walkway, bathrooms	20.0 acres
Youth Center	Community	Skateboarding, bicycling, skating, concession area, picnic tables, paintball, facility	5.0 acres
<b>Total Community Parks</b>			<b><u>93.9 acres</u></b>
Pontevedra Park	Undetermined	Open space	6.0 acres
<b>Grand Total</b>			<b><u>116.9 acres</u></b>

## DEPARTMENT FOCUS

Although the City has designated departments within the organizational structure, we do not single out individual departments for recognition, but, view our organization as one unit. Under this team concept, we have expanded a soccer field complex into off-season utilization of two additional little league softball fields and have constructed our recreation trails utilizing in-house personnel and equipment. We have a City-wide beautification program involving planting wild flowers along the right of way, shrubs, flowers and trees in the highway medians and a series of benches and swings for pedestrians to sit, rest and reflect during their walking or jogging program.

We saved over \$100,000 in construction costs for our skate park through the in-house concept. This approach has instilled an infectious pride throughout the departments that has gone onward to the citizens and visitors of our community. Our beautification efforts have been used by representatives from the Florida Department of Transportation as guidelines for other state municipalities to implement.

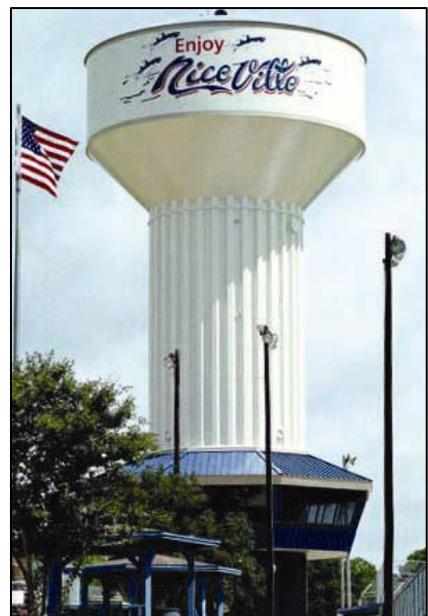
## FOR THE FUTURE

Infrastructure improvements include the installation of an 8” water main for the Bayou Plaza Project; 12” water main for Walmart, a 12” water main from Valparaiso Boulevard to 18<sup>th</sup> Street; and other miscellaneous water main improvements.

The City budgeted a total of \$3,810,000 for the replacement and rehabilitation of a number of lift stations, and a total of \$650,000 for re-use water projects. Stormwater/drainage improvements are planned for Oak Avenue and 13<sup>th</sup> Street, West Valparaiso Boulevard and Turkey Creek Site “A” Stormwater Vault. Various stormwater projects include pipe repairs and replacements and the inspection and maintenance of City stormwater facilities. Plans include the continuation of the installation of automatic meter reading devices to existing water meters, the resurfacing of several streets, and upgrading technology in City departments.

### *Cash Management*

Surplus cash funds on hand from time to time during the year were invested in bank money market accounts or in certificates of deposit. The City’s investment policy dictates that it minimizes the risk of loss while maintaining investments, which provide competitive yields. Accordingly, all investments were adequately insured by the Federal Deposit Insurance Corporation or were collateralized in accordance with Florida law. All deposits and investments met the lowest credit risk criteria as defined by the Governmental Accounting Standards Board.



## OTHER INFORMATION

### *Independent Audit*

State statutes require an annual audit by independent certified public accountants. The accounting firm of Warren Averett O'Sullivan Creel was selected by the City Council. The auditor's report on the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information is included in the financial section of this report. The auditor's reports related to compliance with laws and regulations and to the evaluation of the internal control structure are included in the compliance section.

### *Awards*

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended September 30, 2010. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

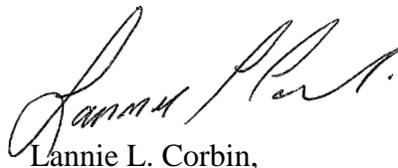
A Certificate of Achievement is valid for a period of one year only. This was the 25th consecutive year that the City has received this prestigious award. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### *Acknowledgments*

The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, without the leadership and support of the City Council and the City Clerk, Mr. Dan Doucet, preparation of this report would have not been possible.

Sincerely,



Lannie L. Corbin,  
City Manager

March 7, 2012

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Niceville  
Florida

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Davison*

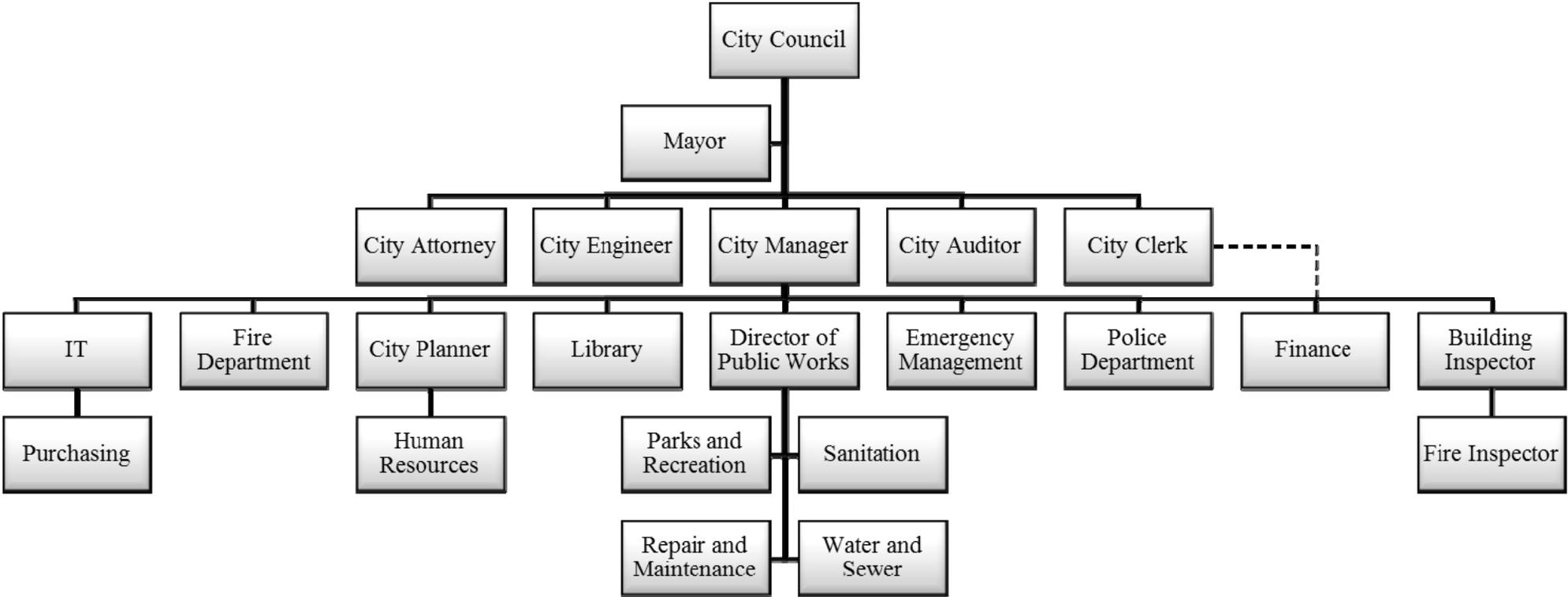
President

*Jeffrey R. Emer*

Executive Director

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The City of Niceville, Florida  
ORGANIZATIONAL CHART  
Year Ended September 30, 2011



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## **II. FINANCIAL SECTION**

- **INDEPENDENT AUDITOR'S REPORT**
- **MANAGEMENT'S DISCUSSION AND ANALYSIS**
- **BASIC FINANCIAL STATEMENTS**
  - **Government-Wide Financial Statements**
  - **Fund Financial Statements**
  - **Notes to Financial Statements**
- **INDIVIDUAL FUND STATEMENT**

Honorable Mayor and City Council Members  
City of Niceville, Florida

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Niceville, Florida, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Niceville, 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 basic 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Niceville, Florida, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary fund information for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 7, 2012, on our consideration of the City of Niceville, 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.

Honorable Mayor and City Council Members  
City of Niceville, Florida  
Independent Auditor's Report (Continued)

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-14 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 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 limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Niceville, Florida's basic financial statements as a whole. The Introductory Section, Individual Fund Financial Statements, and Schedules, listed in the table of contents, are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of State Financial Assistance is presented for purposes of additional analysis as required Chapter 10.550, *Rules of the Auditor General*, and is not a required part of the basic financial statements. The individual fund financial statements and the schedule of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory and Statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the basic financial statements and, accordingly, we do not express an opinion provide assurance on them.

*Warren Averett, LLC*

March 7, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Niceville, Florida (the City), we offer readers of the City's financial statements this narrative overview and analysis of financial activities of the City for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii-xv of this report.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities by approximately \$47.6 million (net assets), and represents an increase of \$2.4 million (or 5%) from the prior year. Of this amount, \$27.1 million represents investments in capital assets (e.g. land, construction in progress, infrastructure, building, machinery and equipment) less any related debt used to acquire these assets that is still outstanding, \$8.2 million is restricted for future obligations, and \$12.3 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The business-type activities increased \$2.3 million (or 8%), and the governmental activities increased \$78.5 thousand (or less than 1% over prior year).
- The City's governmental fund reported ending fund balance of \$5.3 million, a decrease of \$110.7 thousand. Approximately \$1.9 million is restricted or assigned for specific purposes, and \$3.4 million (or 64%) of ending fund balance, is available for spending at the discretion of the City Council.
- At the end of the current fiscal year, unrestricted/unassigned fund balance for the General Fund was \$3.4 million (or 38%) of the total General Fund expenditures.

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

The focus of the Governmental Accounting Standards Board (GASB) Statement No. 34 Financial Statements is on both the City as a whole (government-wide), and on the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison (year-to-year, government-to-government), and enhance the City's accountability.

This discussion and analysis intends to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Designed to be corporate-like, the government-wide financial statements consolidate governmental and business-type activities into two columns, which add to a total for primary government. This provides readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. This statement combines and consolidates the governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of the City.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government (including city manager, city clerk, human resources, finance, purchasing, building inspector and non-departmental expenses), public safety (including police and fire), transportation (including public works, administration, streets, repairs and maintenance), internal service (central garage), human service (animal control) and culture and recreation (parks, library, community center and youth center). The business-type activities of the City include water and sewer, sanitation and stormwater utility management. The government-wide financial statements are found on pages 15-16 of this report.

## **FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

## **FUNDS**

### **GOVERNMENTAL FUNDS**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Such information may be useful in evaluating a government's near-term financial requirements. Found on pages 17-21 of this report are the basic governmental fund financial statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains one governmental fund (General Fund). Information is presented in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance, as it is considered a major fund. The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement is provided to demonstrate compliance with the budgets.

### **PROPRIETARY FUNDS**

Proprietary Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for its utility operations (water operations and distribution, sewer collections and treatment), sanitation, and stormwater utility management operations.

The City's major proprietary funds include water and sewer and sanitation. The City has one non-major proprietary fund, which represents stormwater utility management operations. Found on pages 22-26 of this report are the basic proprietary fund financial statements.

### **FIDUCIARY FUNDS**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government, individuals or private organizations. The City has an Agency Fund that is used to account for resources held pursuant to the Katie W. Moody Estate and Will for scholarships. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. Found on page 27 of this report is the fiduciary Agency Fund financial statement.

### **NOTES TO FINANCIAL STATEMENTS**

The notes provide additional information, which is essential to the full understanding of the data provided in the government-wide and fund financial statements. Beginning on page 28 of this report are the notes to the financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$47.6 million (net assets) for the fiscal year ended 2011, as reported in Table 1.

By far the largest portion of the City's net assets, \$27.1 million (or 57%) reflects its investment in capital assets (e.g. land, infrastructure, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City reports investment in its capital assets net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

**Table 1**  
**City of Niceville, Florida**  
**STATEMENT OF NET ASSETS**  
**AS OF SEPTEMBER 30, 2011 AND 2010**  
**(In Thousands of Dollars\*)**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 5,562	\$ 5,833	\$ 18,518	\$ 17,642	\$ 24,080	\$ 23,475
Capital assets	14,649	14,863	27,803	26,426	42,452	41,289
<b>Total assets</b>	<b>20,211</b>	<b>20,696</b>	<b>46,321</b>	<b>44,068</b>	<b>66,532</b>	<b>64,764</b>
Long-term liabilities outstanding	2,883	3,345	15,469	15,373	18,352	18,718
Other liabilities	221	322	326	492	547	814
<b>Total liabilities</b>	<b>3,104</b>	<b>3,667</b>	<b>15,795</b>	<b>15,865</b>	<b>18,899</b>	<b>19,532</b>
Net assets						
Invested in capital assets net of related debt	12,180	11,973	14,958	13,509	27,138	25,482
Restricted	841	1,110	7,318	5,865	8,159	6,975
Unrestricted	4,086	3,946	8,250	8,829	12,336	12,775
<b>Total net assets</b>	<b>\$ 17,107</b>	<b>\$ 17,029</b>	<b>\$ 30,526</b>	<b>\$ 28,203</b>	<b>\$ 47,633</b>	<b>\$ 45,232</b>

*\*all dollar amounts rounded to the nearest thousand*

An additional portion of the City's net assets, \$8.2 million (or 17%), represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, \$12.3 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The overall increase in the City's net assets was \$2.4 million (or 5%) during fiscal year 2011. Governmental activities account for 3% of this increase, resulting from increases primarily in sales tax revenues. Business-type activities account for 97% of the increase primarily due to increases in utility rates for water and sewer services.

## GOVERNMENTAL ACTIVITIES

Reported in Table 2 are the key elements of this increase.

**Table 2**  
**City of Niceville, Florida**  
**CHANGE IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Primary Government Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services	\$ 2,269,085	\$ 2,322,133	\$ 9,716,816	\$ 8,810,780	\$ 11,985,901	\$ 11,132,913
Operating grants and contributions	124,451	886,097	-	134,450	124,451	1,020,547
Capital grants and contributions	46,012	262,832	669,740	584,798	715,752	847,630
<b>General revenues</b>						
Property taxes	2,644,601	2,622,000	-	-	2,644,601	2,622,000
Other taxes	3,401,096	3,272,501	-	-	3,401,096	3,272,501
Other revenue	107,770	186,625	314,957	640,448	422,727	827,073
<b>TOTAL REVENUES</b>	<b><u>8,593,015</u></b>	<b><u>9,552,188</u></b>	<b><u>10,701,513</u></b>	<b><u>10,170,476</u></b>	<b><u>19,294,528</u></b>	<b><u>19,722,664</u></b>
<b>EXPENSES</b>						
<b>Primary government</b>						
General government	3,077,475	3,294,461	-	-	3,077,475	3,294,461
Public safety	2,673,711	2,711,006	-	-	2,673,711	2,711,006
Transportation	395,119	413,470	-	-	395,119	413,470
Human services	50,540	50,315	-	-	50,540	50,315
Culture and recreation	2,321,253	2,247,876	-	-	2,321,253	2,247,876
Debt service interest	96,393	108,775	-	-	96,393	108,775
<b>Business-type activities</b>						
Water and sewer	-	-	5,585,105	5,703,301	5,585,105	5,703,301
Sanitation	-	-	2,500,894	2,381,779	2,500,894	2,381,779
Non-major fund	-	-	192,640	233,647	192,640	233,647
<b>TOTAL EXPENSES</b>	<b><u>8,614,491</u></b>	<b><u>8,825,903</u></b>	<b><u>8,278,639</u></b>	<b><u>8,318,727</u></b>	<b><u>16,893,130</u></b>	<b><u>17,144,630</u></b>
Increase (decrease) in net assets before transfers	(21,476)	726,285	2,422,874	1,851,749	2,401,398	2,578,034
Transfers	100,000	140,000	(100,000)	(140,000)	-	-
<b>Increase (decrease) in net assets</b>	<b>78,524</b>	<b>866,285</b>	<b>2,322,874</b>	<b>1,711,749</b>	<b>2,401,398</b>	<b>2,578,034</b>
<b>NET ASSETS BEGINNING</b>	<b><u>17,029,095</u></b>	<b><u>16,162,810</u></b>	<b><u>28,202,857</u></b>	<b><u>26,491,108</u></b>	<b><u>45,231,952</u></b>	<b><u>42,653,918</u></b>
<b>NET ASSETS ENDING</b>	<b><u>\$ 17,107,619</u></b>	<b><u>\$ 17,029,095</u></b>	<b><u>\$ 30,525,731</u></b>	<b><u>\$ 28,202,857</u></b>	<b><u>\$ 47,633,350</u></b>	<b><u>\$ 45,231,952</u></b>

## FINANCIAL IMPACTS

### NORMAL IMPACTS

There are eight basic impacts on revenues and expenses as reflected below:

#### *Revenues*

- **Economic Condition:** This can reflect a declining, stable, or growing economic environment and has a substantial impact on property, sales, gas or other tax revenue.
- **Council Approved Rate Adjustments:** While certain tax rates are set by statute, the City Council has significant authority to impose and periodically adjust rates (water, wastewater, impact fees, recreation user fees, etc.).

- Changing Patterns in Intergovernmental Grant Revenue (both recurring and non-recurring): Certain recurring revenues (state revenue sharing) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.
- Market Impacts on Investment Income: The current market conditions have a significant influence on the City's investment income causing it to fluctuate greatly.

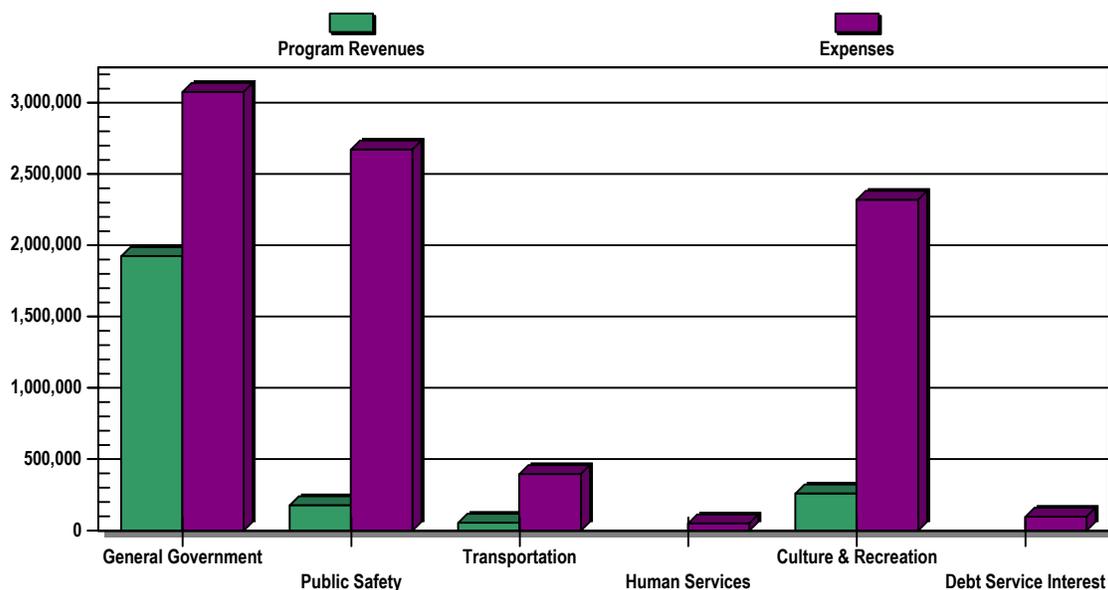
### ***Expenses***

- Introduction of New Programs: Within functional expense categories (police, fire, public works, community development, parks and recreation, etc.), individual programs may be added or deleted to meet changing community needs.
- Authorized Position Adjustments: Changes in service demand may cause the City Council to change authorized staffing. Staffing costs (salary and related benefits) represent 27% of the City's operating costs.
- Salary Adjustments: The ability to attract and retain human and intellectual resources requires the City to strive for a competitive salary range position in the marketplace.
- Inflation: While overall inflation appears to be reasonably modest, the City is a major consumer of certain commodities such as paper, chemicals, supplies, fuel, oil and parts. Some fluctuations may experience commodity specific increases.

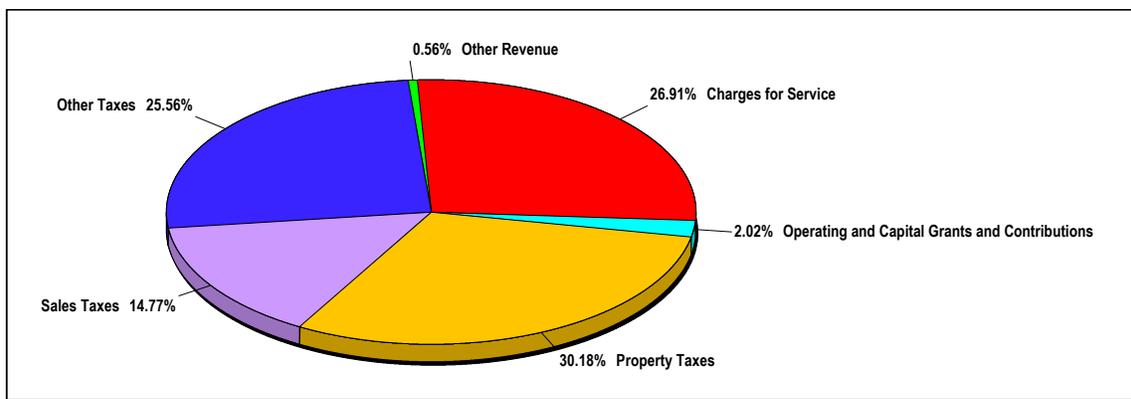
### ***Current Year Impacts - Governmental Activities***

- Operating grants and contributions decreased \$762 thousand. The City received funding in the prior year for Housing Rehabilitation for the Niceville area under a Community Development Block Grant (CDBG) which accounts for most of the decrease this year.
- Capital grants and contributions decreased \$217 thousand. The City received grant funding for two park improvement projects in the prior year, accounting for most of the decrease.
- Property tax revenues increased slightly, or \$23 thousand from increased collection of delinquent property taxes received in the current year.
- Other taxes increased \$129 thousand, resulting primarily to additional sales tax revenues received from the State this year.
- Other revenues decreased by \$79 thousand, due to the reduced interest rates and earnings on City's investments, in addition to declines in receipt of other miscellaneous revenues.
- General government expenses decreased \$217 thousand. Activities associated with the CDBG grant in the prior year were not needed causing overall expenses to be lower this year.
- Culture and recreation expenses increased \$73 thousand, mostly due to increased salaries and retirement costs this year.

**Chart 1**  
**Expenses and Program Revenue - Governmental Activities**



**Chart 2**  
**Revenues by Source - Governmental Activities**

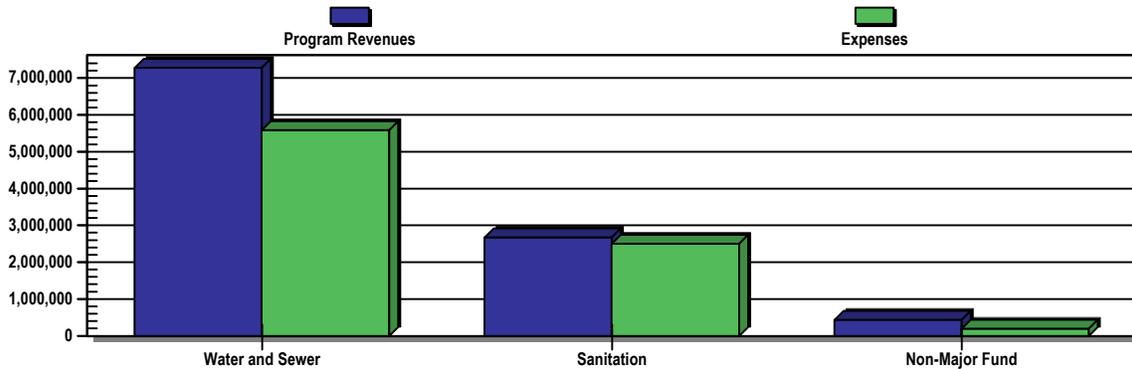


***Current Year Impacts - Business-Type Activities***

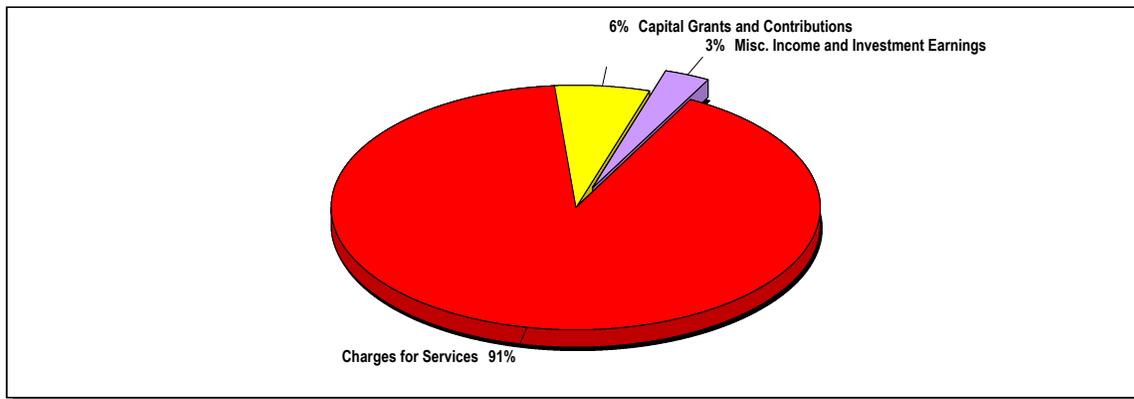
- The net assets from business-type activities increased \$2.3 million (or 8%).
- Charges for services for business-type activities increased by \$906 thousand, which resulted from water and sewer rate increases during the year.
- Operating grants decreased by \$134 thousand. In 2010, the City had received monies upon final close-out of their FEMA grants associated with Hurricanes Ivan and Dennis.
- Other revenues decreased by \$325 thousand, which is attributable mostly to decreases in earnings from joint venture agreement, as well as declines in regular investment earnings.

- Water and sewer expenses decreased \$118 thousand mostly from lower depreciation this year.
- Sanitation expenses increased by \$119 thousand, as a result of increased salaries, and other general operating cost increases.

**Chart 3**  
**Expense and Program Revenue - Business-Type Activities**



**Chart 4**  
**Revenues by Source - Business-Type Activities**



**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUND**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**GOVERNMENTAL FUND**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental fund reported ending fund balance of \$5.3 million, an increase of \$110.7 thousand in comparison with the prior year. Approximately \$3.4 million of fund balance (or 64%) constitutes unrestricted/unassigned fund balance, which is available for spending at the City Council's discretion. The remainder of fund balance is classified between nonspendable, restricted, or assigned for various project based on the level of constraints placed on those fund, and in accordance with GASB Statement 54 this year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unrestricted/unassigned fund balance of the General Fund was \$3.4 million, while total fund balance reached \$5.3 million. As a measure of the General Fund's liquidity, it may be useful to compare both unrestricted/unassigned fund balance and total fund balance to total expenditures. Unrestricted/unassigned fund balance represents 38% of the total General Fund expenditures, while total fund balance represents 57% of that same amount.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$110.7 thousand. Key factors are as follows:

- Revenues decreased this year resulting from less grant funds in 2011. The City had previously received grant monies for two parks, and a housing rehabilitation project in 2010, which accounts for most of the current year fluctuation.
- Expenditures increased this year by approximately \$450 thousand. The City spent more resources in capital outlay and debt service this year.
- The City also refunded some of its debt, allowing for increases in other financial sources this year.

## **PROPRIETARY FUNDS**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the proprietary funds totaled \$8.2 million at the end of the year; of that, the Water and Sewer Fund amounted to \$6.3 million, the Sanitation Fund totaled \$1.2 million, and the Stormwater Utility Management Fund was \$768.1 thousand. Net assets for proprietary funds increased \$2.3 million during 2011.

## **BUDGETARY HIGHLIGHTS**

### **GENERAL FUND**

- No amendments were made to the original adopted budget for 2011.
- Actual revenues were less than budgetary expectations by \$113.4 thousand, or 1.3% from budgeted expectations. Intergovernmental revenues were less than anticipated due sales tax revenues being down, as well as less grant funds this year.
- Actual expenditures were close to budgeted expectations this year, resulting less than budgetary estimates by \$12.6 thousand. Although capital outlay and debt service was more than anticipated, the City reduced costs in general government services to compensate for the additional costs.

## CAPITAL ASSET AND LONG-TERM DEBT OUTSTANDING

### CAPITAL ASSETS

The City's investments in capital assets for its governmental and business-type activities as of September 30, 2011, amounts to \$42.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, water, wastewater and drainage systems improvements, machinery and equipment, park facilities, roads and highways, etc. The total increase in the City's investment in capital assets for the current fiscal year was \$1.2 million (or 2.8%) with an overall 1.4% decrease for governmental activities, and a 5.2% increase for business-type activities, all of which is summarized in Table 3.

**Table 3**  
**City of Niceville, Florida**  
**Capital Assets**  
**(net of depreciation)**  
**AS OF SEPTEMBER 30, 2011 AND 2010**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 1,561,115	\$ 1,209,026	\$ 867,297	\$ 867,297	\$ 2,428,412	\$ 2,076,323
Buildings	3,721,619	3,906,620	1,246,087	1,287,095	4,967,706	5,193,715
Improvements other than buildings	5,752,067	5,760,338	24,869,581	23,280,454	30,621,648	29,040,792
Infrastructure	3,191,999	3,476,110	-	-	3,191,999	3,476,110
Machinery and equipment	414,025	503,081	167,909	385,858	581,934	888,939
Construction in progress	8,229	8,229	652,563	605,561	660,792	613,790
<b>Total</b>	<b>\$ 14,649,054</b>	<b>\$ 14,863,404</b>	<b>\$ 27,803,437</b>	<b>\$ 26,426,265</b>	<b>\$ 42,452,491</b>	<b>\$ 41,289,669</b>

Additional information on the capital assets of the City can be found in Note 5 of this report.

### LONG-TERM DEBT OUTSTANDING

At the end of the current fiscal year, the City had total debt outstanding of \$16 million. All of the City's debt represents loans secured solely by specified revenue sources. The City has no general obligation or special assessment debt. The State of Florida does not place a legal limit of debt on municipalities. For general obligation debts, greater than one year, the City is required to conduct a voter referendum process for approval of this type of debt.

**Table 4**  
**City of Niceville, Florida**  
**Long-Term Debt Outstanding**  
**AS OF SEPTEMBER 30, 2011 AND 2010**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenue bonds, net	\$ 2,468,930	\$ 2,890,000	\$ 6,877,725	\$ 7,257,361	\$ 9,346,655	\$ 10,147,361
Notes payable	-	-	885,000	1,310,000	885,000	1,310,000
State revolving loans	-	-	6,897,237	6,036,766	6,897,237	6,036,766
Compensated absences	414,256	400,999	148,920	137,869	563,176	538,868
<b>Total</b>	<b>\$ 2,883,186</b>	<b>\$ 3,290,999</b>	<b>\$ 14,808,882</b>	<b>\$ 14,741,996</b>	<b>\$ 17,692,068</b>	<b>\$ 18,032,995</b>

The City's governmental activities debt decreased by \$407.8 thousand during the fiscal year, which is attributable to required debt service payments. The net change in the business-type activities debt decreased \$(0.1) million resulting from required debt service payments and current year refundings.

Additional information on the City's long-term debt can be found in Note 10 of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The State of Florida, by constitution, does not have a state personal income tax and therefore the State operates primarily using sales, gasoline, and corporate income taxes. Local governments (cities, counties, and school boards) primarily rely upon property and a limited array of permitted other taxes (sales, gasoline, utility service taxes, etc.) and fees (franchise and occupational licenses) for their governmental activities. There is a limited number of state shared revenues and recurring and non-recurring grants from both the state and federal governments, which provide funding for specific programs, projects or activities. For the business-type activities and certain governmental activities (permitting and recreational programs), the user pays a related fee or charge associated with the service.

The level of taxes, fees, and charges for services (including development related impact fees) has an impact on the City's specific competitive ability to encourage development and redevelopment (office, retail, residential, and industrial) for those businesses that choose to locate in our jurisdiction. As the City has limited growth potential, it places great emphasis on redevelopment and it is essential for the continued financial and economic health of our community.

The military has a significant presence in our community with Eglin Air Force Base and Hurlburt Field, employing over 27,000 military and civilian personnel. These installations are essential to the continued long-term economic vitality of this area. Combined, the military and defense-related industries have a \$30 billion annual impact on Florida's economy. The Governor's Office of Trade, Tourism & Economic Development (OTTED) is positioned closely with the military commanders in Florida, which may aid in limiting future base realignment and closures from negatively affecting this area. This strong relationship with the commanders gives the Governor and the State of Florida early warning of support issues they contend with on a regular basis.

Regional economic indicators were also considered in preparing the fiscal year 2011-2012 budget for the City:

- The local unemployment rate was 9.2%, which represents an approximate 1% increase from 2010. The State of Florida's unemployment rate was 10%. The unemployment rate will impact the City's fee and usage based revenues, and shared portions of the State of Florida's usage based taxes.
- The Federal and State of Florida governments have decreased shared revenues and are indicating that future allocations of revenues will continue to decrease for the foreseeable future. Currently, the City has not decreased budgeted intergovernmental revenues; however, the City has budgeted the use of existing fund balance in the coming year.
- For fiscal year 2012, the City had budgeted \$132 thousand of existing reserves, which has been reflected as "FY 2012 Appropriations" in the assigned classification of the General Fund balance for fiscal year ended 2011.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Department, 208 North Partin Drive, Niceville Florida 32578. The City can also be found online at [www.niceville.org](http://www.niceville.org).

**City of Niceville, Florida**  
**STATEMENT OF NET ASSETS**  
**September 30, 2011**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,105,550	\$ 7,929,328	\$ 13,034,878
Receivables, net	213,743	881,767	1,095,510
Internal balances	(478,049)	478,049	-
Due from other governments	210,478	-	210,478
Prepaid items	13,818	37,000	50,818
Inventory, at cost	19,664	247,427	267,091
Restricted assets			
Cash and cash equivalents	463,931	7,827,775	8,291,706
Capital assets, net			
Non-depreciable	1,569,344	1,519,860	3,089,204
Depreciable, net	13,079,710	26,283,577	39,363,287
Other assets			
Bond and loan issuance costs, net	13,257	152,255	165,512
Investment in joint venture	-	964,453	964,453
<b>TOTAL ASSETS</b>	<b><u>20,211,446</u></b>	<b><u>46,321,491</u></b>	<b><u>66,532,937</u></b>
<b>LIABILITIES</b>			
Accounts payable	134,401	256,053	390,454
Accrued wages	86,240	33,044	119,284
Compensated absences	103,598	37,177	140,775
Payable from restricted assets			
Amounts due within one year			
Customer deposits	-	510,208	510,208
Revenue bonds payable	-	535,000	535,000
Notes payable	-	105,000	105,000
State revolving loans payable	-	429,958	429,958
Accrued interest payable	-	186,941	186,941
Amounts due beyond one year			
Compensated absences	310,658	111,743	422,401
Revenue bonds payable, net	2,468,930	6,343,357	8,812,287
State revolving loans payable	-	6,467,279	6,467,279
Notes payable	-	780,000	780,000
<b>TOTAL LIABILITIES</b>	<b><u>3,103,827</u></b>	<b><u>15,795,760</u></b>	<b><u>18,899,587</u></b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	12,180,124	14,958,258	27,138,382
Restricted			
Debt service	-	2,840,061	2,840,061
Renewal and replacement	-	50,000	50,000
Capital improvements/extensions	452,417	4,427,506	4,879,923
Public safety	914	-	914
Housing rehabilitation	10,600	-	10,600
Parks and recreation	377,681	-	377,681
Unrestricted	4,085,883	8,249,906	12,335,789
<b>TOTAL NET ASSETS</b>	<b><u>\$ 17,107,619</u></b>	<b><u>\$ 30,525,731</u></b>	<b><u>\$ 47,633,350</u></b>

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

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Function/program activities							
Government activities							
General government	\$ 3,077,475	\$ 1,926,069	\$ -	\$ -	\$ (1,151,406)	\$ -	\$ (1,151,406)
Public safety	2,673,711	172,630	4,595	20	(2,496,466)	-	(2,496,466)
Physical environment	-	-	10,120	10,600	20,720	-	20,720
Transportation	395,119	54,629	-	-	(340,490)	-	(340,490)
Human services	50,540	-	-	-	(50,540)	-	(50,540)
Culture and recreation	2,321,253	115,757	109,736	35,392	(2,060,368)	-	(2,060,368)
Debt service interest	96,393	-	-	-	(96,393)	-	(96,393)
Total government activities	<u>8,614,491</u>	<u>2,269,085</u>	<u>124,451</u>	<u>46,012</u>	<u>(6,174,943)</u>	<u>-</u>	<u>(6,174,943)</u>
Business-type activities							
Water and sewer	5,585,105	6,629,807	-	646,251	-	1,690,953	1,690,953
Sanitation	2,500,894	2,673,947	-	-	-	173,053	173,053
Stormwater utility management	192,640	413,062	-	23,489	-	243,911	243,911
Total business-type activities	<u>8,278,639</u>	<u>9,716,816</u>	<u>-</u>	<u>669,740</u>	<u>-</u>	<u>2,107,917</u>	<u>2,107,917</u>
Total primary government	<u>\$ 16,893,130</u>	<u>\$ 11,985,901</u>	<u>\$ 124,451</u>	<u>\$ 715,752</u>	<u>\$ (6,174,943)</u>	<u>\$ 2,107,917</u>	<u>\$ (4,067,026)</u>
General revenues							
Taxes							
Property taxes					\$ 2,644,601	\$ -	\$ 2,644,601
Municipal revenue sharing					372,409	-	372,409
Sales taxes					1,245,449	-	1,245,449
Utility service taxes					1,783,238	-	1,783,238
Equity earnings in joint venture					-	101,436	101,436
Miscellaneous					60,701	159,992	220,693
Investment earnings					47,069	53,529	100,598
Transfers					100,000	(100,000)	-
Total general revenues and transfers					<u>6,253,467</u>	<u>214,957</u>	<u>6,468,424</u>
Change in net assets					78,524	2,322,874	2,401,398
Net assets - beginning of year					<u>17,029,095</u>	<u>28,202,857</u>	<u>45,231,952</u>
Net assets - end of year					<u>\$ 17,107,619</u>	<u>\$ 30,525,731</u>	<u>\$ 47,633,350</u>

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

**City of Niceville, Florida**  
**GENERAL FUND**  
**BALANCE SHEET**  
**September 30, 2011**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 5,105,550
Receivables	213,743
Due from other governments	210,478
Inventory, at cost	19,664
Prepaid items	13,818
Restricted assets	
Cash and cash equivalents	<u>463,931</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 6,027,184</u></b>
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities	
Accounts payable	\$ 134,401
Accrued wages payable	86,240
Interfund balances	<u>478,049</u>
<b>Total liabilities</b>	<b><u>698,690</u></b>
Fund balance	
Nonspendable	
Inventory	19,664
Prepaid items	13,818
Restricted	
Public safety	914
Housing rehabilitation	10,600
Parks and recreation seniors/disabled	377,681
Capital improvements	452,417
Assigned	
FY 2012 appropriations	132,000
Public safety	1,240
Capital improvements	452,417
Salary and insurance reserves	403,095
Fireworks	58,451
Unassigned	<u>3,406,197</u>
<b>Total fund balance</b>	<b><u>5,328,494</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 6,027,184</u></b>

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

**City of Niceville, Florida**  
**GENERAL FUND**  
**RECONCILIATION OF THE BALANCE SHEET TO THE**  
**STATEMENT OF NET ASSETS**  
**September 30, 2011**

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Fund balances - total governmental funds (page 17)		\$ 5,328,494
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	1,569,344	
Governmental depreciable assets	27,162,809	
Less accumulated depreciation	<u>(14,083,099)</u>	
		14,649,054
Other assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		
Bond issuance costs	46,000	
Less current year amortization	<u>(32,743)</u>	
		13,257
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Revenue bonds payable	(2,468,930)	
Compensated absences	<u>(414,256)</u>	
		<u>(2,883,186)</u>
Net assets of governmental activities (page 15)		<u>\$ 17,107,619</u>

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

**City of Niceville, Florida**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**Year Ended September 30, 2011**

<b>REVENUES</b>	
Taxes	\$ 4,214,532
Licenses, fees and permits	1,390,147
Intergovernmental	2,215,508
Charges for services	598,464
Fines	66,593
Miscellaneous	<u>107,764</u>
<b>TOTAL REVENUES</b>	<b><u>8,593,008</u></b>
<b>EXPENDITURES</b>	
Current	
General government	1,846,324
Public safety	2,472,693
Transportation	256,304
Internal service	882,579
Human services	50,540
Culture and recreation	2,069,018
Capital outlay	708,775
Debt service	
Principal	565,000
Interest	<u>96,393</u>
<b>TOTAL EXPENDITURES</b>	<b><u>8,947,626</u></b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b><u>(354,618)</u></b>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers in	3,084,959
Transfers out	(2,984,959)
Debt proceeds	2,468,930
Debt principal refunded	<u>(2,325,000)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b><u>243,930</u></b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(110,688)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b><u>5,439,182</u></b>
<b>FUND BALANCE - END OF YEAR</b>	<b><u>\$ 5,328,494</u></b>

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

**City of Niceville, Florida**  
**GENERAL FUND**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**  
**Year Ended September 30, 2011**

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Net change in fund balances - total governmental funds (page 19)		\$ (110,688)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	708,775	
Less current year depreciation	<u>(923,125)</u>	(214,350)

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives.

Disposals of capital assets	(122,645)	
Accumulated depreciation associated with disposals	<u>122,645</u>	-

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Bond proceeds	(2,468,930)	
Principal payments	565,000	
Principal refunded	2,325,000	
Amortization of bond issue costs	<u>(4,251)</u>	416,819

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in long-term compensated absences		<u>(13,257)</u>
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Change in net assets of governmental activities (page 16)		<u>\$ 78,524</u>
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The accompanying notes are an integral  
part of these financial statements.

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

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 4,034,250	\$ 4,034,250	\$ 4,214,532	\$ 180,282
Licenses, fees and permits	1,262,000	1,262,000	1,390,147	128,147
Intergovernmental	2,770,100	2,770,100	2,215,508	(554,592)
Charges for services	400,570	400,570	598,464	197,894
Fines and forfeits	68,600	68,600	66,593	(2,007)
Miscellaneous	<u>170,900</u>	<u>170,900</u>	<u>107,764</u>	<u>(63,136)</u>
TOTAL REVENUES	<u>8,706,420</u>	<u>8,706,420</u>	<u>8,593,008</u>	<u>(113,412)</u>
EXPENDITURES				
Current				
General government services	2,487,110	2,487,110	1,846,324	640,786
Public safety	2,306,330	2,306,330	2,472,693	(166,363)
Transportation	285,700	285,700	256,304	29,396
Internal service	920,060	920,060	882,579	37,481
Human services	50,240	50,240	50,540	(300)
Culture and recreation	2,128,480	2,128,480	2,069,018	59,462
Capital outlay	396,300	396,300	708,775	(312,475)
Debt service	<u>386,000</u>	<u>386,000</u>	<u>661,393</u>	<u>(275,393)</u>
TOTAL EXPENDITURES	<u>8,960,220</u>	<u>8,960,220</u>	<u>8,947,626</u>	<u>12,594</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(253,800)</u>	<u>(253,800)</u>	<u>(354,618)</u>	<u>(100,818)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,935,300	2,935,300	3,084,959	149,659
Transfers out	(2,810,300)	(2,810,300)	(2,984,959)	(174,659)
Debt proceeds	-	-	2,468,930	2,468,930
Principal refunded	<u>-</u>	<u>-</u>	<u>(2,325,000)</u>	<u>(2,325,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>125,000</u>	<u>125,000</u>	<u>243,930</u>	<u>118,930</u>
NET CHANGE IN FUND BALANCE	(128,800)	(128,800)	(110,688)	18,112
FUND BALANCE - BEGINNING OF YEAR	<u>128,800</u>	<u>128,800</u>	<u>5,439,182</u>	<u>5,310,382</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,328,494</u>	<u>\$ 5,328,494</u>

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

**City of Niceville, Florida**  
**PROPRIETARY FUNDS - BUSINESS-TYPE ACTIVITIES**  
**STATEMENT OF NET ASSETS**  
**September 30, 2011**

	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Non-Major Fund - Stormwater Fund</u>	<u>Total Enterprise Funds</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 6,181,517	\$ 1,012,328	\$ 735,483	\$ 7,929,328
Receivables, net	608,013	236,824	36,930	881,767
Interfund balances	478,049	-	-	478,049
Prepaid items	37,000	-	-	37,000
Inventory, at cost	<u>240,034</u>	<u>7,393</u>	<u>-</u>	<u>247,427</u>
Total current assets	<u>7,544,613</u>	<u>1,256,545</u>	<u>772,413</u>	<u>9,573,571</u>
Non-current assets				
Restricted assets				
Cash and cash equivalents	<u>6,308,641</u>	<u>-</u>	<u>1,519,134</u>	<u>7,827,775</u>
Capital assets				
Non-depreciable	1,179,041	317,848	22,971	1,519,860
Depreciable, net	<u>23,898,819</u>	<u>79,724</u>	<u>2,305,034</u>	<u>26,283,577</u>
Total capital assets	<u>25,077,860</u>	<u>397,572</u>	<u>2,328,005</u>	<u>27,803,437</u>
Other assets				
Unamortized bond issue costs	135,869	-	-	135,869
Unamortized loan issue costs	16,386	-	-	16,386
Investment in joint venture	<u>964,453</u>	<u>-</u>	<u>-</u>	<u>964,453</u>
Total other assets	<u>1,116,708</u>	<u>-</u>	<u>-</u>	<u>1,116,708</u>
Total non-current assets	<u>32,503,209</u>	<u>397,572</u>	<u>3,847,139</u>	<u>36,747,920</u>
<b>TOTAL ASSETS</b>	<u><b>\$40,047,822</b></u>	<u><b>\$ 1,654,117</b></u>	<u><b>\$ 4,619,552</b></u>	<u><b>\$46,321,491</b></u>

Continued...

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

**City of Niceville, Florida**  
**PROPRIETARY FUNDS - BUSINESS-TYPE ACTIVITIES**  
**STATEMENT OF NET ASSETS**  
**September 30, 2011**

	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Non-Major Fund - Stormwater Fund</u>	<u>Total Enterprise Funds</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 211,779	\$ 39,929	\$ 4,345	\$ 256,053
Accrued liabilities				
Compensated absences	30,810	6,367	-	37,177
Wages	22,846	10,198	-	33,044
Payable from restricted assets				
Customer deposits	510,208	-	-	510,208
Notes payable	105,000	-	-	105,000
Revenue bonds payable	535,000	-	-	535,000
State revolving loan payable	329,809	-	100,149	429,958
Accrued interest payable	<u>186,941</u>	<u>-</u>	<u>-</u>	<u>186,941</u>
Total current liabilities	<u>1,932,393</u>	<u>56,494</u>	<u>104,494</u>	<u>2,093,381</u>
Non-current liabilities				
Compensated absences	96,889	14,854	-	111,743
Notes payable	780,000	-	-	780,000
Revenue bonds payable, net	6,343,357	-	-	6,343,357
State revolving loan payable	<u>5,456,959</u>	<u>-</u>	<u>1,010,320</u>	<u>6,467,279</u>
Total non-current liabilities	<u>12,677,205</u>	<u>14,854</u>	<u>1,010,320</u>	<u>13,702,379</u>
<b>TOTAL LIABILITIES</b>	<u>14,609,598</u>	<u>71,348</u>	<u>1,114,814</u>	<u>15,795,760</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt				
Restricted				
Renewal and replacements	50,000	-	-	50,000
Debt service	1,320,927	-	1,519,134	2,840,061
Capital improvements	4,427,506	-	-	4,427,506
Unrestricted	<u>6,296,641</u>	<u>1,185,197</u>	<u>768,068</u>	<u>8,249,906</u>
<b>TOTAL NET ASSETS</b>	<u>\$25,438,224</u>	<u>\$ 1,582,769</u>	<u>\$ 3,504,738</u>	<u>\$30,525,731</u>

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

**City of Niceville, Florida**  
**PROPRIETARY FUNDS - BUSINESS-TYPE ACTIVITIES**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Year Ended September 30, 2011**

	Water and Sewer Fund	Sanitation Fund	Non-Major Fund - Stormwater Fund	Total Enterprise Funds
OPERATING REVENUES				
Charges for services	\$ 6,629,807	\$ 2,673,947	\$ 413,062	\$ 9,716,816
OPERATING EXPENSES				
Personal services	1,373,128	699,076	-	2,072,204
Operating	2,582,278	1,739,753	62,076	4,384,107
Depreciation	<u>1,022,072</u>	<u>62,065</u>	<u>92,904</u>	<u>1,177,041</u>
TOTAL OPERATING EXPENSES	<u>4,977,478</u>	<u>2,500,894</u>	<u>154,980</u>	<u>7,633,352</u>
OPERATING INCOME	<u>1,652,329</u>	<u>173,053</u>	<u>258,082</u>	<u>2,083,464</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest expense	(585,606)	-	(37,660)	(623,266)
Amortization	(22,021)	-	-	(22,021)
Equity earnings in joint venture	101,436	-	-	101,436
Interest income	34,976	7,682	-	42,658
Miscellaneous	<u>88,814</u>	<u>71,176</u>	<u>10,870</u>	<u>170,860</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(382,401)</u>	<u>78,858</u>	<u>(26,790)</u>	<u>(330,333)</u>
INCOME BEFORE TRANSFERS	<u>1,269,928</u>	<u>251,911</u>	<u>231,292</u>	<u>1,753,131</u>
Capital contributions - impact fees	646,251	-	23,492	669,743
Transfer out	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>(100,000)</u>
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>596,251</u>	<u>(50,000)</u>	<u>23,492</u>	<u>569,743</u>
CHANGE IN NET ASSETS	1,866,179	201,911	254,784	2,322,874
NET ASSETS - BEGINNING OF YEAR	<u>23,572,045</u>	<u>1,380,858</u>	<u>3,249,954</u>	<u>28,202,857</u>
NET ASSETS - END OF YEAR	<u>\$25,438,224</u>	<u>\$ 1,582,769</u>	<u>\$ 3,504,738</u>	<u>\$30,525,731</u>

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

**City of Niceville, Florida**  
**PROPRIETARY FUNDS - BUSINESS-TYPE ACTIVITIES**  
**STATEMENT OF CASH FLOWS**  
**Year Ended September 30, 2011**

	Water and Sewer Fund	Sanitation Fund	Non-Major Fund - Stormwater Fund	Total Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 6,691,006	\$ 2,671,400	\$ 412,443	\$ 9,774,849
Payments to suppliers	(2,744,743)	(1,799,084)	(59,750)	(4,603,577)
Payments to employees	(1,366,650)	(713,330)	-	(2,079,980)
Miscellaneous income	<u>190,250</u>	<u>71,176</u>	<u>10,870</u>	<u>272,296</u>
Net cash provided (used) by operating activities	<u>2,769,863</u>	<u>230,162</u>	<u>363,563</u>	<u>3,363,588</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Borrowings (repayments)				
Due from other funds	(352,089)	-	-	(352,089)
Transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>(100,000)</u>
Net cash provided (used) by non-capital financing activities	<u>(402,089)</u>	<u>(50,000)</u>	<u>-</u>	<u>(452,089)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisitions of capital assets	(2,243,165)	(91,996)	(219,052)	(2,554,213)
Intergovernmental revenues	-	-	23,492	23,492
Proceeds from impact fees	646,251	-	-	646,251
Proceeds from state revolving loans	1,295,170	-	-	1,295,170
Principal paid on state revolving loans	(282,856)	-	(97,913)	(380,769)
Principal paid on revenue bonds and notes payable	(955,000)	-	-	(955,000)
Interest paid on bonds and notes payable	<u>(587,774)</u>	<u>-</u>	<u>(37,660)</u>	<u>(625,434)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,127,374)</u>	<u>(91,996)</u>	<u>(331,133)</u>	<u>(2,550,503)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	<u>34,976</u>	<u>7,682</u>	<u>-</u>	<u>42,658</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	275,376	95,848	32,430	403,654
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>12,214,782</u>	<u>916,480</u>	<u>2,222,187</u>	<u>15,353,449</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$12,490,158</u>	<u>\$ 1,012,328</u>	<u>\$ 2,254,617</u>	<u>\$15,757,103</u>

Continued...

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

**City of Niceville, Florida**  
**PROPRIETARY FUNDS - BUSINESS-TYPE ACTIVITIES**  
**STATEMENT OF CASH FLOWS**  
**Year Ended September 30, 2011**

	<u>Water and Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Non-Major Fund - Stormwater Fund</u>	<u>Total Enterprise Funds</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF</b>				
Current assets	\$ 6,181,517	\$ 1,012,328	\$ 735,483	\$ 7,929,328
Restricted assets	<u>6,308,641</u>	<u>-</u>	<u>1,519,134</u>	<u>7,827,775</u>
Total cash and cash equivalents	<u>\$12,490,158</u>	<u>\$ 1,012,328</u>	<u>\$ 2,254,617</u>	<u>\$15,757,103</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 1,652,329	\$ 173,053	\$ 258,082	\$ 2,083,464
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	1,022,072	62,065	92,904	1,177,041
Amortization	22,021	-	-	22,021
Miscellaneous revenue	190,250	71,176	10,870	272,296
Decrease (increase) in assets				
Accounts receivable	34,879	(2,547)	(619)	31,713
Due from other governments	26,320	-	-	26,320
Inventory	(95,016)	3,182	-	(91,834)
Prepaid expenses	1,000	-	-	1,000
Increase (decrease) in liabilities				
Accounts payable	(90,470)	(62,513)	2,326	(150,657)
Accrued wages	(13,042)	(5,784)	-	(18,826)
Compensated absences	<u>19,520</u>	<u>(8,470)</u>	<u>-</u>	<u>11,050</u>
Net cash provided (used) by operating activities	<u>\$ 2,769,863</u>	<u>\$ 230,162</u>	<u>\$ 363,563</u>	<u>\$ 3,363,588</u>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS</b>				
Amortization of bond issue costs	<u>\$ 22,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,021</u>
Amortization of discounts and deferred loss on refunding	<u>\$ 13,815</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,815</u>

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

**City of Niceville, Florida**  
**AGENCY FUND - SCHOLARSHIPS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**September 30, 2011**

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ASSETS	
Cash and cash equivalents	\$ 395,202
Due from General Fund	<u>3,860</u>
TOTAL ASSETS	<u>\$ 399,062</u>
LIABILITIES	
Due to scholarship recipients	<u>\$ 399,062</u>
TOTAL LIABILITIES	<u>\$ 399,062</u>

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

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**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Niceville, Florida (the City) was established on July 7, 1938. The City's original charter was enacted as Chapter 31034, Laws of Florida, on June 10, 1955. The present charter was enacted October 1, 1983, by Ordinance Number 511. The City operates under a council-manager form of government and provides the following services: public safety (law enforcement, fire control, protective inspections and emergency and disaster relief services), transportation (road and street facilities), culture and recreation and special events, utility (sanitation, water and sewer, and stormwater) and general administrative services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America applicable to governmental units and the Uniform Accounting System mandated by Chapter 218.33, Florida Statutes. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

The following is a summary of the more significant accounting policies of the City:

**A. The Reporting Entity**

As required by accounting principles generally accepted in the United States of America, these financial statements present the City (the primary government). In evaluating the City as a reporting entity, management has considered all potential component units for which the City may or may not be financially accountable and, as such, be included within the City's financial statements. Management utilized criteria set forth in GASB Statement No. 14 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB Statement No. 14, the City is financially accountable if it appoints a voting majority of the potential component unit's governing board, and it is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

As of September 30, 2011, the City had no component units, as defined by GASB Statement No. 14, with a significant operational or financial relationship with the City.

The Niceville Housing Authority is considered a related organization to the City rather than a component unit. The City Council of Niceville, Florida appoints the board members of the Niceville Housing Authority. However, the Authority's board operates independently of the City Council and does not create a financial burden or benefit to the City.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

**B. Government-Wide and Fund Financial Statements**

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus and Basis of Accounting**

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

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

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

**C. Measurement Focus and Basis of Accounting (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within six months of the end of the current fiscal period, except for property taxes, for which the period is 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes, gasoline taxes, and other intergovernmental revenues collected and held by the state at year-end on behalf of the City, are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Okaloosa County Tax Collector bills and collects property taxes for the City in accordance with the laws of the State of Florida. Property taxes attach as an enforceable lien on property as of the date of assessment and remain in effect until discharge by payment. Taxes are payable when levied (on November 1, or as soon thereafter as the assessment roll becomes available to the Tax Collector).

The following is the current property tax calendar:

Lien Date	January 1, 2011
Levy Date	November 1, 2011
Due Date	November 1, 2011
Delinquent Date	April 1, 2012

Discounts of 1% are granted for each month taxes are paid prior to March 2012.

Revenue recognition criteria for property taxes under the GASB requires that property taxes expected to be collected within 60 days of the current period be accrued. No accrual has been made for 2012 ad valorem taxes because property taxes are not legally due until subsequent to the end of the fiscal year.

Current year taxes, which are uncollected as of the end of the fiscal year, are generally immaterial in amount and highly susceptible to uncollectibility and, therefore, are not recorded as a receivable on the balance sheet date.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

**C. Measurement Focus and Basis of Accounting (Continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected to follow subsequent private-sector guidance.

**D. Basis of Presentation**

The financial transactions of the City are recorded in individual funds. Each fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's utility function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 and services. The City also recognizes, as operating revenues, the portion of tap fees intended to recover the cost of connecting customers to the system.

Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

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

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.

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

**Governmental**

Governmental funds focus on the determination of financial position and changes in financial position (sources, uses and balances of financial resources) and not net income. The City has the following major governmental fund:

General Fund - This is the City's primary operating fund and is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

**Proprietary**

Proprietary funds focus on the determination of net income, changes in net assets, financial position and cash flows. All of the City's proprietary funds are enterprise funds, as fees are charged to external users for services. The following is a description of the City's major proprietary funds:

Water and Sewer Fund - Accounts for the operations of the City, which provides distribution of potable water, sales and service and sanitary wastewater collection, treatment and disposal.

Sanitation Fund - Accounts for the operations of the City, providing for solid waste collection, disposal and/or recycling.

**Fiduciary**

Fiduciary funds are used to account for the assets held on behalf of outside parties, including other governments, individuals and private organizations. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City has the following type of fiduciary fund:

Scholarship Agency Fund - Used to report resources held by the City to provide scholarship awards on a one-time basis to one or more recipients for college, vocational or other technical training aid, pursuant to provisions of the Katie W. Moody Estate and Will. Annual scholarships are awarded based on interest earned on corpus held in the Fund.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

**E. Assets, Liabilities, and Net Assets or Equity**

*Cash and Cash Equivalents*

Each fund's cash on hand, demand deposits, and short-term investments are considered cash and cash equivalents. For purposes of these statements, all highly liquid investments (including restricted assets), with a maturity of three months or less when purchased, are considered to be cash equivalents.

*Deposits and Investments*

Section 218.415, Florida Statutes, requires the investment of surplus public funds and prescribes the instruments in which those investments are authorized, specifically allowable investments include the State of Florida Local Government Surplus Funds Trust Fund, direct obligations of the U.S. Government or other interest-bearing time deposits or saving accounts in the state or federal banks for savings and loan associations, debt securities of the Federal Farm Credit Banks, The Federal Home Loan Mortgages Corporation, the Federal National Mortgage Association and securities of or other interest in certain investment companies or investment trusts, the portfolio of which is limited to the U.S. Government obligations or repurchase agreements fully collateralized by such obligations. The City adheres strictly to the provisions of those cited statutes, as well as with Chapter 280, Florida Statutes, which require the City to maintain deposits only with "Qualified Public Depositories". The City maintains a cash and investment pool available for use by all funds. Earnings from such investments are allocated to the respective funds based on applicable cash participation by each fund. In addition, restricted cash accounts, money market deposit accounts, and certificates of deposit are separately maintained by several City funds in accordance with bond ordinances and other contractual agreements. Investments are stated at fair value.

*Receivables and Payables*

Interfund transactions are reflected as loans, services provided, reimbursements or transfers. Loans between funds outstanding at the end of the fiscal year are referred to as either "due to other funds" or "due from other funds" (i.e., the current portion of interfund loans) or "advances" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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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)*

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. All proprietary fund receivables are shown net of an allowance for uncollectibles. The allowance is computed using 65% of receivables in excess of 90 days.

*Inventory*

Inventory is valued at cost (first-in, first-out). The consumption method is used to account for inventory. Under the consumption method, inventory items are recorded as expenditures during the period inventory is used. A portion of the General Fund balance equal to the inventory amount has been reserved in the fund financial statements to indicate that it is not available for appropriation.

*Restricted Assets*

Restricted assets are maintained in both the governmental and business-type activities. Certain proceeds of enterprise fund revenue bonds, State Revolving Loan funds, and the governmental unit note as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants. The Capital Projects and Extensions Account is used to report those proceeds of revenue bond issuances that are restricted for use in capital improvements. The Renewal and Replacement Account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. The Debt Service Account is used to segregate resources accumulated for debt service payments over the next 12 months. The Reserve Fund Account is used to report resources set aside to makeup potential future deficiencies in the sinking fund account. Water meter deposits received from customers of the water and sewer system are placed in the Water Meter Deposit Trust Account. This money is restricted to use as payment of the final customer bill or returned to the customer upon settlement of the final bill. Additionally, impact fees from customers are restricted in the Water and Sewer Fund for future system improvements. The assets restricted for parks and recreations relate to the restrictions imposed by the Katie W. Moody Estate and Will.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

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

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (roads, bridges, curbs and sidewalks, drainage systems, lighting systems 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 City as assets with an initial cost more than the following:

Land		All
Buildings and improvements	\$	10,000
Infrastructure	\$	10,000
Improvements - other	\$	10,000
Equipment, vehicles computers	\$	1,000
Library books		All

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-50 Years
Improvements other than buildings	7-50 Years
System infrastructure	20-40 Years
Machinery and equipment	3-10 Years

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

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

*Compensated Absences (Continued)*

The policy of the City for annual and sick leave is as follows:

1. Upon completing 12 months of employment, an employee accrues 48 hours of sick leave. Thereafter, the employee accrues eight hours of sick leave per month.
2. Upon completing 12 months of employment, an employee accrues 96 hours of annual leave, with the exception of a police officer who accrues 144 hours of annual leave. Thereafter, the employee, with the exception of a police officer, accrues eight hours of annual leave per month for the first seven years of employment. A police officer accrues 12 hours of annual leave per month regardless of the length of service.
3. After the first seven years of employment, an employee accrues 12 hours of annual leave per month. Accrual of sick leave remains the same.
4. Upon termination of employment, an employee will be paid for accumulated annual leave as indicated by the schedule below, but all accumulated sick leave will be forfeited.

Years of Employment	Maximum Number of Accumulated Hrs. to be Paid
0-6 Years	240
7-15 Years	360
15 or More Years	480

*Long-Term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary funds Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

The difference between the re-acquisition price (new debt and the net carrying value of the old debt) creates a deferred gain/loss from advance refunding of debt. This difference is deferred and amortized as a component of interest expense using the bonds outstanding method over the shorter of the remaining life of the old debt or the life of the new debt. The deferred account is offset against the new liability.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

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

*Long-Term Obligations (Continued)*

In the fund financial statements, governmental fund types recognize bond premiums and discounts, gains/loss from refunding, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums and gains from refundings received on debt issuances are reported as other financing sources while discounts and losses from refundings on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

*Classification of Fund Balance*

GASB Statement #54 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 the governmental funds. Fund balance classifications, under GASB 54, are Nonspendable, Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, 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 fund balance. In all other funds, unassigned is limited to negative residual fund balance.

The City, in its General Fund, presents nonspendable fund balance for inventory and prepaid items. Amounts appropriated for use in the 2012 fiscal year budget process are classified as assigned. Amounts reserved for encumbrances, with no contractual obligations, are classified as assigned. All other amounts in the General Fund are considered unassigned.

*Net Assets*

Net assets in the government-wide financial statements are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to property, plant and equipment, net of any related debt. Restricted net assets represent the net assets restricted by State legislation.

**F. Reclassifications**

Certain accounts in prior-year financial statements have been reclassified for comparative purposes to conform to presentation in the current-year financial statements.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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

**G. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets**

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted by ordinance for all governmental and proprietary funds. However, budgets for proprietary funds are not legally required to be reported on and are not included in these financial statements. All appropriations lapse at fiscal year-end except for appropriations related to multi-year capital projects.

Budgetary data reflected in the financial statements are established by the following procedures. During the month of June, City departments submit their proposed expenditures or requested appropriations to the City Manager for consideration. These proposed expenditures, along with all estimated receipts, taxes to be levied, and balances expected to be brought forward are considered by the City Manager during July. The City Manager along with the Council determine if any changes are deemed necessary and establish dates for tentative and final public budget hearings as prescribed by Florida Statutes.

Proposed budgets are advertised by newspapers of general circulation in the City. Public hearings are conducted for the purpose of hearing requests and complaints from the public. In the event the final budget has not been adopted by October 1, the beginning of the fiscal year, Florida Statutes provide for expenditures based on the adopted tentative budget. The final budget is adopted by ordinance. Any subsequent amendments must be enacted in the same manner as the original budget.

Budget amounts reflected in the financial statements are originally adopted amounts as amended by the City Council by revision of fund totals. No budget amendments were made to originally adopted amounts for fiscal year 2011.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

***Budgets (Continued)***

The level of budgetary control (that is the level at which expenditures cannot legally exceed appropriations) has been established at the fund level. The City Manager and/or City Clerk are authorized to transfer budgeted amounts within departments of a fund and between departments of a fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

***Encumbrances***

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources that are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end are reported as assignment of fund balance and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The investment of surplus funds is governed by provision of Florida Statute 218.415 as to the type of investments that can be made. Deposits may be exposed to custodial credit risk, which is the risk that in the event of a bank failure, the government's deposits may not be returned.

The City manages its custodial credit risk by maintaining its deposits 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 deposit eligible collateral with the Treasurer of the State of Florida equal to or in excess of their required collateral pledging level. In the event of default by a qualified public institution, the Treasurer will pay public depositors all losses in excess of insurance and collateral through assessments among all Qualified Public Depositories.

The City's deposits at September 30, 2011, were entirely covered by federal depository insurance or pooled collateral held by the State Treasurer and, therefore, have no custodial risk.

The types of investments, which can be made by the City, are restricted by state statutes and other contractual agreements. A description of the requirements and the types of investments allowed can be found in Note 1-E. As of September 30, 2011, the City did not have any investments.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

**NOTE 4 - RECEIVABLES**

Receivables at September 30, 2011, were as follows:

	Governmental	Business-Type			Total
	Activities	Activities			
	General	Water and Sewer	Sanitation	Stormwater Utility Management	
Taxes	\$ 22,232	\$ -	\$ -	\$ -	\$ 22,232
Interest	-	7,071	-	-	7,071
Accounts	191,511	639,400	269,180	42,656	1,142,747
Less allowance for doubtful accounts	-	(38,458)	(32,356)	(5,726)	(76,540)
Receivables, net	<u>213,743</u>	<u>608,013</u>	<u>236,824</u>	<u>36,930</u>	<u>1,095,510</u>
Due from other governments	210,478	-	-	-	210,478
Total	<u>\$ 424,221</u>	<u>\$ 608,013</u>	<u>\$ 236,824</u>	<u>\$ 36,930</u>	<u>\$ 1,305,988</u>

**Due from Other Governments**

Due from other governments relates to 1/2 cent sales tax, state revenue sharing proceeds, local option fuel tax and other intergovernmental revenue.

**NOTE 5 - CHANGES IN CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 1,209,026	\$ 352,089	\$ -	\$ 1,561,115
Construction in progress	8,229	-	-	8,229
Total capital assets not being depreciated	<u>1,217,255</u>	<u>352,089</u>	<u>-</u>	<u>1,569,344</u>
Capital assets being depreciated				
Buildings	5,644,541	-	-	5,644,541
Improvements other than buildings	9,011,162	208,803	-	9,219,965
Infrastructure	7,450,171	-	-	7,450,171
Machinery and equipment	4,408,935	147,883	(97,783)	4,459,035
Library books	413,959	-	(24,862)	389,097
Total capital assets being depreciated	<u>26,928,768</u>	<u>356,686</u>	<u>(122,645)</u>	<u>27,162,809</u>
Less accumulated depreciation				
Buildings	(1,737,921)	(185,001)	-	(1,922,922)
Improvements other than buildings	(3,250,824)	(217,074)	-	(3,467,898)
Infrastructure	(3,974,061)	(284,111)	-	(4,258,172)
Machinery and equipment	(3,905,854)	(236,939)	97,783	(4,045,010)
Library books	(413,959)	-	24,862	(389,097)
Total accumulated depreciation	<u>(13,282,619)</u>	<u>(923,125)</u>	<u>122,645</u>	<u>(14,083,099)</u>
Total capital assets being depreciated, net	<u>13,646,149</u>	<u>(566,439)</u>	<u>-</u>	<u>13,079,710</u>
<b>Governmental activities, net</b>	<u>\$ 14,863,404</u>	<u>\$ (214,350)</u>	<u>\$ -</u>	<u>\$ 14,649,054</u>

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

**NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 867,297	\$ -	\$ -	\$ 867,297
Construction in progress	<u>605,561</u>	<u>47,002</u>	<u>-</u>	<u>652,563</u>
Total capital assets not being depreciated	<u>1,472,858</u>	<u>47,002</u>	<u>-</u>	<u>1,519,860</u>
Capital assets being depreciated				
Buildings	2,837,452	11,246	-	2,848,698
Improvements other than buildings	32,622,586	2,372,327	-	34,994,913
Machinery and equipment	<u>2,663,402</u>	<u>123,638</u>	<u>(70,058)</u>	<u>2,716,982</u>
Total capital assets being depreciated	<u>38,123,440</u>	<u>2,507,211</u>	<u>(70,058)</u>	<u>40,560,593</u>
Less accumulated depreciation				
Buildings	(1,550,357)	(52,254)	-	(1,602,611)
Improvements other than buildings	(9,342,132)	(783,200)	-	(10,125,332)
Machinery and equipment	<u>(2,277,544)</u>	<u>(341,587)</u>	<u>70,058</u>	<u>(2,549,073)</u>
Total accumulated depreciation	<u>(13,170,033)</u>	<u>(1,177,041)</u>	<u>70,058</u>	<u>(14,277,016)</u>
Total capital assets being depreciated, net	<u>24,953,407</u>	<u>1,330,170</u>	<u>-</u>	<u>26,283,577</u>
<b>Business-type activities, net</b>	<u>\$ 26,426,265</u>	<u>\$ 1,377,172</u>	<u>\$ -</u>	<u>\$ 27,803,437</u>

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

<b>Governmental activities</b>	
General government	\$ 316,113
Public safety	216,000
Transportation	138,815
Culture and recreation	<u>252,197</u>
Total depreciation expense - governmental activities	<u>\$ 923,125</u>
<b>Business-type activities</b>	
Water and sewer	\$ 1,022,072
Sanitation	62,065
Non-major	<u>92,904</u>
Total depreciation expense - business-type activities	<u>\$ 1,177,041</u>

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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**NOTE 6 - DEFERRED COMPENSATION PLAN**

The City offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan allows a participant to elect deferral of any portion of their salaries, with the City matching contributions varying from 3% to 12.5% of salary, based upon the participant's years of participation in the program. An employee must match the City's contribution until completion of five years continuous participation in the program, and the contribution may then go to the minimum 5% of salary. After 10 years of participation, the employee does not have to contribute.

<u>City's Matching Contribution</u>	<u>Percentage</u>
1-3 years participation	3.0 %
4-5 years participation	4.0 %
6-7 years participation	6.0 %
8-9 years participation	8.0 %
10 or more years participation and under the purview of a bargaining unit	10.0 %
10 or more years of service - all other employees	12.5 %

The City's only responsibilities with regard to the plan are to fund its required matching contributions and to administer authorized payroll deductions. All other administrative requirements are the responsibility of the Hartford Variable Annuity Life Insurance Company. Effective October 1, 2004, the City began participation in the Florida Retirement System for its police officer employees, and therefore made no matching contributions under the deferred compensation plan for such employees.

Funds may be invested in annuity contracts providing for fixed annuity contributions at a guaranteed rate of interest, variable annuity contributions to a bond account and/or a stock account, or any combination thereof, at the participant's option.

In accordance with GASB Statement No. 32, the assets and liabilities of the plan are not reflected in the City's financial statements since the City has no fiduciary responsibilities, other than administrative, in connection with the plan.

Assets of the plan have a fair value of \$2,718,620 at September 30, 2011. The City made matching contributions during the fiscal year ended September 30, 2011, of \$50,816.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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**NOTE 7 - PENSION PLAN**

**Plan Description**

On October 1, 2004, the City became a participant in the Florida Retirement System (FRS), a cost-sharing multiple-employer retirement plan administered by the State of Florida Division of Retirement, Department of Management Services for its police officer employees. Effective October 1, 2005, the City expanded its participation in the Florida Retirement System (FRS) to all general full-time employees and firefighters. The FRS provides retirement, disability or death benefits to Plan members or their designated beneficiaries. Benefit provisions are established under Chapter 12, Florida Statutes, which may only be amended by the Florida Legislature. The FRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State of Florida, Division of Retirement, P.O. Box 9000, Tallahassee, Florida 32315-9000, or by contacting Research and Education by email at rep@dms.myflorida.com or by phone toll-free at 877-FRS-1FRS (877-377-1737), at 850-488-5706, or SUNCOM 850-278-5706.

**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 no longer automatic at 3%. COLA percentages will be calculated individually for each Plan member using a reduced formula as total years of service earned prior to July 1, 2011 to total years of service at retirement, multiplied by 3%.

New members enrolling into FRS for the first time after July 1, 2011 will be subject to additional changes including 1) an increased vesting period from 6 years to 8 years, 2) a change calculation of benefits using Average Final Compensation (AFC) on the highest eight years of compensation as compared to highest five years. In addition, the normal retirement date for Regular, Senior Management Service, Elected Officers', and Special Risk Administrative Support Classes was modified to be age 65, with 8 years of service or 33 years of service regardless of age. Normal retirement for Special Risk Class members now at age 60, with 8 years of service, or 30 years of special risk class service OR age 57, with 30 years of combined special risk class service and military service. For those members participating in the Deferred Retirement Option Program (DROP), 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 Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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**NOTE 7 - PENSION PLAN (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.

Effective July 1, 2011, the actuarially determined contribution rates, expressed as a percentage of covered payroll, including the required employee 3% contribution are 15.99% for police officer and firefighter (special risk) employees, 6.80% for regular employees, and 3.31% for the Deferred Retirement Option Program (DROP). The City's contributions to the plan for fiscal years ended September 30, 2011, 2010, and 2009, listed below, were equal to the required contributions for the year.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>
September 30, 2011	\$ 587,965
September 30, 2010	\$ 535,427
September 30, 2009	\$ 531,132

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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**NOTE 8 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases insurance through commercial carriers which includes workers' compensation, comprehensive general liability, and automobile physical damage.

The remaining insurance coverage, which includes but is not limited to property, flood, inland marine, boiler and machinery, and fiduciary, is purchased from various commercial carriers. The City maintains minimal deductibles for insurance policies purchased through these carriers.

There has been no significant reduction in insurance coverage from prior fiscal year. Insurance coverage has been sufficient to cover all claims made in the prior three fiscal years.

**NOTE 9 - OPERATING LEASES**

**Rocky Bayou Country Club Lease**

During 1998, the City entered into a land lease with Rocky Bayou Country Club for the purpose of a water well site. The initial payment of \$50,000 is amortized over 50 years, which is the life of the lease. Annual rent expense for this land is \$1,000, and has been accounted for in the Water and Sewer Enterprise Fund. At September 30, 2011, \$37,000 has been recorded as prepaid items.

**Board of County Commissioners Lease**

In October 2008, the City renewed an operating lease with the Board of County Commissioners for office space within the City's Public Library building for the purpose of housing the Okaloosa County Public Library Co-operative headquarters. The lease period is two years, providing annual lease income of \$13,000. The lease automatically renews, unless cancelled by either party. For the year ended September 30, 2011, \$13,000 was recognized as income and included as a component of charges for services in the General Fund.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

**NOTE 10 - LONG-TERM DEBT**

**Changes in Long-Term Debt Liabilities**

Long-term debt activity for the year ended September 30, 2011, is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
<b>Governmental activities</b>					
Sales Tax Revenue Bonds Series 2003	\$ 1,185,000	\$ -	\$ (1,185,000)	\$ -	\$ -
Sales Tax Revenue Refunding Bonds, Series 2011	-	1,009,101	-	1,009,101	-
Gas Tax Revenue Bonds Series 2003	1,705,000	-	(1,705,000)	-	-
Gas Tax Revenue Refunding Bonds Series 2011	-	1,459,829	-	1,459,829	-
Compensated absences	400,999	1,086,953	(1,073,696)	414,256	103,598
<b>Total governmental activities</b>	<b>\$ 3,290,999</b>	<b>\$ 3,555,883</b>	<b>\$ (3,963,696)</b>	<b>\$ 2,883,186</b>	<b>\$ 103,598</b>
<b>Business-type activities</b>					
Water and Sewer Refunding Bonds Series 1993					
Current interest bonds	\$ 676,064	\$ -	\$ (370,000)	\$ 306,064	\$ 370,000
Accretion	1,686,516	128,899	-	1,815,415	-
Less deferred amount for bond discount	(7,858)	-	1,001	(6,857)	-
Less deferred loss on refunding	(1,727)	-	1,727	-	-
Water and Sewer Revenue Bonds Series 2005	5,230,000	-	(160,000)	5,070,000	165,000
Less deferred amount for bond discounts	(126,322)	-	6,649	(119,673)	-
Less deferred loss on refunding	(199,312)	-	12,088	(187,224)	-
Florida DEP State Revolving Loan, 1997	258,510	-	(48,425)	210,085	50,002
Florida DEP State Revolving Loan, 2001	183,167	-	(14,677)	168,490	15,202
Florida DEP State Revolving Loan, 2002A	1,679,646	-	(106,604)	1,573,042	108,110
Florida DEP State Revolving Loan, 2002B	67,028	-	(21,662)	45,366	22,336
Florida DEP State Revolving Loan, 2003	1,208,382	-	(97,912)	1,110,470	100,149
Florida DEP State Revolving Loan, 2005A	836,078	-	(42,778)	793,300	44,105
Florida DEP State Revolving Loan, 2005B	1,123,338	-	(56,811)	1,066,527	58,388
Florida DEP State Revolving Loan, 2010	680,617	183,757	(45,830)	818,544	31,666
Florida DEP State Revolving Loan, 2011	-	1,111,413	-	1,111,413	-
Gulf Breeze governmental unit note payable	325,000	-	(325,000)	-	-
Water and sewer note payable	985,000	-	(100,000)	885,000	105,000
Compensated absences	137,869	334,222	(323,171)	148,920	37,177
<b>Total business-type activities</b>	<b>\$ 14,741,996</b>	<b>\$ 1,758,291</b>	<b>\$ (1,691,405)</b>	<b>\$ 14,808,882</b>	<b>\$ 1,107,135</b>

**Refundings**

In September 2011, the City issued \$1,009,101 of a Sales Tax Refunding Bonds, Series 2011 and \$1,459,829 of a Gas Tax Refunding Bonds, Series 2011 to pay off its existing Series 2003 Sales Tax and Gas Tax Revenue Bonds, and to take advantage of lower interest rates. The old rate was 3.75%, with the new rate of 1.97%. Additional proceeds of \$143,930 were used to pay for cost of issuance of \$46,000, and the remaining \$97,930 set aside in a construction account. The refunded portion of the transaction resulted in an economic gain of \$158,441 and cash flow savings of \$186,056.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

**NOTE 10 - LONG-TERM DEBT (CONTINUED)**

**Description of Long-Term Debt Outstanding**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES</b>			
<b><i>Sales Tax Revenue Refunding Bonds</i></b>			
\$1,009,101 Sales Tax Revenue Refunding Bonds, Series 2011, 1.97% serial bonds due in annual installments of \$144,763 to \$157,906, beginning October 1, 2012, through October 1, 2018. Bond proceeds were utilized for the current refunding of the Sales Tax Revenue Bonds, Series 2003 as of September 28, 2011.	\$ -	\$ 1,009,101	\$ 1,009,101
<b><i>Gas Tax Revenue Refunding Bonds</i></b>			
\$1,459,829 Gas Tax Revenue Refunding Bonds, Series 2011, 1.97% serial bonds due in annual installments of \$210,706 to \$224,114, beginning October 1, 2012, through October 1, 2018. Bond proceeds were utilized for the current refunding of the Gas Tax Revenue Bonds, Series 2011 as of September 28, 2011	-	1,459,829	1,459,829
<b><i>Accrued Compensated Absences</i></b>			
Total long-term portion of accumulated, vested annual and sick leave for governmental fund types.	<u>103,598</u>	<u>310,658</u>	<u>414,256</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 103,598</u></b>	<b><u>\$ 2,779,588</u></b>	<b><u>\$ 2,883,186</u></b>
<b>BUSINESS-TYPE ACTIVITIES</b>			
<b><i>Revenue Bonds</i></b>			
\$2,336,065 Water and Sewer Refunding Bonds, capital appreciation bonds with no stated interest rate, effective interest rate of 5.5% to 5.7% compounded semi-annually through June 1, 2018; issued in denominations of \$5,000 maturity value due in annual installments of \$10,000 to \$370,000 from June 1, 2007, through June 1, 2018.	\$ 370,000	\$ 1,751,479	\$ 2,121,479
Less unamortized bond discount	-	(6,857)	(6,857)

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

**NOTE 10 - 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>			
\$5,980,000 Water and Sewer Revenue Bonds, Series 2005, serial bonds due in annual installments of \$145,000 to \$475,000, from June 1, 2005, through June 1, 2030; interest rates range from 3.7% to 4.3% over the life of the bonds; bond proceeds used to refund the 1996 and 1999A Water and Sewer Revenue Bonds and to finance construction of extensions, additions and improvements to the Water and Sewer System.	165,000	4,905,000	5,070,000
Less unamortized bond discount	-	(119,673)	(119,673)
Less unamortized deferred loss on refunding	-	(187,224)	(187,224)
<b><i>Total Revenue Bonds</i></b>	<u>535,000</u>	<u>6,342,725</u>	<u>6,877,725</u>
<b><i>State Revolving Loans</i></b>			
\$834,713 State of Florida Department of Environment Protection Revolving Loan Fund; semi-annual payments including capitalized interest of \$28,206 including interest at 3.24% beginning September 1, 1997, through September 1, 2015. Proceeds used to finance rehabilitation of Bayshore Interceptor Project.	50,002	160,083	210,085
\$327,813 State of Florida Department of Environment Protection Revolving Loan Fund; semi-annual payments of \$10,525 including interest and service fees at 3.55% beginning October 15, 2001, through October 15, 2020. Proceeds used to construct a collection, transmission, and reuse facility associated with NVOC Effluent Pump Station Rehabilitation contract.	15,202	153,288	168,490
\$2,304,000 State of Florida Department of Environment Protection Revolving Loan Fund; semi-annual payments including capitalized interest of \$80,609 including interest at 3.09% beginning March 15, 2004, through September 15, 2023. Proceeds used to construct Reclaimed Water Facility.	108,110	1,464,932	1,573,042
\$192,223 State of Florida Department of Environment Protection Revolving Loan Fund; semi-annual payments including capitalized interest of \$11,783 including interest at 3.09% beginning March 15, 2004, through September 15, 2013. Proceeds used for pre-construction of Reclaimed Water Facility.	22,336	23,030	45,366

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

**NOTE 10 - 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>State Revolving Loans (Continued)</i></b>			
\$836,019 State of Florida Department of Environment Protection Revolving Loan Fund; semi-annual payments including capitalized interest of \$53,537 including interest at 3.16% beginning August 15, 2004, through February 15, 2016. Proceeds used for the construction of a Stormwater Management Facility.	100,149	1,010,321	1,110,470
\$967,743 State of Florida Department of Environment Protection Revolving Loan Fund; semi-annual payments including capitalized interest of \$17,177 including interest at 4% beginning July 15, 2006, through January 15, 2026. Proceeds used to finance the Bayshore Sewer Rehabilitation Project.	44,105	749,195	793,300
\$1,295,558 State of Florida Department of Environment Protection Revolving Loan Fund; semi-annual payments including capitalized interest of \$43,725 including interest at 2.78% beginning March 15, 2007, through September 15, 2026. Proceeds used to finance a 2.0 MGD filter additional to the Reclaimed Water System.	58,388	1,008,139	1,066,527
\$1,111,413 State of Florida Department of Environment Protection Revolving Loan Fund; semi-annual payments including capitalized interest of \$71,605 including interest at 2.76% beginning December 15, 2012, through June 15, 2021. Proceeds used to finance the construction of the new City Hall Pump Station.	-	1,111,413	1,111,413
\$868,072 State of Florida Department of Environment Protection Revolving Loan Fund; semi-annual payments of \$28,486 including capitalized interest of \$3,698 including interest at 2.96% beginning November 15, 2010, through May 15, 2030. Proceeds used to finance the combination of lift stations #3 and #4.	<u>31,666</u>	<u>786,878</u>	<u>818,544</u>
<b><i>Total State Revolving Loans</i></b>	<u>429,958</u>	<u>6,467,280</u>	<u>6,897,237</u>

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

**NOTE 10 - 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>Notes Payable</i></b>			
\$1,255,000 note payable due in annual installments of \$85,000 to \$150,000, beginning June 1, 2008, through June 1, 2018, bearing a fixed interest rate of 3.80%. Loan proceeds were used to pay off the 1999B water and sewer bonds and to obtain a fixed rate 10-year commercial loan.	<u>105,000</u>	<u>780,000</u>	<u>885,000</u>
<b><i>Total Notes Payable</i></b>	<u>105,000</u>	<u>780,000</u>	<u>885,000</u>
<b><i>Accrued Compensated Absences</i></b>			
Accumulated, vested annual compensation for Enterprise Funds.	<u>37,177</u>	<u>111,743</u>	<u>148,920</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u>\$ 1,107,135</u>	<u>\$ 13,701,748</u>	<u>\$ 14,808,882</u>
<b>GRAND TOTAL LONG-TERM DEBT</b>			<u>\$ 17,692,068</u>

***Annual Requirements to Amortize Debt Outstanding***

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>			
	<u>Sales Tax Revenue Refunding</u>		<u>Gas Tax Revenue Refunding</u>	
	<u>Bonds, Series 2011</u>		<u>Bonds, Series 2011</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ -	\$ 10,105	\$ -	\$ 14,619
2013	134,823	18,551	196,327	26,825
2014	137,916	15,865	198,579	22,935
2015	140,881	13,119	205,641	18,953
2016	143,715	10,315	207,511	14,884
2016-2019	<u>451,766</u>	<u>13,546</u>	<u>651,771</u>	<u>19,412</u>
Total	<u>\$ 1,009,101</u>	<u>\$ 81,501</u>	<u>\$ 1,459,829</u>	<u>\$ 117,628</u>

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

**NOTE 10 - LONG-TERM DEBT (CONTINUED)**

***Annual Requirements to Amortize Debt Outstanding (Continued)***

Year Ending September 30	<b>Business-Type Activities</b>					
	Water and Sewer Revenue Bonds		State Revolving Loans		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 535,000	\$ 321,001	\$ 429,958	\$ 135,172	\$ 105,000	\$ 35,530
2013	545,000	300,856	546,024	184,098	115,000	31,635
2014	545,000	279,295	567,351	140,673	120,000	27,455
2015	385,000	258,581	583,160	121,075	125,000	22,990
2016	385,000	240,634	542,466	111,936	130,000	18,335
2016-2020	1,695,000	937,725	2,796,239	350,172	290,000	24,700
2021-2025	1,815,000	585,408	1,222,306	76,937	-	-
2026-2030	1,755,000	167,996	209,734	7,229	-	-
Total	<u>\$ 7,660,000</u>	<u>\$ 3,091,496</u>	<u>\$ 6,897,238</u>	<u>\$ 1,127,292</u>	<u>\$ 885,000</u>	<u>\$ 160,645</u>

The above amortization schedule does not agree to the debt balances outstanding as of September 30, 2011, due to accrued debt balances from the 1993 Water and Sewer Revenue Bond, which are reported at the matured value in the above amortization schedule.

***Defeased Bond Issues***

In prior years, the City has defeased various bond issues. Of those defeased issues, the following amount is outstanding at September 30, 2011:

Water and sewer revenue 1964 and 1979	<u>\$ 955,000</u>
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**NOTE 11 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of September 30, 2011, is as follows:

<i>Due to/from Other Funds</i>		
Receivable Fund	Payable Fund	Amount
Water and Sewer	General	<u>\$ 478,049</u>

Water and Sewer Fund receivables from the General Fund of \$478,049 results from temporary advances made for various street, parks and public safety projects.

<u>Transfers Out</u>	<u>Transfers In</u>
	General Fund
Water and Sewer Fund	\$ 50,000
Sanitation	50,000
	<u>\$ 100,000</u>

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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**NOTE 11 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**  
**(CONTINUED)**

Transfers between funds occur on a routine basis and are consistent with the activities of the fund making the transfer, contingent upon the availability of funds.

**NOTE 12 - JOINT VENTURE**

***Niceville, Valparaiso, Okaloosa County Regional Sewer Board***

The City, in alliance with the City of Valparaiso and Okaloosa County, began implementation in 1975, of initial steps leading to the eventual construction of a comprehensive regional sanitary sewer system designed to provide service to residents of the City and Valparaiso, as well as County residents within the general area. The project was funded 75% by the U.S. Environmental Protection Agency (EPA) Grants under provisions of Public Law 92-500 and 25% by the local government applicants.

The system was completed and placed in service during fiscal year ended September 30, 1982. The City presently owns 44% of the operating capacity of the total system. The City of Valparaiso is a 20% owner and Okaloosa County is a 36% owner. The in-service cost of the property, plant and equipment paid for through the initial combined funding of the participants and the EPA was recorded pro rata on the accounting records of the individual participants.

The City's portion of assets, which are accounted for in the Water and Sewer Enterprise Fund, are as follows:

Land		\$ 92,114
Building and plant		2,813,582
Improvements other than buildings		
Plant improvements	1,777,037	
Lift stations and force mains	<u>632,254</u>	
		2,409,291
Machinery and equipment		<u>54,231</u>
Total		<u>\$ 5,369,218</u>

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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**NOTE 12 - JOINT VENTURE (CONTINUED)**

***Niceville, Valparaiso, Okaloosa County Regional Sewer Board (Continued)***

The system is managed and operated by a separate governing body (the City, Valparaiso, Okaloosa County Regional Sewer Board, Inc.) consisting of six members; two appointed by each of the three participants. The Sewer Board is responsible for preparing and approving its own budget. The cost of operations, including additional equipment and inventory purchases, is accounted for, in total, on the books and financial statements of the Sewer Board. The City's share of operating results of the City, Valparaiso, Okaloosa County Regional Sewer Board, Inc. is reported in the City's Water and Sewer Enterprise Fund. The City's portion of the equity in the joint venture is \$964,453 as of September 30, 2011. Complete financial statements for the City, Valparaiso, Okaloosa County Regional Sewer Board, Inc. can be obtained from the Sewer Board's administrative office at 507 Crestview Avenue, Niceville, Florida 32578.

**NOTE 13 - GOVERNMENTAL FUND BALANCES**

On October 1, 2010, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement clarifies governmental fund balance classifications and fund-type definitions. Fund balances are classified either as non-spendable or as spendable. Spendable fund balances are further classified in a hierarchy based on the extent to which there are external and internal constraints on the spending of these fund balances. These classifications are described as follows:

- *Non-spendable fund balances* include amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. Nonspendable balances at year-end consisted of \$19,664 for inventory, and \$13,818 for prepaid items.
- *Spendable fund balances* are classified as follows on the City's ability to control the spending of these fund balances.
- *Restricted fund balances* can only be used for specific purposes which are externally imposed by creditors, grantors, contributors, or laws or regulations or are imposed by law through constitutional provisions or enabling legislation. As of September 30, 2011, the City had restricted fund balances of \$841,612 in its General Fund, consisting of \$914 for public safety, \$10,600 for housing rehabilitation projects, \$377,681 for parks and recreation, and \$452,417 for capital improvement projects.
- *Committed fund balances* can only be used for specific purposes imposed internally by the City's formal action of highest level of decision making authority. As of September 30, 2011, the City had no committed fund balances.

**City of Niceville, Florida**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011**

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**NOTE 13 - GOVERNMENTAL FUND BALANCES (CONTINUED)**

- *Assigned fund balances* are fund balances intended to be used for specific purposes, but which do not meet the more formal criterion to be considered either restricted or committed. As of September 30, 2011, the City had \$1,047,203 in assigned fund balances, consisting of \$132,000 for the 2012 budget, \$1,240 for public safety, \$452,417 for capital projects, \$403,095 for salary and insurance reserves, and \$58,451 for fireworks.
- *Unassigned fund balances* represent the residual positive fund balance within the General Fund, which has not been assigned to other funds and has not been restricted, committed, or assigned. In funds other than the General Fund, unassigned fund balances are limited to negative residual balances. As of September 30, 2011, the City had \$3,406,197 in unassigned fund balances.

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

**Reclaimed Water**

The City has entered into an agreement to share equally in the costs to expand a reclaimed water system with Okaloosa County. The City will share equally with the County all future costs of capital expenditures, operations, major maintenance and repair, and billing and collection services. The agreement, signed in October 2002, has an initial term of 20 years, which may be continued for additional 10-year increments by mutual written consent of both parties.

**Legal Matters**

The City Attorney has indicated that there are not items pending or recently resolved litigation which would materially affect the City's financial statements as of September 30, 2011.

**NOTE 15 - SUBSEQUENT EVENT**

On December 28, 2011, the City issued \$5,000,000 of Water and Sewer Bonds, Series 2011 for the purpose of current refunding the remaining \$885,000 of outstanding principal on its note payable and approximately \$3,190,000 of outstanding principal on its various State Revolving Funds Loans. The City received \$925,000 of new monies, of which \$60,000 was earmarked towards cost of issuance, with the remaining \$865,000 set aside for future capital outlay projects.

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# **CITY OF NICEVILLE, FLORIDA**

## **INDIVIDUAL FUND STATEMENT**

This financial statement provides a more detailed view of the Basic Financial Statements presented in the preceding section.

### **FIDUCIARY FUND - AGENCY FUND**

Scholarship Agency Fund - Used to report resources held by the City to provide scholarship awards on a one-time basis to one or more recipients for college, vocational or other technical training aid, pursuant to provisions of the Katie W. Moody Estate and Will. Annual scholarships are awarded based on interest earned on corpus held in the Fund.

**City of Niceville, Florida**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUND**  
**Fiscal Year Ended September 30, 2011**

	Balances October 1, 2010	Additions	Deletions	Balances September 30, 2011
<b>Assets</b>				
Cash and cash equivalents	\$ 397,147	\$ 5,497	\$ 7,442	\$ 395,202
Due from others	<u>3,860</u>	<u>-</u>	<u>-</u>	<u>3,860</u>
Total assets	<u>\$ 401,007</u>	<u>\$ 5,497</u>	<u>\$ 7,442</u>	<u>\$ 399,062</u>
<b>Liabilities</b>				
Due to scholarship recipients	<u>\$ 401,007</u>	<u>\$ 5,497</u>	<u>\$ 7,442</u>	<u>\$ 399,062</u>
Total liabilities	<u>\$ 401,007</u>	<u>\$ 5,497</u>	<u>\$ 7,442</u>	<u>\$ 399,062</u>

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### III. STATISTICAL SECTION

This section of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, and note disclosures says about the City's overall financial health.

#### **Financial Trends**

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

#### **Revenue Capacity**

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

#### **Debt Capacity**

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

#### **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

#### **Operating Information**

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

*Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement No. 34 in 2003; schedules presenting government-wide information include information beginning in that year.*

**FINANCIAL TRENDS - Table 1**

**City of Niceville, Florida  
NET ASSETS BY COMPONENT  
Last Eight Years  
(accrual basis of accounting)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	Fiscal Year <u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental activities								
Invested in capital assets, net of related debt	\$ 10,122,195	\$ 10,420,561	\$ 10,623,903	\$ 11,860,874	\$ 12,601,899	\$ 12,338,507	\$ 11,973,404	\$ 12,180,124
Restricted	301,428	302,129	2,318,752	2,536,382	1,502,000	1,347,899	1,110,010	841,612
Unrestricted	1,125,414	1,035,020	670,157	652,037	1,242,996	2,476,404	3,945,681	4,085,883
Total governmental activities net assets	<u>\$ 11,549,037</u>	<u>\$ 11,757,710</u>	<u>\$ 13,612,812</u>	<u>\$ 15,049,293</u>	<u>\$ 15,346,895</u>	<u>\$ 16,162,810</u>	<u>\$ 17,029,095</u>	<u>\$ 17,107,619</u>
Business-type activities								
Invested in capital assets, net of related debt	\$ 8,730,190	\$ 9,553,129	\$ 7,549,142	\$ 8,684,273	\$ 9,984,566	\$ 12,562,218	\$ 13,508,654	\$ 14,958,258
Restricted	1,431,474	1,495,379	7,871,700	9,055,957	8,556,990	7,274,463	5,865,385	7,317,567
Unrestricted	6,537,923	7,572,632	5,069,951	6,350,540	7,119,910	6,654,427	8,828,818	8,249,906
Total business-type activities net assets	<u>\$ 16,699,587</u>	<u>\$ 18,621,140</u>	<u>\$ 20,490,793</u>	<u>\$ 24,090,770</u>	<u>\$ 25,661,466</u>	<u>\$ 26,491,108</u>	<u>\$ 28,202,857</u>	<u>\$ 30,525,731</u>
Primary government								
Invested in capital assets, net of related debt	\$ 18,852,385	\$ 19,973,690	\$ 18,173,045	\$ 20,545,147	\$ 22,586,465	\$ 24,900,725	\$ 25,482,058	\$ 27,138,382
Restricted	1,732,902	1,797,508	10,190,452	11,592,339	10,058,990	8,622,362	6,975,395	8,159,179
Unrestricted	7,663,337	8,607,652	5,740,108	7,002,577	8,362,906	9,130,831	12,774,499	12,335,789
Total primary government net assets	<u>\$ 28,248,624</u>	<u>\$ 30,378,850</u>	<u>\$ 34,103,605</u>	<u>\$ 39,140,063</u>	<u>\$ 41,008,361</u>	<u>\$ 42,653,918</u>	<u>\$ 45,231,952</u>	<u>\$ 47,633,350</u>

**City of Niceville, Florida**  
**CHANGES IN NET ASSETS**  
**Last Eight Years**  
**(accrual basis of accounting)**

**FINANCIAL TRENDS - Table 2**

	Fiscal Year							
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Expenses</b>								
Governmental activities								
General government	\$ 2,521,723	\$ 2,831,537	\$ 3,183,881	\$ 3,634,949	\$ 4,044,627	\$ 3,349,726	\$ 3,294,461	\$ 3,077,475
Public safety	1,879,332	2,140,811	2,476,804	2,735,866	2,929,502	2,916,035	2,711,006	2,673,711
Transportation	957,598	717,502	366,009	397,629	459,531	458,976	413,470	395,119
Human services	57,100	58,827	45,910	43,005	50,240	50,465	50,315	50,540
Culture and recreation	1,853,339	2,091,471	2,695,513	2,864,543	2,655,571	2,305,489	2,247,876	2,321,253
Debt service interest	153,836	171,516	149,754	148,539	132,787	118,754	108,775	96,393
Total governmental activities expenses	<u>7,422,928</u>	<u>8,011,664</u>	<u>8,917,871</u>	<u>9,824,531</u>	<u>10,272,258</u>	<u>9,199,445</u>	<u>8,825,903</u>	<u>8,614,491</u>
Business-type activities								
Water and sewer	4,016,856	4,294,565	4,704,082	5,227,354	5,321,385	5,525,551	5,703,301	5,585,105
Sanitation	1,914,431	2,166,820	2,117,758	2,181,810	2,521,127	2,475,747	2,381,779	2,500,894
Stormwater utility management - Non-Major Fund	205,087	403,819	287,089	205,789	126,596	147,554	233,647	192,640
Total business-type activities expenses	<u>6,136,374</u>	<u>6,865,204</u>	<u>7,108,929</u>	<u>7,614,953</u>	<u>7,969,108</u>	<u>8,148,852</u>	<u>8,318,727</u>	<u>8,278,639</u>
Total primary government expenses	<u>\$ 13,559,302</u>	<u>\$ 14,876,868</u>	<u>\$ 16,026,800</u>	<u>\$ 17,439,484</u>	<u>\$ 18,241,366</u>	<u>\$ 17,348,297</u>	<u>\$ 17,144,630</u>	<u>\$ 16,893,130</u>
<b>Program Revenues</b>								
Governmental activities								
Charges for services								
General government	\$ 1,680,657	\$ 2,138,805	\$ 2,350,631	\$ 2,713,053	\$ 2,889,988	\$ 3,118,414	\$ 1,916,363	\$ 1,926,069
Public safety	264,835	292,051	213,889	210,445	149,707	119,884	154,755	172,630
Transportation	89,042	80,689	74,545	47,150	85,067	54,143	83,251	54,629
Human services	-	-	-	-	-	-	-	-
Culture and recreation	57,950	67,286	148,077	145,935	277,361	205,976	167,764	115,757
Debt service interest	-	-	-	-	-	-	-	-
Operating grants and contributions	675,023	330,974	258,095	247,693	322,290	240,072	886,097	124,451
Capital grants and contributions	-	-	-	601,957	127,339	3,987	262,832	46,012
Total governmental activities program revenues	<u>2,767,507</u>	<u>2,909,805</u>	<u>3,045,237</u>	<u>3,966,233</u>	<u>3,851,752</u>	<u>3,742,476</u>	<u>3,471,062</u>	<u>2,439,548</u>
Business-type activities								
Charges for services								
Water and sewer	4,321,986	4,605,447	5,314,202	5,357,250	5,462,119	5,671,221	5,711,276	6,629,807
Sanitation	1,878,845	2,009,144	2,205,817	2,283,023	2,570,841	2,694,364	2,712,484	2,673,947
Other programs	288,378	477,207	224,862	264,170	359,886	382,421	387,020	413,062
Operating grants and contributions	-	289,763	-	11,491	-	-	134,450	-
Capital grants and contributions	762,659	1,025,543	896,961	2,489,705	759,093	183,932	584,798	669,740
Total business-type activities program revenues	<u>7,251,868</u>	<u>8,407,104</u>	<u>8,641,842</u>	<u>10,405,639</u>	<u>9,151,939</u>	<u>8,931,938</u>	<u>9,530,028</u>	<u>10,386,556</u>
Total primary government program revenues	<u>\$ 10,019,375</u>	<u>\$ 11,316,909</u>	<u>\$ 11,687,079</u>	<u>\$ 14,371,872</u>	<u>\$ 13,003,691</u>	<u>\$ 12,674,414</u>	<u>\$ 13,001,090</u>	<u>\$ 12,826,104</u>

Continued...

**City of Niceville, Florida**  
**CHANGES IN NET ASSETS**  
**Last Eight Years**  
**(accrual basis of accounting)**

**FINANCIAL TRENDS - Table 2**

	Fiscal Year							
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Net (Expenses) Revenues</b>								
Governmental activities	\$ (4,655,421)	\$ (5,101,859)	\$ (5,872,634)	\$ (5,858,298)	\$ (6,420,506)	\$ (5,456,969)	\$ (5,354,841)	\$ (6,174,943)
Business-type activities	1,115,494	1,541,900	1,532,913	2,790,686	1,182,831	783,086	1,211,301	2,107,917
Total primary government net expense	<u>\$ (3,539,927)</u>	<u>\$ (3,559,959)</u>	<u>\$ (4,339,721)</u>	<u>\$ (3,067,612)</u>	<u>\$ (5,237,675)</u>	<u>\$ (4,673,883)</u>	<u>\$ (4,143,540)</u>	<u>\$ (4,067,026)</u>
<b>General Revenues and Other Changes in Net Assets</b>								
Governmental activities								
Taxes								
Property taxes	\$ 1,560,929	\$ 1,847,430	\$ 2,213,603	\$ 2,783,565	\$ 2,855,150	\$ 2,582,847	\$ 2,622,000	\$ 2,644,601
Municipal revenue sharing	360,518	459,790	480,047	500,539	417,379	367,879	369,855	372,409
Sales taxes	1,349,638	1,402,681	1,453,790	1,395,212	1,366,988	1,151,236	1,147,527	1,245,449
Utility service taxes	1,380,619	1,438,322	1,583,300	1,602,438	1,590,451	1,629,254	1,755,119	1,783,238
Gain (loss) on disposal of asset	(4,471)	-	1,291,512	1,755	-	-	-	-
Miscellaneous	159,200	62,054	437,682	703,186	89,608	101,573	111,094	60,701
Investment earnings	28,533	87,580	132,692	227,134	179,663	116,902	75,531	47,069
Transfers	262,675	12,675	135,110	80,950	218,869	323,193	140,000	100,000
Total governmental activities	<u>5,097,641</u>	<u>5,310,532</u>	<u>7,727,736</u>	<u>7,294,779</u>	<u>6,718,108</u>	<u>6,272,884</u>	<u>6,221,126</u>	<u>6,253,467</u>
Business-type activities								
Miscellaneous	80,006	209,843	202,623	147,591	77,606	91,951	107,315	159,992
Equity earnings in joint venture	-	-	-	-	-	-	380,079	101,436
Gain (loss) on disposal of asset	-	-	3,516	(45,870)	-	-	-	-
Investment earnings	61,789	182,485	265,711	788,520	529,128	277,798	153,054	53,529
Transfers	(262,675)	(12,675)	(135,110)	(80,950)	(218,869)	(323,193)	(140,000)	(100,000)
Total business-type activities	<u>(120,880)</u>	<u>379,653</u>	<u>336,740</u>	<u>809,291</u>	<u>387,865</u>	<u>46,556</u>	<u>500,448</u>	<u>214,957</u>
Total primary government	<u>\$ 4,976,761</u>	<u>\$ 5,690,185</u>	<u>\$ 8,064,476</u>	<u>\$ 8,104,070</u>	<u>\$ 7,105,973</u>	<u>\$ 6,319,440</u>	<u>\$ 6,721,574</u>	<u>\$ 6,468,424</u>
<b>Change in Net Assets</b>								
Governmental activities	\$ 442,220	\$ 208,673	\$ 1,855,102	\$ 1,436,481	\$ 297,602	\$ 815,915	\$ 866,285	\$ 78,524
Business-type activities	994,614	1,921,553	1,869,653	3,599,977	1,570,696	829,642	1,711,749	2,322,874
Total primary government	<u>\$ 1,436,834</u>	<u>\$ 2,130,226</u>	<u>\$ 3,724,755</u>	<u>\$ 5,036,458</u>	<u>\$ 1,868,298</u>	<u>\$ 1,645,557</u>	<u>\$ 2,578,034</u>	<u>\$ 2,401,398</u>

**FINANCIAL TRENDS - Table 3**

**City of Niceville, Florida  
FUND BALANCES - GOVERNMENTAL FUNDS  
Last Ten Fiscal Years  
(modified accrual basis of accounting)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General Fund										
Reserved	\$ 212,717	\$ 177,192	\$ 3,314,193	\$ 2,314,759	\$ 2,654,887	\$ 3,028,467	\$ 1,533,498	\$ 1,382,452	\$ 1,135,229	\$ -
Unreserved	629,853	1,127,353	717,023	971,562	458,294	414,785	1,476,581	2,608,742	4,039,598	-
Nonspendable	-	-	-	-	-	-	-	-	-	33,482
Restricted	-	-	-	-	-	-	-	-	-	841,612
Assigned	-	-	-	-	-	-	-	-	-	1,047,203
Unassigned	-	-	-	-	-	-	-	-	-	3,406,197
Total General Fund	<u>\$ 842,570</u>	<u>\$ 1,304,545</u>	<u>\$ 4,031,216</u>	<u>\$ 3,286,321</u>	<u>\$ 3,113,181</u>	<u>\$ 3,443,252</u>	<u>\$ 3,010,079</u>	<u>\$ 3,991,194</u>	<u>\$ 5,174,827</u>	<u>\$ 5,328,494</u>
All other governmental funds										
Unreserved, reported in										
Special Revenue Funds	<u>\$ 194,396</u>	<u>\$ 194,566</u>	<u>\$ 244,523</u>	<u>\$ 235,120</u>	<u>\$ 261,205</u>	<u>\$ 266,054</u>	<u>\$ 233,718</u>	<u>\$ 250,620</u>	<u>\$ 264,355</u>	<u>\$ -</u>
Total all other governmental funds	<u>\$ 194,396</u>	<u>\$ 194,566</u>	<u>\$ 244,523</u>	<u>\$ 235,120</u>	<u>\$ 261,205</u>	<u>\$ 266,054</u>	<u>\$ 233,718</u>	<u>\$ 250,620</u>	<u>\$ 264,355</u>	<u>\$ -</u>

**City of Niceville, Florida**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Revenues</b>										
Taxes	\$ 3,370,070	\$ 3,628,151	\$ 4,134,970	\$ 4,581,176	\$ 4,740,081	\$ 5,389,062	\$ 4,234,574	\$ 3,963,949	\$ 4,145,876	\$ 4,214,532
Licenses, fees and permits	165,018	190,114	200,308	225,693	196,234	174,893	1,144,642	1,281,782	1,356,038	1,390,147
Intergovernmental	1,589,277	1,543,897	2,087,061	1,905,993	2,371,025	2,933,499	2,645,404	2,241,946	3,132,286	2,215,508
Charges for services	273,011	262,157	310,247	357,007	328,919	424,262	431,724	503,227	580,273	598,464
Fines	106,778	91,243	123,710	130,926	87,164	116,416	76,543	80,670	65,083	66,593
Miscellaneous	160,617	73,208	202,666	171,581	1,895,188	988,811	439,035	299,345	272,631	107,764
Total revenues	<u>5,664,771</u>	<u>5,788,770</u>	<u>7,058,962</u>	<u>7,372,376</u>	<u>9,618,611</u>	<u>10,026,943</u>	<u>8,971,922</u>	<u>8,370,919</u>	<u>9,552,187</u>	<u>8,593,008</u>
<b>Expenditures</b>										
General government	902,780	816,426	947,004	992,574	1,046,928	1,232,394	1,086,517	982,468	2,088,978	1,846,324
Public safety	1,630,650	1,763,843	1,811,673	2,064,566	2,342,736	2,505,906	2,693,209	2,663,960	2,440,452	2,472,693
Transportation	522,494	224,344	704,314	435,604	247,879	266,855	301,387	281,023	246,665	256,304
Internal service	132,804	654,413	745,852	804,511	858,213	851,487	1,108,547	1,064,584	893,900	882,579
Human services	63,514	56,137	57,100	58,827	45,910	43,005	109,866	50,465	50,315	50,540
Culture and recreation	1,660,403	1,561,885	1,657,761	1,884,558	2,479,763	2,633,427	2,418,086	2,139,294	1,987,135	2,069,018
Capital outlay	606,798	369,062	1,143,751	1,519,459	2,717,019	1,796,892	1,402,943	434,287	413,599	708,775
Debt service										
Principal	128,718	120,514	1,507,412	223,758	242,574	294,468	402,958	255,000	265,000	565,000
Interest	71,347	66,668	210,142	155,492	149,754	148,539	132,787	118,754	108,775	96,393
Total expenditures	<u>5,719,508</u>	<u>5,633,292</u>	<u>8,785,009</u>	<u>8,139,349</u>	<u>10,130,776</u>	<u>9,772,973</u>	<u>9,656,300</u>	<u>7,989,835</u>	<u>8,494,819</u>	<u>8,947,626</u>
Excess of revenues over (under) expenditures	(54,737)	155,478	(1,726,047)	(766,973)	(512,165)	253,970	(684,378)	381,084	1,057,368	(354,618)
<b>Other Financing Sources (Uses)</b>										
Proceeds from borrowing	65,342	-	-	-	230,000	-	-	-	-	-
Proceeds from refunding	-	-	4,340,000	-	-	-	-	-	-	2,468,930
Retirement of debt	-	-	-	-	-	-	-	-	-	(2,325,000)
Transfers in	1,918,691	2,364,696	2,350,407	2,282,094	2,778,462	2,672,681	2,825,178	3,385,427	3,068,587	3,084,959
Transfers out	(1,868,691)	(2,142,371)	(2,187,732)	(2,269,419)	(2,643,352)	(2,591,731)	(2,606,309)	(2,768,494)	(2,928,587)	(2,984,959)
Total other financing sources (uses)	<u>115,342</u>	<u>222,325</u>	<u>4,502,675</u>	<u>12,675</u>	<u>365,110</u>	<u>80,950</u>	<u>218,869</u>	<u>616,933</u>	<u>140,000</u>	<u>243,930</u>
Net changes in fund balances	<u>\$ 60,605</u>	<u>\$ 377,803</u>	<u>\$ 2,776,628</u>	<u>\$ (754,298)</u>	<u>\$ (147,055)</u>	<u>\$ 334,920</u>	<u>\$ (465,509)</u>	<u>\$ 998,017</u>	<u>\$ 1,197,368</u>	<u>\$ (110,688)</u>
Debt service as a percentage of noncapital expenditures	3.91%	3.56%	22.48%	5.73%	5.29%	5.55%	6.49%	4.95%	4.63%	8.03%

**REVENUE CAPACITY - Table 5**

**City of Niceville, Florida  
 ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY  
 (UNAUDITED)  
 Last Ten Fiscal Years**

<b>Fiscal Year Ended September 30</b>	<b>Real Property</b>		<b>Personal Property</b>		<b>Total</b>		<b>Ratio of Total Assessed Value to Total Estimated Actual Value</b>	<b>Total Direct Tax Rate</b>
	<b>Assessed Value</b>	<b>Estimated Actual Value</b>	<b>Assessed Value</b>	<b>Estimated Actual Value</b>	<b>Assessed Value</b>	<b>Estimated Actual Value</b>		
2002	\$ 592,907,309	\$ 681,843,405	\$ 37,948,582	\$ 43,640,869	\$ 630,855,891	\$ 725,484,274	0.87	3.000
2003	\$ 640,537,847	\$ 736,618,524	\$ 39,105,918	\$ 44,971,806	\$ 679,643,765	\$ 781,590,330	0.87	3.300
2004	\$ 734,624,336	\$ 844,817,986	\$ 40,006,917	\$ 46,007,955	\$ 774,631,253	\$ 890,825,941	0.87	3.500
2005	\$ 951,985,654	\$ 1,094,783,502	\$ 41,221,076	\$ 47,404,237	\$ 993,206,730	\$ 1,142,187,739	0.87	3.500
2006	\$ 1,281,559,974	\$ 1,473,793,970	\$ 47,619,607	\$ 54,762,548	\$ 1,329,179,581	\$ 1,528,556,518	0.87	3.500
2007	\$ 1,362,018,949	\$ 1,566,321,791	\$ 50,878,591	\$ 58,510,380	\$ 1,412,897,540	\$ 1,624,832,171	0.87	3.267
2008	\$ 1,298,310,689	\$ 1,493,057,292	\$ 55,575,808	\$ 63,912,179	\$ 1,353,886,497	\$ 1,556,969,471	0.87	3.200
2009	\$ 1,033,019,943	\$ 1,187,972,934	\$ 51,741,978	\$ 59,503,275	\$ 1,084,761,921	\$ 1,247,476,209	0.87	3.450
2010	\$ 999,139,246	\$ 1,149,010,133	\$ 48,203,172	\$ 48,203,172	\$ 1,047,342,418	\$ 1,183,496,932	0.88	3.630
2011	\$ 999,764,938	\$ 1,149,729,679	\$ 44,550,042	\$ 44,550,042	\$ 1,044,314,980	\$ 1,200,962,227	0.87	3.650

**Source:** Okaloosa County Property Appraiser's Office

**City of Niceville, Florida**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**(UNAUDITED)**  
**Last Ten Fiscal Years**

<b>Fiscal Year Ended September 30</b>	<b>Taxes Levied for the Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>	<b>Total Collections to Date</b>	
		<b>Amount</b>	<b>Percentage of Levy</b>		<b>Amount</b>	<b>Percentage of Levy</b>
2002	\$ 1,268,406	\$ 1,265,053	99.74%	1,796	\$ 1,266,849	99.88%
2003	\$ 1,359,928	\$ 1,355,416	99.67%	4,813	\$ 1,360,229	100.02%
2004	\$ 1,617,856	\$ 1,613,865	99.75%	1,175	\$ 1,615,040	99.83%
2005	\$ 1,911,693	\$ 1,905,965	99.70%	1,687	\$ 1,907,652	99.79%
2006	\$ 2,290,611	\$ 2,288,267	99.90%	2,033	\$ 2,290,300	99.99%
2007	\$ 2,881,542	\$ 2,879,078	99.91%	2,451	\$ 2,881,529	100.00%
2008	\$ 2,637,560	\$ 2,946,785	111.72%	3,138	\$ 2,956,507	112.09%
2009	\$ 2,708,605	\$ 2,672,327	98.66%	4,091	\$ 2,676,418	98.81%
2010	\$ 2,716,199	\$ 2,468,901	90.90%	2,808	\$ 2,622,000	96.53%
2011	\$ 2,744,174	\$ 2,496,716	90.98%	979	\$ 2,644,601	96.37%

**Source:** Okaloosa County Tax Collector

**City of Niceville, Florida**  
**PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS**  
**PER \$100 OF ASSESSED VALUE**  
**(UNAUDITED)**  
**Last Ten Fiscal Years**

Fiscal Year	City Direct Rates			Overlapping Rates*	
	Operating Millage	Debt Service Millage	Total Direct	Okaloosa County	School District
2002	3.0000	-	3.0000	4.2500	8.4120
2003	3.3000	-	3.3000	4.2500	8.2940
2004	3.5000	-	3.5000	4.2500	8.2940
2005	3.5000	-	3.5000	4.2500	8.0630
2006	3.5000	-	3.5000	3.6500	7.7860
2007	3.2669	-	3.2669	3.3443	7.6390
2008	3.2000	-	3.2000	3.2995	7.6240
2009	3.4500	-	3.4500	3.2899	7.6390
2010	3.6301	-	3.6301	3.2900	7.5340
2011	3.6500	-	3.6500	3.2899	7.7690

Source: Okaloosa County Property Appraiser's Office

\*Overlapping rates are those of local and county governments that apply to property owners within the City.

**City of Niceville, Florida**  
**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
**As of September 30, 2011**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes Okaloosa County School Board	<u>\$ 64,350,000</u>	10.83%	<u>\$ 6,969,105</u>

**Sources:** Assessed value data used to estimate applicable percentages provided by the Okaloosa County School Board. Debt outstanding data provided by each governmental unit.

**Note:** Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Niceville. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

**DEBT CAPACITY - Table 9**

**City of Niceville, Florida  
RATIOS OF OUTSTANDING DEBT BY TYPE  
Last Ten Fiscal Years**

Fiscal Year	Governmental Activities						Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita Debt
	Sales Tax Revenue Bonds	Gas Tax Revenue Bonds	Sales Tax Refunding Bonds	Gas Tax Refunding Bonds	Note Payable	Capital Leases	Water and Sewer Revenue Bonds	State Revolving Loans	Notes Payables	Other Notes Payable			
2002	\$ 1,575,000	\$ -	\$ -	\$ -	\$ 56,684	\$ -	\$ 6,922,888	\$ 878,362	\$ 1,675,000	\$ 8,886	\$ 11,116,820	2.16%	\$ 933
2003	\$ 1,485,000	\$ -	\$ -	\$ -	\$ 26,170	\$ -	\$ 6,778,557	\$ 2,637,526	\$ 1,535,000	\$ -	\$ 12,462,253	2.36%	\$ 1,028
2004	\$ 1,790,000	\$ 2,550,000	\$ -	\$ -	\$ 3,758	\$ -	\$ 6,624,274	\$ 3,008,424	\$ 1,385,000	\$ -	\$ 15,361,456	2.05%	\$ 1,201
2005	\$ 1,695,000	\$ 2,425,000	\$ -	\$ -	\$ -	\$ -	\$ 9,139,836	\$ 4,158,255	\$ 1,230,000	\$ -	\$ 18,648,091	1.73%	\$ 1,432
2006	\$ 1,600,000	\$ 2,295,000	\$ -	\$ -	\$ 212,426	\$ -	\$ 8,940,116	\$ 6,286,814	\$ 1,065,000	\$ -	\$ 20,399,356	1.58%	\$ 1,567
2007	\$ 1,500,000	\$ 2,155,000	\$ -	\$ -	\$ 157,958	\$ -	\$ 8,740,657	\$ 5,193,618	\$ 890,000	\$ -	\$ 18,637,233	1.78%	\$ 1,429
2008	\$ 1,400,000	\$ 2,010,000	\$ -	\$ -	\$ -	\$ -	\$ 7,361,859	\$ 5,318,772	\$ 1,875,000	\$ -	\$ 17,965,631	1.80%	\$ 1,377
2009	\$ 1,295,000	\$ 1,860,000	\$ -	\$ -	\$ -	\$ -	\$ 7,252,486	\$ 5,692,046	\$ 1,600,000	\$ -	\$ 17,699,532	2.16%	\$ 1,356
2010	\$ 1,185,000	\$ 1,705,000	\$ -	\$ -	\$ -	\$ -	\$ 7,257,361	\$ 6,036,765	\$ 1,310,000	\$ -	\$ 17,494,126	2.19%	\$ 1,321
2011	\$ -	\$ -	\$ 1,009,101	\$ 1,459,829	\$ -	\$ -	\$ 6,877,725	\$ 6,897,237	\$ 885,000	\$ -	\$ 17,128,892	2.21%	\$ 1,335

**Note:** Details regarding the City's outstanding debt can be found in the notes to the financial statements.

**Sources:** Information was provided by the Local Chamber of Commerce

**DEBT CAPACITY - Table 10**

**City of Niceville, Florida  
PLEDGED REVENUE COVERAGE  
Last Ten Fiscal Years**

Fiscal Year	Water and Sewer Utility Charges	Less Operating Expenses	Net Available Revenue	Water and Sewer Revenue Bonds		State Revolving Loans		Notes Payable		Total Coverage
				Debt Service		Debt Service		Debt Service		
				Principal	Interest	Principal	Interest	Principal	Interest	
2002	\$ 4,503,373	\$ 2,195,976	\$ 2,307,397	\$ 260,000	\$ 338,884	\$ 74,305	\$ 49,645	\$ 140,000	\$ 86,360	2.43
2003	\$ 4,796,047	\$ 2,523,641	\$ 2,272,406	\$ 270,000	\$ 326,150	\$ 48,522	\$ 28,940	\$ 140,000	\$ 79,902	2.54
2004	\$ 5,514,186	\$ 2,735,349	\$ 2,778,837	\$ 285,000	\$ 385,912	\$ 119,248	\$ 84,675	\$ 150,000	\$ 72,886	2.53
2005	\$ 4,949,865	\$ 2,898,724	\$ 2,051,141	\$ 295,000	\$ 379,394	\$ 165,916	\$ 178,343	\$ 155,000	\$ 65,434	1.66
2006	\$ 5,314,202	\$ 3,300,348	\$ 2,013,854	\$ 350,000	\$ 314,474	\$ 165,181	\$ 108,637	\$ 165,000	\$ 57,375	1.74
2007	\$ 5,357,250	\$ 3,687,562	\$ 1,669,688	\$ 355,000	\$ 312,592	\$ 204,742	\$ 152,540	\$ 175,000	\$ 48,649	1.34
2008	\$ 5,459,563	\$ 3,603,796	\$ 1,855,767	\$ 370,000	\$ 419,386	\$ 285,713	\$ 145,038	\$ 185,000	\$ 39,275	1.28
2009	\$ 5,671,221	\$ 3,813,967	\$ 1,857,254	\$ 290,000	\$ 347,260	\$ 247,889	\$ 149,619	\$ 275,000	\$ 75,435	1.34
2010	\$ 5,711,276	\$ 3,917,129	\$ 1,794,147	\$ 165,000	\$ 344,627	\$ 335,897	\$ 221,431	\$ 290,000	\$ 62,039	1.26
2011	\$ 6,629,807	\$ 3,955,406	\$ 2,674,401	\$ 401,101	\$ 342,364	\$ 336,787	\$ 135,172	\$ 425,000	\$ 53,828	1.58

**Note:** Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation or amortization expenses

**DEMOGRAPHIC AND ECONOMIC INFORMATION - Table 11**

**City of Niceville, Florida  
PRINCIPAL PROPERTY TAXPAYERS  
(UNAUDITED)  
Current and Nine Years Ago**

<u>Taxpayer</u>	<u>2011</u>			<u>2002</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Valparaiso Realty	\$ 16,962,415	1	2.25%	\$ 15,742,331	1	2.09%
Ruckel Properties, Inc.	15,061,339	2	2.00%	8,775,656	2	1.16%
Gulf Power Company	6,811,806	3	0.90%	5,272,898	3	0.70%
HCA	5,912,029	4	0.78%			
Wal-Mart Stores East LP	5,832,260	5	0.77%			
Mill Creek Village, Inc.	5,120,569	7	0.68%	3,464,756	6	0.46%
Embarq Corp.	4,926,266	7	0.65%			
Twin Cities Hospital	4,843,840	8	0.64%	3,251,165	7	0.43%
Spence Bros. Prop., Inc.	3,404,927	9	0.45%			
NCL of NW Florida	2,914,769	10	0.39%			
Hospital Corp. of America				4,596,108	4	0.61%
Sprint				3,993,219	5	0.53%
KMart Corp.				3,134,575	8	0.42%
Nations Rent USA, Inc.				1,873,315	9	0.25%
Phelps, Plenn & Norma J.				1,790,753	10	0.24%
<b>Total</b>	<b>\$ 71,790,220</b>		<b>9.52%</b>	<b>\$ 51,894,776</b>		<b>12.25%</b>
<b>Total Taxable Assessed Value of Other Taxpayers</b>	<b>\$ 685,693,116</b>		<b>90.89%</b>	<b>\$ 408,254,122</b>		<b>96.37%</b>
<b>Total Taxable Assessed Value</b>	<b>\$ 754,379,636</b>		<b>100.00%</b>	<b>\$ 423,642,092</b>		<b>100.00%</b>

**Source:** Okaloosa County Property Appraiser's Office

**DEMOGRAPHIC ECONOMIC INFORMATION - Table 12**

**City of Niceville, Florida  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
Last Ten Fiscal Years**

<b>Year</b>	<b>Population</b>	<b>Personal Income*</b>	<b>Per Capita Personal Income</b>	<b>Education Level in Years of Schooling</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
2002	11,914	\$ 239,686	\$ 20,118	14	22,240	3.0%
2003	12,125	\$ 294,298	\$ 24,272	14	22,520	2.5%
2004	12,791	\$ 314,480	\$ 24,586	14	22,732	3.2%
2005	13,019	\$ 322,116	\$ 24,742	14	22,611	2.8%
2006	13,021	\$ 322,166	\$ 24,742	14	21,387	2.3%
2007	13,044	\$ 331,318	\$ 25,400	14	21,273	2.3%
2008	13,049	\$ 323,824	\$ 24,816	14	21,932	4.8%
2009	13,054	\$ 381,516	\$ 29,226	14	22,681	7.4%
2010	13,248	\$ 383,344	\$ 28,936	14	22,692	7.2%
2011	12,834	\$ 378,025	\$ 29,455	14	22,654	7.0%

\*Thousands of dollars

**Sources:** Population and education level information provided by the University of Florida. Personal income and unemployment data provided by the Local Chamber of Commerce. School enrollment data provided by the Okaloosa County School Board.

**OPERATING INFORMATION - Table 13**

**City of Niceville, Florida  
OPERATING INDICATORS BY FUNCTION/PROGRAM  
(UNAUDITED)  
Last Ten Fiscal Years**

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Police										
Physical arrests	546	501	540	540	571	687	709	491	448	540
Traffic violations	1,957	2,331	2,308	2,308	1,911	3,668	3,443	2,546	2,782	1,933
Fire										
Emergency responses	759	832	970	970	928	982	1,031	1,073	1,207	1,309
Inspections	515	534	432	432	418	425	723	676	401	303
Building										
Permits issued	361	356	371	688	396	275	350	273	377	452
Library										
Volumes in collection	43,920	48,619	54,586	54,586	56,394	57,988	61,316	66,656	70,933	69,100
Water										
New connections	382	229	661	-	109	61	30	24	62	89
Average daily consumption (thousands of gallons)	2,822	2,379	2,798	2,683	3,003	2,089	3,764	2,578	3,708	3,541

**Sources:** Various City departments.

**Note:** Indicators are not available for the general government function.

OPERATING INFORMATION - Table 14

**City of Niceville, Florida**  
**FULL-TIME EQUIVALENT - CITY GOVERNMENT EMPLOYEES BY**  
**FUNCTION/PROGRAM**  
**Last Ten Fiscal Years**

<u>Function/Program</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General government										
Executive		2	2	2	2	2	2	2	2	2
Financial and administrative		6	6	6	6	6	6	6	6	6
Planning		1	1	1	1	1	1	1	1	1
Building		3	3	3	3	3	3	3	3	3
Other		1	1	2	2	2	7	7	7	8
Public safety										
Police		24	24	23	23	23	25	25	25	30
Fire		7	6	7	6	6	6	6	6	11
Physical environment										
Other public works	See note below.	7	8	8	8	8	12	12	12	15
Transportation		5	6	6	6	6	5	5	5	5
Human services		1	1	0	0	0	0	0	0	0
Culture and recreation										
Parks and recreation		19	20	20	23	23	17	17	17	17
Library		8	7	7	8	8	8	8	8	8
Water		18	19	19	20	20	16	16	16	16
Sanitation		7	9	9	10	10	9	9	9	10
Other		0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>102</b>	<b>111</b>	<b>113</b>	<b>113</b>	<b>118</b>	<b>118</b>	<b>117</b>	<b>117</b>	<b>117</b>	<b>132</b>

**Source:** City Budget Office

**Note:** Presented detailed employee information for the years 2003-2011 as the information was not available in the System prior to 2003.

**CAPITAL ASSET INFORMATION - Table 15**

**City of Niceville, Florida**  
**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**  
**(UNAUDITED)**  
**Last Ten Fiscal Years**

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	23	22	22	19	21	20	20	20	19	19
Fire stations	1	1	1	1	1	1	1	1	1	1
Other public works										
Streets (miles)	93.7	94.7	94.7	94.7	94.7	94.7	94.7	76.1	76.1	76.1
Streetlights	1,588	1,588	1,611	1,611	1,636	1,646	1,650	1,644	1,674	1,701
Parks and recreation										
Acreage	113.9	118.9	118.9	118.9	118.9	118.9	118.9	118.9	118.9	118.9
Mini-parks	4	4	4	4	4	4	4	4	4	4
Neighborhood parks	8	8	8	8	8	8	8	8	8	8
Community parks	12	12	12	12	12	12	12	12	12	12
Other parks	5	5	5	5	1	1	1	1	1	1
Water										
Water mains (miles)	125	126	126	126	126	126	126	126	126	126
Fire hydrants	550	555	561	561	561	565	640	640	667	693
Number of service connections	7,025	7,254	7,913	7,913	8,022	8,105	8,210	8,320	8,346	8,395
Storage capacity (thousands of gallons)	5,350	5,350	5,350	5,350	5,350	5,350	5,350	5,350	5,350	5,350
Wastewater										
Number of sanitary sewers	68	68	70	70	71	71	71	71	68	68
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Number of service connections	5,774	6,584	6,805	6,805	6,866	6,910	6,997	7,022	7,029	7,271
Storm sewers (miles)	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0

**Sources:** Various City departments

**Note:** No capital asset indicators are available for the general government or library function.

**DEMOGRAPHIC AND ECONOMIC INFORMATION - Table 16**

**City of Niceville, Florida  
PRINCIPAL EMPLOYERS - CURRENT YEAR  
(UNAUDITED)  
Current and Nine Years Ago**

<u><b>Taxpayer</b></u>	<u><b>2011</b></u>			<u><b>2002</b></u>		
	<u><b>Employees</b></u>	<u><b>Rank</b></u>	<u><b>Percentage of Total Employment</b></u>	<u><b>Employees</b></u>	<u><b>Rank</b></u>	<u><b>Percentage of Total Employment</b></u>
Lockheed Martin Corporation	932	1	0.99%	This information was not available at the time of CAFR completion.		
L-3 Communications/Crestview Aerospace	902	2	0.96%			
DRS Training & Control Systems, LLC	837	3	0.89%			
Fort Walton Beach Medical Center	812	4	0.86%			
InDyne, Inc.	738	5	0.78%			
Jacobs Technology - TEAS Group	700	6	0.74%			
NEW, Inc.	526	7	0.56%			
BAE Systems Technical Services	476	8	0.51%			
Boeing SOF Aerospace Support Center	466	9	0.50%			
White-Wilson Medical Center	433	10	0.46%			
<b>Total</b>	<u><u>6,822</u></u>		<u><u>7.25%</u></u>			
<b>Total County Employment</b>	<u><u>94,070</u></u>					

**Sources:** Florida Research and Economic Database and the Human Resources Departments of each employer

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## **IV. COMPLIANCE SECTION**

- **COMPLIANCE MATTERS**
- **MANAGEMENT LETTER**
- **RESPONSES TO MANAGEMENT LETTER**

**City of Niceville, Florida**  
**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL**  
**ASSISTANCE**  
**Year Ended September 30, 2011**

<u>State Agency Pass-Through Entity State Project</u>	<u>CFSA Number</u>	<u>Contract/Grant Number</u>	<u>Expenditures</u>
<b>Florida Department of Environmental Protection</b>			
Direct Programs			
Statewide Surface Water Restoration and Wastewater Projects - Clean Water Revolving Funds Loan	37.077	WW460510	\$ 1,757,711
<b>Florida Department of Transportation</b>			
Direct Programs			
Roadside Beautification Assistance Joint Participation Agreement	55.023	AP425	<u>35,392</u>
<b>TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE</b>			<b><u>\$ 1,793,103</u></b>

The accompanying notes are an  
integral part of this schedule.

**City of Niceville, Florida**  
**NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
**Year Ended September 30, 2011**

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of State Financial Assistance includes the state grant activity of the City of Niceville, Florida, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements described in Chapter 10.550, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Honorable Mayor and City Council Members  
City of Niceville, 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, each major fund, and individual fund information of the City of Niceville, Florida, as of and for the year ended September 30, 2011, which collectively comprise the City of Niceville, Florida's basic financial statements and have issued our report thereon dated March 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Niceville'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 Niceville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Niceville'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.

**Compliance and Other Matters**

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

Honorable Mayor and City Council Members  
City of Niceville, Florida  
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)

We noted certain matters that we reported to management of the City of Niceville, Florida in a separate letter dated March 7, 2012.

This report is intended solely for the information and use of the Audit Committee, management, others within the organization, City Council, and the State of Florida, Office of the Auditor General, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Warren Averett, LLC*

March 7, 2012

Honorable Mayor and City Council Members  
City of Niceville, Florida

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROJECT AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH CHAPTER 10.550,  
RULES OF THE AUDITOR GENERAL**

**Compliance**

We have audited the City of Niceville, Florida's (the City) compliance with the types of compliance requirements described in the Florida Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of the City's major state projects for the year ended September 30, 2011. The City's major state projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program and state projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*. Those standards, and Chapter 10.550, *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Niceville, Florida complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended September 30, 2011.

**Internal Control over Compliance**

The management of the City of Niceville, Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state projects. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major state project to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Niceville's internal control over compliance.

Honorable Mayor and City Council Members

City of Niceville, Florida

Independent Auditor's Report on Compliance with Requirements that Could Have a  
Direct and Material Effect on Each Major Project and on Internal Control over  
Compliance in Accordance with Chapter 10.550, *Rules of the Auditor General*  
(Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Audit Committee, management, others within the organization, City Council, federal and state awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Warren Averett, LLC*

March 7, 2012

**City of Niceville, Florida**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2011**

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**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   No
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**State Projects**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that is/are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   No

Type of auditor's report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550, *Rules of the Auditor General*? \_\_\_\_\_ Yes   X   No

Identification of major programs:

<b>CFSA Number</b>	<b>Name of State Project</b>
37.077	Florida Department of Environmental Protection Statewide Surface Water Restoration and Wastewater Projects - Clean Water Revolving Funds Loan

Dollar threshold used to distinguish between type A and type B programs: \_\_\_\_\_   \$100,000  

**II. FINANCIAL STATEMENT FINDING**

We noted no matters involving noncompliance that are required to be reported in accordance with section Chapter 10.550, *Rules of the Auditor General*.

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Honorable Mayor and City Council Members  
City of Niceville, Florida

### MANAGEMENT LETTER

We have audited the financial statements of the City of Niceville, Florida, as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated March 7, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*. 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*, Independent Auditor's Report on Compliance with Requirements Applicable to each Major State Project and on Internal Control over Compliance with Chapter 10.550, *Rules of the Auditor General*, and the Schedule of Findings and Questioned Costs. Disclosures in this report and schedules, which are dated March 7, 2012, 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 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 report (except as noted below 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 Niceville, Florida complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)(3), *Rules of the Auditor General*, requires that we address in the Management Letter any recommendations to improve financial management. In connection with our audit, our comments and recommendations are reported under the heading "Prior Year Comments".

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

Section 10.554(1)(i)(5), *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: 1.) violations of provisions of contracts or grant agreements, fraud, illegal acts or abuse, and 2.) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)(6), *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity as defined in publications cited in Rule 10.553, unless disclosed in the notes to the financial statements be disclosed in the Management Letter. The information can be found in Note 1 of the financial statements.

During 1992, the Florida Department of Community Affairs determined that the Niceville Housing Authority was a dependent special district of the City of Niceville. Utilizing the standards set forth in GASB Statement No. 14, the Niceville Housing Authority was not considered as having met sufficient criteria for inclusion within the City's audited financial statements for the fiscal year ended September 30, 2011. As a result, the Niceville Housing Authority is not included in the City's annual financial report.

Section 10.554(1)(i)(7.a.), *Rules of the Auditor General*, requires a statement be included as to whether or not the local 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 Niceville 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 Niceville for the fiscal year ended September 30, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. In connection with our audit, we determined that these reports are in agreement.

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 the same. In accordance with the *Rules of the Auditor General* (Section 10.556(7)), a financial condition assessment was performed, which did not indicate a deteriorating financial condition.

## **PRIOR YEAR COMMENTS**

### ***EXTERNAL FINANCIAL REPORTING***

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

The City has made improvements in recent years to enhance its year-end external financial reporting process. The City has designated a capable individual responsible for overseeing the financial statement process, as demonstrated by the reduction in audit entries required and City preparation of year-end financial reporting schedules. However, City accounting staff lacks technical training on emerging governmental accounting standards. We recommended investment in additional training for City staff members who are responsible for the year-end financial reporting process would enhance internal controls over the financial reporting process. It would also assist the City in addressing any data or information that may be necessary to comply with emerging governmental accounting requirements.

#### ***Status***

No change in status.

Honorable Mayor and City Council Members  
City of Niceville, Florida  
Management Letter (Continued)

**PRIOR YEAR COMMENTS (CONTINUED)**

***EXTERNAL FINANCIAL REPORTING (CONTINUED)***

***Management's Response and Corrective Action Plan***

The City plans to evaluate training opportunities for existing staff, and as permitted the future staffing needs within the Finance Department to ensure that continual improvements are made in the external financial reporting process.

Pursuant to Chapter 119, Florida Statutes, this letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require that this letter is intended solely for the information of the City of Niceville, Florida, management and the State of Florida Office of the Auditor General and is not intended to be, and should not be, used by anyone other than these specified parties.

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

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

*Warren Averett, LLC*

March 7, 2012

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