

*Vale of Paradise*



# City of Valparaiso, Florida Financial Statements September 30, 2019

**CITY OF VALPARAISO, FLORIDA  
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FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valparaiso, Florida (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valparaiso, Florida, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Warren Averett, LLC*

Fort Walton Beach, Florida

May 6, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis (MD&A) of the City of Valparaiso, Florida's (the City) financial performance provides an overview of financial activity, identifies changes in financial position, and assists the reader in focusing on significant financial issues for the fiscal year ended September 30, 2019. The MD&A provides summary level financial information; therefore, it should be read in conjunction with the accompanying financial statements.

### FINANCIAL HIGHLIGHTS

- Total assets increased by \$1,108,342.
- Net position increased by \$1,498,541.
- Total revenues increased by 19.5%, or \$1,528,032, and total expenses increased by 0.1%, or \$6,679. The primary causes for the increase in revenues were nonrecurring capital grant revenues and a new local option discretionary sales tax approved by taxpayers in the November 2018 referendum.

### USING THE ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by Statement No. 37. The statement of net position and the statement of activities (on pages 9-10) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### REPORTING THE CITY AS A WHOLE

#### **Government-Wide Financial Statements**

Our analysis of the City as a whole begins on page 5. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the City as a whole and about its activities in a way that helps answer that question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. You can think of the City's net position – the difference between assets and liabilities – as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the statement of net position and the statement of activities, we divide the City into two kinds of activities:

- **Governmental activities** – Most of the City’s basic services are reported here, including the police, fire, public works, cemetery, library, parks, and general administration. Taxes and intergovernmental revenues finance most of these activities.
- **Business-type activities** – The City charges fees to customers to help it cover the costs of certain services it provides. The City’s utility, communication, and sanitation systems are included here.

## REPORTING THE CITY’S FUNDS

### Fund Financial Statements

Our analysis of the City’s funds begins on page 7. The fund financial statements begin on page 11 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City’s two kinds of funds, governmental and proprietary, use different accounting approaches.

- **Governmental funds** – Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in the reconciliations on pages 12 and 14.
- **Proprietary funds** – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the City’s proprietary fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

## THE CITY AS TRUSTEE

### REPORTING THE CITY’S FIDUCIARY RESPONSIBILITIES

The City is the trustee, or fiduciary, for its employees’ pension plan. All of the City’s fiduciary activities are reported in a separate statement of fiduciary net position and statement of changes in fiduciary net position on pages 20 and 21.

We exclude these activities from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose.

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (GOVERNMENT-WIDE FINANCIAL ANALYSIS)**

The following table reflects the net position of the City's governmental activities and business-type activities and is compared to the prior year.

**Table 1  
CITY OF VALPARAISO, FLORIDA  
STATEMENTS OF NET POSITION  
AS OF SEPTEMBER 30, 2019 AND 2018**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Current and other assets	\$ 3,964,242	\$ 3,204,809	\$ 3,789,702	\$ 3,911,363	\$ 7,753,944	\$ 7,116,172
Capital assets, net	4,013,677	4,291,593	5,030,559	4,282,073	9,044,236	8,573,666
<b>Total assets</b>	<b>7,977,919</b>	<b>7,496,402</b>	<b>8,820,261</b>	<b>8,193,436</b>	<b>16,798,180</b>	<b>15,689,838</b>
<b>Deferred outflows of resources</b>	<b>232,779</b>	<b>228,243</b>	<b>29,970</b>	<b>30,046</b>	<b>262,749</b>	<b>258,289</b>
Current liabilities	170,902	93,713	372,282	374,310	543,184	468,023
Other liabilities	1,455,719	1,608,131	3,757,622	3,972,507	5,213,341	5,580,638
<b>Total liabilities</b>	<b>1,626,621</b>	<b>1,701,844</b>	<b>4,129,904</b>	<b>4,346,817</b>	<b>5,756,525</b>	<b>6,048,661</b>
<b>Deferred inflows of resources</b>	<b>189,949</b>	<b>270,607</b>	<b>17,063</b>	<b>30,008</b>	<b>207,012</b>	<b>300,615</b>
Net position						
Net investment in capital assets	2,835,497	2,950,872	1,502,507	868,701	4,338,004	3,819,573
Restricted	1,115,889	806,667	1,107,514	1,275,460	2,223,403	2,082,127
Unrestricted	2,442,742	1,994,655	2,093,243	1,702,496	4,535,985	3,697,151
<b>Total net position</b>	<b>\$ 6,394,128</b>	<b>\$ 5,752,194</b>	<b>\$ 4,703,264</b>	<b>\$ 3,846,657</b>	<b>\$ 11,097,392</b>	<b>\$ 9,598,851</b>

For more detailed information on the amounts shown in Table 1, see the accompanying statement of net position.



The table below reflects the changes in net position of the City's governmental activities and business-type activities and compares the current and previous fiscal year.

**Table 2**  
**CITY OF VALPARAISO, FLORIDA**  
**STATEMENTS OF CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 567,277	\$ 609,760	\$ 4,265,781	\$ 3,938,822	\$ 4,833,058	\$ 4,548,582
Operating grants and contributions	60,845	61,180	58,748	23,743	119,593	84,923
Capital grants and contributions	69,430	18,676	721,411	99,100	790,841	117,776
General revenues						
Property taxes	1,136,959	1,054,938	-	-	1,136,959	1,054,938
Utility service taxes	390,283	399,510	-	-	390,283	399,510
Sales taxes	1,246,003	830,712	-	-	1,246,003	830,712
Franchise taxes	354,790	348,277	-	-	354,790	348,277
Intergovernmental, unrestricted	347,760	309,414	-	-	347,760	309,414
Investment earnings	23,667	30,152	10,228	14,612	33,895	44,764
Sales of investments and capital assets	12,430	20,610	30,920	-	43,350	20,610
Miscellaneous	19,426	30,066	46,837	45,191	66,263	75,257
<b>TOTAL REVENUES</b>	<b>4,228,870</b>	<b>3,713,295</b>	<b>5,133,925</b>	<b>4,121,468</b>	<b>9,362,795</b>	<b>7,834,763</b>
<b>EXPENSES</b>						
Primary government						
General government	840,234	858,553	-	-	840,234	858,553
Public safety	1,430,781	1,504,135	-	-	1,430,781	1,504,135
Physical environment	230,737	230,024	-	-	230,737	230,024
Transportation	436,117	426,581	-	-	436,117	426,581
Culture and recreation	614,239	548,695	-	-	614,239	548,695
Debt service interest	34,828	39,078	-	-	34,828	39,078
Business-type activities						
Utility	-	-	1,621,581	1,569,299	1,621,581	1,569,299
Communication	-	-	1,815,630	1,853,857	1,815,630	1,853,857
Sanitation	-	-	840,107	827,353	840,107	827,353
<b>TOTAL EXPENSES</b>	<b>3,586,936</b>	<b>3,607,066</b>	<b>4,277,318</b>	<b>4,250,509</b>	<b>7,864,254</b>	<b>7,857,575</b>
<b>CHANGE IN NET POSITION</b>	<b>641,934</b>	<b>106,229</b>	<b>856,607</b>	<b>(129,041)</b>	<b>1,498,541</b>	<b>(22,812)</b>
<b>NET POSITION – BEGINNING</b>	<b>5,752,194</b>	<b>5,645,965</b>	<b>3,846,657</b>	<b>3,975,698</b>	<b>9,598,851</b>	<b>9,621,663</b>
<b>NET POSITION – ENDING</b>	<b>\$ 6,394,128</b>	<b>\$ 5,752,194</b>	<b>\$ 4,703,264</b>	<b>\$ 3,846,657</b>	<b>\$ 11,097,392</b>	<b>\$ 9,598,851</b>

For more detailed information on the amounts shown in Table 2, see the accompanying statement of activities.

The City's total revenues increased by \$1,528,032 or 19.5% and total expenses increased by \$6,679, or 0.1%. Net position increased by \$1,498,541 for fiscal year 2019. Our analysis below separately considers the operations of governmental and business-type activities.

### Governmental Activities

The City's revenue for governmental activities increased \$515,575, or 13.9%, compared to the prior year. This increase is primarily attributable to a new local option discretionary sales tax that was approved by taxpayers in the November 2018 referendum. Expenses decreased by \$20,130, or 0.6% from the previous year, primarily related to a decrease in employee benefit costs.

### Business-type Activities

Revenues of the City's business-type activities showed an increase of \$1,012,457, or 24.6%, from the previous fiscal year. This increase is primarily related to an increase in capital grant contributions received for a project to improve the City's wastewater distribution system. Expenses increased \$26,809, or 0.6%. The main cause of the increase was an increase in operation and maintenance costs related to the City's water and sewer system.

## THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of \$2,986,661, which is \$719,191 higher than last year's total primarily due to not expending proceeds received from the new local option discretionary sales tax that was effective January 2019.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At September 30, 2019, the City had \$9,044,236 invested in capital assets (net of depreciation). This amount represents a net increase (including additions and deductions) of \$470,570, or 5.5%, over the fiscal year 2018 total. See note 4 for additional information. A listing of capital assets of governmental and business-type activities by major category, net of depreciation, for the current and prior year follows:

Table 3  
CITY OF VALPARAISO, FLORIDA  
CAPITAL ASSETS  
(net of depreciation)  
AS OF SEPTEMBER 30, 2019 AND 2018

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 455,209	\$ 455,209	\$ 90,603	\$ 90,603	\$ 545,812	\$ 545,812
Construction in process	6,156	-	-	138,328	6,156	138,328
Buildings and improvements	971,595	1,028,869	3,481,341	2,018,156	4,452,936	3,047,025
Infrastructure	1,630,441	1,821,364	-	-	1,630,441	1,821,364
Machinery, equipment, and vehicles	950,276	986,151	1,458,615	2,034,986	2,408,891	3,021,137
<b>Total</b>	<b>\$ 4,013,677</b>	<b>\$ 4,291,593</b>	<b>\$ 5,030,559</b>	<b>\$ 4,282,073</b>	<b>\$ 9,044,236</b>	<b>\$ 8,573,666</b>

## Debt

At September 30, 2019, the City had \$4,532,302 of bonds outstanding, net of unamortized discounts and premiums, versus \$4,920,275 in the prior year, a decrease of \$390,846, as shown below. The City also had \$281,658 of capital lease obligations versus \$284,531 in the prior year, a decrease of \$2,873.

**Table 4**  
**CITY OF VALPARAISO, FLORIDA**  
**LONG-TERM DEBT OUTSTANDING**  
**AS OF SEPTEMBER 30, 2019 AND 2018**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Capital leases	\$ 215,166	\$ 284,531	\$ 66,492	\$ -	\$ 281,658	\$ 284,531
Bonds payable, net	963,014	1,056,190	3,569,288	3,864,085	4,532,302	4,920,275
<b>Total</b>	<b>\$ 1,178,180</b>	<b>\$ 1,340,721</b>	<b>\$ 3,635,780</b>	<b>\$ 3,864,085</b>	<b>\$ 4,813,960</b>	<b>\$ 5,204,806</b>

The last payment on the debt is due in fiscal year 2041. The maximum debt service in any one year on this debt was \$663,863 in fiscal year 2019.

For additional information on debt, see Note 6 in the accompanying financial statements.

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

Amounts available for appropriation in the fiscal year 2020 General Fund budget are \$4,441,230, which is an increase from the final fiscal year 2019 budget of \$961,990. The City added no major new programs to the fiscal year 2020 budget.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report was prepared by the City. For questions about this report or additional financial information, contact the City Clerk's Office, 465 Valparaiso Parkway, Valparaiso, Florida 32580.

**CITY OF VALPARAISO, FLORIDA  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2019**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,432,337	\$ 942,031	\$ 2,374,368
Investments	391,963	-	391,963
Accounts receivables, net	16,751	235,344	252,095
Internal balances	663,718	(663,718)	-
Due from other governments	162,517	-	162,517
Inventory, at cost	-	93,317	93,317
Prepaid items	11,727	13,170	24,897
Restricted assets			
Cash and cash equivalents	459,551	1,345,121	1,804,672
Net pension asset	825,678	-	825,678
Capital assets			
Non-depreciable	461,365	90,603	551,968
Depreciable, net	3,552,312	4,939,956	8,492,268
Other assets			
Investment in joint venture	-	1,824,437	1,824,437
<b>TOTAL ASSETS</b>	<b>7,977,919</b>	<b>8,820,261</b>	<b>16,798,180</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>	<b>232,779</b>	<b>29,970</b>	<b>262,749</b>
<b>LIABILITIES</b>			
Accounts payable	111,254	158,901	270,155
Accrued liabilities	38,024	18,611	56,635
Accrued interest	18,999	64,891	83,890
Due to other governments	2,625	-	2,625
Payable from restricted assets			
Customer deposits	-	129,879	129,879
Non-current liabilities			
Due within one year			
Compensated absences	167,887	39,520	207,407
Lease payable	70,530	32,731	103,261
Bonds payable	93,102	296,898	390,000
Due in more than one year			
Other postemployment benefits (OPEB)	11,878	-	11,878
Net pension liability	97,774	82,322	180,096
Lease payable	144,636	33,761	178,397
Bonds payable, net	869,912	3,272,390	4,142,302
<b>TOTAL LIABILITIES</b>	<b>1,626,621</b>	<b>4,129,904</b>	<b>5,756,525</b>
<b>DEFERRED INFLOW OF RESOURCES</b>	<b>189,949</b>	<b>17,063</b>	<b>207,012</b>
<b>NET POSITION</b>			
Net investment in capital assets	2,835,497	1,502,507	4,338,004
Restricted			
Debt service	-	755,145	755,145
Capital projects	60,993	352,369	413,362
Pensions	656,338	-	656,338
Other purposes	398,558	-	398,558
Unrestricted	2,442,742	2,093,243	4,535,985
<b>TOTAL NET POSITION</b>	<b>\$ 6,394,128</b>	<b>\$ 4,703,264</b>	<b>\$ 11,097,392</b>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Function/program activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 840,234	\$ 444,378	\$ -	\$ -	\$ (395,856)	\$ -	\$ (395,856)
Public safety	1,430,781	12,503	-	63,274	(1,355,004)	-	(1,355,004)
Physical environment	230,737	100,888	-	-	(129,849)	-	(129,849)
Transportation	436,117	5,414	-	-	(430,703)	-	(430,703)
Culture and recreation	614,239	4,094	60,845	6,156	(543,144)	-	(543,144)
Debt service interest	34,828	-	-	-	(34,828)	-	(34,828)
Total governmental activities	<u>3,586,936</u>	<u>567,277</u>	<u>60,845</u>	<u>69,430</u>	<u>(2,889,384)</u>	<u>-</u>	<u>(2,889,384)</u>
Business-type activities							
Utility	1,621,581	1,548,894	58,748	721,411	-	707,472	707,472
Communication	1,815,630	1,922,365	-	-	-	106,735	106,735
Sanitation	840,107	794,522	-	-	-	(45,585)	(45,585)
Total business-type activities	<u>4,277,318</u>	<u>4,265,781</u>	<u>58,748</u>	<u>721,411</u>	<u>-</u>	<u>768,622</u>	<u>768,622</u>
<b>Total primary government</b>	<u>\$ 7,864,254</u>	<u>\$ 4,833,058</u>	<u>\$ 119,593</u>	<u>\$ 790,841</u>	<u>\$ (2,889,384)</u>	<u>\$ 768,622</u>	<u>\$ (2,120,762)</u>
General revenues							
Taxes							
Property taxes					\$ 1,136,959	\$ -	\$ 1,136,959
Utility service taxes					390,283	-	390,283
Sales and excise taxes					1,246,003	-	1,246,003
Franchise taxes					354,790	-	354,790
Intergovernmental, unrestricted					347,760	-	347,760
Investment earnings					23,667	10,228	33,895
Gain on sale of capital assets					12,430	30,920	43,350
Miscellaneous					19,426	46,837	66,263
Total general revenues					<u>3,531,318</u>	<u>87,985</u>	<u>3,619,303</u>
<b>CHANGE IN NET POSITION</b>					<u>641,934</u>	<u>856,607</u>	<u>1,498,541</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>					<u>5,752,194</u>	<u>3,846,657</u>	<u>9,598,851</u>
<b>NET POSITION AT END OF YEAR</b>					<u>\$ 6,394,128</u>	<u>\$ 4,703,264</u>	<u>\$ 11,097,392</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
SEPTEMBER 30, 2019**

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 939,465	\$ 281,393	\$ 211,479	\$ 1,432,337
Investments	391,963	-	-	391,963
Accounts receivables, net	12,294	-	4,457	16,751
Due from (to) other funds	606,549	34,039	23,130	663,718
Due from other governments	133,023	29,494	-	162,517
Prepaid items	11,727	-	-	11,727
Restricted assets				
Cash and cash equivalents	459,551	-	-	459,551
<b>TOTAL ASSETS</b>	<u>\$ 2,554,572</u>	<u>\$ 344,926</u>	<u>\$ 239,066</u>	<u>\$ 3,138,564</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 104,523	\$ 6,136	\$ 595	\$ 111,254
Accrued liabilities	36,647	1,352	25	38,024
Due to other governments	2,625	-	-	2,625
<b>TOTAL LIABILITIES</b>	<u>143,795</u>	<u>7,488</u>	<u>620</u>	<u>151,903</u>
<b>FUND BALANCE</b>				
Nonspendable	11,727	-	-	11,727
Restricted	459,551	-	-	459,551
Committed	203,010	-	238,446	441,456
Assigned	38,724	337,438	-	376,162
Unassigned	1,697,765	-	-	1,697,765
<b>TOTAL FUND BALANCE</b>	<u>2,410,777</u>	<u>337,438</u>	<u>238,446</u>	<u>2,986,661</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 2,554,572</u>	<u>\$ 344,926</u>	<u>\$ 239,066</u>	<u>\$ 3,138,564</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2019**

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Fund balance, total governmental funds (page 11) \$ 2,986,661

Amounts reported for governmental activities in the statement of net position 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	461,365	
Governmental depreciable assets	8,923,358	
Less accumulated depreciation	<u>(5,371,046)</u>	
		4,013,677

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

Net pension asset		825,678
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Deferred inflows of resources and deferred outflows of resources related to pensions and other post-employment benefits are not available/receivable or due/payable, respectively, in the current period and therefore are not reported in the governmental funds.

Deferred outflows of resources related to pension plans	230,163	
Deferred inflows of resources related to pension plans	(189,606)	
Deferred outflows of resources related to OPEB plan	2,616	
Deferred inflows of resources related to OPEB plan	<u>(343)</u>	
		42,830

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

Bonds payable	(963,014)	
Lease payable	(215,166)	
Accrued interest	(18,999)	
Compensated absences	(167,887)	
Other postemployment benefits (OPEB)	(11,878)	
Net pension liability	<u>(97,774)</u>	
		<u>(1,474,718)</u>

Net position of governmental activities (page 9)	<u><u>\$ 6,394,128</u></u>
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See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 1,630,436	\$ 243,727	\$ -	\$ 1,874,163
Permits and fees	457,895	-	-	457,895
Intergovernmental	1,243,409	149,586	-	1,392,995
Charges for services	310,169	-	47,730	357,899
Fines and forfeitures	14,993	-	-	14,993
Miscellaneous	117,884	13,575	35	131,494
Total revenues	<u>3,774,786</u>	<u>406,888</u>	<u>47,765</u>	<u>4,229,439</u>
<b>EXPENDITURES</b>				
Current				
General government	799,569	-	-	799,569
Public safety	1,351,961	-	-	1,351,961
Physical environment	204,530	-	6,928	211,458
Transportation	-	236,228	-	236,228
Culture and recreation	540,367	-	-	540,367
Capital outlay	160,979	9,936	-	170,915
Debt service				
Principal and interest	97,108	102,642	-	199,750
Total expenditures	<u>3,154,514</u>	<u>348,806</u>	<u>6,928</u>	<u>3,510,248</u>
<b>REVENUES OVER EXPENDITURES</b>	620,272	58,082	40,837	719,191
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>1,790,505</u>	<u>279,356</u>	<u>197,609</u>	<u>2,267,470</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 2,410,777</u>	<u>\$ 337,438</u>	<u>\$ 238,446</u>	<u>\$ 2,986,661</u>

See notes to the financial statements.



**CITY OF VALPARAISO, FLORIDA  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Net change in fund balance – governmental funds (page 13)		\$ 719,191
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is depreciated/amortized over the estimated useful lives of the assets.</p>		
Expenditures for capital assets	170,915	
Disposals of capital assets	(224,241)	
Accumulated depreciation associated with disposals	223,672	
Less current year depreciation	(448,262)	(277,916)
<p>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 position.</p>		
Principal payments on revenue bonds	91,849	
Principal payments on capital leases	69,365	
Bond premium amortization	1,327	
Change in accrued interest on long-term debt	2,381	164,922
<p>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:</p>		
Change in net pension asset (liability)	(54,106)	
Change in deferred outflows of resources related to pensions	2,140	
Change in deferred inflows of resources related to pensions	80,630	
Change in long-term compensated absences	8,663	
Change in other postemployment benefits liability and related deferred outflows and inflows of resources	(1,590)	35,737
Change in net position of governmental activities (page 10)		\$ 641,934

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2019**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 525,927	\$ 179,336	\$ 236,768	\$ 942,031
Accounts receivables, net	163,123	8,855	63,366	235,344
Inventory, at cost	72,149	21,168	-	93,317
Due from other funds	-	-	33,559	33,559
Prepaid items	8,562	4,608	-	13,170
Restricted assets				
Cash and cash equivalents	896,496	448,625	-	1,345,121
Total current assets	<u>1,666,257</u>	<u>662,592</u>	<u>333,693</u>	<u>2,662,542</u>
Non-current assets				
Capital assets				
Non-depreciable	40,287	50,316	-	90,603
Depreciable, net	3,836,248	771,667	332,041	4,939,956
Total capital assets	<u>3,876,535</u>	<u>821,983</u>	<u>332,041</u>	<u>5,030,559</u>
Other assets				
Investment in joint venture	1,824,437	-	-	1,824,437
Total non-current assets	<u>5,700,972</u>	<u>821,983</u>	<u>332,041</u>	<u>6,854,996</u>
<b>TOTAL ASSETS</b>	<u>7,367,229</u>	<u>1,484,575</u>	<u>665,734</u>	<u>9,517,538</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
	<u>8,665</u>	<u>8,165</u>	<u>13,140</u>	<u>29,970</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION – CONTINUED  
 SEPTEMBER 30, 2019**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	44,975	99,796	14,130	158,901
Accrued liabilities				
Compensated absences	18,463	15,107	5,950	39,520
Other	10,436	3,111	5,064	18,611
Due to other funds	300,639	396,638	-	697,277
Payable from restricted assets				
Customer deposits	129,879	-	-	129,879
Accrued interest	52,563	12,328	-	64,891
Lease payable	32,731	-	-	32,731
Revenue bonds payable	152,972	143,926	-	296,898
Total current liabilities	<u>742,658</u>	<u>670,906</u>	<u>25,144</u>	<u>1,438,708</u>
Non-current liabilities				
Net pension liability	23,803	22,426	36,093	82,322
Lease payable	33,761	-	-	33,761
Revenue bonds payable, net	2,559,838	712,552	-	3,272,390
Total non-current liabilities	<u>2,617,402</u>	<u>734,978</u>	<u>36,093</u>	<u>3,388,473</u>
<b>TOTAL LIABILITIES</b>	<u>3,360,060</u>	<u>1,405,884</u>	<u>61,237</u>	<u>4,827,181</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>4,933</u>	<u>4,648</u>	<u>7,482</u>	<u>17,063</u>
<b>NET POSITION</b>				
Net investment in capital assets	1,204,961	(34,495)	332,041	1,502,507
Restricted				
Debt service	306,520	448,625	-	755,145
System improvements	352,369	-	-	352,369
Unrestricted (deficit)	2,147,051	(331,922)	278,114	2,093,243
<b>TOTAL NET POSITION</b>	<u>\$ 4,010,901</u>	<u>\$ 82,208</u>	<u>\$ 610,155</u>	<u>\$ 4,703,264</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION  
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,548,894	\$ 1,922,365	\$ 794,522	\$ 4,265,781
<b>OPERATING EXPENSES</b>				
Personal services	385,026	249,766	468,112	1,102,904
Operating	775,243	1,322,261	297,886	2,395,390
Depreciation expense	312,612	217,507	74,109	604,228
Total operating expenses	1,472,881	1,789,534	840,107	4,102,522
<b>OPERATING INCOME (LOSS)</b>	76,013	132,831	(45,585)	163,259
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest expense	(104,669)	(24,656)	-	(129,325)
Other debt service costs	(6,705)	(1,440)	-	(8,145)
Rental income	27,227	1,733	-	28,960
Equity earnings in joint venture	58,748	-	-	58,748
Interest income	8,585	963	680	10,228
Gain (loss) on disposal of assets	(37,326)	-	30,920	(6,406)
Miscellaneous	16,025	1,852	-	17,877
Total non-operating revenues (expenses)	(38,115)	(21,548)	31,600	(28,063)
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	37,898	111,283	(13,985)	135,196
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>				
Capital grants and contributions	650,000	-	-	650,000
Impact fees	71,411	-	-	71,411
Total capital contributions and transfers	721,411	-	-	721,411
<b>CHANGE IN NET POSITION</b>	759,309	111,283	(13,985)	856,607
<b>NET POSITION AT BEGINNING OF YEAR</b>	3,251,592	(29,075)	624,140	3,846,657
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 4,010,901</u>	<u>\$ 82,208</u>	<u>\$ 610,155</u>	<u>\$ 4,703,264</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 1,531,410	\$ 1,924,628	\$ 793,710	\$ 4,249,748
Payments to suppliers	(823,964)	(1,290,681)	(300,771)	(2,415,416)
Payments to employees	(383,789)	(246,811)	(468,164)	(1,098,764)
Miscellaneous income	40,701	2,858	-	43,559
Net cash provided by operating activities	<u>364,358</u>	<u>389,994</u>	<u>24,775</u>	<u>779,127</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Change in interfund balances	<u>18,537</u>	<u>6,560</u>	<u>(34,011)</u>	<u>(8,914)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from impact fees	71,411	-	-	71,411
Proceeds from capital grants	650,000	-	-	650,000
Proceeds from sale of assets	-	-	33,397	33,397
Acquisition of capital assets	(1,306,258)	(82,982)	-	(1,389,240)
Proceeds from capital leases	100,126	-	-	100,126
Principal paid on revenue bonds	(151,584)	(141,567)	-	(293,151)
Principal paid on capital leases	(33,634)	-	-	(33,634)
Interest	(108,667)	(26,780)	-	(135,447)
Other debt service costs	(6,705)	(1,440)	-	(8,145)
Net cash provided by (used in) capital and related financing activities	<u>(785,311)</u>	<u>(252,769)</u>	<u>33,397</u>	<u>(1,004,683)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	<u>8,585</u>	<u>963</u>	<u>680</u>	<u>10,228</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(393,831)	144,748	24,841	(224,242)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,816,254</u>	<u>483,213</u>	<u>211,927</u>	<u>2,511,394</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,422,423</u>	<u>\$ 627,961</u>	<u>\$ 236,768</u>	<u>\$ 2,287,152</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF</b>				
Current	\$ 525,927	\$ 179,336	\$ 236,768	\$ 942,031
Restricted	<u>896,496</u>	<u>448,625</u>	<u>-</u>	<u>1,345,121</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 1,422,423</u>	<u>\$ 627,961</u>	<u>\$ 236,768</u>	<u>\$ 2,287,152</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS – CONTINUED  
 FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 76,013	\$ 132,831	\$ (45,585)	\$ 163,259
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	312,612	217,507	74,109	604,228
Miscellaneous revenue	40,701	2,858	-	43,559
Decrease (increase) in assets:				
Accounts receivable, net	(16,943)	2,263	(812)	(15,492)
Inventory	(36,662)	3,129	-	(33,533)
Prepaid items	(249)	14,356	-	14,107
Increase in deferred outflows of resources	22	20	34	76
Increase (decrease) in liabilities:				
Accounts payable	(11,810)	14,095	(2,885)	(600)
Customer deposits – restricted	(541)	-	-	(541)
Salaries and benefits payable	2,705	213	671	3,589
Accrued compensated absences	(1,344)	2,859	(539)	976
Net pension liability	3,598	3,390	5,456	12,444
Decrease in deferred inflows of resources	(3,744)	(3,527)	(5,674)	(12,945)
Net cash provided by operating activities	<u>\$ 364,358</u>	<u>\$ 389,994</u>	<u>\$ 24,775</u>	<u>\$ 779,127</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
SEPTEMBER 30, 2019**

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	<b>Pension Trust Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 27,319
Investments, at fair value	
Fixed income mutual funds	871,170
Equity mutual funds	2,136,947
Employer receivable	1,875
Plan member receivable	<u>750</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,038,061</u></b>
<b>FIDUCIARY NET POSITION</b>	
Restricted for pensions	<b><u>\$ 3,038,061</u></b>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<b>Pension Trust Fund</b>
<b>ADDITIONS</b>	
Contributions	
Employer	\$ 24,851
Plan members	9,980
State of Florida	72,217
Total contributions	107,048
Investment income	
Net appreciation (decline) in fair value of investments	152,009
Less investment expense	(5,629)
Net investment income (loss)	146,380
<b>TOTAL ADDITIONS</b>	<b>253,428</b>
<b>DEDUCTIONS</b>	
Pension benefit payments	62,891
Professional services	4,837
Administrative expense	1,000
<b>TOTAL DEDUCTIONS</b>	<b>68,728</b>
<b>CHANGE IN FIDUCIARY NET POSITION</b>	<b>184,700</b>
<b>FIDUCIARY NET POSITION AT BEGINNING OF YEAR</b>	<b>2,853,361</b>
<b>FIDUCIARY NET POSITION AT END OF YEAR</b>	<b>\$ 3,038,061</b>

See notes to the financial statements.



**CITY OF VALPARAISO, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY**

**Description of the City**

The City of Valparaiso, Florida (the City) was incorporated on May 6, 1921 under the provisions of the Laws of Florida, Ch. 9101 (1921). The City operates under a Commission-Mayor form of government and provides the following services: public safety (law enforcement and fire control), streets, utilities, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental and financial reporting principles.

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

**The Reporting Entity**

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include, or exclude, a potential component unit in the reporting entity was made by applying the criteria set forth in Government Accounting Standards Board (GASB) Statement 61. The basic, but not the only criterion, for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the City and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

Based upon the application of these criteria, the City of Valparaiso Cable Authority, established on June 11, 2007 by Ordinance No. 564 qualifies as a blended component unit and is designated as the Communication Fund in the proprietary funds financial statements. The City does not issue a separate financial statement for this component unit.

Related organizations are those legally separate entities for which the City is responsible for appointing the board members or Trustees and for which the City is not otherwise financially accountable. These organizations are not included in the primary governments' financial statements as they are not considered to be part of the financial reporting entity. There were no entities meeting these criteria.

**Government-Wide and Fund Financial Statements**

Government-wide financial statements, including the statement of net position and statement of activities, present information about the City as a whole. These statements include the non-fiduciary financial activity of the primary government.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY –  
CONTINUED**

**Government-Wide and Fund Financial Statements – Continued**

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the City.

The effects of interfund activity have been eliminated from the government-wide financial statements.

**Measurement Focus and Basis of Accounting**

The government-wide financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

Fund financial statements are used to account for the general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for un-matured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY –  
CONTINUED**

**Measurement Focus and Basis of Accounting – Continued**

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

The following is the current property tax calendar:

Lien Date	January 1, 2019
Levy Date	November 1, 2019
Due Date	November 1, 2019
Delinquent Date	April 1, 2020

One-percent discounts are granted for each month taxes are paid prior to March 2020.

Revenue recognition criteria for property taxes under GASB requires that only property taxes expected to be collected within 60 days of the current period be accrued. Property taxes which are uncollected as of the end of the fiscal year are generally immaterial in amount and highly susceptible to uncollectibility; therefore, they are not recorded as a receivable at the balance sheet date.

**Basis of Presentation**

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

***Governmental***

Governmental funds include the following major funds:

*General Fund* – the City's primary operating fund. This fund accounts for all financial resources of the general government, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

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

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

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY –  
CONTINUED**

**Basis of Presentation – Continued**

***Proprietary***

Proprietary funds are accounted for using the economic resources measurement focus and use of the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds include the following major funds:

*Utility Fund* – used to account for the operations associated with potable water supply, treatment, transmission and distribution services to area residents and the operations associated with sewer collection, treatment and disposal services to area residents.

*Sanitation Fund* – used to account for the operations associated with sanitation collection and disposal services for the residents of the City.

*Communication Fund* – used to account for the operating activities of the City's cable television, internet, telephone, and security services.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales of water, sewer, and communication services. Operating expenses for enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***Fiduciary***

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement.

*Pension Trust Fund* – custodial in nature and does not present results of City operations. Pension Trust Funds have the economic resources measurement focus and are accounted for using the accrual basis of accounting. The Pension Trust Fund accounts for the assets of the City's Police Officers' Retirement Trust Fund and the Firefighters' Retirement Trust Fund.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY –  
CONTINUED**

**Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Fund Balance**

***Cash and Cash Equivalents***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term highly liquid investments purchased within three months of maturity.

The City maintains its deposits with banks that are qualified public depositories under Florida law. All deposits are insured by Federal depository insurance and/or collateralized pursuant to Chapter 280, Florida Statutes (the Florida Public Depository Security Act).

***Investments***

The City's investment policy, in accordance with state statutes, authorizes investments in the following:

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Chapter 163.01, Florida Statutes.
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- Interest bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes.
- Direct obligations of the U.S. Treasury.

The City believes that by adhering to the above deposits and investments policy credit risk and custodial risk will be minimal. The City does not have a policy related to interest rate risk.

The police and firefighters pension trust funds are allowed to invest in corporate stocks and bonds subject to certain limitations. The police and firefighter pension plan investments consist primarily of mutual funds. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. These investments are part of a local government investment pool and therefore, are considered an external investment pool for GASB reporting requirements.

***Receivables and Payables***

**Internal Balances**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "internal balances."

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY –  
CONTINUED**

**Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Fund Balance  
– Continued**

***Receivables and Payables – Continued***

Advances between funds, if any, are offset by a nonspendable fund balance account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables in governmental funds are shown net of an allowance for uncollectible amounts. At September 30, 2019, gross accounts receivable totaled \$24,357, with an allowance of doubtful accounts of \$7,606.

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.

**Enterprise Fund Receivables**

Accounts receivable from customers are reported at the outstanding balance due from customers, net of any allowance for doubtful accounts. The City provides for doubtful accounts based on experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectible, they are written off by charging the allowance and crediting the receivable. September 30, 2019, gross accounts receivable totaled \$303,463, with an allowance for doubtful accounts of \$68,119.

***Inventories and Prepaid Items***

Inventories in proprietary funds consist of expendable supplies held for consumption. They are reported at cost on a first-in, first-out basis or, in instances where cost is not determinable, at an approximate cost based upon current invoice prices. Maintenance and operation supplies are expensed when purchased rather than when consumed.

Payments to vendors that benefit future reporting periods are recorded as prepaid items. Both inventories and prepaid items are similarly reported in government-wide and fund financial statements.

**CITY OF VALPARAISO, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY –  
CONTINUED**

**Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Fund Balance  
– Continued**

***Restricted Assets***

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

*General Fund* – A police forfeiture fund was established to receive monies and proceeds from sale of confiscated property. Expenditures are made from this fund in accordance with state statutes. A library fund was established to receive donations from private sources to be used for the operating activities of the library. The City collects impact fees for fire protection and development. These funds are restricted for acquisition, expansion, or capital improvement projects for fire protection necessitated by new development in accordance with the City’s Code of Ordinances. Discretionary sales tax revenues are restricted for the specific purposes approved by taxpayers in the November 2018 referendum.

*Proprietary Funds* – Water and sewer meter deposits received from customers of the water and sewer system are placed in a meter deposit account in the Utility Fund. The money is restricted to use as payment for the final customer bill or returned to the customer upon settlement of final bill.

Certain resources set aside for capital improvements are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The “project” account is used to segregate bond proceeds for capital improvements in the Utility Fund.

***Capital Assets***

Capital assets, which include property, plant and equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and a useful life in excess of one year. Such assets meeting these criteria are capitalized at historical cost, if purchased, while others are charged to expense. Donated assets are stated at estimated acquisition value on the date donated.

The City’s infrastructure asset records include only those infrastructure assets categorized during the past ten years. An estimation of infrastructure costs before this period has not been made. The City elected not to retroactively report major infrastructure assets before this time under GASB Statement No. 34. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

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

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY – CONTINUED**

**Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Fund Balance – Continued**

***Capital Assets – Continued***

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

Assets	Years
Buildings	40-50 Years
Improvements other than buildings	15-25 Years
Infrastructure	20-50 Years
Vehicles	5-10 Years
Office equipment	5-10 Years
Machinery and equipment	5-15 Years
CATV system	5-15 Years
Water and sewer systems	20-50 Years

***Deferred Inflows/Outflows of Resources***

In addition to assets, the statement of financial position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. See Notes 7 and 8 for additional information on the City's deferred outflows of resources.

In addition to liabilities, the statement of financial position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Notes 7 and 8 for additional information on the City's deferred inflows of resources.

***Compensated Absences***

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

The policy of the City for sick leave is that all full-time, permanent employees accrue 80 hours or 10 days per calendar year to a maximum of 240 hours. The policy of the City for vacation leave is that all full-time, permanent employees accrue vacation leave benefits in varying amounts to a maximum of 240 hours depending on length of employment. The estimated liabilities include required salary-related payments. Governmental funds report only matured compensated absences payable to currently terminating employees.



**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY –  
CONTINUED**

**Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Fund Balance  
– Continued**

***Compensated Absences – Continued***

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are recorded as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported in the governmental fund financial statements only for the current portion of compensated absences expected to be paid using expendable available resources.

***Unearned Revenues***

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

***Long-Term Obligations***

Long-term debt and other obligations financed by the proprietary funds are reported as liabilities in the fund and in the government-wide statement of net position. For proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

***Other Postemployment Benefits (OPEB) Liability***

For the purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the plan recognizes benefit payments when due and payable in accordance with the benefit terms.

The City has implemented GASB Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other Than Pensions*, and reported a total OPEB liability of \$11,878, deferred outflows of resources of \$2,616, and deferred inflows of resources of \$343, as of September 30, 2019. These amounts have been recognized in the government-wide financial statements. Due to the insignificant amounts involved, management has elected not to provide the detailed footnotes as required by GASB Statement No. 75.

***Net Pension Liability***

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of each plan, and additions to/deductions from the fiduciary net position of each plan have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions, if any) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. Administrative costs are financed from each respective fund's investment earnings.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. See Notes 7 and 8 for defined timeframes on the Florida Retirement System/Health Insurance Subsidy and Public Safety Pension Plan, respectively.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY –  
CONTINUED**

**Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Fund Balance  
– Continued**

***Classification of Fund Equity***

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB No. 54, are comprised of the following:

- *Nonspendable* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, deposits, prepaid items, and advances to other funds.
- *Restricted* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed* – includes fund balance amounts that can be used only for the specific purposes that are internally imposed by a formal action (an Ordinance) of the government's highest level of decision-making authority (City Commission). Commitments may be changed or lifted only by the City taking the same formal action (an Ordinance) that imposed the constraint initially. Contractual obligations are included to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual obligations.
- *Assigned* – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Intent is expressed by (a) the City Commission or (b) a body (for example: a budget or finance committee) or official to which the City Commission has delegated the authority to assign amounts to be used for specific purposes. The City Commission is the body with authority to assign amounts. This indicates that resources in these funds are, at a minimum, intended to be used for the purposes of that fund.
- *Unassigned* – includes residual positive fund balance within the General Fund which has not been classified within the other above-mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of restraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification with the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance. The City does not have a formal fund balance policy.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY –  
CONTINUED**

**Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Fund Balance  
– Continued**

***Classification of Fund Equity – Continued***

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 Position***

Net position in the government-wide and propriety funds financial statements are classified as net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- *Net investment in capital assets* – consists of capital assets, including restricted capital assets, net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead, that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* – consists of restricted assets, other than capital assets, reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- *Unrestricted* – the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

The City considers restricted amounts to be spent first when both restricted and unrestricted net position is available.

***Capital Contributions***

Capital contributions in the proprietary funds financial statements arise from grants or outside contributions of resources, such as impact fees, restricted to capital acquisition and construction.

***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 VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE CITY –  
CONTINUED**

**Subsequent Events**

Subsequent events were evaluated from September 30, 2019, through May 6, 2020, which is the date the financial statements were available to be issued.

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual appropriated budgets are adopted for the General Fund, Streets Fund, Stormwater Fund, and the proprietary funds. The annual budgets for the General Fund, Streets Fund, and Stormwater Fund are adopted using the modified accrual basis of accounting, which is in accordance with U.S. GAAP for governmental fund types. Every appropriation, except an appropriation for a capital expenditure, lapses at the end of the year to the extent it has not been expended or encumbered.

Annual appropriated budgets are adopted by resolution for all governmental and proprietary funds on or before October 1 of each year as required by state statute. However, budgets for proprietary funds are not legally required to be reported on and are not included in these financial statements. Budgets are amended through a resolution passed by a majority vote of the City Commission at a publicized meeting. The total revenue(s) and/or expenditure(s) must exceed \$5,000 before the amendment will be considered. All budget amounts presented in the accompanying supplementary information have been adjusted for legally authorized amendments.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personnel services, other services and charges, supplies, capital outlay, transfers, and debt service. Expenditures are not to exceed appropriations at the fund level.

**3. CASH AND INVESTMENTS**

**Deposits**

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

At year-end, the value of the City's deposits was \$4,198,148, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**3. CASH AND INVESTMENTS – CONTINUED**

**Fair Value of Investments**

The City measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy as follows:

- Level 1 – directly observable, quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are derived from or corroborated by observable market data through correlation or by other means.
- Level 3 – unobservable inputs used only when relevant Level 1 and Level 2 inputs are unavailable.

The following table presents the investments carried at fair value on September 30, 2019:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
High quality bond funds	\$ 548,547	\$ -	\$ 548,547	\$ -
High yield bond funds	60,186	-	-	60,186
Core plus fixed income funds	434,067	-	-	434,067
Large cap equity funds	1,273,630	-	1,273,630	-
Small to mid cap equity funds	349,075	-	349,075	-
International equity funds	440,138	-	440,138	-
Real estate funds	294,437	-	-	294,437
Total investments measured at fair value	<u>\$ 3,400,080</u>	<u>\$ -</u>	<u>\$ 2,611,390</u>	<u>\$ 788,690</u>

**Investments**

As of September 30, 2019, the City's investments consist of those held in the General Fund as well as the pension trust funds. The types of investments, which can be made by the City, are restricted by state statutes, retirement fund plan documents, and other contractual agreements. A description of the requirements and the types of investments allowed can be found in Note 1.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**3. CASH AND INVESTMENTS – CONTINUED**

**Investments – Continued**

The City has a beneficial interest in shares in a local government investment pool and not the individual securities held within each portfolio. As of September 30, 2019, the asset allocation for the defined benefit plan investment pool was as follows:

<b>Investment Funds</b>	<b>Asset Allocation Percentage</b>
Cash	0.9%
FMIvT Broad Market HQ Bond Fund	14.4%
FMIvT Core Plus Fixed Income Fund	14.3%
FMIvT Large Cap Diversified Equity Fund	34.7%
FMIvT Diversified Small to Mid Cap Equity Fund	11.5%
FMIvT International Blended Equity Fund	14.5%
FMIvT Core Real Estate Fund	9.7%
Total	<u>100.0%</u>

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that the City will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The City is not exposed to custodial credit risk since all of its bank deposits and certificate of deposits are held with qualified public depositories or insured by the federal depository insurance.

Investment in money market, open-end mutual funds, and external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The City's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.

*Credit Risk* – State law limits investments in money market funds and mutual bond funds to funds with the highest credit quality rating from nationally recognized statistical rating organizations. As of September 30, 2019, the City's investments were rated as follows:

<b>Credit Risk for Investment Pool</b>	
<b>Fixed Income Funds</b>	<b>Fitch Rating</b>
FMIvT Broad Market HQ Bond Fund	AAf / S4
FMIvT Intermediate HQ Bond Fund	AAAf / S3
FMIvT Expanded High Yield Bond Fund	Not Rated
FMIvT Core Plus Fixed Income Fund	Not Rated
<b>Equity Portfolios</b>	
FMIvT Large Cap Diversified Equity Fund	Not Rated
FMIvT Diversified Small to Mid Cap Equity Fund	Not Rated
FMIvT International Blended Equity Fund	Not Rated
FMIvT Core Real Estate Fund	Not Rated

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**3. CASH AND INVESTMENTS – CONTINUED**

**Investments – Continued**

*Interest Rate Risk* – Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment’s fair value. GASB Statement No. 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation mode. Interest rate risk disclosures are required for all debt investments as well as investments in mutual funds, external investment pools, and other pooled investments that do not meet the definition of a 2a7-like pool.

<u>Fixed Income Funds</u>	<u>Interest Rate Risk Information</u>	
	<u>Duration (Effective)</u>	<u>WAM</u>
FMLvT Broad Market HQ Bond Fund	5.31 Years	6.43 Years
FMLvT Core Plus Fixed Income Fund	1.40 Years	5.16 Years

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

Deposits	\$ 4,206,359
Investments	3,400,080
Total	<u>\$ 7,606,439</u>
Cash and cash equivalents, primary government	\$ 2,374,368
Restricted cash and cash equivalents, primary government	1,804,672
Investments, primary government	391,963
Total primary government	4,571,003
Cash and cash equivalents, fiduciary funds	27,319
Investments, fiduciary funds	3,008,117
Total fiduciary funds	<u>3,035,436</u>
Grand total	<u>\$ 7,606,439</u>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**3. CASH AND INVESTMENTS – CONTINUED**

**Governmental Fund Investments**

The City participates in the Florida Municipal Investment Trust administered by the Florida League of Cities Inc. to invest excess cash in its General Fund. The City has a beneficial interest in shares in the local government investment pool and not the individual securities held within each portfolio.

The City's primary government investments at September 30, 2019 are presented below:

	<b>Fair Value</b>
FMIvT Intermediate HQ Bond Fund	\$ 55,566
FMIvT Broad Market HQ Bond Fund	55,878
FMIvT Large Cap Diversified Equity Fund	220,333
FMIvT Expanded High Yield Bond Fund	60,186
	<b>\$ 391,963</b>

*Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the exposure of the City's debt type investments to this risk, using the segmented time distribution model is illustrated in the table above. In addition, the City chooses to present its exposure to interest rate changes by using the weighted average maturity (WAM) and duration methods. The WAM and duration of the primary government's investments at September 30, 2019, is presented below.

<b>Fixed Income Funds</b>	<b>Interest Rate Risk Information</b>	
	<b>Duration (Effective)</b>	<b>WAM</b>
FMIvT Broad Market HQ Bond Fund	5.31 Years	6.43 Years
FMIvT Intermediate HQ Bond Fund	3.36 Years	3.59 Years
FMIvT Expanded High Yield Bond Fund	2.86 Years	6.05 Years

*Concentration of Credit Risk* – Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing this risk is to comply with the provisions of Section 218.415, Florida Statutes, which state that investments held should be diversified to the extent practicable to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold. All of the City's investments at September 30, 2019 are with the Florida Municipal Investment Trust and therefore, are not categorized as to concentration of credit risk.



**CITY OF VALPARAISO, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**4. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2019, 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	\$ 455,209	\$ -	\$ -	\$ 455,209
Construction WIP	-	6,156	-	6,156
Total capital assets not being depreciated	<u>455,209</u>	<u>6,156</u>	<u>-</u>	<u>461,365</u>
Capital assets being depreciated				
Buildings and improvements	2,320,788	29,568	(26,628)	2,323,728
Infrastructure	3,997,112	-	-	3,997,112
Machinery, equipment, and vehicles	2,664,940	135,191	(197,613)	2,602,518
Total capital assets being depreciated	<u>8,982,840</u>	<u>164,759</u>	<u>(224,241)</u>	<u>8,923,358</u>
Less accumulated depreciation				
Buildings and improvements	(1,291,919)	(86,842)	26,628	(1,352,133)
Infrastructure	(2,175,748)	(190,923)	-	(2,366,671)
Machinery, equipment, and vehicles	(1,678,789)	(170,497)	197,044	(1,652,242)
Total accumulated depreciation	<u>(5,146,456)</u>	<u>(448,262)</u>	<u>223,672</u>	<u>(5,371,046)</u>
Total capital assets being depreciated, net	<u>3,836,384</u>	<u>(283,503)</u>	<u>(569)</u>	<u>3,552,312</u>
<b>Governmental activities, net</b>	<u>\$ 4,291,593</u>	<u>\$ (277,347)</u>	<u>\$ (569)</u>	<u>\$ 4,013,677</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 90,603	\$ -	\$ -	\$ 90,603
Construction in process	138,328	-	(138,328)	-
Total capital assets not being depreciated	<u>228,931</u>	<u>-</u>	<u>(138,328)</u>	<u>90,603</u>
Capital assets being depreciated				
Buildings and improvements	7,270,745	1,325,709	(267,935)	8,328,519
Machinery, equipment, and vehicles	4,778,913	198,458	(157,030)	4,820,341
Total capital assets being depreciated	<u>12,049,658</u>	<u>1,524,167</u>	<u>(424,965)</u>	<u>13,148,860</u>
Less accumulated depreciation				
Buildings and improvements	(5,252,589)	(219,594)	625,005	(4,847,178)
Machinery, equipment, and vehicles	(2,743,927)	(384,634)	(233,165)	(3,361,726)
Total accumulated depreciation	<u>(7,996,516)</u>	<u>(604,228)</u>	<u>391,840</u>	<u>(8,208,904)</u>
Total capital assets being depreciated, net	<u>4,053,142</u>	<u>919,939</u>	<u>(33,125)</u>	<u>4,939,956</u>
<b>Business-type activities, net</b>	<u>\$ 4,282,073</u>	<u>\$ 919,939</u>	<u>\$ (171,453)</u>	<u>\$ 5,030,559</u>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**4. CAPITAL ASSETS – CONTINUED**

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

**Governmental activities**

General government	\$ 37,823
Public safety	117,431
Physical environment	19,284
Transportation	195,151
Culture and recreation	<u>78,573</u>
Total depreciation/amortization expense – governmental activities	<u><u>\$ 448,262</u></u>

**Business-type activities**

Utility	\$ 312,612
Communication	217,507
Sanitation	<u>74,109</u>
Total depreciation/amortization expense – business-type activities	<u><u>\$ 604,228</u></u>

**5. JOINT VENTURE**

A regional sanitary sewer system designed to provide service to residents of Valparaiso, Niceville, and Okaloosa County was completed and placed in service during 1982. During 2012, Okaloosa County transferred its ownership to the City of Niceville, as described in the subsequent paragraph. The project was funded 75% by U.S. Environmental Protection Agency (EPA) grants under provision of Public Law 92-500 and 25% by the local government applicants. The in-service cost of the property, plant and equipment paid for through the initial combined funding of the participants and the EPA was recorded pro-rata on the accounting records of the individual participants. The City's initial portion of property, plant and equipment were accounted for in its Utility Fund; however, all current and future additions related to the regional sanitary sewer system obtained by the City are recorded to the investment in joint venture.

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

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**5. JOINT VENTURE – CONTINUED**

The net operating results of the system are accounted for as a joint venture and accounted for under the equity method. The City's investment in joint venture increased \$58,748 for the year ended September 30, 2019. The City's portion of the equity in the joint venture is \$1,824,437 at September 30, 2019.

The system is managed and operated by a separate governing body (Niceville-Valparaiso Regional Sewer Board, Inc.) consisting of four members; two appointed by each of the two participants. The Board is responsible for preparing and approving its own budget. The cost of operations, including additional equipment, inventory purchases, etc. is accounted for, in total, on the books and financial statements of the Board.

The following is a condensed summary of the assets, liabilities and equity, and operating results of the Board's fiscal year ended June 30, 2019. The Regional Sewer Board's audited financial statements can be obtained from the City Clerk's office.

**Summary of Assets, Liabilities, and Net Position  
June 30, 2019**

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Assets	
Current assets	\$ 1,819,411
Capital assets, net of accumulated depreciation	<u>7,413,815</u>
Total assets	<u><u>\$ 9,233,226</u></u>
Liabilities and net position	
Liabilities	\$ 112,043
Net position	<u>9,121,183</u>
Total liabilities and net position	<u><u>\$ 9,233,226</u></u>

**Summary of Operating Results  
For the Year Ended June 30, 2019**

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Sewer operating revenues	\$ 3,103,752
Operating expenses	<u>2,840,217</u>
Operating loss	<u>263,535</u>
Non-operating revenues (expenses), net	<u>30,207</u>
Change in net position	<u><u>\$ 293,742</u></u>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**6. LONG-TERM DEBT**

**Changes in Long-Term Debt Liabilities**

Long-term debt activity for the year ended September 30, 2019, is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
<i>Direct borrowings</i>					
FMLC Revenue Bonds, Series 2016	\$ 529,648	\$ -	\$ (75,127)	\$ 454,521	\$ 76,380
FMLC Revenue Bonds, Series 2017B	500,000	-	(16,722)	483,278	16,722
Bond premium	26,542	-	(1,327)	25,215	-
Capital lease payable	284,531	-	(69,365)	215,166	70,530
Compensated absences	176,550	94,422	(103,085)	167,887	167,887
<b>Total governmental activities</b>	<u>\$ 1,517,271</u>	<u>\$ 94,422</u>	<u>\$ (265,626)</u>	<u>\$ 1,346,067</u>	<u>\$ 331,519</u>
<b>Business-type activities</b>					
<i>Direct borrowings</i>					
FMLC Revenue Bonds, Series 2010C	\$ 1,250,000	\$ -	\$ (35,000)	\$ 1,215,000	\$ 35,000
Bond discount	(18,952)	-	862	(18,090)	-
FMLC Revenue Bonds, Series 2016	1,585,352	-	(224,873)	1,360,479	228,620
FMLC Revenue Bonds, Series 2017B	995,000	-	(33,278)	961,722	33,278
Bond premium	52,685	-	(2,508)	50,177	-
Capital lease payable	-	100,126	(33,634)	66,492	32,731
Compensated absences	38,544	23,481	(22,505)	39,520	39,520
<b>Total business-type activities</b>	<u>\$ 3,902,629</u>	<u>\$ 123,607</u>	<u>\$ (350,936)</u>	<u>\$ 3,675,300</u>	<u>\$ 369,149</u>

**Description of Long-Term Debt Outstanding**

***Governmental Activities – Direct Borrowings***

\$2,405,000 Florida Municipal Loan Council Revenue Bonds, Series 2016, due in annual installments of \$185,000 to \$315,000 through October 2026; interest at 2% to 4%. Issue is pro rated between General Fund, Streets Fund, Communication Fund and Utility Fund. Available non ad valorem revenues from the Communication and Utility Funds are pledged for payment of the bonds. This note was issued to refund two prior bond issues. The original proceeds were used for renovations to the City Hall complex as well as rebuilding a CATV distribution plant and updating technology fiber to the plant.

\$1,495,000 Florida Municipal Loan Council Revenue Bonds, Series 2017B, due in annual installments of \$50,000 to \$105,000 through October 2037; interest at 3% to 5%. Issue is prorated between General Fund, Streets Fund, and Utility Fund. Available non ad valorem revenues from the Utility Fund are pledged for payment of the bonds. Proceeds from this bond were used for repaving projects and park improvements in the governmental funds.

For both of direct borrowing issuances discussed above, the lender may declare all unpaid principal and accrued interest to be immediately due and payable in the event of default (non-payment). These issuances do not contain any subjective acceleration clauses.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**6. LONG-TERM DEBT – CONTINUED**

**Description of Long-Term Debt Outstanding – Continued**

***Governmental Activities – Direct Borrowings – Continued***

\$352,750 capital lease payable, due in annual installments of \$74,145 through December 2021, bearing interest at 1.68%, collateralized by a fire truck. In the event of default (non-payment), the lender may terminate the lease and repossess the leased equipment or declare all unpaid rental payments remaining under the lease to be immediately due and payable. The lease does not contain any subjective acceleration clauses.

***Business-Type Activities – Direct Borrowings***

\$1,465,000 Florida Municipal Loan Council Revenue Bonds, Series 2010C, due in semi annual installments of \$25,000 to \$85,000 through 2040; interest at 2% to 4.5%. Available non ad valorem revenues from Utility Fund are pledged for payment of the bonds. Proceeds used for the purposes of financing or refinancing the cost of, or receiving reimbursement for the equity in, the construction and renovation to Niceville Valparaiso Okaloosa wastewater treatment (portion of costs allocated to City of Valparaiso, Florida as a member) and other capital improvements to the City of Valparaiso, Florida's sewer system, and for depositing a portion of the proceeds in the amount of \$91,025 into the Reserve Fund.

\$2,405,000 Florida Municipal Loan Council Revenue Bonds, Series 2016, due in annual installments of \$185,000 to \$315,000 through October 2026; interest at 2% to 4%. Issue is pro rated between General Fund, Streets Fund, Communication Fund and Utility Fund. Available non ad valorem revenues from the Communication and Utility Funds are pledged for payment of the bonds. This note was issued to refund two prior bond issues. The original proceeds were used for renovations to the City Hall complex as well as rebuilding a CATV distribution plant and updating technology fiber to the plant.

\$1,495,000 Florida Municipal Loan Council Revenue Bonds, Series 2017B, due in annual installments of \$50,000 to \$105,000 through October 2037; interest at 3% to 5%. Issue is prorated between General Fund, Streets Fund, and Utility Fund. Available non ad valorem revenues from the Utility Fund are pledged for payment of the bonds. Proceeds from this bond were used to upgrade water meters and to relocate existing utilities along Tom's Bayou Bridge.

For the direct borrowing issuances discussed above, the lender may declare all unpaid principal and accrued interest to be immediately due and payable in the event of default (non-payment). These issuances do not contain any subjective acceleration clauses.

\$100,126 capital lease payable, due in annual installments of \$34,825 through August 2021, bearing interest at 3.15%, collateralized by a backhoe. In the event of default (non-payment), the lender may terminate the lease and repossess the leased equipment or declare all unpaid rental payments remaining under the lease to be immediately due and payable. The lease does not contain any subjective acceleration clauses.

The City is required to comply with certain debt covenants under bond agreements. As of September 30, 2019, the City is not aware of any material noncompliance.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**6. LONG-TERM DEBT – CONTINUED**

**Redemption Provisions**

***Series 2010C Bonds Payable***

Optional Redemption: The bonds maturing on or before the October 1, 2020 are not subject to optional redemption prior to maturity. The bonds maturing after October 1, 2020 are subject to redemption at the option of the issuer on or after October 1, 2020 as a whole or in part at any time, in any manner as determined by the trustee in its discretion taking into consideration the maturity of the loan being prepaid by a particular borrower, at the redemption price equal to the principal amount of the bonds to be redeemed, plus accrued interest to the redemption date.

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

**Annual Requirements to Amortize Debt Outstanding**

The annual requirements to amortize all debt outstanding except accrued and annual leave as of September 30, 2019, are as follows:

Governmental Activities Year Ending September 30	Capital Lease			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 70,530	\$ 3,615	\$ 74,145	\$ 93,102	\$ 30,433	\$ 123,535
2021	71,715	2,430	74,145	95,605	26,970	122,575
2022	72,921	1,225	74,146	64,724	24,213	88,937
2023	-	-	-	65,976	21,647	87,623
2024	-	-	-	70,152	19,233	89,385
2025-2029	-	-	-	272,319	65,441	337,760
2030-2034	-	-	-	143,812	34,359	178,171
2035-2039	-	-	-	132,109	9,375	141,484
<b>Total</b>	<b>\$ 215,166</b>	<b>\$ 7,270</b>	<b>\$ 222,436</b>	<b>\$ 937,799</b>	<b>\$ 231,671</b>	<b>\$ 1,169,470</b>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**6. LONG-TERM DEBT – CONTINUED**

**Annual Requirements to Amortize Debt Outstanding – Continued**

Business-Type Activities

Year Ending September 30	Capital Lease			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 32,731	\$ 2,095	\$ 34,826	\$ 296,898	\$ 30,433	\$ 327,331
2021	33,761	1,064	34,825	304,395	26,970	331,365
2022	-	-	-	210,276	24,213	234,489
2023	-	-	-	219,025	21,647	240,672
2024	-	-	-	229,848	90,903	320,751
2025-2029	-	-	-	922,681	350,693	1,273,374
2030-2034	-	-	-	566,188	225,717	791,905
2035-2039	-	-	-	622,889	10,282	633,171
2040-2044	-	-	-	165,001	8,677	173,678
Total	<u>\$ 66,492</u>	<u>\$ 3,159</u>	<u>\$ 69,651</u>	<u>\$ 3,537,201</u>	<u>\$ 789,535</u>	<u>\$ 4,326,736</u>

**Capital Leases**

The cost and accumulated depreciation for equipment under capital leases are:

<u>Assets</u>	<u>Governmental Activities General Fund</u>
Pumper fire truck	\$ 426,000
Accumulated depreciation	(117,150)
Assets acquired by lease, net	<u>\$ 308,850</u>
<u>Assets</u>	<u>Business-Type Activities Utility Fund</u>
Backhoe	\$ 100,126
Accumulated depreciation	(6,675)
Assets acquired by lease, net	<u>\$ 93,451</u>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**7. FLORIDA RETIREMENT SYSTEM**

Certain City employees participate in the Florida Retirement System (FRS). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement, including the FRS Pension Plan (“Pension Plan”) and the Retiree Health Insurance Subsidy (“HIS Plan”). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan (“Investment Plan”) alternative to the FRS Pension Plan, which is administered by the State Board of Administration (“SBA”). As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, county government, district school board, state university, community college, or a participating city or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida State Legislature.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Research and Education Section, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the website: [www.dms.myflorida.com/workforce\\_operations/retirement/publications](http://www.dms.myflorida.com/workforce_operations/retirement/publications).

**Pension Plan**

*Plan Description*

The pension plan is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (“DROP”) for eligible employees.

*Benefits Provided*

Benefits under the pension plan are computed on the basis of age, average final compensation, and service credit. Regular Class members enrolled before July 1, 2011, who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.60% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits.

*Special Risk* class members (police and firefighters) enrolled before July 1, 2011, who retire at or after age 55 with at least six years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% of their final average compensation based on the five highest years of salary for each year of credited service.

*Senior Management Service* class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service.



**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**7. FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

*Elected Officers'* class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 3.0% (3.33% for judges and justices) of their final average compensation based on the five highest years of salary for each year of credited service.

For pension plan members enrolled on or after July 1, 2011, the vesting requirement is extended to eight years of credited service for all these members and increasing normal retirement to age 65 or 33 years of service regardless of age for *Regular, Senior Management Service, and Elected Officers'* class members, and to age 60 or 30 years of service regardless of age for Special Risk class members. Also, the final average compensation for all these members will be based on the eight highest years of salary.

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the pension plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is three percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of three percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by three percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with an FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There are no required contributions by DROP participants.

*Contributions*

Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for each of the prior three years are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Regular Class:	8.47%	8.26%	7.92%
Special Risk Class:	25.48%	24.50%	23.27%
Senior Management Class:	25.41%	24.06%	22.71%
DROP:	14.60%	14.03%	13.26%

These employer contribution rates include 1.66% for HIS Plan subsidies for the periods October 1, 2017 through September 30, 2019. The City's contributions, including employee contributions, to the pension plan totaled \$12,259, \$10,967, and \$10,722 for the fiscal years ended September 30, 2019, 2018, and 2017, respectively.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**7. FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources*

At September 30, 2019, the City reported a liability of \$135,183 for its proportionate share of the pension plan's net pension liability. The City's proportionate share of the net pension liability was based on the City's share of contributions to the FRS relative to the contributions of all participating members. At June 30, 2019, the City's proportionate share was 0.000392533%.

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019.

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources – Continued*

For the fiscal year ended September 30, 2019, the City recognized pension expense of \$18,336. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between expected and actual experience	\$ 8,018	\$ 84
Changes of assumptions	34,721	-
Net difference between projected and actual earnings on pension plan investments	-	7,479
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	9,994	11,826
City pension plan contributions subsequent to the measurement date	2,977	-
	<b>\$ 55,710</b>	<b>\$ 19,389</b>

A component of deferred outflows of resources related to the pension plan of \$2,977, resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2020. Other components reported as deferred outflows of resources and deferred inflows of resources related to the pension plan will be recognized in pension expense as follows:

	<b>Amount</b>
Fiscal Year Ending September 30:	
2020	\$ 5,484
2021	4,424
2022	11,539
2023	8,537
2024	2,660
Thereafter	700
	<b>\$ 33,344</b>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**7. FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

*Actuarial Assumptions*

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all period included in the measurement:

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Investment rate of return	6.90%, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2019, valuation were based on the results of a 2019 actuarial experience study for the period July 1, 2013 through June 30, 2018.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.0%	3.3%	3.3%	1.2%
Fixed income	18.0%	4.1%	4.1%	3.5%
Global equity	54.0%	8.0%	6.8%	16.5%
Private equity	11.0%	11.2%	8.4%	25.8%
Strategic investments	6.0%	5.9%	5.7%	6.7%
Real estate (property)	<u>10.0%</u>	6.7%	6.1%	11.7%
Total	<u><u>100.0%</u></u>			
Assumed inflation – mean			2.6%	1.7%

(1) As outlined in the Pension Plan's investment policy

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**7. FLORIDA RETIREMENT SYSTEM – CONTINUED**

**Pension Plan – Continued**

*Discount Rate*

The discount rate used to measure the total pension liability was 6.90%. The pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

*Sensitivity of the Net Position Liability to Changes in the Discount Rate*

The following represents the City’s proportionate share of the net pension liability calculated using the discount rate of 6.90%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease (5.90%)</b>	<b>Current Discount Rate (6.90%)</b>	<b>1% Increase (7.90%)</b>
City's proportionate share of the net pension liability	\$ 233,686	\$ 135,183	\$ 52,916

*Pension Plan Fiduciary Net Position*

Detailed information regarding the pension plan’s fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

**HIS Plan**

*Plan Description*

The HIS Plan is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida legislature at any time. The benefit is a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

*Benefits Provided*

For the fiscal year ended September 30, 2019, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**7. FLORIDA RETIREMENT SYSTEM – CONTINUED**

**HIS Plan – Continued**

*Contributions*

The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2019, the HIS contribution for the plan was 1.66%. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The City's contributions to the HIS Plan totaled \$2,228, \$2,114, and \$2,127 for the fiscal years ended September 30, 2019, 2018, and 2017, respectively.

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources*

At September 30, 2019, the City reported a liability of \$44,913 for its proportionate share of the HIS Plan's net pension liability. The City's proportionate share of the net pension liability was based on the City's share of contributions to the HIS plan relative to the contributions of all participating members. At June 30, 2019, the City's proportionate share was 0.000401405%.

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018.

For the fiscal year ended September 30, 2019, the City recognized a reduction in pension expense of \$4,778. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between expected and actual experience	\$ 546	\$ 55
Changes of assumptions	5,201	3,671
Net difference between projected and actual earnings on pension plan investments	29	-
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	3,551	14,214
City pension plan contributions subsequent to the measurement date	530	-
	<u>\$ 9,857</u>	<u>\$ 17,940</u>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**7. FLORIDA RETIREMENT SYSTEM – CONTINUED**

**HIS Plan – Continued**

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources – Continued*

A component of deferred outflows of resources related to the HIS Plan of \$530, resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2020. Other components reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense (income) as follows:

Fiscal Year Ending September 30:	<u>Amount</u>
2020	\$ (7,349)
2021	(2,460)
2022	160
2023	(172)
2024	520
Thereafter	<u>688</u>
	<u><u>\$ (8,613)</u></u>

*Actuarial Assumptions*

The total pension liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		2.60%
Salary increases	3.25%, average, including inflation	
Investment rate of return		3.50%

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2018 valuation were based on certain results of the most recent experience study for the FRS Pension Plan.

*Discount Rate*

The discount rate used to measure the total pension liability was 3.50%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**7. FLORIDA RETIREMENT SYSTEM – CONTINUED**

**HIS Plan – Continued**

*Sensitivity of the Net Position Liability to Changes in the Discount Rate*

The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 3.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease (2.50%)</b>	<b>Current Discount Rate (3.50%)</b>	<b>1% Increase (4.50%)</b>
City's proportionate share of the net pension liability	\$ 51,271	\$ 44,913	\$ 39,618

*Pension Plan Fiduciary Net Position*

Detailed information regarding the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

**8. DEFINED BENEFIT PENSION PLAN – PUBLIC SAFETY PENSION PLAN**

**Plan Description**

*Plan Administration*

The Police Officers and Firefighters Retirement Plan (the Public Safety Pension Plan) is a single-employer defined benefit plan, established under Chapters 185 and 175 of the Florida Statutes, which covers all police officers and firefighters hired on or after January 1, 1996. The City of Valparaiso Board of Trustees assigns the authority to establish and amend benefit provisions to this plan. The City's payroll for employees covered by this plan applicable to the October 1, 2018 actuarial valuation was approximately \$431,944. As of October 1, 2018, employee membership data related to the Public Safety Pension Plan as follows:

Inactive plan members or beneficiaries currently receiving benefits	3
Inactive plan members entitled to but not yet receiving benefits	5
Active plan members	11
	19

*Benefits Provided*

The Public Safety Pension Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Employees who retire with 6 years of service and are age 55 or who retire with 25 years of service and are age 52 are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 3% of average final compensation (average of the highest five years of compensation out of the last 10 years of employment) multiplied by credited service. Employees with ten years of service may retire at or after age 50 and receive reduced retirement benefits. The normal form of benefit is a ten-year certain and life annuity.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
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**8. DEFINED BENEFIT PENSION PLAN – PUBLIC SAFETY PENSION PLAN – CONTINUED**

**Plan Description – Continued**

*Funding Policy*

The City's Public Safety Pension Plan is funded by employer contributions at actuarially determined rates, which is expressed as a percentage of annual covered payroll, that are sufficient to accumulate sufficient assets to pay benefits when due. The employees of the plan contribute at a rate of 2% of their annual salary. For 2019, the City contributed \$24,851 to the plan. \$72,217 was contributed by the State of Florida. The employees' contributions to the plan for the current year totaled \$9,980. The contributions are deposited with the Florida Municipal Pension Trust Fund where they are invested in mutual funds. Administration costs of the Public Safety Pension Plan are financed through investment earnings.

**Net Pension Liability**

The employer's reporting date is September 30, 2019. The actuary's measurement date is September 30, 2019. The actuarial valuation date is October 1, 2018.

*Actuarial Assumptions*

The total pension liability was determined by an actuarial valuation as of October 1, 2018 updated to September 30, 2019, using the following actuarial assumptions:

Inflation	2.77%
Salary increases	4.50%
Discount rate	7.00%
Investment rate of return	4.23%

Mortality rates are obtained from the RP-2000 Sex-Distinct Blue Collar Mortality Table, with full generational improvements in mortality using Scale BB. Based upon other studies of municipal police officers and firefighters, the City feels that this assumption sufficiently accommodates future mortality improvements.

The long-term expected rate of return on the Public Safety Pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.



**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**8. DEFINED BENEFIT PENSION PLAN – PUBLIC SAFETY PENSION PLAN – CONTINUED**

**Net Pension Liability – Continued**

*Actuarial Assumptions – Continued*

Best estimates of arithmetic real rates of return for each major asset class included in the Public Safety Pension Plan's target asset allocation as of September 30, 2019, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Core bonds	15.00%	1.60%
Core plus	15.00%	2.10%
U.S. large cap equity	34.00%	4.60%
U.S. small cap equity	11.00%	5.50%
Non-U.S. equity	15.00%	6.70%
Core real estate	10.00%	5.00%
Total	<u>100.00%</u>	4.23%

*Discount Rate*

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Public Safety Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**8. DEFINED BENEFIT PENSION PLAN – PUBLIC SAFETY PENSION PLAN – CONTINUED**

**Changes in Net Pension Liability (Asset)**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) – (b)
Balances at September 30, 2018	\$ 1,987,637	\$ 2,852,643	\$ (865,006)
Changes:			
Service cost	141,025	-	141,025
Interest	146,089	200,835	(54,746)
Investment income	-	(48,826)	48,826
Experience	523	-	523
Contributions – employer	-	97,787	(97,787)
Contributions – employee	-	9,980	(9,980)
Benefit payments, including refunds of employee contributions	(62,891)	(62,891)	-
Administrative expenses	-	(11,467)	11,467
Net changes during year	<u>224,746</u>	<u>185,418</u>	<u>39,328</u>
Balances at September 30, 2019	<u>\$ 2,212,383</u>	<u>\$ 3,038,061</u>	<u>\$ (825,678)</u>

*Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate*

The following represents the City's net pension liability calculated using the discount rate of 7.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower and one percentage point higher than the current rate:

	1% Decrease	Current Discount	1% Increase
	6.00%	Rate 7.00%	8.00%
Sponsor's net pension liability (asset)	\$ (464,674)	\$ (825,678)	\$ (1,116,122)

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**8. DEFINED BENEFIT PENSION PLAN – PUBLIC SAFETY PENSION PLAN – CONTINUED**

**Changes in Net Pension Liability (Asset) – Continued**

*Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources*

For the year ended September 30, 2019, the City recognized pension expense of \$82,494 related to the Public Safety Pension Plan. On September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pension on the Public Safety Pension Plan from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between projected and actual earnings on pension plan investments	\$ -	\$ 28,503
Differences between actual and expected experience	30,539	140,837
Changes of assumptions	66,240	-
City pension plan contributions subsequent to the measurement date	97,787	-
Total	<b>\$ 194,566</b>	<b>\$ 169,340</b>

A component of deferred outflows of resources related to the Public Safety Pension Plan totaling \$97,787 resulting from City contributions to the plan subsequent to the measurement date, will be recognized as reduction in the net pension liability in the fiscal year ended September 30, 2020. Other components reported as deferred outflows of resources and deferred inflows of resources related to the Public Safety Pension Plan will be recognized in pension expense (income) as follows:

Year ended September 30:

2020		\$ (32,028)
2021		(28,034)
2022		457
2023		2,654
2024		(7,112)
Thereafter		(8,498)
		<b>\$ (72,561)</b>

**Pension Plan Fiduciary Net Position**

The plan issues a stand-alone financial report each year, which contains information about the plan's fiduciary net position. The plan's fiduciary net position has been determined on the same basis used by the pension plan and is equal to the market value of assets calculated under the accrual basis of accounting. This reported is available to the public at the plan's administrative office: Retirement Department, Florida League of Cities, Inc., P.O. Box 1757, Tallahassee, FL 32302.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**9. SUPPLEMENTAL RETIREMENT PLANS**

**Defined Contribution Retirement Plan**

Effective June 14, 2004, the City adopted the Florida Municipal Pension Trust Fund's Section 401(a) Defined Contribution Retirement Plan (the Plan). The Plan is administered by the Florida Municipal Pension Trust Fund. The Plan's eligibility provisions are the same as the defined benefit pension plan, except that the minimum age requirement was removed. The Plan provides retirement benefits to substantially all City employees. All benefits vest after ten years of credited service. To be eligible for the Plan, employees must have completed ninety (90) days of service. Contributions to the Plan are discretionary but are currently funded by the City at 9% of each eligible employee's compensation. For the year ended September 30, 2019, the City's contributions to the Plan totaled \$138,554. The City Commission has the authority to establish and amend the provisions of the Plan.

**Deferred Compensation Plan**

Effective January 8, 1996, the City adopted the Florida Municipal Pension Trust Fund's Deferred Compensation Plan (Plan) under Internal Revenue Code Section 457(b). The Plan allows substantially all City employees to make pretax contributions, in accordance with the Plan. The City does not make contributions to the Plan. The City's fiduciary responsibility is to administer the Plan properly and to assure the investment alternatives made available are reasonable.

Assets of the plan have a fair value of \$874,618 at September 30, 2019. Contributions made by Plan members during the year ended September 30, 2019, were \$68,418.

**10. INTERFUND BALANCES AND TRANSFERS**

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

<u>Due to Fund</u>	<u>Due from Fund</u>			<u>Total</u>
	<u>Governmental</u>	<u>Enterprise Funds</u>		
	<u>Funds</u>	<u>Utility</u>	<u>Communication</u>	
	<u>General</u>	<u>Fund</u>	<u>Fund</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	
Governmental funds				
General Fund	\$ -	\$ 300,639	\$ 396,638	\$ 697,277
Streets Fund	34,039	-	-	34,039
Stormwater Fund	23,130	-	-	23,130
Enterprise funds				
Sanitation Fund	33,559	-	-	33,559
<b>Total</b>	<u>\$ 90,728</u>	<u>\$ 300,639</u>	<u>\$ 396,638</u>	<u>\$ 788,005</u>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**10. INTERFUND BALANCES AND TRANSFERS – CONTINUED**

Interfund balances in the enterprise funds represent expenses paid by the General Fund on behalf of those funds. The interfund balances in the governmental funds represent revenues collected for the benefit of those funds that have not been transferred from the General Fund.

**11. LEASE REVENUE**

The City leases certain property predominantly to wireless telecommunications companies. These are non-cancelable operating leases. Minimum rentals on non-cancelable leases for the remaining terms are as follows:

	<b>General Fund</b>	<b>Utility Fund</b>
2020	\$ 50,172	\$ 28,044
2021	38,153	28,884
2022	26,366	29,751
2023	10,705	30,644
2024	2,696	31,563
Total	\$ 128,092	\$ 148,886

The Utility Fund lease had original terms of five years and can be renewed for four successive five-year periods on similar terms and conditions. The annual rent on these leases will increase by 3-4% per year. There was no unearned rent at September 30, 2019.

The General Fund's lease with two telecommunication companies is for five years with the option of renewing for four additional terms of five years each on the same terms and conditions. The annual rent increases by two percent (2-3%) per year.

The General Fund also has a property lease for a five-year term at an annual rent of \$16,329. The lease expires in December 2020.

The General Fund and Utility Fund received a total of \$47,831 and \$27,227, respectively, in lease revenues during fiscal year 2019.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**12. GOVERNMENTAL FUND BALANCES**

At September 30, 2019, the City's governmental fund balances were classified as follows:

	<b>General Fund</b>	<b>Streets Fund</b>	<b>Stormwater Fund</b>	<b>Total Governmental Funds</b>
Nonspendable				
Prepaid items	\$ 11,727	\$ -	\$ -	\$ 11,727
Restricted for				
Discretionary sales taxes	377,247	-	-	377,247
Capital improvements - fire	60,993	-	-	60,993
Library	12,410	-	-	12,410
Law enforcement	8,901	-	-	8,901
Total restricted	<u>459,551</u>	<u>-</u>	<u>-</u>	<u>459,551</u>
Committed				
Perpetual maintenance	203,010	-	-	203,010
Stormwater system	-	-	238,446	238,446
Total committed	<u>203,010</u>	<u>-</u>	<u>238,446</u>	<u>441,456</u>
Assigned for				
Parks and recreation	31,789	-	-	31,789
Library	6,935	-	-	6,935
Transportation	-	337,438	-	337,438
Total assigned	<u>38,724</u>	<u>337,438</u>	<u>-</u>	<u>376,162</u>
Unassigned	<u>1,697,765</u>	<u>-</u>	<u>-</u>	<u>1,697,765</u>
<b>Total Fund Balance</b>	<b><u>\$ 2,410,777</u></b>	<b><u>\$ 337,438</u></b>	<b><u>\$ 238,446</u></b>	<b><u>\$ 2,986,661</u></b>

**13. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for all other risks of loss, including fidelity bond, accidental death and dismemberment and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

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**14. FEDERAL AND STATE GRANTS**

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, for the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability, if any, for reimbursement which may arise as the result of these audits is not believed to be material.

**15. COMMITMENTS AND CONTINGENCIES**

**Litigation**

The City is a party to various claims and assessments arising from its actions in the course of carrying out its public services. The City carries general liability coverage and management believes its coverage is sufficient to cover all significant losses arising from the unsuccessful outcome of any pending and/or threatened litigation.

**Fire Protection Services Agreement**

In February 2019, the City executed an interlocal agreement with the City of Niceville to enhance fire protection services in both jurisdictions. The agreement allows for the sharing of personnel and facilities to provide mutual aid for fire protection and emergency services to residents of both municipalities. The agreement has no end date but may be amended from time to time upon the mutual agreement of both municipalities.

**16. RELATED PARTY TRANSACTIONS**

In April 2019, the City Commission approved a scanning service contract with Pak Mail of Bluewater Bay (Pak Mail) to convert the City's existing paper records to an electronic format. The City Clerk holds a 50% ownership interest in Pak Mail. As of September 30, 2019, the City had a balance due to Pak Mail of \$1,757, and the City incurred expenditures of \$5,156 for services rendered during fiscal year 2019.

**17. SUBSEQUENT EVENTS**

**Health Pandemic (COVID-19)**

On March 11, 2020, the World Health Organization (WHO) declared the novel strain of the coronavirus (COVID-19) a pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production of services across a range of industries, including but not limited to, tourism and travel. The extent of the impact of COVID-19 on the City's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on citizens, employees, vendors, and economical mitigation measures to be taken by federal and state government, all of which are uncertain and cannot be predicted. As of the date of this report, the extent to which COVID-19 may impact the City's financial condition or results of operations is uncertain and cannot be estimated.

**REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF VALPARAISO, FLORIDA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 1,632,780	\$ 1,632,780	\$ 1,630,436	\$ (2,344)
Permits and fees	359,800	359,800	457,895	98,095
Intergovernmental	826,405	826,405	1,243,409	417,004
Charges for services	333,845	333,845	310,169	(23,676)
Fines and forfeitures	17,500	17,500	14,993	(2,507)
Miscellaneous	107,600	107,600	117,884	10,284
Total revenues	<u>3,277,930</u>	<u>3,277,930</u>	<u>3,774,786</u>	<u>496,856</u>
<b>EXPENDITURES</b>				
Current				
General government	895,855	894,590	799,569	95,021
Public safety	1,583,580	1,509,070	1,351,961	157,109
Physical environment	226,775	226,575	204,530	22,045
Culture and recreation	521,915	578,415	540,367	38,048
Capital outlay	243,600	189,115	160,979	28,136
Debt service				
Principal and interest	7,515	81,475	97,108	(15,633)
Total expenditures	<u>3,479,240</u>	<u>3,479,240</u>	<u>3,154,514</u>	<u>324,726</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>(201,310)</u>	<u>(201,310)</u>	<u>620,272</u>	<u>821,582</u>
<b>NET CHANGE IN FUND BALANCE</b>				
	<u>(201,310)</u>	<u>(201,310)</u>	<u>620,272</u>	<u>821,582</u>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>				
	<u>201,310</u>	<u>201,310</u>	<u>1,790,505</u>	<u>1,589,195</u>
<b>FUND BALANCE AT END OF YEAR</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,410,777</u>	<u>\$ 2,410,777</u>

**CITY OF VALPARAISO, FLORIDA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –**  
**BUDGET AND ACTUAL**  
**STREETS FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 239,000	\$ 239,000	\$ 243,727	\$ 4,727
Intergovernmental	125,285	125,285	149,586	24,301
Miscellaneous	250	250	13,575	13,325
Total revenues	<u>364,535</u>	<u>364,535</u>	<u>406,888</u>	<u>42,353</u>
<b>EXPENDITURES</b>				
Current				
Transportation	305,160	306,775	236,228	70,547
Capital outlay	10,000	10,000	9,936	64
Debt service				
Principal and interest	<u>90,615</u>	<u>89,000</u>	<u>102,642</u>	<u>(13,642)</u>
Total expenditures	<u>405,775</u>	<u>405,775</u>	<u>348,806</u>	<u>56,969</u>
<b>NET CHANGE IN FUND BALANCE</b>	(41,240)	(41,240)	58,082	(14,616)
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>41,240</u>	<u>41,240</u>	<u>279,356</u>	<u>238,116</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 337,438</u>	<u>\$ 337,438</u>

**CITY OF VALPARAISO, FLORIDA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL  
STORMWATER FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for services	\$ 45,000	\$ 45,000	\$ 47,730	\$ 2,730
Miscellaneous	25	25	35	10
Total revenues	<u>45,025</u>	<u>45,025</u>	<u>47,765</u>	<u>2,740</u>
<b>EXPENDITURES</b>				
Current				
Physical environment	<u>45,025</u>	<u>45,025</u>	<u>6,928</u>	<u>38,097</u>
Total expenditures	<u>45,025</u>	<u>45,025</u>	<u>6,928</u>	<u>38,097</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	40,837	40,837
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>197,609</u>	<u>197,609</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 238,446</u>	<u>\$ 238,446</u>

**CITY OF VALPARAISO, FLORIDA  
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (UNAUDITED)  
FLORIDA RETIREMENT SYSTEM  
LAST TEN YEARS**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.000392533%	0.000372639%	0.000352555%	0.000317841%	0.000293381%	0.000561073%
City's proportionate share of the net pension liability	\$ 135,183	\$ 112,241	\$ 104,284	\$ 80,255	\$ 37,894	\$ 34,234
City's covered payroll	\$ 1,444,155	\$ 1,448,593	\$ 1,353,312	\$ 1,356,940	\$ 1,324,519	\$ 1,244,776
City's proportionate share of the net pension liability as a percentage of its covered payroll	9.36%	7.75%	7.71%	5.91%	2.86%	2.75%
Plan fiduciary net position as a percentage of the total pension liability	82.61%	84.26%	83.89%	84.88%	92.00%	96.09%

\* The amounts presented for each fiscal year were determined as of 6/30.

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

**CITY OF VALPARAISO, FLORIDA**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (UNAUDITED)**  
**HEALTH INSURANCE SUBSIDY**  
**LAST TEN YEARS**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.000401405%	0.000383910%	0.000361564%	0.000396859%	0.000388411%	0.000555127%
City's proportionate share of the net pension liability	\$ 44,913	\$ 40,633	\$ 38,660	\$ 46,252	\$ 39,612	\$ 51,906
City's covered payroll	\$ 1,444,155	\$ 1,448,593	\$ 1,353,312	\$ 1,356,940	\$ 1,324,519	\$ 1,244,776
City's proportionate share of the net pension liability as a percentage of its covered payroll	3.11%	2.80%	2.86%	3.41%	2.99%	4.17%
Plan fiduciary net position as a percentage of the total pension liability	2.63%	2.15%	1.64%	0.97%	0.50%	0.99%

\* The amounts presented for each fiscal year were determined as of 6/30.

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

**CITY OF VALPARAISO, FLORIDA  
SCHEDULE OF CONTRIBUTIONS (UNAUDITED)  
FLORIDA RETIREMENT SYSTEM  
LAST TEN YEARS**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 12,259	\$ 10,967	\$ 10,722	\$ 7,056	\$ 7,153	\$ 12,290
Contributions in relation to the contractually required contribution	<u>(12,259)</u>	<u>(10,967)</u>	<u>(10,722)</u>	<u>(7,056)</u>	<u>(7,153)</u>	<u>(12,290)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 1,444,155	\$ 1,448,593	\$ 1,353,312	\$ 1,356,940	\$ 1,324,519	\$ 1,244,776
Contributions as a percentage of covered-employee payroll	0.85%	0.76%	0.79%	0.52%	0.54%	0.99%

\* The amounts presented for each fiscal year were determined as of 9/30.

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

**CITY OF VALPARAISO, FLORIDA  
SCHEDULE OF CONTRIBUTIONS (UNAUDITED)  
HEALTH INSURANCE SUBSIDY  
LAST TEN YEARS**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 2,228	\$ 2,114	\$ 2,127	\$ 1,814	\$ 1,485	\$ 1,902
Contributions in relation to the contractually required contribution	(2,228)	(2,114)	(2,127)	(1,814)	(1,485)	(1,902)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 1,444,155	\$ 1,448,593	\$ 1,353,312	\$ 1,356,940	\$ 1,324,519	\$ 1,244,776
Contributions as a percentage of covered-employee payroll	0.15%	0.15%	0.16%	0.13%	0.11%	0.15%

\* The amounts presented for each fiscal year were determined as of 9/30.

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.

**CITY OF VALPARAISO, FLORIDA**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY**  
**AND RELATED RATIOS (UNAUDITED)**  
**PUBLIC SAFETY PENSION PLAN**

Measurement Date *	2019	2018	2017	2016	2015
<b>Total Pension Liability</b>					
Service cost	\$ 141,025	\$ 140,605	\$ 134,635	\$ 123,530	\$ 99,473
Interest	146,089	137,846	117,428	100,326	89,976
Differences between expected and actual experience	523	(127,361)	(24,617)	42,204	(34,250)
Changes of assumptions	-	-	90,444	-	-
Benefit payments, including refunds of employee contributions	(62,891)	(30,466)	(30,016)	(30,039)	(29,141)
<b>Net change in total pension liability</b>	224,746	120,624	287,874	236,021	126,058
<b>Total pension liability – beginning</b>	1,987,637	1,867,013	1,579,139	1,343,118	1,217,060
<b>Total pension liability – ending (a)</b>	<u>\$ 2,212,383</u>	<u>\$ 1,987,637</u>	<u>\$ 1,867,013</u>	<u>\$ 1,579,139</u>	<u>\$ 1,343,118</u>
<b>Plan Fiduciary Net Position</b>					
Contributions – employer	\$ 97,787	\$ 84,921	\$ 99,862	\$ 166,749	\$ 153,593
Contributions – employee	9,980	11,218	10,283	10,430	10,255
Interest	200,835	184,080	158,634	140,129	131,153
Net investment income	(48,826)	10,972	142,461	19,983	(133,786)
Benefit payments, including refunds of employee contributions	(62,891)	(30,466)	(30,016)	(30,039)	(29,141)
Administrative expenses	(11,467)	(10,838)	(10,394)	(9,521)	(10,374)
<b>Net change in plan fiduciary net position</b>	185,418	249,887	370,830	297,731	121,700
<b>Plan fiduciary net position – beginning</b>	2,852,643	2,602,756	2,231,926	1,934,195	1,812,495
<b>Plan fiduciary net position – ending (b)</b>	<u>\$ 3,038,061</u>	<u>\$ 2,852,643</u>	<u>\$ 2,602,756</u>	<u>\$ 2,231,926</u>	<u>\$ 1,934,195</u>
<b>Net pension liability (asset) – ending (a) – (b)</b>	<u>\$ (825,678)</u>	<u>\$ (865,006)</u>	<u>\$ (735,743)</u>	<u>\$ (652,787)</u>	<u>\$ (591,077)</u>
<b>Plan fiduciary net position as a percentage of the total pension liability (asset)</b>	137.32%	143.52%	139.41%	141.34%	144.01%
<b>Covered payroll</b>	\$ 431,944	\$ 430,057	\$ 417,258	\$ 405,994	\$ 339,428
<b>Net pension liability (asset) as a percentage of covered payroll</b>	-191.15%	-201.14%	-176.33%	-160.79%	-174.14%

Notes to schedule:

Benefit changes: No changes in benefits provided.

Changes of assumptions: For the 2017 measurement date, the City began using the RP-2000 Sex-Distinct Blue Collar Mortality Table using Scale BB, as required by State law.

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years which information is available.



**CITY OF VALPARAISO, FLORIDA  
SCHEDULE OF CONTRIBUTIONS (UNAUDITED)  
PUBLIC SAFETY PENSION PLAN  
LAST TEN FISCAL YEARS**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contribution	\$ 86,629	\$ 110,221	\$ 100,519	\$ 94,181	\$ 65,067	\$ 226,641	\$ 191,687	\$ 105,205	\$ 139,758	\$ 138,587
Contributions in relation to the actuarially determined contributions	<u>97,787</u>	<u>84,921</u>	<u>99,862</u>	<u>166,749</u>	<u>153,593</u>	<u>146,466</u>	<u>131,683</u>	<u>122,951</u>	<u>121,084</u>	<u>117,939</u>
<b>Contribution deficiency (excess)</b>	<u>\$ (11,158)</u>	<u>\$ 25,300</u>	<u>\$ 657</u>	<u>\$ (72,568)</u>	<u>\$ (88,526)</u>	<u>\$ 80,175</u>	<u>\$ 60,004</u>	<u>\$ (17,746)</u>	<u>\$ 18,674</u>	<u>\$ 20,648</u>
<b>Covered payroll</b>	\$ 431,944	\$ 430,057	\$ 417,258	\$ 405,994	\$ 339,428	Not available	\$ 297,343	\$ 337,623	Not available	\$ 374,161
<b>Contributions as a percentage of covered payroll</b>	22.64%	19.75%	23.93%	41.07%	45.25%	Not available	44.29%	36.42%	Not available	31.52%

See notes to schedule of contributions

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE SCHEDULE OF CONTRIBUTIONS (UNAUDITED)  
PUBLIC SAFETY PENSION PLAN**

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**Valuation Date:** October 1, 2018

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial cost method: Aggregate Cost Method

**Financing of unfunded**

actuarial accrued  
liabilities:

Under this actuarial cost method, a funding cost is developed for the plan as a level percentage of payroll. The level funding percentage is calculated as the excess of the total future benefit liability over accumulated assets and future employee contributions, with this excess spread over the expected future payroll for current active participants. The normal cost is equal to the level funding percentage multiplied by the expected payroll for the year immediately following the valuation date. The actuarial accrued liability is equal to the accumulated assets. Therefore, under the aggregate cost method, no unfunded accrued liability is developed.

Discount rate: 7.00% per year

Wage Inflation Rate: 2.77% per year

Salary increases: 4.50% per year

Mortality: RP-2000 Sex-Distinct Blue Collar Mortality Table with full generational improvements in mortality using by Scale BB, as published by the Internal Revenue Service (IRS) for purposes of Internal Revenue Code (IRC) section 430.

Retirement: Retirement is assumed to occur at normal retirement age

Non-investment  
expenses: 2.25% of covered payroll

Future contributions: Contributions from the employer and employees are assumed to be made as legally required

**CITY OF VALPARAISO, FLORIDA  
SCHEDULE OF INVESTMENT RETURNS  
LAST TEN YEARS**

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	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
<b>Public Safety Pension Plan</b>					
Annual Money-Weighted Rate of Return					
Net of Investment Expense	0.72%	1.08%	2.51%	1.21%	-2.44%

Note: This information is not available for previous years.

**INDEPENDENT ACCOUNTANTS' REPORT ON AN EXAMINATION OF  
COMPLIANCE REQUIREMENTS IN ACCORDANCE WITH CHAPTER 10.550,  
RULES OF THE AUDITOR GENERAL**


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

We have examined the City of Valparaiso, Florida's (the City) compliance with Section 218.415, Florida Statutes, with regards to the investments for the year ended September 30, 2019.

Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including the assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination of the City's compliance with specified requirements.

In our opinion, the City of Valparaiso, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2019.

  
Fort Walton Beach, Florida  
May 6, 2020

**INDEPENDENT AUDITORS' 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**

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

We have audited, 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, the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valparaiso, Florida (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 6, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify the deficiencies in internal control shown in the accompanying schedule of findings and responses (#2019-001 and #2019-002) that we consider to be significant deficiencies.

**Compliance and Other Matters**

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

**City of Valparaiso, Florida's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Warren Averett, LLC*

Fort Walton Beach, Florida  
May 6, 2020

**CITY OF VALPARAISO, FLORIDA  
SCHEDULE OF FINDINGS AND RESPONSES  
SEPTEMBER 30, 2019**

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**2019-001      Reporting on Interfund Balances**

*Criteria*

Pursuant to GASB Statement No. 34 regarding interfund loans, there is a requirement for repayment by the borrower fund to the lender fund. If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

*Condition*

As of September 30, 2019, the Utility Fund and Communications Fund each owe the General Fund \$300,639 and \$396,638, respectively.

*Cause*

The interfund reimbursements from the Utility Fund and Communications Fund to the General Fund have not been adequate to cover the expenditures made on behalf of those funds. In addition, interfund balances created in prior fiscal years have not been repaid to the General Fund in the current fiscal year.

*Effect*

The Utility Fund and Communications Fund may not possess adequate resources to repay the interfund loans to the General Fund within a reasonable time, in accordance with GASB Statement No. 34.

*Recommendation*

We recommend that management review available resources in the Utility Fund and Communications Fund and determine the amounts of interfund loans expected to be repaid to the General Fund in future periods. If any amounts are not expected to be repaid within a reasonable time, management should request authorization from the City Commission to reduce the interfund balances for amounts that are not expected to be repaid through a nonrecurring interfund transfer.

*Management's Response*

Management and the City Commission will review the available resources in the Utility Fund and Communication Fund at fiscal year end and determine whether a reduction in interfund loan balances is needed.

**2019-002      IT Risk Assessment**

*Criteria*

The framework for internal control includes risk assessment. Risk assessment involves identifying and analyzing areas which could significantly impact the City's achievement of financial reporting objectives.

*Condition*

The City has not recently evaluated its information technology system for potential risks, including security, physical infrastructure, and third-party compliance requirements.

**CITY OF VALPARAISO, FLORIDA  
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED  
SEPTEMBER 30, 2019**

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**2019-002      IT Risk Assessment – Continued**

*Cause*

The City's information technology structure is simple and basic safeguards such as password requirements and regular data backups have been established. However, because of compliance requirements that have been established for security of personally identifiable information, risks from social engineering schemes and hacks, and technological advances, the current design and safeguards of the City's IT system could be vulnerable to potential threats.

*Effect*

The City's management may not have adequate knowledge of potential risks to its financial and non-financial data captured in the information technology system.

*Recommendation*

The City should consider a formal IT risk assessment. The assessment should provide for a review of physical infrastructure, checks for an active and successful backup and disaster recovery solution, review of security policies and procedures to evaluate them for compliance with applicable laws and regulations, access control evaluation, and vulnerability scanning. The assessment will provide the City's management with information to consider in operational planning and risk mitigation.

*Management's Response*

The City will consider a formal IT risk assessment after an evaluation of the costs associated with the assessment.



## MANAGEMENT LETTER

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

### **Report on the Financial Statements**

We have audited the financial statements of the City of Valparaiso, Florida (the City), as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated May 6, 2020.

### **Auditors' Responsibility**

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 and Chapter 10.550, *Rules of the Auditor General*.

### **Other Reporting Requirements**

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards*; and Independent Accountants' Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in these reports, which are dated May 6, 2020 should be considered in conjunction with this management letter.

### **Prior Audit Findings**

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 report. Corrective actions have been taken to address findings and recommendations made in the preceding annual report.

### **Official Title and Legal Authority**

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The official title and legal authority for the City has been disclosed in Note 1 to the financial statements.

### **Financial Condition and Management**

Section 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, requires that we apply appropriate procedures and report the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

**Financial Condition and Management – Continued**

Pursuant to Sections 10.554(1)(i)5.b., and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures for the City. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Section 10.554(1)(i)2., *Rules of Auditor General*, requires that we communicate any recommendations to improve financial management. In connection with our audit, please see the schedule of findings and responses.

**Additional Matters**

Section 10.554(1)(i)3., *Rules of Auditor General*, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

**Purpose of this Letter**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the mayor and members of the City Commission, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

We sincerely hope this comment and recommendation 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*  
Fort Walton Beach, Florida  
May 6, 2020