



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

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**FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2012**



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

**FISCAL YEAR ENDED  
SEPTEMBER 30, 2012**

**Prepared By:**

**Finance Department**

**Dan Doucet  
City Clerk**



**The City of Niceville, Florida  
PRINCIPAL OFFICIALS  
Year Ended September 30, 2012**

**CITY COUNCIL 2011-2012**

Judith Boudreaux  
(Elected July 2012)

Daniel Henkel

Heath Rominger

Bill Schaetzle

Bill Smith

William Thomas  
(Through July 2012)

**CITY OFFICIALS**

**Mayor**

Randall Wise

**City Manager**

Lannie Corbin

**City Clerk**

Dan Doucet

**City Attorney**

Gillis Powell, Sr.

**Director of Public Works**

Bruce Price



## **I. INTRODUCTORY SECTION**

- **TABLE OF CONTENTS**
- **LETTER OF TRANSMITTAL**
- **GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA) CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING**
- **ORGANIZATIONAL CHART**



**City of Niceville, Florida**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Year Ended September 30, 2012**

	<u>Page</u>	<u>Exhibit</u>
<b>TITLE PAGE</b>		
<b>CITY OFFICIALS</b>		
<b>I. INTRODUCTORY SECTION</b>		
Table of Contents	i	
Letter of Transmittal–City Manager	iii	
GFOA Certificate of Achievement	xv	
Organizational Chart	xvi	
<b>II. FINANCIAL SECTION</b>		
<b>Independent Auditor’s Report</b>	1	
<b>A. MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	3	
<b>B. BASIC FINANCIAL STATEMENTS</b>		
<b>Government-Wide Financial Statements</b>		
Statement of Net Assets	15	I
Statement of Activities	16	II
<b>Fund Financial Statements</b>		
<u><i>Governmental Fund</i></u>		
Balance Sheet	17	III
Reconciliation of the Balance Sheet to the Statement of Net Assets	18	IV
Statement of Revenues, Expenditures and Changes in Fund Balance	19	V
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	20	VI
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	21	VII
<u><i>Proprietary Funds</i></u>		
Statement of Net Assets	22	VIII
Statement of Revenues, Expenses and Changes in Net Assets	24	IX
Statement of Cash Flows	25	X
<u><i>Fiduciary Fund</i></u>		
Statement of Fiduciary Net Assets – Agency Fund	27	XI
<b>Notes to Financial Statements</b>	28	

**City of Niceville, Florida**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**Year Ended September 30, 2012**

	Page	Statement/ Table
<b>II. FINANCIAL SECTION (CONTINUED)</b>		
<b>C. INDIVIDUAL FUND STATEMENT</b>		
<i>Fiduciary Fund</i>		
Statement of Changes in Assets to Liabilities – Agency Fund	56	A-1
<b>III. STATISTICAL SECTION (UNAUDITED)</b>		
Net Assets by Component	57	1
Changes in Net Assets	58	2
Fund Balances – Governmental Funds	60	3
Changes in Fund Balances – Governmental Funds	61	4
Assessed Value and Actual Value of Taxable Property	62	5
Property Tax Levies and Collections	63	6
Property Tax Rates – Direct and Overlapping Governments Per \$100 of Assessed Value	64	7
Direct and Overlapping Governmental Activities Debt	65	8
Ratios of Outstanding Debt by Type	66	9
Pledged Revenue Coverage	67	10
Principal Property Taxpayers	68	11
Demographic and Economic Statistics	69	12
Operating Indicators by Function/Program	70	13
Full-Time Equivalent – City Government Employees by Function/Program	71	14
Capital Asset Statistics by Function/Program	72	15
Principal Employers – Current Year	73	16
<b>IV. COMPLIANCE SECTION</b>		
Schedule of Expenditures of Federal Awards and State Financial Assistance	74	
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance	75	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	76	
Independent Auditor’s Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Federal Program and State Project and on Internal Control over Compliance in Accordance OMB Circular A-133 with Chapter 10.550, <i>Rules of the Auditor General</i>	78	
Schedule of Findings and Questioned Costs	80	
Management Letter	82	

Lannie L. Corbin  
City Manager



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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, 2012, 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, 2011, 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 Federal Awards and State Financial Assistance, 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 Federal Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and 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 a number of 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 has recommended adding more than 5,000 military positions to Eglin Air Force Base over the next six years, which is projected to add an additional 15,000 residents to our area.

Technology-based industry is growing more important to the areas, making Okaloosa County a technology leader in Northwest Florida, and home to the University of Florida’s Graduate Engineering and Research Center.

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. Niceville, the home of the Boggy Bayou Mullet Festival was voted last year as the best place to raise kids by Business Week Magazine. 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 (NWFSFC), located in Niceville, continues to set the standard for labor training with its Costa Leadership Institute which provides corporate training and consulting for local business and industry, as well as professional development seminars for individuals, to augment the training provided by the college’s more than 70 career and certificate programs of study and baccalaureate degrees. Additionally, Florida’s Great Northwest, an independent economic development organization, is housed at the Niceville campus. The organization works to market and brand the 16-county Northwest Florida region as a globally competitive location for business and to work with regional partners to recruit new jobs and investment throughout Northwest Florida.

The Center, located on the Niceville campus, works closely with local economic development groups and the local Private Industry Council 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."

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 in athletic competitions and academic competitions. The administration along with an instructional staff of over 108, and a non-instructional staff of almost 40, are successfully educating approximately 1893 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, 2010, 2011, and 2012 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.

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.

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 kindergartens 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



*Performing Arts Center at  
Northwest Florida State College*

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 NWFSC in Niceville is the region’s premiere venue for



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

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 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.

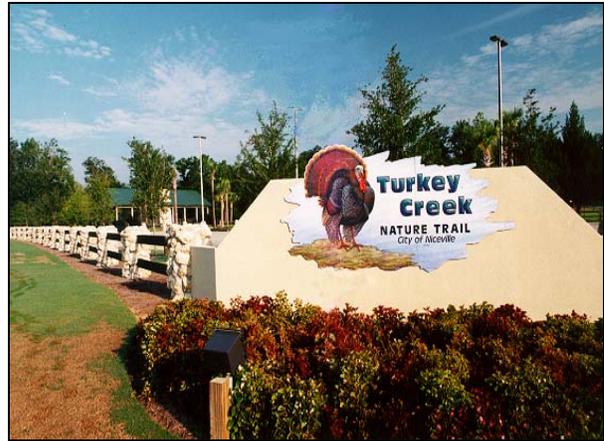
### ***National Flood Insurance Program***

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.



*Turkey Creek Nature Trail*

### ***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.



*Skateboard Area Pad*

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.



*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**

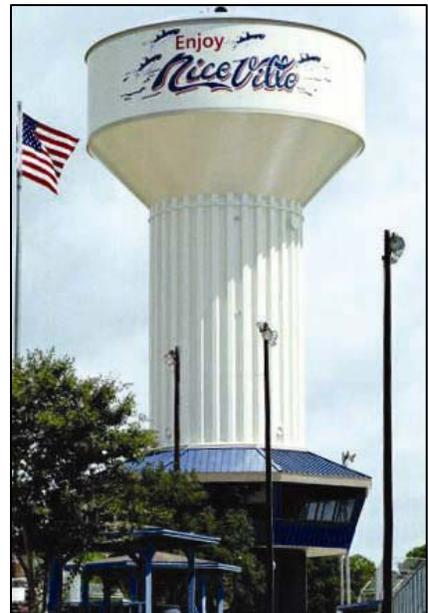
Although the City has designated departments within the organizational structure, we do not single out individual departments for recognition, but, view our organization as one unit. Under this team concept, we have expanded a soccer field complex into off-season utilization of two additional little 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; the installation of several new Fire Hydrants; a 750,000 Gallon Elevated Water Tank; and other miscellaneous water main improvements.

The City budgeted \$400,000 for a new lift station and \$75,000 to relocate another lift station and \$4,500,000 for the upgrade of the Niceville-Valparaiso Regional Sewer System. Stormwater/drainage improvements are planned for Valparaiso Boulevard; Evans Street Drainage Basin improvements and the Bayshore Drive Vault project. Various stormwater projects include pipe repairs and replacements and the inspection and maintenance of City Stormwater facilities. The City Council recently approved a project to install a new City-Wide "Fixed Based Meter Reading System". This new system will eliminate the practice of reading meters manually allowing all reading to be transmitted to our centers. Once installed all meters will be read electronically which eliminates the need to employ meter readers. Plans include 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, LLC, Certified Public Accountants & Consultants, 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, 2012. 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.

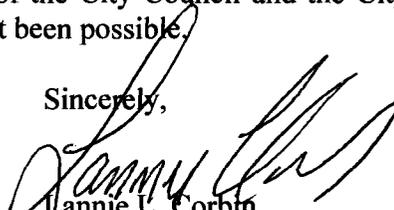
A Certificate of Achievement is valid for a period of one year only. This was the 26th consecutive year that the City has received this prestigious award. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are 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 22, 2013

# 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, 2011

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.



*Christopher P. Morinell*

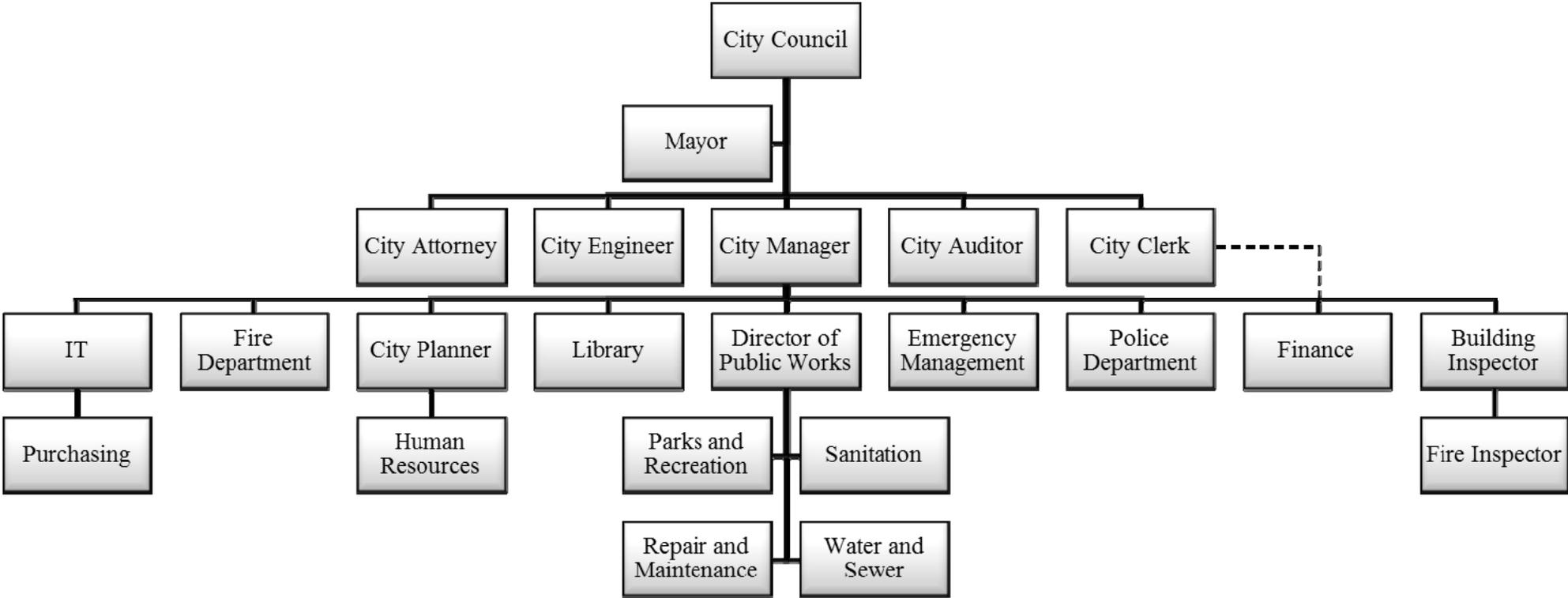
President

*Jeffrey R. Enos*

Executive Director

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**The City of Niceville, Florida  
ORGANIZATIONAL CHART  
Year Ended September 30, 2012**



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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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Niceville, Florida, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Niceville, Florida, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows 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 22, 2013, 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 and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because 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 Federal Awards and State Financial Assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and 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 Federal Awards and 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 22, 2013

## **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, 2012. 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 \$50.5 million (net assets), and represents an increase of \$2.8 million (or 6%) from the prior year. Of this amount, \$24.1 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, \$13.0 million is restricted for future obligations, and \$13.4 million is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- The business-type activities increased \$2.8 million (or 9%), and the governmental activities increased \$59.9 thousand (or less than 1% over prior year).
- The City's governmental fund reported ending fund balance of \$5.8 million, an increase of \$516.5 thousand. Approximately \$2.4 million is restricted or assigned for specific purposes, and \$3.4 million (or 58%) 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 39%) 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 \$50.5 million (net assets) for the fiscal year ended 2012, as reported in Table 1.

By far the largest portion of the City's net assets, \$24.1 million (or 48%) 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, 2012 AND 2011**  
**(In Thousands of Dollars\*)**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 6,082	\$ 5,562	\$ 25,172	\$ 18,518	\$ 31,254	\$ 24,080
Capital assets	14,253	14,649	28,950	27,803	43,203	42,452
<b>Total assets</b>	<b>20,335</b>	<b>20,211</b>	<b>54,122</b>	<b>46,321</b>	<b>74,457</b>	<b>66,532</b>
Long-term liabilities outstanding	2,966	2,883	19,470	15,469	22,436	18,352
Other liabilities	201	221	1,359	326	1,560	547
<b>Total liabilities</b>	<b>3,167</b>	<b>3,104</b>	<b>20,829</b>	<b>15,795</b>	<b>23,996</b>	<b>18,899</b>
Net assets						
Invested in capital assets net of related debt	11,784	12,180	12,324	14,958	24,108	27,138
Restricted	1,179	841	11,822	7,318	13,001	8,159
Unrestricted	4,205	4,086	9,147	8,250	13,352	12,336
<b>Total net assets</b>	<b>\$ 17,168</b>	<b>\$ 17,107</b>	<b>\$ 33,293</b>	<b>\$ 30,526</b>	<b>\$ 50,461</b>	<b>\$ 47,633</b>

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

An additional portion of the City's net assets, \$13.0 million (or 26%), represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, \$13.4 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 \$2.8 million (or 6%) during fiscal year 2012. Governmental activities account for 2% of this increase, resulting from increases primarily in sales tax revenues. Business-type activities account for 98% 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, 2012 AND 2011**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Primary Government Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services	\$ 2,187,897	\$ 2,269,085	\$ 9,593,726	\$ 9,716,816	\$ 11,781,623	\$ 11,985,901
Operating grants and contributions	591,789	124,451	-	-	591,789	124,451
Capital grants and contributions	-	46,012	756,433	669,740	756,433	715,752
<b>General revenues</b>						
Property taxes	2,662,471	2,644,601	-	-	2,662,471	2,644,601
Other taxes	3,467,320	3,401,096	-	-	3,467,320	3,401,096
Other revenue	<u>136,150</u>	<u>107,770</u>	<u>1,188,646</u>	<u>314,957</u>	<u>1,324,796</u>	<u>422,727</u>
<b>TOTAL REVENUES</b>	<u><b>9,045,627</b></u>	<u><b>8,593,015</b></u>	<u><b>11,538,805</b></u>	<u><b>10,701,513</b></u>	<u><b>20,584,432</b></u>	<u><b>19,294,528</b></u>
<b>EXPENSES</b>						
<b>Primary government</b>						
General government	3,413,092	3,077,475	-	-	3,413,092	3,077,475
Public safety	2,806,190	2,673,711	-	-	2,806,190	2,673,711
Transportation	446,485	395,119	-	-	446,485	395,119
Human services	50,540	50,540	-	-	50,540	50,540
Culture and recreation	2,296,560	2,321,253	-	-	2,296,560	2,321,253
Debt service interest	72,860	96,393	-	-	72,860	96,393
<b>Business-type activities</b>						
Water and sewer	-	-	5,747,117	5,585,105	5,747,117	5,585,105
Sanitation	-	-	2,578,749	2,500,894	2,578,749	2,500,894
Non-major fund	<u>-</u>	<u>-</u>	<u>344,731</u>	<u>192,640</u>	<u>344,731</u>	<u>192,640</u>
<b>TOTAL EXPENSES</b>	<u><b>9,085,727</b></u>	<u><b>8,614,491</b></u>	<u><b>8,670,597</b></u>	<u><b>8,278,639</b></u>	<u><b>17,756,324</b></u>	<u><b>16,893,130</b></u>
Increase (decrease) in net assets before transfers	(40,100)	(21,476)	2,868,208	2,422,874	2,828,108	2,401,398
Transfers	<u>100,000</u>	<u>100,000</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>
<b>Increase (decrease) in net assets</b>	<b>59,900</b>	<b>78,524</b>	<b>2,768,208</b>	<b>2,322,874</b>	<b>2,828,108</b>	<b>2,401,398</b>
<b>NET ASSETS BEGINNING</b>	<u><b>17,107,619</b></u>	<u><b>17,029,095</b></u>	<u><b>30,525,731</b></u>	<u><b>28,202,857</b></u>	<u><b>47,633,350</b></u>	<u><b>45,231,952</b></u>
<b>NET ASSETS ENDING</b>	<u><b>\$ 17,167,519</b></u>	<u><b>\$ 17,107,619</b></u>	<u><b>\$ 33,293,939</b></u>	<u><b>\$ 30,525,731</b></u>	<u><b>\$ 50,461,458</b></u>	<u><b>\$ 47,633,350</b></u>

## 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***

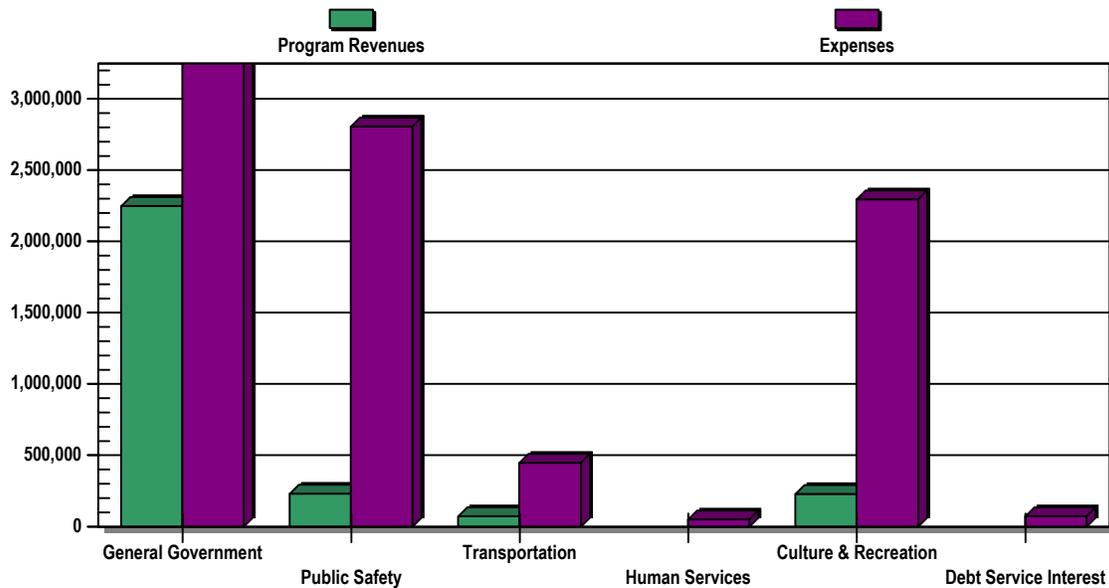
- Introduction of New Programs: Within functional expense categories (police, fire, public works, community development, parks and recreation, etc.), individual programs may be added or deleted to meet changing community needs.
- Authorized Position Adjustments: Changes in service demand may cause the 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***

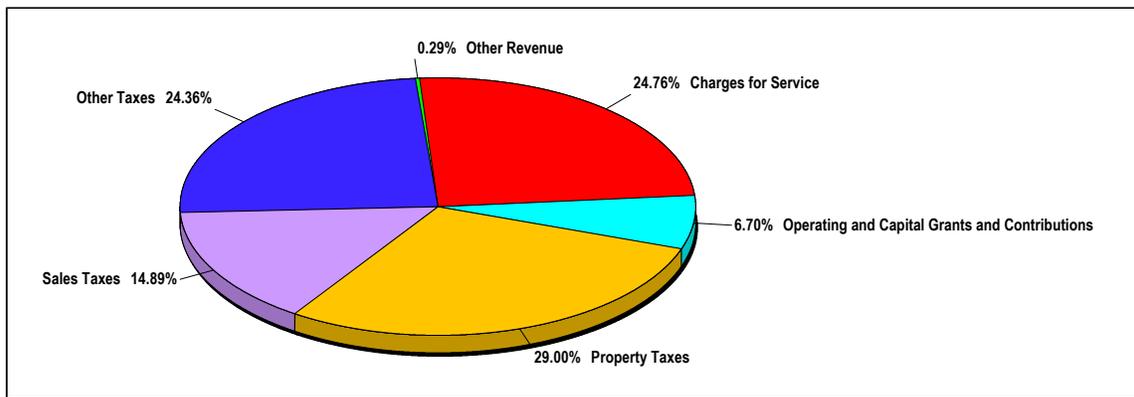
- Operating grants and contributions increased \$467 thousand. The City received funding during the year for a Housing Rehabilitation for the Niceville area under a Community Development Block Grant (CDBG) which accounts for most of the increase this year.
- Capital grants and contributions decreased \$46 thousand. The City received grant funding for a roadside beautification project in the prior year, which accounts for the decrease.
- Property tax revenues increased slightly, or \$18 thousand from increased collection of delinquent property taxes received in the current year.
- Other taxes increased \$66 thousand, resulting primarily to additional sales tax revenues received from the State this year.
- Other revenues increased by \$28 thousand, mostly attributable to donated police vehicles received during the year.

- General government expenses increased \$336 thousand. Activities associated with the CDBG grant were the primary reason for the increase.
- Public safety expenses increased \$132 thousand primarily due to increased payroll expenses.

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



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

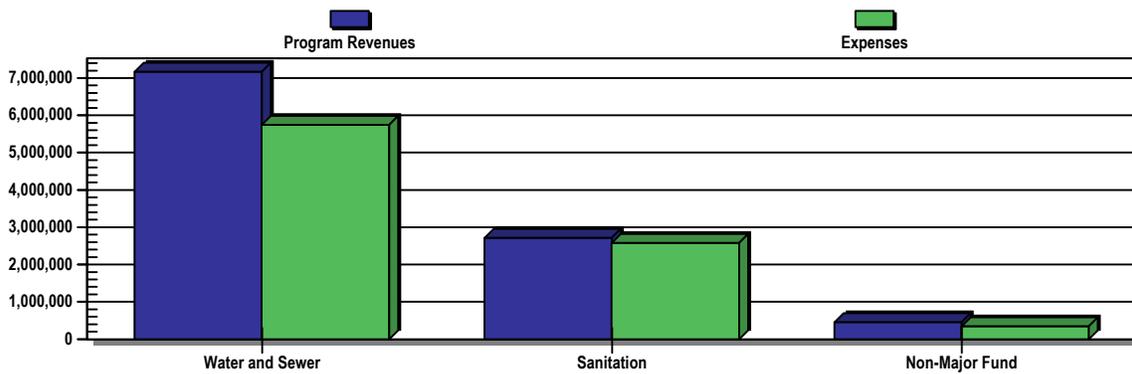


***Current Year Impacts - Business-Type Activities***

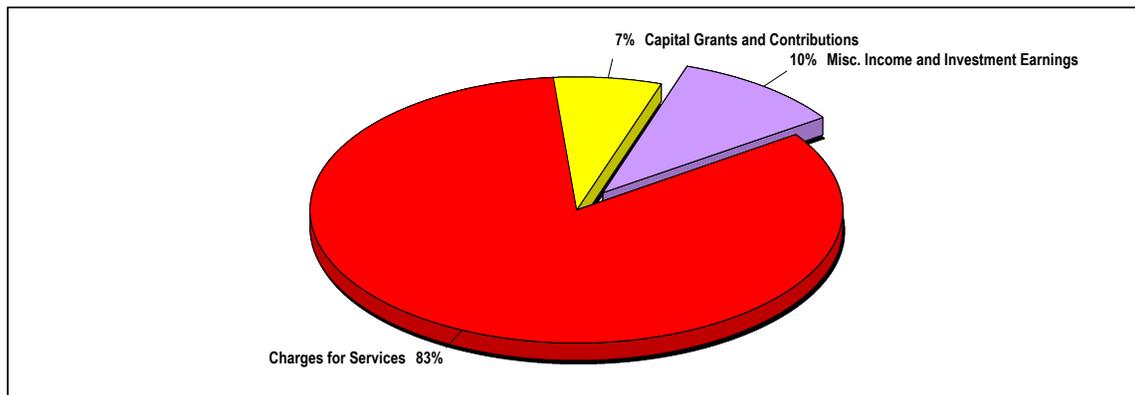
- The net assets from business-type activities increased \$2.8 million (or 9%).
- Charges for services for business-type activities decreased by \$123 thousand, primarily due to decreased operating revenue from water services.

- Other revenues increased by \$0.9 million, which is attributable mostly to earnings from joint venture agreement.
- Water and sewer expenses increased \$162 thousand mostly from increased payroll, other operating expenses, and depreciation.
- Sanitation expenses increased by \$78 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 \$5.8 million, an increase of \$516.5 thousand in comparison with the prior year. Approximately \$3.4 million of fund balance (or 58%) 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 projects based on the level of constraints placed on those fund, and in accordance with GASB Statement 54.

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 \$5.8 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 39% of the total General Fund expenditures, while total fund balance represents 68% of that same amount.

During the current fiscal year, the fund balance of the City's General Fund increased by \$516.5 thousand. Key factors are as follows:

- Revenues increased this year resulting from grant funding related to a housing rehabilitation grant, which accounts for most of the current year fluctuation.
- Expenditures decreased this year by approximately \$319 thousand, primarily due to decreased capital outlay and decreased debt service resulting from the debt refunding that took place in 2011.

## **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 \$9.1 million at the end of the year; of that, the Water and Sewer Fund amounted to \$6.6 million, the Sanitation Fund totaled \$1.4 million, and the Stormwater Utility Management Fund was \$1,107.6 thousand. Net assets for proprietary funds increased \$2.8 million during 2012.

## **BUDGETARY HIGHLIGHTS**

### **GENERAL FUND**

- No amendments were made to the original adopted budget for 2012.
- Actual revenues were less than budgetary expectations by \$40.2 thousand, or 0.4% from budgeted expectations. Intergovernmental revenues were less due to anticipated sales tax revenues being down.

- Actual expenditures were less than budgeted expectations this year by \$688.8 thousand. Although public safety was more than anticipated, the City reduced costs in general government services, transportation, culture and recreation, capital outlay and debt service to more than 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, 2012, amounts to \$43.2 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 \$0.8 million (or 1.8%) with an overall 2.7% decrease for governmental activities, and a 4.1% 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, 2012 AND 2011**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,561,115	\$ 1,561,115	\$ 867,297	\$ 867,297	\$ 2,428,412	\$ 2,428,412
Buildings	3,581,561	3,721,619	1,854,407	1,246,087	5,435,968	4,967,706
Improvements other than buildings	5,634,993	5,752,067	24,991,638	24,865,637	30,626,631	30,617,704
Infrastructure	2,959,836	3,191,999	-	-	2,959,836	3,191,999
Machinery and equipment	502,489	414,025	224,385	171,851	726,874	585,876
Construction in progress	13,038	8,229	1,012,769	652,563	1,025,807	660,792
<b>Total</b>	<b>\$ 14,253,032</b>	<b>\$ 14,649,054</b>	<b>\$ 28,950,496</b>	<b>\$ 27,803,435</b>	<b>\$ 43,203,528</b>	<b>\$ 42,452,489</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 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, 2012 AND 2011**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue bonds, net	\$ 2,468,930	\$ 2,468,930	\$ 13,740,013	\$ 6,877,725	\$ 16,208,943	\$ 9,346,655
Notes payable	-	-	-	885,000	-	885,000
State revolving loans	-	-	4,816,914	6,897,237	4,816,914	6,897,237
Compensated absences	472,960	414,256	165,255	148,920	638,215	563,176
<b>Total</b>	<b>\$ 2,941,890</b>	<b>\$ 2,883,186</b>	<b>\$ 18,722,182</b>	<b>\$ 14,808,882</b>	<b>\$ 21,664,072</b>	<b>\$ 17,692,068</b>

The City's governmental activities debt increased by \$58.7 thousand during the fiscal year, which is attributable to increases to compensated absences payable. The net change in the business-type activities debt increased \$3.9 million resulting from the issuance of the Water and Sewer Revenue Refunding Bonds, Series 2011A,B,C in December 2011 and the issuance of the Water and Sewer Revenue Bonds Series 2012A&B issued in July 2012.

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 2012-2013 budget for the City:

- The local unemployment rate was 6%, which represents an approximate 3% decrease from 2011. The State of Florida's unemployment rate was 9%. 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 2013, the City has budgeted \$739 thousand of existing reserves, which has been reflected as "FY 2013 Appropriations" in the assigned classification of the General Fund balance for fiscal year ended 2012.

### **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, 2012**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Niceville-Valparaiso Regional Sewer Board, Inc.
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,171,726	\$ 8,911,797	\$ 14,083,523	\$ 1,481,828
Certificates of deposit	-	-	-	112,935
Receivables, net	212,009	838,295	1,050,304	6,456
Internal balances	(478,049)	478,049	-	-
Due from other governments	332,731	179,377	512,108	-
Prepaid items	10,218	36,000	46,218	19,737
Inventory, at cost	21,114	181,175	202,289	3,058
Restricted assets				
Cash and cash equivalents	801,091	12,359,891	13,160,982	-
Capital assets, net				
Non-depreciable	1,574,153	1,880,066	3,454,219	410,488
Depreciable, net	12,678,879	27,070,430	39,749,309	567,120
Other assets				
Bond and loan issuance costs, net	11,339	202,163	213,502	-
Investment in joint venture	-	1,985,018	1,985,018	-
<b>TOTAL ASSETS</b>	<u>20,335,211</u>	<u>54,122,261</u>	<u>74,457,472</u>	<u>2,601,622</u>
<b>LIABILITIES</b>				
Accounts payable	115,503	1,278,466	1,393,969	78,798
Accrued wages	85,980	36,109	122,089	41,552
Compensated absences	472,960	44,043	517,003	-
Payable from restricted assets				
Amounts due within one year				
Customer deposits	-	537,397	537,397	-
Revenue bonds payable	331,150	1,032,865	1,364,015	-
State revolving loans payable	-	1,436,026	1,436,026	-
Accrued interest payable	24,319	254,170	278,489	-
Amounts due beyond one year				
Compensated absences	-	121,211	121,211	-
Revenue bonds payable, net	2,137,780	12,707,148	14,844,928	-
State revolving loans payable	-	3,380,887	3,380,887	-
<b>TOTAL LIABILITIES</b>	<u>3,167,692</u>	<u>20,828,322</u>	<u>23,996,014</u>	<u>120,350</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	11,784,102	12,324,428	24,108,530	977,608
Restricted				
Debt service	355,470	3,341,017	3,696,487	-
Capital improvements/extensions	444,707	8,481,477	8,926,184	-
Public safety	914	-	914	-
Parks and recreation	377,681	-	377,681	-
Nonexpendable	-	-	-	496,254
Unrestricted	4,204,645	9,147,017	13,351,662	1,007,410
<b>TOTAL NET ASSETS</b>	<u>\$ 17,167,519</u>	<u>\$ 33,293,939</u>	<u>\$ 50,461,458</u>	<u>\$ 2,481,272</u>

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

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

Function/program activities	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit	
					Governmental Activities	Business-Type Activities	Total	Niceville-Valparaiso Regional Sewer Board, Inc.
Government activities								
General government	\$ 3,413,092	\$ 1,786,272	\$ 463,673	\$ -	\$ (1,163,147)	\$ -	\$ (1,163,147)	\$ -
Public safety	2,806,190	212,032	18,093	-	(2,576,065)	-	(2,576,065)	-
Transportation	446,485	71,734	-	-	(374,751)	-	(374,751)	-
Human services	50,540	-	-	-	(50,540)	-	(50,540)	-
Culture and recreation	2,296,560	117,859	110,023	-	(2,068,678)	-	(2,068,678)	-
Debt service interest	72,860	-	-	-	(72,860)	-	(72,860)	-
Total government activities	<u>9,085,727</u>	<u>2,187,897</u>	<u>591,789</u>	<u>-</u>	<u>(6,306,041)</u>	<u>-</u>	<u>(6,306,041)</u>	<u>-</u>
Business-type activities								
Water and sewer	5,747,117	6,450,006	-	724,764	-	1,427,653	1,427,653	-
Sanitation	2,578,749	2,717,902	-	-	-	139,153	139,153	-
Stormwater utility management	344,731	425,818	-	31,669	-	112,756	112,756	-
Total business-type activities	<u>8,670,597</u>	<u>9,593,726</u>	<u>-</u>	<u>756,433</u>	<u>-</u>	<u>1,679,562</u>	<u>1,679,562</u>	<u>-</u>
Total primary government	<u>\$ 17,756,324</u>	<u>\$ 11,781,623</u>	<u>\$ 591,789</u>	<u>\$ 756,433</u>	<u>\$ (6,306,041)</u>	<u>\$ 1,679,562</u>	<u>\$ (4,626,479)</u>	<u>\$ -</u>
Niceville-Valparaiso Regional Sewer Board, Inc.	<u>\$ 1,604,853</u>	<u>\$ 1,885,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 280,770</u>
General revenues								
Taxes								
Property taxes					\$ 2,662,471	\$ -	\$ 2,662,471	\$ -
Municipal revenue sharing					380,661	-	380,661	-
Sales taxes					1,315,381	-	1,315,381	-
Utility service taxes					1,771,278	-	1,771,278	-
Equity earnings in joint venture					-	233,285	233,285	-
Contribution from other government - equity in joint venture					-	787,280	787,280	-
Miscellaneous					110,127	129,523	239,650	7,740
Investment earnings					26,023	38,558	64,581	3,096
Transfers					<u>100,000</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers					<u>6,365,941</u>	<u>1,088,646</u>	<u>7,454,587</u>	<u>-</u>
Change in net assets					59,900	2,768,208	2,828,108	291,606
Net assets - beginning of year					<u>17,107,619</u>	<u>30,525,731</u>	<u>47,633,350</u>	<u>2,189,666</u>
Net assets - end of year					<u>\$ 17,167,519</u>	<u>\$ 33,293,939</u>	<u>\$ 50,461,458</u>	<u>\$ 2,481,272</u>

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

**City of Niceville, Florida**  
**GENERAL FUND**  
**BALANCE SHEET**  
**September 30, 2012**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 5,171,726
Receivables	212,009
Due from other governments	332,731
Inventory, at cost	21,114
Prepaid items	10,218
Restricted assets	
Cash and cash equivalents	<u>801,091</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 6,548,889</u></b>
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities	
Accounts payable	\$ 115,503
Accrued interest payable	24,319
Accrued wages payable	85,980
Interfund balances	<u>478,049</u>
<b>Total liabilities</b>	<b><u>703,851</u></b>
Fund balance	
Nonspendable	
Inventory	21,114
Prepaid items	10,218
Restricted	
Debt service	355,470
Public safety	914
Parks and recreation seniors/disabled	377,681
Capital improvements	444,707
Assigned	
FY 2013 appropriations	739,030
Public safety	5,435
Salary and insurance reserves	403,095
Fireworks	79,561
Unassigned	<u>3,407,813</u>
<b>Total fund balance</b>	<b><u>5,845,038</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 6,548,889</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, 2012**

Fund balances - total governmental funds (page 17)		\$ 5,845,038
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	1,574,153	
Governmental depreciable assets	27,553,603	
Less accumulated depreciation	<u>(14,874,724)</u>	
		14,253,032
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 accumulated amortization	<u>(34,661)</u>	
		11,339
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>(472,960)</u>	
		<u>(2,941,890)</u>
Net assets of governmental activities (page 15)		<u>\$ 17,167,519</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, 2012**

<b>REVENUES</b>	
Taxes	\$ 4,252,829
Licenses, fees and permits	1,324,796
Intergovernmental	2,682,401
Charges for services	575,712
Fines	73,740
Miscellaneous	<u>136,149</u>
<b>TOTAL REVENUES</b>	<b><u>9,045,627</u></b>
<b>EXPENDITURES</b>	
Current	
General government	2,128,281
Public safety	2,669,849
Transportation	313,490
Internal service	913,405
Human services	50,540
Culture and recreation	2,050,449
Capital outlay	430,209
Debt service	
Interest	<u>72,860</u>
<b>TOTAL EXPENDITURES</b>	<b><u>8,629,083</u></b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b><u>416,544</u></b>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers in	100,000
Transfers out	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b><u>100,000</u></b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>516,544</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b><u>5,328,494</u></b>
<b>FUND BALANCE - END OF YEAR</b>	<b><u>\$ 5,845,038</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, 2012**

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Net change in fund balances - total governmental funds (page 19)	\$	516,544
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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	430,209	
Less current year depreciation	<u>(824,658)</u>	(394,449)

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	(34,606)	
Accumulated depreciation associated with disposals	<u>33,033</u>	(1,573)

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.

Amortization of bond issue costs	<u>(1,918)</u>	(1,918)
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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>(58,704)</u>
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Change in net assets of governmental activities (page 16)	\$	<u>59,900</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, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 4,108,560	\$ 4,108,560	\$ 4,252,829	\$ 144,269
Licenses, fees and permits	1,270,000	1,270,000	1,324,796	54,796
Intergovernmental	2,990,400	2,990,400	2,682,401	(307,999)
Charges for services	515,100	515,100	575,712	60,612
Fines and forfeits	66,200	66,200	73,740	7,540
Miscellaneous	<u>135,600</u>	<u>135,600</u>	<u>136,149</u>	<u>549</u>
TOTAL REVENUES	<u>9,085,860</u>	<u>9,085,860</u>	<u>9,045,627</u>	<u>(40,233)</u>
EXPENDITURES				
Current				
General government services	2,780,610	2,780,610	2,128,281	652,329
Public safety	2,307,970	2,307,970	2,669,849	(361,879)
Transportation	343,800	343,800	313,490	30,310
Internal service	911,930	911,930	913,405	(1,475)
Human services	50,240	50,240	50,540	(300)
Culture and recreation	2,122,870	2,122,870	2,050,449	72,421
Capital outlay	625,850	625,850	430,209	195,641
Debt service	<u>174,590</u>	<u>174,590</u>	<u>72,860</u>	<u>101,730</u>
TOTAL EXPENDITURES	<u>9,317,860</u>	<u>9,317,860</u>	<u>8,629,083</u>	<u>688,777</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(232,000)</u>	<u>(232,000)</u>	<u>416,544</u>	<u>648,544</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	100,000	100,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(132,000)	(132,000)	516,544	648,544
FUND BALANCE - BEGINNING OF YEAR	<u>132,000</u>	<u>132,000</u>	<u>5,328,494</u>	<u>5,196,494</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,845,038</u>	<u>\$ 5,845,038</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, 2012**

	<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	\$ 6,580,572	\$ 1,231,345	\$ 1,099,880	\$ 8,911,797
Receivables, net	559,350	240,526	38,419	838,295
Interfund balances	478,049	-	-	478,049
Prepaid items	36,000	-	-	36,000
Due from other governments	179,377	-	-	179,377
Inventory, at cost	<u>169,665</u>	<u>11,510</u>	<u>-</u>	<u>181,175</u>
Total current assets	<u>8,003,013</u>	<u>1,483,381</u>	<u>1,138,299</u>	<u>10,624,693</u>
Non-current assets				
Restricted assets				
Cash and cash equivalents	<u>10,947,108</u>	<u>-</u>	<u>1,412,783</u>	<u>12,359,891</u>
Capital assets				
Non-depreciable	1,857,095	-	22,971	1,880,066
Depreciable, net	<u>24,356,562</u>	<u>348,409</u>	<u>2,365,459</u>	<u>27,070,430</u>
Total capital assets	<u>26,213,657</u>	<u>348,409</u>	<u>2,388,430</u>	<u>28,950,496</u>
Other assets				
Unamortized bond issue costs	202,163	-	-	202,163
Investment in joint venture	<u>1,985,018</u>	<u>-</u>	<u>-</u>	<u>1,985,018</u>
Total other assets	<u>2,187,181</u>	<u>-</u>	<u>-</u>	<u>2,187,181</u>
Total non-current assets	<u>39,347,946</u>	<u>348,409</u>	<u>3,801,213</u>	<u>43,497,568</u>
<b>TOTAL ASSETS</b>	<u><b>\$47,350,959</b></u>	<u><b>\$ 1,831,790</b></u>	<u><b>\$ 4,939,512</b></u>	<u><b>\$54,122,261</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, 2012**

	<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	\$ 1,193,437	\$ 54,373	\$ 30,656	\$ 1,278,466
Accrued liabilities				
Compensated absences	33,969	10,074	-	44,043
Wages	24,375	11,734	-	36,109
Payable from restricted assets				
Customer deposits	537,397	-	-	537,397
Revenue bonds payable	1,032,865	-	-	1,032,865
State revolving loan payable	149,809	-	1,286,217	1,436,026
Accrued interest payable	<u>254,170</u>	<u>-</u>	<u>-</u>	<u>254,170</u>
Total current liabilities	<u>3,226,022</u>	<u>76,181</u>	<u>1,316,873</u>	<u>4,619,076</u>
Non-current liabilities				
Compensated absences	104,513	16,698	-	121,211
Revenue bonds payable, net	12,707,148	-	-	12,707,148
State revolving loan payable	<u>3,380,887</u>	<u>-</u>	<u>-</u>	<u>3,380,887</u>
Total non-current liabilities	<u>16,192,548</u>	<u>16,698</u>	<u>-</u>	<u>16,209,246</u>
<b>TOTAL LIABILITIES</b>	<u>19,418,570</u>	<u>92,879</u>	<u>1,316,873</u>	<u>20,828,322</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	10,873,806	348,409	1,102,213	12,324,428
Restricted				
Debt service	1,928,234	-	1,412,783	3,341,017
Capital improvements	8,481,477	-	-	8,481,477
Unrestricted	<u>6,648,872</u>	<u>1,390,502</u>	<u>1,107,643</u>	<u>9,147,017</u>
<b>TOTAL NET ASSETS</b>	<u>\$27,932,389</u>	<u>\$ 1,738,911</u>	<u>\$ 3,622,639</u>	<u>\$33,293,939</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, 2012**

	Water and Sewer Fund	Sanitation Fund	Non-Major Fund - Stormwater Fund	Total Enterprise Funds
OPERATING REVENUES				
Charges for services	\$ 6,450,006	\$ 2,717,902	\$ 425,818	\$ 9,593,726
OPERATING EXPENSES				
Personal services	1,419,668	727,204	-	2,146,872
Operating	2,707,403	1,801,282	214,982	4,723,667
Depreciation	<u>1,063,967</u>	<u>50,263</u>	<u>101,667</u>	<u>1,215,897</u>
TOTAL OPERATING EXPENSES	<u>5,191,038</u>	<u>2,578,749</u>	<u>316,649</u>	<u>8,086,436</u>
OPERATING INCOME	<u>1,258,968</u>	<u>139,153</u>	<u>109,169</u>	<u>1,507,290</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest expense	(534,812)	-	(28,082)	(562,894)
Amortization	(21,267)	-	-	(21,267)
Equity earnings in joint venture	233,285	-	-	233,285
Interest income	29,285	4,128	5,145	38,558
Miscellaneous	<u>66,662</u>	<u>62,861</u>	<u>-</u>	<u>129,523</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(226,847)</u>	<u>66,989</u>	<u>(22,937)</u>	<u>(182,795)</u>
INCOME BEFORE TRANSFERS	<u>1,032,121</u>	<u>206,142</u>	<u>86,232</u>	<u>1,324,495</u>
Capital contributions - impact fees	724,764	-	31,669	756,433
Contribution from other government - equity in joint venture	787,280	-	-	787,280
Transfer out	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>(100,000)</u>
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>1,462,044</u>	<u>(50,000)</u>	<u>31,669</u>	<u>1,443,713</u>
CHANGE IN NET ASSETS	2,494,165	156,142	117,901	2,768,208
NET ASSETS - BEGINNING OF YEAR	<u>25,438,224</u>	<u>1,582,769</u>	<u>3,504,738</u>	<u>30,525,731</u>
NET ASSETS - END OF YEAR	<u>\$27,932,389</u>	<u>\$ 1,738,911</u>	<u>\$ 3,622,639</u>	<u>\$33,293,939</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, 2012**

	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	\$ 6,288,151	\$ 2,714,200	\$ 424,329	\$ 9,426,680
Payments to suppliers	(1,400,530)	(1,790,955)	(188,668)	(3,380,153)
Payments to employees	(1,407,356)	(720,117)	-	(2,127,473)
Miscellaneous income	<u>66,662</u>	<u>62,861</u>	<u>-</u>	<u>129,523</u>
Net cash provided (used) by operating activities	<u>3,546,927</u>	<u>265,989</u>	<u>235,661</u>	<u>4,048,577</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
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>(50,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>(100,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisitions of capital assets	(2,401,204)	(1,100)	(162,092)	(2,564,396)
Proceeds from impact fees	724,764	-	31,669	756,433
Proceeds from issuance of bonds	7,500,000	-	-	7,500,000
Proceeds from state revolving loans	1,004,059	-	276,660	1,280,719
Principal paid on state revolving loans	(3,260,130)	-	(100,915)	(3,361,045)
Principal paid on revenue bonds and notes payable	(1,656,780)	-	-	(1,656,780)
Interest paid on bonds and notes payable	(352,140)	-	(28,082)	(380,222)
Other debt service costs	<u>(47,259)</u>	<u>-</u>	<u>-</u>	<u>(47,259)</u>
Net cash provided (used) by capital and related financing activities	<u>1,511,310</u>	<u>(1,100)</u>	<u>17,240</u>	<u>1,527,450</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	<u>29,285</u>	<u>4,128</u>	<u>5,145</u>	<u>38,558</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,037,522	219,017	258,046	5,514,585
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>12,490,158</u>	<u>1,012,328</u>	<u>2,254,617</u>	<u>15,757,103</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$17,527,680</u>	<u>\$ 1,231,345</u>	<u>\$ 2,512,663</u>	<u>\$21,271,688</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, 2012**

	<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	\$ 6,580,572	\$ 1,231,345	\$ 1,099,880	\$ 8,911,797
Restricted assets	<u>10,947,108</u>	<u>-</u>	<u>1,412,783</u>	<u>12,359,891</u>
Total cash and cash equivalents	<u>\$17,527,680</u>	<u>\$ 1,231,345</u>	<u>\$ 2,512,663</u>	<u>\$21,271,688</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 1,258,968	\$ 139,153	\$ 109,169	\$ 1,507,290
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	1,063,967	50,263	101,667	1,215,897
Amortization	21,267	-	-	21,267
Miscellaneous revenue	66,662	62,861	-	129,523
Decrease (increase) in assets				
Accounts receivable	48,663	(3,702)	(1,489)	43,472
Due from other governments	(210,518)	-	-	(210,518)
Inventory	70,369	(4,117)	-	66,252
Prepaid expenses	1,000	-	-	1,000
Increase (decrease) in liabilities				
Accounts payable	1,214,237	14,444	26,314	1,254,995
Accrued wages	1,529	1,536	-	3,065
Compensated absences	<u>10,783</u>	<u>5,551</u>	<u>-</u>	<u>16,334</u>
Net cash provided (used) by operating activities	<u>\$ 3,546,927</u>	<u>\$ 265,989</u>	<u>\$ 235,661</u>	<u>\$ 4,048,577</u>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS</b>				
Amortization of bond issue costs	<u>\$ 21,267</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,267</u>
Amortization of discounts and deferred loss on refunding	<u>\$ 226,440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 226,440</u>
Equity earnings in joint venture	<u>\$ 233,285</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,285</u>
Contribution from other government - equity in joint venture	<u>\$ 787,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 787,280</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, 2012**

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ASSETS	
Cash and cash equivalents	\$ 389,968
Due from General Fund	<u>4,605</u>
TOTAL ASSETS	<u>\$ 394,573</u>
LIABILITIES	
Due to scholarship recipients	<u>\$ 394,573</u>
TOTAL LIABILITIES	<u>\$ 394,573</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, 2012**

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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. 61 for determining financial accountability of potential component units in evaluating all potential component units. In accordance with GASB Statement No. 61, 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.

Niceville-Valparaiso Regional Sewer Board, Inc. (formerly known as Niceville, Valparaiso, Okaloosa County Regional Sewer Board, Inc.; hereinafter referred to as NVRSB) is a not-for-profit corporation organized to manage the operation and maintenance of a regional sewer system serving its original joint owners, the City of Niceville, Florida, the City of Valparaiso, Florida, and Okaloosa County, Florida. The initial regional sewer system project was funded 75% by U.S. Environmental Protection Agency (EPA) Grants under provisions of Public Law 92-500 and 25% by the local government applicants and was completed and placed in service during the fiscal year ended September 30, 1982.

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

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

**A. The Reporting Entity (Continued)**

In April 2012, the City of Niceville and Okaloosa County entered into an Amendment to the Operational Agreement which resulted in the transfer of Okaloosa County's share of wastewater treatment capacity at the NVRSB plant to the City of Niceville. As a result of the transfer of capacity, Okaloosa County is no longer a member of NVRSB and the City of Niceville and Valparaiso are now 80% and 20% owners, respectively. In June 2012, NVRSB of Directors approved the change of NVRSB's name from Niceville, Valparaiso, Okaloosa County Regional Sewer Board, Inc. to Niceville-Valparaiso Regional Sewer Board, Inc. As a result of the change in ownership percentage, a financial benefit/burden relationship exists between City of Niceville and NVRSB. Therefore, as of September 30, 2012, NVRSB is considered to be a component unit of the City, as defined by GASB Statement No. 61 and accordingly, NVRSB's June 30, 2012 year end financial information has been presented within the government-wide financial statements as a "discretely presented component unit", with the City of Valparaiso's 20% share of equity presented as nonexpendable restricted net assets within the Statement of Net Assets.

NVRSB's Board consists of four members; two appointed by each of the two 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 NVRSB. In accordance with GASB Statement No. 61, the City of Niceville's 80% share of operating results of the NVRSB is reported in the City's Water and Sewer Enterprise Fund. The City's portion of the equity in the joint venture is \$1,985,018 as of September 30, 2012.

NVRSB issues separate complete financial statements which may be obtained by contacting the Manager of the Niceville-Valparaiso Regional Sewer Board, Inc., 507 Hwy 85 N, Niceville, Florida 32578, e-mail address: ricknvoc@embarqmail.com, phone number: (850) 678-6613.

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, 2012**

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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, 2012**

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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, 2012
Levy Date	November 1, 2012
Due Date	November 1, 2012
Delinquent Date	April 1, 2013

Discounts of 1% are granted for each month taxes are paid prior to March 2013.

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 2013 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, 2012**

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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, 2012**

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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, 2012**

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

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

*Cash and Cash Equivalents*

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, 2012**

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

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

*Receivables and Payables (Continued)*

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 as "nonspendable" 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, 2012**

**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, 2012**

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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, 2012**

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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 refunding received on debt issuances are reported as other financing sources while discounts and losses from refunding 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*

On October 1, 2010, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement 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 comprised of the following:

- *Nonspendable Fund Balance* - includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories and prepaid items.
- *Restricted Fund Balance* - includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* - includes amounts that can only be used for the specific purposes determined by a formal action, Ordinance, of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally, which is an Ordinance.
- *Assigned Fund Balance* - comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. *Intent* is expressed by (a) the City Council or (b) a body (for example: a budget or finance committee) or official to which the City Council has delegated the authority to assign amounts to be used for specific purposes.

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

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

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

Classification of Fund Balance (Continued)

- *Unassigned Fund Balance* - is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

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 2013 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.

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

Net Assets

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.

The City uses restricted amounts to be spent first when both restricted and unrestricted fund balances are available.

**F. 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.

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

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**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 2012.

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.

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

**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, 2012, 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, 2012, the City did not have any investments.

**NOTE 4 - RECEIVABLES**

Receivables at September 30, 2012, were as follows:

	Governmental Activities	Business-Type Activities			Total
	General	Water and Sewer	Sanitation	Stormwater Utility Management	
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	4,867	-	-	4,867
Accounts	212,009	591,259	267,099	42,961	1,113,328
Less allowance for doubtful accounts	-	(36,776)	(26,573)	(4,542)	(67,891)
Receivables, net	<u>212,009</u>	<u>559,350</u>	<u>240,526</u>	<u>38,419</u>	<u>1,050,304</u>
Due from other governments	<u>332,731</u>	<u>179,377</u>	-	-	512,108
Total	<u>\$ 544,740</u>	<u>\$ 738,727</u>	<u>\$ 240,526</u>	<u>\$ 38,419</u>	<u>\$ 1,562,412</u>

**Due from Other Governments**

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

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

**NOTE 5 - CHANGES IN CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 1,561,115	\$ -	\$ -	\$ 1,561,115
Construction in progress	<u>8,229</u>	<u>4,809</u>	<u>-</u>	<u>13,038</u>
Total capital assets not being depreciated	<u>1,569,344</u>	<u>4,809</u>	<u>-</u>	<u>1,574,153</u>
Capital assets being depreciated				
Buildings	5,644,541	49,370	(6,783)	5,687,128
Improvements other than buildings	9,219,965	108,863	-	9,328,828
Infrastructure	7,450,171	-	-	7,450,171
Machinery and equipment	4,459,035	267,167	(2,500)	4,723,702
Library books	<u>389,097</u>	<u>-</u>	<u>(25,323)</u>	<u>363,774</u>
Total capital assets being depreciated	<u>27,162,809</u>	<u>425,400</u>	<u>(34,606)</u>	<u>27,553,603</u>
Less accumulated depreciation				
Buildings	(1,922,922)	(187,855)	5,210	(2,105,567)
Improvements other than buildings	(3,467,898)	(225,937)	-	(3,693,835)
Infrastructure	(4,258,172)	(232,163)	-	(4,490,335)
Machinery and equipment	(4,045,010)	(178,703)	2,500	(4,221,213)
Library books	<u>(389,097)</u>	<u>-</u>	<u>25,323</u>	<u>(363,774)</u>
Total accumulated depreciation	<u>(14,083,099)</u>	<u>(824,658)</u>	<u>33,033</u>	<u>(14,874,724)</u>
Total capital assets being depreciated, net	<u>13,079,710</u>	<u>(399,258)</u>	<u>(1,573)</u>	<u>12,678,879</u>
<b>Governmental activities, net</b>	<u>\$ 14,649,054</u>	<u>\$ (394,449)</u>	<u>\$ (1,573)</u>	<u>\$ 14,253,032</u>
	<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>652,563</u>	<u>1,012,769</u>	<u>(652,563)</u>	<u>1,012,769</u>
Total capital assets not being depreciated	<u>1,519,860</u>	<u>1,012,769</u>	<u>(652,563)</u>	<u>1,880,066</u>
Capital assets being depreciated				
Buildings	2,848,698	31,716	629,610	3,510,024
Improvements other than buildings	34,995,441	1,147,910	-	36,143,351
Machinery and equipment	<u>2,716,982</u>	<u>170,563</u>	<u>22,953</u>	<u>2,910,498</u>
Total capital assets being depreciated	<u>40,561,121</u>	<u>1,350,189</u>	<u>652,563</u>	<u>42,563,873</u>
Less accumulated depreciation				
Buildings	(1,602,611)	(53,006)	-	(1,655,617)
Improvements other than buildings	(10,129,804)	(1,021,909)	-	(11,151,713)
Machinery and equipment	<u>(2,545,131)</u>	<u>(140,982)</u>	<u>-</u>	<u>(2,686,113)</u>
Total accumulated depreciation	<u>(14,277,546)</u>	<u>(1,215,897)</u>	<u>-</u>	<u>(15,493,443)</u>
Total capital assets being depreciated, net	<u>26,283,575</u>	<u>134,292</u>	<u>652,563</u>	<u>27,070,430</u>
<b>Business-type activities, net</b>	<u>\$ 27,803,435</u>	<u>\$ 1,147,061</u>	<u>\$ -</u>	<u>\$ 28,950,496</u>

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

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

Construction in progress in the business-type activities includes work on the upgrade of the regional sewer system. The City anticipates completion of the Project in fiscal year 2013.

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

<b>Governmental activities</b>	
General government	\$ 302,225
Public safety	143,327
Transportation	132,995
Culture and recreation	<u>246,111</u>
Total depreciation expense - governmental activities	<u>\$ 824,658</u>
<b>Business-type activities</b>	
Water and sewer	\$ 1,063,967
Sanitation	50,263
Non-major	<u>101,667</u>
Total depreciation expense - business-type activities	<u>\$ 1,215,897</u>

**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 %

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

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**NOTE 6 - DEFERRED COMPENSATION PLAN (CONTINUED)**

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 \$2,986,248 at September 30, 2012. The City made matching contributions during the fiscal year ended September 30, 2012, of \$35,708.

**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](mailto: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.

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

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**NOTE 7 - PENSION PLAN (CONTINUED)**

**Funding Policy**

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 in calculation of benefits using Average Final Compensation (AFC) on the highest eight years of compensation as compared to highest five years. In addition, the normal retirement date for Regular, Senior Management Service, Elected Officers', and Special Risk Administrative Support Classes was modified to be age 65, with 8 years of service or 33 years of service regardless of age. Normal retirement for Special Risk Class members now at age 60, with 8 years of service, or 30 years of special risk class service OR age 57, with 30 years of combined special risk class service and military service. For those members participating in the 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.

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. No changes were made to the 3% employee member contribution rate during the year ended September 30, 2012. The FRS funding policy 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.

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

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**NOTE 7 - PENSION PLAN (CONTINUED)**

***Funding Policy (Continued)***

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, 2012, the actuarially determined contribution rates, expressed as a percentage of covered payroll, including the required employee 3% contribution are 17.90% for police officer and firefighter (special risk) employees, 8.18% for regular employees, and 5.44% for the Deferred Retirement Option Program (DROP). The City's contributions to the plan for fiscal years ended September 30, 2012, 2011, and 2010, listed below, were equal to the required contributions for the year.

Three-Year Trend Information	
Fiscal Year Ending	Annual Pension Cost (APC)
September 30, 2012	\$ 551,847
September 30, 2011	\$ 587,965
September 30, 2010	\$ 535,427

**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.

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

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**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, 2012, \$36,000 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, 2012, \$13,000 was recognized as income and included as a component of charges for services in the General Fund.

**NOTE 10 - LONG-TERM DEBT**

**Changes in Long-Term Debt Liabilities**

Long-term debt activity for the year ended September 30, 2012, is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Within One Year</u>
<b>Governmental activities</b>					
Sales Tax Revenue Refunding Bonds, Series 2011	\$ 1,009,101	\$ -	\$ -	\$ 1,009,101	\$ 134,823
Gas Tax Revenue Refunding Bonds Series 2011	1,459,829	-	-	1,459,829	196,327
Compensated absences	414,256	1,333,492	(1,274,788)	472,960	472,960
<b>Total governmental activities</b>	<b><u>\$ 2,883,186</u></b>	<b><u>\$ 1,333,492</u></b>	<b><u>\$ (1,274,788)</u></b>	<b><u>\$ 2,941,890</u></b>	<b><u>\$ 804,110</u></b>

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

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

***Changes in Long-Term Debt Liabilities (Continued)***

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities</b>					
Water and Sewer Refunding Bonds Series 1993*	\$ 2,121,479	\$ 115,443	\$ (370,000)	\$ 1,866,922	\$ 370,000
Less deferred amount for bond discount	(6,858)	-	1,004	(5,854)	-
Water and Sewer Revenue Bonds Series 2005	5,070,000	-	(165,000)	4,905,000	175,000
Less deferred amount for bond discounts	(119,682)	-	6,649	(113,033)	-
Less deferred loss on refunding	(186,582)	-	10,340	(176,242)	-
Water & sewer revenue refunding bonds Series 2011A,B,C	-	5,000,000	(236,780)	4,763,220	487,865
Water and Sewer Revenue Bonds Series 2012A	-	960,000	-	960,000	-
Water and Sewer Revenue Bonds Series 2012B	-	1,540,000	-	1,540,000	-
Florida DEP State Revolving Loan, 1997	210,084	-	(210,084)	-	-
Florida DEP State Revolving Loan, 2001	168,490	-	(168,490)	-	-
Florida DEP State Revolving Loan, 2002A	1,571,227	-	(1,266,777)	304,450	-
Florida DEP State Revolving Loan, 2002B	45,366	-	(22,334)	23,032	23,032
Florida DEP State Revolving Loan, 2003	1,110,470	276,660	(100,913)	1,286,217	1,286,217
Florida DEP State Revolving Loan, 2005A	793,302	-	(508,067)	285,235	-
Florida DEP State Revolving Loan, 2005B	1,068,344	-	(662,507)	405,837	-
Florida DEP State Revolving Loan, 2010	818,544	-	(396,838)	421,706	-
Florida DEP State Revolving Loan, 2011	1,111,413	726,352	-	1,837,765	81,947
Florida DEP State Revolving Loan, 2011	-	277,707	(25,035)	252,672	44,831
Water and sewer note payable	885,000	-	(885,000)	-	-
Compensated absences	148,920	447,295	(430,960)	165,255	165,255
<b>Total business-type activities</b>	<b>\$ 14,809,517</b>	<b>\$ 9,343,457</b>	<b>\$ (5,430,792)</b>	<b>\$ 18,722,182</b>	<b>\$ 2,634,147</b>

\* Increases in the Water and Sewer Refunding Bonds Series 1993 represent accretion of interest on capital appreciation bonds.

**Refundings**

On December 28, 2011, the City issued \$5,000,000 of Water and Sewer Bonds, Series 2011A,B,C 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. The refunded portion of the transaction resulted in an economic gain of \$230,444 and cash flow savings of \$152,071.

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

**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 principal installments of \$134,823 to \$156,366, 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.	\$ 134,823	\$ 874,278	\$ 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 principal installments of \$196,327 to \$221,928, 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	196,327	1,263,502	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>472,960</u>	<u>-</u>	<u>472,960</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 804,110</u></b>	<b><u>\$ 2,137,780</u></b>	<b><u>\$ 2,941,890</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	\$ 1,496,922	\$ 1,866,922
Less unamortized bond discount	-	(5,854)	(5,854)

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

**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.	175,000	4,730,000	4,905,000
Less unamortized bond discount	-	(113,033)	(113,033)
Less unamortized deferred loss on refunding	-	(176,242)	(176,242)
\$5,000,000 Water and Sewer Revenue Refunding Bonds, Series 2011A,B,C, serial bonds issued in December 2011 and due in annual installments ranging from \$58,940 to \$590,421, from October 1, 2012, through October 1, 2031; interest rates range from 1.98% to 3.65% over the life of the bonds; bond proceeds used to fully refund outstanding principal the Water and Sewer Note Payable, principal on the City's various State Revolving Fund Loans, and funding future capital projects.	487,865	4,275,355	4,763,220
\$960,000 Water and Sewer Revenue Bonds 2012A serial bonds issued in July 2012 and due in annual installments ranging from \$3,475 to \$264,706, from October 1, 2012, through October 1, 2019; interest rate is 1.81% over the life of the bonds; bond proceeds used finance the cost of capital improvements to the water and sewer facilities of the City	-	960,000	960,000
\$1,540,000 Water and Sewer Revenue Bonds 2012B serial bonds issued in July 2012 and due in annual installments ranging from \$10,133 to \$225,666, from October 1, 2012, through October 1, 2027; interest rate is 3.29% over the life of the bonds; bond proceeds used finance the cost of capital improvements to the water and sewer facilities of the City	-	1,540,000	1,540,000
<b><i>Total Revenue Bonds</i></b>	<u>1,032,865</u>	<u>12,707,148</u>	<u>13,740,013</u>

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

**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</i></b>			
\$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. In December 2011, the City used proceeds from Water and Sewer Revenue Refunding Bonds, Series 2011A,B,C to make an advance principal payment on the loan in the amount of \$1,252,749. As a result of the advance payment, the City is making semiannual interest only payments of \$4,687 through March 15, 2022, at which time semiannual principal and interest payments totaling \$78,799 will resume.	-	304,450	304,450
\$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.	23,032	-	23,032
\$1,286,217 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. In October 2012, the City paid off the outstanding balance on the loan using funds held in an escrow account. Accordingly, the full amount of outstanding principal balance at September 30, 2012 is considered current.	1,286,217	-	1,286,217

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

**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>			
\$900,028 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. In December 2011, the City used proceeds from Water and Sewer Revenue Refunding Bonds, Series 2011A,B,C to make an advance principal payment on the loan in the amount of \$462,811. As a result of the advance payment, the City is making semiannual interest only payments of \$4,414 through January 15, 2022, at which time semiannual principal and interest payments totaling \$35,391 will resume.	-	285,235	285,235
\$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. In December 2011, the City used proceeds from Water and Sewer Revenue Refunding Bonds, Series 2011A,B,C to make an advance principal payment on the loan in the amount of \$654,031. As a result of the advance payment, the City is making semiannual interest only payments of \$5,523 through March 15, 2022, at which time semiannual principal and interest payments totaling \$43,683 will resume.	-	405,837	405,837
\$2,134,476 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.	81,947	1,755,818	1,837,765

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

**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>			
\$1,582,026 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. In December 2011, the City used proceeds from Water and Sewer Revenue Refunding Bonds, Series 2011A,B,C to make an advance principal payment on the loan in the amount of \$378,833. As a result of the advance payment, the City is making semiannual interest only payments of \$6,296 through May 15, 2022, at which time semiannual principal and interest payments totaling \$28,487 will resume.	-	421,706	421,706
\$765,234 State of Florida Department of Environment Protection Revolving Loan Fund; semi-annual payments of \$25,749, including interest at 2.76%, beginning May 15, 2012, through May 15, 2017. Proceeds used to finance pump station rehabilitation projects.	<u>44,831</u>	<u>207,841</u>	<u>252,672</u>
<b><i>Total State Revolving Loans</i></b>	<u>1,436,027</u>	<u>3,380,888</u>	<u>4,816,914</u>
<b><i>Accrued Compensated Absences</i></b>			
Accumulated, vested annual compensation for Enterprise Funds.	<u>165,255</u>	<u>-</u>	<u>165,255</u>
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u>\$ 2,634,147</u>	<u>\$ 16,088,036</u>	<u>\$ 18,722,182</u>
<b>GRAND TOTAL LONG-TERM DEBT</b>			<u>\$ 21,664,072</u>

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

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

**Annual Requirements to Amortize Debt Outstanding**

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

<b>Governmental Activities</b>				
Year Ending September 30	Sales Tax Revenue Refunding Bonds, Series 2011		Gas Tax Revenue Refunding Bonds, Series 2011	
	Principal	Interest	Principal	Interest
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
2017	146,417	7,458	214,185	10,730
2018-2019	<u>305,349</u>	<u>6,088</u>	<u>437,586</u>	<u>8,682</u>
Total	<u>\$ 1,009,101</u>	<u>\$ 71,396</u>	<u>\$ 1,459,829</u>	<u>\$ 103,009</u>

<b>Business-Type Activities</b>				
Year Ending September 30	Water and Sewer Revenue Bonds		State Revolving Loans	
	Principal	Interest	Principal	Interest
2013	\$ 1,032,865	\$ 453,299	\$ 1,436,027	\$ 135,172
2014	1,093,978	441,994	139,947	184,098
2015	963,821	410,261	143,906	140,673
2016	970,958	380,178	147,978	121,075
2017	997,362	349,362	167,870	111,936
2018-2022	4,419,125	1,312,943	866,939	350,172
2023-2027	3,087,956	696,850	1,408,821	76,937
2028-2032	<u>1,822,155</u>	<u>129,014</u>	<u>505,426</u>	<u>7,228</u>
Total	<u>\$ 14,388,220</u>	<u>\$ 4,173,901</u>	<u>\$ 4,816,914</u>	<u>\$ 1,127,291</u>

The above amortization schedule does not agree to the debt balances outstanding as of September 30, 2012, due to accrued debt balances from the 1993 Water and Sewer Revenue Capital Appreciation Bonds, 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, 2012:

Water and sewer revenue 1964 and 1979	<u>\$ 740,000</u>
---------------------------------------	-------------------

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

**NOTE 11 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of September 30, 2012, is as follows:

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

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.

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

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 - 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 no items pending or recently resolved litigation which would materially affect the City's financial statements as of September 30, 2012.

# **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, 2012**

	Balances October 1, 2011	Additions	Deletions	Balances September 30, 2012
<b>Assets</b>				
Cash and cash equivalents	\$ 395,202	\$ 2,936	\$ 8,171	\$ 389,967
Due from others	<u>3,860</u>	<u>744</u>	<u>-</u>	<u>4,604</u>
Total assets	<u>\$ 399,062</u>	<u>\$ 3,680</u>	<u>\$ 8,171</u>	<u>\$ 394,571</u>
<b>Liabilities</b>				
Due to scholarship recipients	<u>\$ 399,062</u>	<u>\$ 3,680</u>	<u>\$ 8,171</u>	<u>\$ 394,571</u>
Total liabilities	<u>\$ 399,062</u>	<u>\$ 3,680</u>	<u>\$ 8,171</u>	<u>\$ 394,571</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 Nine 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>	<u>2012</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	\$ 11,784,102
Restricted	301,428	302,129	2,318,752	2,536,382	1,502,000	1,347,899	1,110,010	841,612	1,178,772
Unrestricted	<u>1,125,414</u>	<u>1,035,020</u>	<u>670,157</u>	<u>652,037</u>	<u>1,242,996</u>	<u>2,476,404</u>	<u>3,945,681</u>	<u>4,085,883</u>	<u>4,204,645</u>
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>	<u>\$ 17,167,519</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	\$ 12,324,428
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	11,822,494
Unrestricted	<u>6,537,923</u>	<u>7,572,632</u>	<u>5,069,951</u>	<u>6,350,540</u>	<u>7,119,910</u>	<u>6,654,427</u>	<u>8,828,818</u>	<u>8,249,906</u>	<u>9,147,017</u>
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>	<u>\$ 33,293,939</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	\$ 24,108,530
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	13,001,266
Unrestricted	<u>7,663,337</u>	<u>8,607,652</u>	<u>5,740,108</u>	<u>7,002,577</u>	<u>8,362,906</u>	<u>9,130,831</u>	<u>12,774,499</u>	<u>12,335,789</u>	<u>13,351,662</u>
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>	<u>\$ 50,461,458</u>

**City of Niceville, Florida**  
**CHANGES IN NET ASSETS**  
**Last Nine 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>	<u>2012</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	\$ 3,413,092
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	2,806,190
Transportation	957,598	717,502	366,009	397,629	459,531	458,976	413,470	395,119	446,485
Human services	57,100	58,827	45,910	43,005	50,240	50,465	50,315	50,540	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	2,296,560
Debt service interest	153,836	171,516	149,754	148,539	132,787	118,754	108,775	96,393	72,860
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>	<u>9,085,727</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	5,747,117
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	2,578,749
Stormwater utility management - Non-Major Fund	205,087	403,819	287,089	205,789	126,596	147,554	233,647	192,640	344,731
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>	<u>8,670,597</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>	<u>\$ 17,756,324</u>
Niceville-Valparaiso Regional Sewer Board, Inc.									<u>\$ 1,604,853</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	\$ 1,786,272
Public safety	264,835	292,051	213,889	210,445	149,707	119,884	154,755	172,630	212,032
Transportation	89,042	80,689	74,545	47,150	85,067	54,143	83,251	54,629	71,734
Culture and recreation	57,950	67,286	148,077	145,935	277,361	205,976	167,764	115,757	117,859
Debt service interest	-	-	-	-	-	-	-	-	-
Operating grants and contributions	675,023	330,974	258,095	247,693	322,290	240,072	886,097	124,451	591,789
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>	<u>2,779,686</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	6,450,006
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	2,717,902
Other programs	288,378	477,207	224,862	264,170	359,886	382,421	387,020	413,062	425,818
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	756,433
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>	<u>10,350,159</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>	<u>\$ 13,129,845</u>
Component Unit:									
Niceville-Valparaiso Regional Sewer Board, Inc.									<u>\$ 1,885,623</u>

Continued...

**City of Niceville, Florida**  
**CHANGES IN NET ASSETS**  
**Last Nine 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>	<u>2012</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)	\$ (6,306,041)
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	1,679,562
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>	<u>\$ (4,626,479)</u>
Component Unit:									
Niceville-Valparaiso Regional Sewer Board, Inc.									<u>\$ 280,770</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	\$ 2,662,471
Municipal revenue sharing	360,518	459,790	480,047	500,539	417,379	367,879	369,855	372,409	380,661
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	1,315,381
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	1,771,278
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	110,127
Investment earnings	28,533	87,580	132,692	227,134	179,663	116,902	75,531	47,069	26,023
Transfers	262,675	12,675	135,110	80,950	218,869	323,193	140,000	100,000	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>	<u>6,365,941</u>
Business-type activities									
Miscellaneous	80,006	209,843	202,623	147,591	77,606	91,951	107,315	159,992	129,523
Equity earnings in joint venture	-	-	-	-	-	-	380,079	101,436	233,285
Contribution from other government-equity in joint venture	-	-	-	-	-	-	380,079	101,436	787,280
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	38,558
Transfers	(262,675)	(12,675)	(135,110)	(80,950)	(218,869)	(323,193)	(140,000)	(100,000)	(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>880,527</u>	<u>316,393</u>	<u>1,088,646</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>\$ 7,101,653</u>	<u>\$ 6,569,860</u>	<u>\$ 7,454,587</u>
Niceville-Valparaiso Regional Sewer Board, Inc.									
Miscellaneous									\$ 7,740
Investment earnings									3,096
Total component unit	<u>\$ -</u>	<u>\$ 10,836</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	\$ 59,900
Business-type activities	994,614	1,921,553	1,869,653	3,599,977	1,570,696	829,642	2,091,828	2,424,310	2,768,208
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>\$ 2,958,113</u>	<u>\$ 2,502,834</u>	<u>\$ 2,828,108</u>
Niceville-Valparaiso Regional Sewer Board, Inc. (component unit)									<u>\$ 291,606</u>

**FINANCIAL TRENDS - Table 3**

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

	<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>	<u>2012</u>
General Fund										
Reserved	\$ 177,192	\$ 3,314,193	\$ 2,314,759	\$ 2,654,887	\$ 3,028,467	\$ 1,533,498	\$ 1,382,452	\$ 1,135,229	\$ -	\$ -
Unreserved	1,127,353	717,023	971,562	458,294	414,785	1,476,581	2,608,742	4,039,598	-	-
Nonspendable	-	-	-	-	-	-	-	-	33,482	31,332
Restricted	-	-	-	-	-	-	-	-	841,612	1,178,772
Assigned	-	-	-	-	-	-	-	-	1,047,203	1,227,121
Unassigned	-	-	-	-	-	-	-	-	3,406,197	3,407,813
Total General Fund	<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>	<u>\$ 5,845,038</u>
All other governmental funds										
Unreserved, reported in										
Special Revenue Funds	\$ 194,566	\$ 244,523	\$ 235,120	\$ 261,205	\$ 266,054	\$ 233,718	\$ 250,620	\$ 264,355	\$ -	\$ -
Total all other governmental funds	<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>	<u>\$ -</u>

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

	<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>	<u>2012</u>
<b>Revenues</b>										
Taxes	\$ 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	\$ 4,252,829
Licenses, fees and permits	190,114	200,308	225,693	196,234	174,893	1,144,642	1,281,782	1,356,038	1,390,147	1,324,796
Intergovernmental	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	2,682,401
Charges for services	262,157	310,247	357,007	328,919	424,262	431,724	503,227	580,273	598,464	575,712
Fines	91,243	123,710	130,926	87,164	116,416	76,543	80,670	65,083	66,593	73,740
Miscellaneous	73,208	202,666	171,581	1,895,188	988,811	439,035	299,345	272,631	107,764	136,149
Total revenues	<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>	<u>9,045,627</u>
<b>Expenditures</b>										
General government	816,426	947,004	992,574	1,046,928	1,232,394	1,086,517	982,468	2,088,978	1,846,324	2,128,281
Public safety	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	2,669,849
Transportation	224,344	704,314	435,604	247,879	266,855	301,387	281,023	246,665	256,304	313,490
Internal service	654,413	745,852	804,511	858,213	851,487	1,108,547	1,064,584	893,900	882,579	913,405
Human services	56,137	57,100	58,827	45,910	43,005	109,866	50,465	50,315	50,540	50,540
Culture and recreation	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	2,050,449
Capital outlay	369,062	1,143,751	1,519,459	2,717,019	1,796,892	1,402,943	434,287	413,599	708,775	430,209
Debt service										
Principal	120,514	1,507,412	223,758	242,574	294,468	402,958	255,000	265,000	565,000	-
Interest	66,668	210,142	155,492	149,754	148,539	132,787	118,754	108,775	96,393	72,860
Total expenditures	<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>	<u>8,629,083</u>
Excess of revenues over (under) expenditures	155,478	(1,726,047)	(766,973)	(512,165)	253,970	(684,378)	381,084	1,057,368	(354,618)	416,544
<b>Other Financing Sources (Uses)</b>										
Proceeds from borrowing	-	-	-	230,000	-	-	-	-	-	-
Proceeds from refunding	-	4,340,000	-	-	-	-	-	-	2,468,930	-
Retirement of debt	-	-	-	-	-	-	-	-	(2,325,000)	-
Transfers in	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	100,000
Transfers out	(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>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>	<u>100,000</u>
Net changes in fund balances	<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>	<u>\$ 516,544</u>
Debt service as a percentage of noncapital expenditures	3.56%	22.48%	5.73%	5.29%	5.55%	6.49%	4.95%	4.63%	8.03%	0.89%

REVENUE CAPACITY - Table 5

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

Fiscal Year Ended <u>September 30</u>	<u>Real Property</u>		<u>Personal Property</u>		<u>Total</u>		Ratio of Total Assessed Value to Total Estimated Actual Value	Total Direct Tax Rate
	<u>Assessed Value</u>	<u>Estimated Actual Value</u>	<u>Assessed Value</u>	<u>Estimated Actual Value</u>	<u>Assessed Value</u>	<u>Estimated Actual Value</u>		
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
2012	\$ 1,017,090,334	\$ 1,169,653,884	\$ 47,686,851	\$ 47,686,851	\$ 1,064,777,185	\$ 1,224,493,763	0.87	3.700

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>
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%
2012	\$ 2,756,699	\$ 2,522,748	91.51%	1,495	\$ 2,622,471	95.13%

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
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
2012	3.7000	-	3.7000	3.2899	7.4760

**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, 2012**

<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	58,990,000	10.83%	6,388,617
City direct debt:			
Sales tax revenue refunding bonds, Series 2011		100%	1,009,101
Gas tax revenue refundng bonds, Series 2011		100%	1,459,829
	<u>\$ 58,990,000</u>		<u>\$ 15,246,164</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	Water and Sewer Revenue Bonds	State Revolving Loans	Notes Payables	Other Notes Payable			
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
2012	\$ -	\$ -	\$ 1,009,101	\$ 1,459,829	\$ -	\$ 13,740,013	\$ 4,816,914	\$ -	\$ -	\$ 21,025,857	1.66%	\$ 1,625

**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	
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
2012	\$ 6,456,006	\$ 4,127,071	\$ 2,328,935	\$ 656,337	\$ 364,110	\$ 456,486	\$ 135,172	\$ 105,000	\$ 35,530	1.33

**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>2012</u>			<u>2003</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	\$ 16,301,908	1	2.10%	\$ 15,734,398	1	2.02%
Ruckel Properties, Inc.	14,258,699	2	1.83%	8,291,564	2	1.07%
Wal-Mart Stores East LP	9,386,572	3	1.21%			
Gulf Power Company	7,227,780	4	0.93%	5,375,034	3	0.69%
HCA	5,646,376	5	0.73%			
Mill Creek Village, Inc.	5,429,020	6	0.70%	3,331,597	7	0.43%
Okaloosa Hospital Inc. 30948	4,564,055	7	0.59%			
Embarq Corp.	4,293,000	8	0.55%			
Spence Bros. Prop., Inc.	3,287,245	9	0.42%	1,595,438	10	0.21%
Sunbelt Rentals #268	3,023,744	10	0.39%			
Hospital Corp. of America				4,872,971	4	0.63%
Sprint				4,214,272	5	0.54%
Twin Cities Hospital				3,572,505	6	0.46%
Kmart Corp				3,221,855	8	0.41%
Phelps, Plenn & Norma J.				1,909,471	9	0.25%
<b>Total</b>	<b>\$ 73,418,399</b>		<b>9.44%</b>	<b>\$ 52,119,105</b>		<b>10.64%</b>
<b>Total Taxable Assessed Value of Other Taxpayers</b>	<b>\$ 703,910,448</b>		<b>90.56%</b>	<b>\$ 437,556,001</b>		<b>89.36%</b>
<b>Total Taxable Assessed Value</b>	<b>\$ 777,328,847</b>		<b>100.00%</b>	<b>\$ 489,675,106</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>
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%
2012	12,941	\$ 348,990	\$ 29,655	14	16,128	5.8%

\*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**

<b><u>Function/Program</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>
Police										
Physical arrests	501	540	540	571	687	709	491	448	540	419
Traffic violations	2,331	2,308	2,308	1,911	3,668	3,443	2,546	2,782	1,933	3,167
Fire										
Emergency responses	832	970	970	928	982	1,031	1,073	1,207	1,309	1,536
Inspections	534	432	432	418	425	723	676	401	303	350
Building										
Permits issued	356	371	688	396	275	350	273	377	452	624
Library										
Volumes in collection	48,619	54,586	54,586	56,394	57,988	61,316	66,656	70,933	69,100	71,266
Water										
New connections	229	661	-	109	61	30	24	62	89	124
Average daily consumption (thousands of gallons)	2,379	2,798	2,683	3,003	2,089	3,764	2,578	3,708	3,541	2,348

**Sources:** Various City departments.

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

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

<u>Function/Program</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>	<u>2012</u>
General government										
Executive	2	2	2	2	2	2	2	2	2	2
Financial and administrative	6	6	6	6	6	6	6	6	6	5
Planning	1	1	1	1	1	1	1	1	1	0
Building	3	3	3	3	3	3	3	3	3	3
Other	1	1	2	2	2	7	7	7	8	8
Public safety										
Police	24	24	23	23	23	25	25	25	30	30
Fire	7	6	7	6	6	6	6	6	11	11
Physical environment										
Other public works	7	8	8	8	8	12	12	12	15	14
Transportation	5	6	6	6	6	5	5	5	5	4
Human services	1	1	0	0	0	0	0	0	0	0
Culture and recreation										
Parks and recreation	19	20	20	23	23	17	17	17	17	17
Library	8	7	7	8	8	8	8	8	8	8
Water	18	19	19	20	20	16	16	16	16	16
Sanitation	7	9	9	10	10	9	9	9	10	10
Other	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<u>111</u>	<u>113</u>	<u>113</u>	<u>118</u>	<u>118</u>	<u>117</u>	<u>117</u>	<u>117</u>	<u>132</u>	<u>128</u>

**Source:** City Budget Office

**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>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>	<u>2012</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	22	22	19	21	20	20	20	19	19	24
Fire stations	1	1	1	1	1	1	1	1	1	1
Other public works										
Streets (miles)	94.7	94.7	94.7	94.7	94.7	94.7	76.1	76.1	76.1	78.3
Streetlights	1,588	1,611	1,611	1,636	1,646	1,650	1,644	1,674	1,701	1,710
Parks and recreation										
Acreage	118.9	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	1	1	1	1	1	1	1
Water										
Water mains (miles)	126	126	126	126	126	126	126	126	126	126
Fire hydrants	555	561	561	561	565	640	640	667	693	693
Number of service connections	7,254	7,913	7,913	8,022	8,105	8,210	8,320	8,346	8,395	7,451
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	70	70	71	71	71	71	68	68	68
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Number of service connections	6,584	6,805	6,805	6,866	6,910	6,997	7,022	7,029	7,271	7,640
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>2012</b></u>			<u><b>2003</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	This information was not available at the time of CAFR completion.			This information was not available at the time of CAFR completion.		
L-3 Communications/Crestview Aerospace						
DRS Training & Control Systems, LLC						
Fort Walton Beach Medical Center						
InDyne, Inc.						
Jacobs Technology - TEAS Group						
NEW, Inc.						
BAE Systems Technical Services						
Boeing SOF Aerospace Support Center						
White-Wilson Medical Center						
Total						
Total County Employment						

**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 FEDERAL AWARDS**  
**AND STATE FINANCIAL ASSISTANCE**  
**Year Ended September 30, 2012**

Federal/State Agency Pass-Through Entity Federal Program/State Project	CFDA CFSA Number	Contract/Grant Number	Expenditures
<b>U.S. Environmental Protection Agency</b>			
Indirect Programs - Pass-Through from:			
Florida Department of Environmental Protection			
Capitalization Grants - State Revolving Funds -			
Stormwater Management	66.458	SW12050621P	\$ 226,296
<b>U.S. Department of Housing and Urban Development</b>			
Indirect Programs - Pass-Through from:			
Florida Department of Community Affairs - Community			
Development Block Grant - Small Cities	14.228	11-DB-C5-01-56- 02-H02	470,167
<b>U.S. Department of Justice</b>			
Indirect Programs - Pass-Through from:			
Florida Department of Law Enforcement			
Edward Byrne Memorial Justice Assistance Grant			
Edward Byrne Memorial Justice Assistance Grant	16.738	2012-JAFD-OKAL- 3-C5-099	1,974
Edward Byrne Memorial Justice Assistance Grant	16.738	2012-JAFD-OKAL- 3-C5-099	<u>3,788</u>
<b>Total U.S. Department of Justice</b>			<u>5,762</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 702,225</u></b>
<b>Florida Department of Environmental Protection</b>			
Direct Programs			
Statewide Surface Water Restoration and Wastewater			
Projects - Clean Water Revolving Funds Loan	37.077	WW460510	\$ 221,783
Statewide Surface Water Restoration and Wastewater			
Projects - Clean Water Revolving Funds Loan	37.077	WW460500	<u>285,546</u>
<b>Total Florida Department of Environmental Protection</b>			<u>507,329</u>
<b>TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE</b>			<b><u>\$ 507,329</u></b>

The accompanying notes are an integral part of this schedule.

**City of Niceville, Florida**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE**  
**FINANCIAL ASSISTANCE**  
**Year Ended September 30, 2012**

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal and 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 of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and 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, the discretely presented component unit, each major fund, and individual fund information of the City of Niceville, Florida, as of and for the year ended September 30, 2012, which collectively comprise the City of Niceville, Florida's basic financial statements and have issued our report thereon dated March 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of the City of Niceville, Florida, is responsible for establishing and maintaining effective 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.

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)

**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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Niceville, Florida, in a separate letter dated March 22, 2013.

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 22, 2013

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  
FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND  
CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

**Compliance**

We have audited the City of Niceville, Florida's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs and state projects for the year ended September 30, 2012. The City's major federal programs and 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 programs and state projects is the responsibility of the City of Niceville, Florida'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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, *Rules of the Auditor General*. Those standards, OMB Circular A-133, and Chapter 10.550, *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or 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 federal programs and state projects for the year ended September 30, 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 Federal Program and State  
Project and on Internal Control over Compliance in Accordance with OMB  
Circular A-133 and Chapter 10.550, *Rules of the Auditor General*  
(Continued)

### **Internal Control over Compliance**

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 federal programs and 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 federal program or 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 in accordance with OMB Circular A-133 and Chapter 10.550, 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.

*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 noncompliance with a type of compliance requirement of a federal program or state project 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. 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 22, 2013

**City of Niceville, Florida**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2012**

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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

**Federal Awards and 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 section 501(a) of OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*? \_\_\_\_\_ Yes        X   No

Identification of major programs:

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
14.228	U.S. Department of Housing and Urban Development Community Development Block Grant - Small Cities

<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 for federal awards: \$300,000

Dollar threshold used to distinguish between type A and type B programs for state projects: \$152,199

- Auditee qualified as low-risk auditee for federal awards? \_\_\_\_\_ Yes        X   No

**City of Niceville, Florida**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended September 30, 2012**

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**II. FINANCIAL STATEMENT FINDINGS**

We noted no matters involving noncompliance that are required to be reported in accordance with section 510(a) of OMB Circular A-133 or Chapter 10.550, *Rules of the Auditor General*.

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, 2012, and have issued our report thereon dated March 22, 2013.

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; 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 that Could Have a Direct and Material Effect on Each Major Federal Program and State Project and on Internal Control over Compliance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*; and the Schedule of Findings and Questioned Costs. Disclosures in this report and schedule, which are dated March 22, 2013, 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"). Comment 2009-01 was partially corrected.

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 "Current Year Comments". Comment 2012-1

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 occurred, or likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

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

Section 10.554(1)(i)(6), *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be in the Management Letter, unless disclosed in the notes to the financial statements. 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. 61, 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, 2012. 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, 2012, 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, 2012. 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 COMMENT**

### ***COMMENT 2009-1: 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 responsible for the year-end financial reporting process to enhance internal controls over the financial reporting process. Such training would also assist the City in addressing any data or information that may be necessary to comply with emerging governmental accounting requirements.

#### ***Status***

Management began to cross-train accounting staff in various aspects of the internal accounting process during 2012. Although no formal training over external financial reporting was noted, the cross-training efforts were recognized as an initial step towards enhancing the City's financial reporting process. We continue to recommend the City invest in training relevant to external financial reporting to adequately address emerging issues that may impact the City.

**PRIOR YEAR COMMENTS (CONTINUED)**

***COMMENT 2009-1: EXTERNAL FINANCIAL REPORTING (CONTINUED)***

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

The City understands the benefits of training and will continue to explore training opportunities relevant to external financial reporting and accounting for local governments in the upcoming fiscal year.

**CURRENT YEAR COMMENT**

***COMMENT 2012-1: FRAUD CONTROLS AND CONTROL RISK ASSESSMENTS***

***Observation***

All organizations are subject to fraud risks and risks that controls over significant transaction cycles may not be working effectively. The tolerance level for such risks may vary depending on size, structure, and oversight governing such risks. The City has historically assessed risks for fraud and risks concerning its significant transaction cycles informally as part of their ongoing management process. There is not a formalized policy governing such process, or a method of communicating corrective actions expected by all levels with the City if an incident is identified.

***Recommendation***

Only through diligent and ongoing effort can an organization protect itself against breaches of internal control or fraud. As such, we recommend the City adopt a formalized policy governing its risk assessment process, and to document those areas most susceptible for the City and any corrective actions expected in the event of breach.

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

The City will formalize its current risk assessment process through adoption of a written policy, including documentation of identified risks and corrective actions in the event of a breach.

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 22, 2013

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