

Vale of Paradise



City of Valparaiso, Florida
Financial Statements
September 30, 2017

I. INTORDUCTORY SECTION

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II. FINANCIAL SECTION

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, 2017, 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, 2017, 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 on pages 3-8, the budgetary comparison information on pages 61-63, and the schedules related to the pension liabilities and contributions on pages 64-70 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 14, 2018, 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 14, 2018

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, 2017. 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 \$2,001,762.
- Net position increased by \$228,055.
- Total revenues increased by 1.5% or \$106,501 and total expenses decreased by 3.0% or \$223,148. The primary causes for the increase in revenues were an increase in property taxes and an increase in charges for services. A significant portion of the decrease in expenses is due to a legal settlement during the prior year, as well a reduction in maintenance costs related to providing utility services.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by Statement 37. The statement of net 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 reconciliation's on pages 12 and 14.
- **Proprietary funds** – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net 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, 2017 AND 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 3,363,989	\$ 2,684,936	\$ 4,410,461	\$ 3,394,760	\$ 7,774,450	\$ 6,079,696
Capital assets, net	4,037,704	3,766,065	4,125,853	4,090,484	8,163,557	7,856,549
Total assets	7,401,693	6,451,001	8,536,314	7,485,244	15,938,007	13,936,245
Deferred outflows of resources	304,475	95,170	27,435	20,066	331,910	115,236
Current liabilities	109,720	110,440	330,017	435,744	439,737	546,184
Other liabilities	1,728,634	825,725	4,219,409	3,199,337	5,948,043	4,025,062
Total liabilities	1,838,354	936,165	4,549,426	3,635,081	6,387,780	4,571,246
Deferred inflows of resources	221,849	39,962	38,625	46,665	260,474	86,627
Net position						
Net investment in capital assets	3,054,814	3,154,371	1,002,480	1,159,224	4,057,294	4,313,595
Restricted	760,563	671,861	784,849	585,405	1,545,412	1,257,266
Unrestricted	1,830,588	1,743,812	2,188,369	2,078,935	4,018,957	3,822,747
Total net position	\$ 5,645,965	\$ 5,570,044	\$ 3,975,698	\$ 3,823,564	\$ 9,621,663	\$ 9,393,608

For more detailed information, see the accompanying statement of net position.

Total assets increased by \$2,001,762 during the fiscal year ended September 30, 2017, primarily due to unspent proceeds from a bond issuance in the current fiscal year. Total liabilities increased by \$1,816,534 from the prior year, primarily due to a bond issuance that was prorated between the business-type and governmental activities.

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, 2017 AND 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program revenues						
Charges for services	\$ 567,108	\$ 562,167	\$ 3,847,954	\$ 3,742,782	\$ 4,415,062	\$ 4,304,949
Operating grants and contributions	60,636	64,781	-	-	60,636	64,781
Capital grants and contributions	3,130	-	53,350	27,350	56,480	27,350
General revenues						
Property taxes	1,013,404	959,745	-	-	1,013,404	959,745
Public service taxes	862,788	857,848	-	-	862,788	857,848
Franchise taxes	317,524	328,228	-	-	317,524	328,228
Intergovernmental, unrestricted	595,031	619,539	-	-	595,031	619,539
Investment earnings	36,827	25,188	2,930	2,643	39,757	27,831
Sales of investments and capital assets	4,464	32,440	1,345	3,570	5,809	36,010
Miscellaneous	23,673	18,656	3,935	42,661	27,608	61,317
TOTAL REVENUES	3,484,585	3,468,592	3,909,514	3,819,006	7,394,099	7,287,598
EXPENSES						
Primary government						
General government	840,559	948,967	-	-	840,559	948,967
Public safety	1,286,840	1,286,020	-	-	1,286,840	1,286,020
Physical environment	196,264	195,798	-	-	196,264	195,798
Transportation	378,909	348,683	-	-	378,909	348,683
Culture and recreation	563,872	520,769	-	-	563,872	520,769
Debt service interest	19,925	27,969	-	-	19,925	27,969
Business-type activities						
Utility	-	-	1,265,329	1,438,025	1,265,329	1,438,025
Communication	-	-	1,836,283	1,880,255	1,836,283	1,880,255
Sanitation	-	-	778,063	742,706	778,063	742,706
TOTAL EXPENSES	3,286,369	3,328,206	3,879,675	4,060,986	7,166,044	7,389,192
CHANGE IN NET POSITION						
BEFORE TRANSFERS	198,216	140,386	29,839	(241,980)	228,055	(101,594)
Transfers	(122,295)	-	122,295	-	-	-
CHANGE IN NET POSITION	75,921	140,386	152,134	(241,980)	228,055	(101,594)
NET POSITION – BEGINNING	5,570,044	5,429,658	3,823,564	4,065,544	9,393,608	9,495,202
NET POSITION – ENDING	\$ 5,645,965	\$ 5,570,044	\$ 3,975,698	\$ 3,823,564	\$ 9,621,663	\$ 9,393,608

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

The City's total revenues increased by \$106,501 or 1.5% and total expenses decreased by \$223,148, or 3.0%. Net position increased by \$228,055 for fiscal year 2017. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The City's revenue for governmental activities increased \$15,933, or 0.5%, compared to the prior year. This increase is primarily attributable to an increase in property and sales taxes. Expenses decreased \$41,837, or 1.3% from the previous year, primarily related to litigation that occurred in the prior year.

Business-type Activities

Revenues of the City's business-type activities showed an increase of 2.4% or \$90,508 from the previous fiscal year. This increase is primarily related to an increase in user fees charged for utility and telecommunications services. Expenses decreased 4.5% or \$181,311. The main cause of the decrease is a reduction in maintenance costs related to providing utility services.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$2,531,597, which is \$609,835 higher than last year's total primarily due to debt proceeds received but not expended in the current year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2017, the City had \$8,163,557 invested in capital assets (net of depreciation). This amount represents a net increase (including additions and deductions) of \$307,008 or 3.9% over the fiscal year 2016 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, 2017 AND 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 455,209	\$ 455,209	\$ 90,603	\$ 90,603	\$ 545,812	\$ 545,812
Construction in process	-	-	89,250	-	89,250	-
Buildings and improvements	1,059,094	1,051,781	1,996,931	1,972,217	3,056,025	3,023,998
Infrastructure	1,541,992	1,701,392	-	-	1,541,992	1,701,392
Machinery, equipment, and vehicles	981,409	557,683	1,949,069	2,027,664	2,930,478	2,585,347
Total	\$ 4,037,704	\$ 3,766,065	\$ 4,125,853	\$ 4,090,484	\$ 8,163,557	\$ 7,856,549

Debt

At September 30, 2017, the City had \$5,248,513 of bonds outstanding, net of unamortized discounts and premiums, versus \$3,704,324 in the prior year, an increase of \$1,887,516, as shown below. The City also had \$352,750 of capital lease obligations versus \$9,423 in the prior year, an increase of \$343,327 due to a new lease for a fire truck in the current year.

Table 4
CITY OF VALPARAISO, FLORIDA
LONG-TERM DEBT OUTSTANDING
AS OF SEPTEMBER 30, 2017 AND 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Capital leases	\$ 352,750	\$ 9,423	\$ -	\$ -	\$ 352,750	\$ 9,423
Bonds payable, net	1,130,140	602,271	4,118,373	3,102,053	5,248,513	3,704,324
Total	\$ 1,482,890	\$ 611,694	\$ 4,118,373	\$ 3,102,053	\$ 5,601,263	\$ 3,713,747

The last payment on the debt is due in fiscal year 2041. The maximum debt service in any one year on this debt is estimated to be \$554,894 in 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 FY 2018 General Fund budget are \$3,151,810, which is a decrease from the final FY 2017 budget of \$471,835. The City added no major new programs to the FY 2018 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.

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CITY OF VALPARAISO, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,073,390	\$ 759,099	\$ 1,832,489
Investments	342,622	-	342,622
Accounts receivables, net	15,094	240,965	256,059
Internal balances	1,072,546	(1,072,546)	-
Due from other governments	97,944	-	97,944
Inventory, at cost	-	70,863	70,863
Prepaid items	7,133	14,179	21,312
Restricted assets			
Cash and cash equivalents	19,517	2,656,156	2,675,673
Capital assets			
Non-depreciable	455,209	179,853	635,062
Depreciable, net	3,582,495	3,946,000	7,528,495
Other assets			
Investment in joint venture	-	1,741,745	1,741,745
Net pension asset	735,743	-	735,743
TOTAL ASSETS	7,401,693	8,536,314	15,938,007
DEFERRED OUTFLOW OF RESOURCES	304,475	27,435	331,910
LIABILITIES			
Accounts payable	63,688	137,238	200,926
Accrued liabilities	28,782	13,011	41,793
Accrued interest	13,071	52,198	65,269
Due to other governments	4,179	-	4,179
Payable from restricted assets			
Customer deposits	-	127,570	127,570
Non-current liabilities			
Due within one year			
Compensated absences	168,139	35,697	203,836
Lease payable	68,219	-	68,219
Bonds payable	72,623	252,377	325,000
Due in more than one year			
Net pension liability	77,605	65,339	142,944
Lease payable	284,531	-	284,531
Bonds payable, net	1,057,517	3,865,996	4,923,513
TOTAL LIABILITIES	1,838,354	4,549,426	6,387,780
DEFERRED INFLOW OF RESOURCES	221,849	38,625	260,474
NET POSITION			
Net investment in capital assets	3,054,814	1,002,480	4,057,294
Restricted			
Debt service	-	194,051	194,051
Capital projects	-	590,798	590,798
Library	10,902	-	10,902
Public safety	8,897	-	8,897
Pension	740,764	-	740,764
Unrestricted	1,830,588	2,188,369	4,018,957
TOTAL NET POSITION	\$ 5,645,965	\$ 3,975,698	\$ 9,621,663

See notes to the financial statements.

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**CITY OF VALPARAISO, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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		Total
					Governmental Activities	Business-Type Activities	
Governmental activities							
General government	\$ 840,559	\$ 467,511	\$ -	\$ -	\$ (373,048)	\$ -	\$ (373,048)
Public safety	1,286,840	22,540	-	3,130	(1,261,170)	-	(1,261,170)
Physical environment	196,264	74,111	-	-	(122,153)	-	(122,153)
Transportation	378,909	-	-	-	(378,909)	-	(378,909)
Culture and recreation	563,872	2,946	60,636	-	(500,290)	-	(500,290)
Debt service interest	19,925	-	-	-	(19,925)	-	(19,925)
Total governmental activities	<u>3,286,369</u>	<u>567,108</u>	<u>60,636</u>	<u>3,130</u>	<u>(2,655,495)</u>	<u>-</u>	<u>(2,655,495)</u>
Business-type activities							
Utility	1,265,329	1,358,342	-	53,350	-	146,363	146,363
Communication	1,836,283	1,699,872	-	-	-	(136,411)	(136,411)
Sanitation	778,063	789,740	-	-	-	11,677	11,677
Total business-type activities	<u>3,879,675</u>	<u>3,847,954</u>	<u>-</u>	<u>53,350</u>	<u>-</u>	<u>21,629</u>	<u>21,629</u>
Total primary government	<u>\$ 7,166,044</u>	<u>\$ 4,415,062</u>	<u>\$ 60,636</u>	<u>\$ 56,480</u>	<u>\$ (2,655,495)</u>	<u>\$ 21,629</u>	<u>\$ (2,633,866)</u>
General revenues							
Taxes							
Property taxes					\$ 1,013,404	\$ -	\$ 1,013,404
Utility service taxes					365,913	-	365,913
Sales taxes					496,875	-	496,875
Franchise taxes					317,524	-	317,524
Intergovernmental, unrestricted					595,031	-	595,031
Investment earnings					36,827	2,930	39,757
Gain on sale of assets					4,464	1,345	5,809
Miscellaneous					23,673	3,935	27,608
Transfers					(122,295)	122,295	-
Total general revenues					<u>2,731,416</u>	<u>130,505</u>	<u>2,861,921</u>
CHANGE IN NET POSITION					<u>75,921</u>	<u>152,134</u>	<u>228,055</u>
NET POSITION AT BEGINNING OF YEAR					<u>5,570,044</u>	<u>3,823,564</u>	<u>9,393,608</u>
NET POSITION AT END OF YEAR					<u>\$ 5,645,965</u>	<u>\$ 3,975,698</u>	<u>\$ 9,621,663</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2017**

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 697,003	\$ 226,810	\$ 149,577	\$ 1,073,390
Investments	342,622	-	-	342,622
Accounts receivables, net	12,007	-	3,087	15,094
Due from (to) other funds	661,298	393,298	17,950	1,072,546
Due from other governments	70,881	27,063	-	97,944
Prepaid items	7,133	-	-	7,133
Restricted assets				
Cash and cash equivalents	19,517	-	-	19,517
TOTAL ASSETS	<u>\$ 1,810,461</u>	<u>\$ 647,171</u>	<u>\$ 170,614</u>	<u>\$ 2,628,246</u>
LIABILITIES				
Accounts payable	\$ 63,042	\$ 646	\$ -	\$ 63,688
Accrued liabilities	27,758	1,006	18	28,782
Due to other governments	4,179	-	-	4,179
TOTAL LIABILITIES	<u>94,979</u>	<u>1,652</u>	<u>18</u>	<u>96,649</u>
FUND BALANCE				
Nonspendable	7,133	-	-	7,133
Restricted	119,799	400,000	-	519,799
Committed	237,198	-	170,596	407,794
Assigned	29,330	245,519	-	274,849
Unassigned	1,322,022	-	-	1,322,022
TOTAL FUND BALANCE	<u>1,715,482</u>	<u>645,519</u>	<u>170,596</u>	<u>2,531,597</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,810,461</u>	<u>\$ 647,171</u>	<u>\$ 170,614</u>	<u>\$ 2,628,246</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, 2017**

Fund balance, total governmental funds (page 11)	\$ 2,531,597
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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	455,209	
Governmental depreciable assets	8,337,757	
Less accumulated depreciation	<u>(4,755,262)</u>	
		4,037,704

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

Net pension asset	735,743
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Deferred inflows of resources and deferred outflows of resources related to pensions 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 pensions	304,475	
Deferred inflows of resources related to pensions	<u>(221,849)</u>	
		82,626

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

Bonds payable	(1,130,140)	
Lease payable	(352,750)	
Accrued interest	(13,071)	
Compensated absences	(168,139)	
Net pension liability	<u>(77,605)</u>	
		<u>(1,741,705)</u>

Net position of governmental activities (page 9)	\$ <u><u>5,645,965</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, 2017**

	General Fund	Streets Fund	Stormwater Fund	Total Governmental Funds
REVENUES				
Taxes	\$ 1,476,439	\$ 226,853	\$ -	\$ 1,703,292
Permits and fees	374,097	-	-	374,097
Intergovernmental	746,225	110,684	-	856,909
Charges for services	341,344	-	46,536	387,880
Fines and forfeitures	25,286	-	-	25,286
Miscellaneous	133,724	3,971	25	137,720
Total revenues	<u>3,097,115</u>	<u>341,508</u>	<u>46,561</u>	<u>3,485,184</u>
EXPENDITURES				
Current				
General government	789,472	-	-	789,472
Public safety	1,268,351	-	-	1,268,351
Physical environment	176,486	-	6,270	182,756
Transportation	-	209,070	-	209,070
Culture and recreation	487,164	-	-	487,164
Capital outlay	613,696	61,892	4,942	680,530
Debt service				
Principal and interest	-	16,330	-	16,330
Total expenditures	<u>3,335,169</u>	<u>287,292</u>	<u>11,212</u>	<u>3,633,673</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>(238,054)</u>	<u>54,216</u>	<u>35,349</u>	<u>(148,489)</u>
OTHER FINANCING SOURCES				
Proceeds from issuance of new debt	100,000	400,000	-	500,000
Original issue premium	5,574	22,295	-	27,869
Proceeds from capital lease transactions	352,750	-	-	352,750
Transfers out	(122,295)	-	-	(122,295)
Total other financing sources	<u>336,029</u>	<u>422,295</u>	<u>-</u>	<u>758,324</u>
NET CHANGE IN FUND BALANCE	97,975	476,511	35,349	609,835
FUND BALANCE AT BEGINNING OF YEAR	1,617,507	169,008	135,247	1,921,762
FUND BALANCE AT END OF YEAR	<u>\$ 1,715,482</u>	<u>\$ 645,519</u>	<u>\$ 170,596</u>	<u>\$ 2,531,597</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, 2017**

Net change in fund balance – governmental funds (page 13) \$ 609,835

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is depreciated/amortized over the estimated useful lives of the assets.

Expenditures for capital assets	680,530	
Disposals of capital assets	(311,286)	
Accumulated depreciation associated with disposals	310,687	
Less current year depreciation	<u>(408,292)</u>	
		271,639

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.

Principal payments on capital leases	9,423	
Proceeds from bond issuance	(500,000)	
Original issue premium	(27,869)	
Proceeds from capital lease transactions	(352,750)	
Change in accrued interest on long-term debt	<u>(13,018)</u>	
		(884,214)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in net pension asset (liability) and related deferred inflows and outflows of resources	101,450	
Change in long-term compensated absences	<u>(22,789)</u>	
		<u>78,661</u>

Change in net position of governmental activities (page 10) \$ 75,921

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2017**

	Utility Fund	Communication Fund	Sanitation Fund	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 397,126	\$ 171,105	\$ 190,868	\$ 759,099
Accounts receivables, net	141,872	33,754	65,339	240,965
Inventory, at cost	49,756	21,107	-	70,863
Due from other funds	-	-	26,927	26,927
Prepaid items	-	14,179	-	14,179
Restricted assets				
Cash and cash equivalents	2,329,269	326,887	-	2,656,156
Total current assets	<u>2,918,023</u>	<u>567,032</u>	<u>283,134</u>	<u>3,768,189</u>
Non-current assets				
Capital assets				
Non-depreciable	129,537	50,316	-	179,853
Depreciable, net	2,413,143	1,085,362	447,495	3,946,000
Total capital assets	<u>2,542,680</u>	<u>1,135,678</u>	<u>447,495</u>	<u>4,125,853</u>
Other assets				
Investment in joint venture	1,741,745	-	-	1,741,745
Total non-current assets	<u>4,284,425</u>	<u>1,135,678</u>	<u>447,495</u>	<u>5,867,598</u>
TOTAL ASSETS	<u>7,202,448</u>	<u>1,702,710</u>	<u>730,629</u>	<u>9,635,787</u>
DEFERRED OUTFLOW OF RESOURCES				
	<u>7,933</u>	<u>7,475</u>	<u>12,027</u>	<u>27,435</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION – CONTINUED
 SEPTEMBER 30, 2017**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
LIABILITIES				
Current liabilities				
Accounts payable	38,204	83,339	15,695	137,238
Accrued liabilities				
Compensated absences	11,160	4,513	20,024	35,697
Other	5,759	3,872	3,380	13,011
Due to other funds	738,982	360,491	-	1,099,473
Payable from restricted assets				
Customer deposits	127,570	-	-	127,570
Accrued interest	36,378	15,820	-	52,198
Revenue bonds payable	115,529	136,848	-	252,377
Total current liabilities	<u>1,073,582</u>	<u>604,883</u>	<u>39,099</u>	<u>1,717,564</u>
Non-current liabilities				
Net pension liability	18,892	17,800	28,647	65,339
Revenue bonds payable, net	2,867,952	998,044	-	3,865,996
Total non-current liabilities	<u>2,886,844</u>	<u>1,015,844</u>	<u>28,647</u>	<u>3,931,335</u>
TOTAL LIABILITIES	<u>3,960,426</u>	<u>1,620,727</u>	<u>67,746</u>	<u>5,648,899</u>
DEFERRED INFLOW OF RESOURCES				
	<u>11,169</u>	<u>10,522</u>	<u>16,934</u>	<u>38,625</u>
NET POSITION				
Net investment in capital assets	554,199	786	447,495	1,002,480
Restricted				
Debt service	115,901	78,150	-	194,051
System improvements	590,798	-	-	590,798
Unrestricted	1,977,888	-	210,481	2,188,369
TOTAL NET POSITION	<u>\$ 3,238,786</u>	<u>\$ 78,936</u>	<u>\$ 657,976</u>	<u>\$ 3,975,698</u>

See notes to the financial statements.

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**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Utility Fund	Communication Fund	Sanitation Fund	Total
OPERATING REVENUES				
Charges for services	\$ 1,358,342	\$ 1,699,872	\$ 789,740	\$ 3,847,954
OPERATING EXPENSES				
Personal services	281,987	289,336	401,494	972,817
Operating	624,053	1,327,901	290,317	2,242,271
Depreciation expense	235,213	208,967	86,252	530,432
Total operating expenses	1,141,253	1,826,204	778,063	3,745,520
OPERATING INCOME (LOSS)	217,089	(126,332)	11,677	102,434
NON-OPERATING REVENUES (EXPENSES)				
Interest expense	(62,296)	(6,619)	-	(68,915)
Other debt service costs	(61,780)	(3,460)	-	(65,240)
Rental income	25,664	3,978	-	29,642
Equity earnings in joint venture	(41,292)	-	-	(41,292)
Interest income	2,284	328	318	2,930
Miscellaneous	6,878	3,052	7,000	16,930
Total non-operating revenues (expenses)	(130,542)	(2,721)	7,318	(125,945)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	86,547	(129,053)	18,995	(23,511)
CAPITAL CONTRIBUTIONS AND TRANSFERS				
Impact fees	53,350	-	-	53,350
Transfers in	122,295	-	-	122,295
Total capital contributions and transfers	175,645	-	-	175,645
CHANGE IN NET POSITION	262,192	(129,053)	18,995	152,134
NET POSITION AT BEGINNING OF YEAR	2,976,594	207,989	638,981	3,823,564
NET POSITION AT END OF YEAR	\$ 3,238,786	\$ 78,936	\$ 657,976	\$ 3,975,698

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,332,678	\$ 1,725,587	\$ 782,972	\$ 3,841,237
Payments to suppliers	(748,989)	(1,312,171)	(281,085)	(2,342,245)
Payments to employees	(280,964)	(299,395)	(402,264)	(982,623)
Miscellaneous income	32,542	7,030	7,000	46,572
Net cash provided by operating activities	<u>335,267</u>	<u>121,051</u>	<u>106,623</u>	<u>562,941</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Change in interfund balances	<u>607,873</u>	<u>262,240</u>	<u>(115,739)</u>	<u>754,374</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets related to joint venture	(5,213)	-	-	(5,213)
Proceeds from impact fees	53,350	-	-	53,350
Acquisition of capital assets	(351,816)	(74,024)	(139,959)	(565,799)
Proceeds from new debt issuances	1,078,327	-	-	1,078,327
Principal paid on bonds	(62,869)	-	-	(62,869)
Interest expense	(63,944)	(15,996)	-	(79,940)
Other debt service costs	(61,780)	(3,460)	-	(65,240)
Net cash used in capital and related financing activities	<u>586,055</u>	<u>(93,480)</u>	<u>(139,959)</u>	<u>352,616</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	<u>2,284</u>	<u>328</u>	<u>318</u>	<u>2,930</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,531,479	290,139	(148,757)	1,672,861
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,194,916</u>	<u>207,853</u>	<u>339,625</u>	<u>1,742,394</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,726,395</u>	<u>\$ 497,992</u>	<u>\$ 190,868</u>	<u>\$ 3,415,255</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF				
Current	\$ 397,126	\$ 171,105	\$ 190,868	\$ 759,099
Restricted	<u>2,329,269</u>	<u>326,887</u>	<u>-</u>	<u>2,656,156</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 2,726,395</u>	<u>\$ 497,992</u>	<u>\$ 190,868</u>	<u>\$ 3,415,255</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS – CONTINUED
 FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 217,089	\$ (126,332)	\$ 11,677	\$ 102,434
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	235,213	208,967	86,252	530,432
Rental income	25,664	3,978	-	29,642
Miscellaneous revenue	6,878	3,052	7,000	16,930
Decrease (increase) in assets:				
Accounts receivable, net	(29,903)	25,715	(6,768)	(10,956)
Inventory	(3,849)	3,359	-	(490)
Prepaid items	-	446	-	446
Increase in deferred outflows of resources	(2,131)	(2,009)	(3,229)	(7,369)
Increase (decrease) in liabilities:				
Accounts payable	(121,087)	11,925	9,232	(99,930)
Customer deposits – restricted	4,239	-	-	4,239
Salaries and benefits payable	2,176	508	(833)	1,851
Accrued compensated absences	1,129	(8,416)	3,524	(3,763)
Net pension liability	2,173	2,048	3,294	7,515
Decrease in deferred inflows of resources	(2,324)	(2,190)	(3,526)	(8,040)
Net cash provided by operating activities	<u>\$ 335,267</u>	<u>\$ 121,051</u>	<u>\$ 106,623</u>	<u>\$ 562,941</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2017**

	Pension Trust Fund
ASSETS	
Cash and cash equivalents	\$ 10,398
Investments, at fair value	
Fixed income mutual funds	1,008,604
Equity mutual funds	1,580,492
Due from State of Florida	917
Employer receivable	2,446
Plan member receivable	815
TOTAL ASSETS	\$ 2,603,672
FIDUCIARY NET POSITION	
Restricted for pensions	\$ 2,603,672

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, 2017**

	Pension Trust Fund
ADDITIONS	
Contributions	
Employer	\$ 31,928
Plan members	10,283
State of Florida	62,752
Total contributions	104,963
Investment income	
Net appreciation (decline) in fair value of investments	301,094
Less investment expense	(4,669)
Net investment income (loss)	296,425
TOTAL ADDITIONS	401,388
DEDUCTIONS	
Pension benefits paid	30,016
Professional services	4,725
Administrative expense	1,000
TOTAL DEDUCTIONS	35,741
CHANGE IN FIDUCIARY NET POSITION	365,647
FIDUCIARY NET POSITION AT BEGINNING OF YEAR	2,238,025
FIDUCIARY NET POSITION AT END OF YEAR	\$ 2,603,672

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF CITY

Description of 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 Fund 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.

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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.

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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

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

Measurement Focus and Basis of Accounting – Continued

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

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

The following is the current property tax calendar:

Lien Date	January 1, 2017
Levy Date	November 1, 2017
Due Date	November 1, 2017
Delinquent Date	April 1, 2018

One-percent discounts are granted for each month taxes are paid prior to March 2018.

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.

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

Basis of Presentation – Continued

Governmental – Continued

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

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

Proprietary

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

Proprietary funds include the following fund types:

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, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF 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 with original maturities of three months or less.

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

Investments

The City's investment policy, in compliance 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 Chapter 280.02, Florida Statutes.
- Direct obligations of the U.S. Treasury.
- Obligations of federal agencies and instrumentalities.

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

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: Large Cap Equity, Growth Fund, Index Fund, Small Cap Equity and an International Fund. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. These investments are part of a local government investment pool and therefore, are considered an external investment pool for GASB reporting requirements.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

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

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

Receivables and Payables

Internal Balances

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

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

All receivables in governmental funds are shown net of an allowance for uncollectible amounts. At September 30, 2017, gross accounts receivable totaled \$21,008, with an allowance of doubtful accounts of \$5,915.

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. At September 30, 2017, gross accounts receivable totaled \$302,893, with an allowance for doubtful accounts of \$61,928.

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, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF 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 according to State Statute. A library fund was established to receive donations from private sources to be used for the operating activities of the library.

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

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

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, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF 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, 2017**

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

Deferred Revenues

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

Long-Term Obligations

Long-term debt and other obligations financed by the proprietary funds are reported as liabilities in the fund and in the government-wide statement of net 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.

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, 2017**

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

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

Categories and Classification Fund Equity

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

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

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, 2017

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

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

Categories and Classification 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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

Capital Contributions

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

Estimates

The financial statements and related disclosures are prepared in conformity with principles generally accepted in the United States of America. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the period reported. These estimates include assessing the collectability of accounts receivable, the use and recoverability of inventory, pension and postretirement obligations and useful lives and impairment of tangible assets, the determination of the actuarially accrued liability for unpaid claims, which is prepared based upon certain assumptions pertaining to interest rates, inflation rates, etc., among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Subsequent Events

Subsequent events were evaluated from September 30, 2017, through May 14, 2018, 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 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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED

Budgetary Information – Continued

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 \$4,573,664, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

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 follow:

- Level 1 – directly observable, quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other 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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

3. CASH AND INVESTMENTS – CONTINUED

Fair Value of Investments – Continued

The following table presents the investments carried at fair value on September 30, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
High quality bond funds	\$ 512,038	\$ -	\$ 512,038	\$ -
High yield bond funds	57,421	-	-	57,421
Fixed income funds	600,483	-	-	600,483
High quality growth equity funds	267,887	-	267,887	-
Large cap equity funds	264,372	-	264,372	-
Small to mid cap equity funds	285,944	-	285,944	-
Index and exchange traded funds	668,027	-	668,027	-
International equity funds	275,546	-	275,546	-
Total investments measured at fair value	<u>\$2,931,718</u>	<u>\$ -</u>	<u>\$2,273,814</u>	<u>\$ 657,904</u>

Investments

As of September 30, 2017, 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.

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, 2017, the asset allocation for the defined benefit plan investment pool was as follows:

<u>Investment Funds</u>	<u>Asset Allocation Percentage</u>
Cash	0.4%
FMIvT Broad Market HQ Bond Fund	15.7%
FMIvT Core Plus Fixed Income Fund	23.1%
FMIvT HQ Growth Fund	8.0%
FMIvT Large Cap Diversified Value Fund	7.9%
FMIvT Russell 1000 Enhanced Index Fund	23.3%
FMIvT Diversified Small to Mid Cap Equity Fund	11.0%
FMIvT International Blended Equity Fund	10.6%
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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

3. CASH AND INVESTMENTS – CONTINUED

Investments – Continued

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, 2017, the City's investments were rated as follows:

Credit Risk for Investment Pool

Fixed Income Funds	Fitch Rating
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
Equity Portfolios	
FMIvT HQ Growth Fund	Not Rated
FMIvT Large Cap Diversified Value Fund	Not Rated
FMIvT Russell 1000 Enhanced Index Fund	Not Rated
FMIvT Diversified Small to Mid Cap Equity Fund	Not Rated
FMIvT International Blended Equity Fund	Not Rated

Interest Rate Risk – Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation mode. Interest rate risk disclosures are required for all debt investments as well as investments in mutual funds, external investment pools, and other pooled investments that do not meet the definition of a 2a7-like pool.

Fixed Income Funds	Interest Rate Risk Information	
	Duration (Effective)	WAM
FMIvT Broad Market HQ Bond Fund	4.74 Years	6.10 Years
FMIvT Intermediate HQ Bond Fund	3.48 Years	3.80 Years
FMIvT Expanded High Yield Bond Fund	3.10 Years	6.20 Years
FMIvT Core Plus Fixed Income Fund	2.24 Years	7.40 Years

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

3. CASH AND INVESTMENTS – CONTINUED

Investments – Continued

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

Deposits	\$	4,518,560
Investments		2,931,718
		7,450,278
Total	\$	7,450,278
		7,450,278
Cash and cash equivalents, primary government	\$	1,832,489
Restricted cash and cash equivalents, primary government		2,675,673
Investments, primary government		342,622
		4,850,784
Total primary government		4,850,784
Cash and cash equivalents, fiduciary funds		10,398
Investments, fiduciary funds		2,589,096
		2,599,494
Total fiduciary funds		2,599,494
Grand total	\$	7,450,278
		7,450,278

Governmental Fund

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, 2017 are presented below:

		<u>Fair Value</u>
FMIvT Intermediate HQ Bond Fund	\$	52,137
FMIvT Broad Market HQ Bond Fund		51,780
FMIvT High Quality Growth Portfolio Fund		59,927
FMIvT Russell 1000 Enhanced Index Fund		62,345
FMIvT Large Cap Diversified Value Fund		59,012
FMIvT Expanded High Yield Bond Fund		57,421
		342,622
		342,622

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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

3. CASH AND INVESTMENTS – CONTINUED

Governmental Fund – Continued

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, 2017, is presented below.

Fixed Income Funds	Interest Rate Risk Information	
	Duration (Effective)	WAM
FMlVT Broad Market HQ Bond Fund	4.74 Years	6.10 Years
FMlVT Intermediate HQ Bond Fund	3.48 Years	3.80 Years
FMlVT Expanded High Yield Bond Fund	3.10 Years	6.20 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 Florida Statute 218.415, 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, 2017 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, 2017

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 455,209	\$ -	\$ -	\$ 455,209
Capital assets being depreciated				
Buildings and improvements	2,276,464	86,620	(94,945)	2,268,139
Infrastructure	3,537,197	4,942	-	3,542,139
Machinery, equipment, and vehicles	2,154,852	588,968	(216,341)	2,527,479
Total capital assets being depreciated	<u>7,968,513</u>	<u>680,530</u>	<u>(311,286)</u>	<u>8,337,757</u>
Less accumulated depreciation				
Buildings and improvements	(1,224,683)	(79,799)	95,437	(1,209,045)
Infrastructure	(1,835,805)	(164,342)	-	(2,000,147)
Machinery, equipment, and vehicles	(1,597,169)	(164,151)	215,250	(1,546,070)
Total accumulated depreciation	<u>(4,657,657)</u>	<u>(408,292)</u>	<u>310,687</u>	<u>(4,755,262)</u>
Total capital assets being depreciated, net	<u>3,310,856</u>	<u>272,238</u>	<u>(599)</u>	<u>3,582,495</u>
Governmental activities, net	<u>\$ 3,766,065</u>	<u>\$ 272,238</u>	<u>\$ (599)</u>	<u>\$ 4,037,704</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 90,603	\$ -	\$ -	\$ 90,603
Construction in process	-	89,250	-	89,250
Total capital assets not being depreciated	<u>90,603</u>	<u>89,250</u>	<u>-</u>	<u>179,853</u>
Capital assets being depreciated				
Buildings and improvements	6,681,606	178,933	(6,122)	6,854,417
Machinery, equipment, and vehicles	4,682,367	297,618	(217,885)	4,762,100
Total capital assets being depreciated	<u>11,363,973</u>	<u>476,551</u>	<u>(224,007)</u>	<u>11,616,517</u>
Less accumulated depreciation				
Buildings and improvements	(4,709,389)	(154,044)	5,947	(4,857,486)
Machinery, equipment, and vehicles	(2,654,703)	(376,388)	218,060	(2,813,031)
Total accumulated depreciation	<u>(7,364,092)</u>	<u>(530,432)</u>	<u>224,007</u>	<u>(7,670,517)</u>
Total capital assets being depreciated, net	<u>3,999,881</u>	<u>(53,881)</u>	<u>-</u>	<u>3,946,000</u>
Business-type activities, net	<u>\$ 4,090,484</u>	<u>\$ 35,369</u>	<u>\$ -</u>	<u>\$ 4,125,853</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

4. CAPITAL ASSETS – CONTINUED

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

Governmental activities

General government	\$ 33,470
Public safety	112,564
Physical environment	13,596
Transportation	169,324
Culture and recreation	<u>79,338</u>
Total depreciation/amortization expense – governmental activities	<u><u>\$ 408,292</u></u>

Business-type activities

Utility	\$ 235,213
Communication	208,967
Sanitation	<u>86,252</u>
Total depreciation/amortization expense – business-type activities	<u><u>\$ 530,432</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, 2017**

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 decreased \$36,079 for the year ended September 30, 2017, which is composed of \$47,975 in equity losses, and an increase of \$11,896 for the City's portion of the ongoing facility upgrades. The City's portion of the equity in the joint venture is \$1,741,745 at September 30, 2017.

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, 2017. 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, 2017**

Assets	
Current assets	\$ 1,309,687
Capital assets, net of accumulated depreciation	<u>7,470,086</u>
Total assets	<u><u>\$ 8,779,773</u></u>
Liabilities and net position	
Liabilities	\$ 71,046
Net position	<u>8,708,727</u>
Total liabilities and net position	<u><u>\$ 8,779,773</u></u>

**Summary of Operating Results
For the Year Ended June 30, 2017**

Sewer operating revenues	\$ 2,145,182
Operating expenses	<u>2,555,198</u>
Operating loss	<u>(410,016)</u>
Non-operating revenues (expenses), net	<u>170,141</u>
Net income before capital contributions	<u>(239,875)</u>
Capital contributions	<u>-</u>
Change in net position	<u><u>\$ (239,875)</u></u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

6. LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

Long-term debt activity for the year ended September 30, 2017, is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Capital lease payable	\$ 9,423	\$ 352,750	\$ (9,423)	\$ 352,750	\$ 68,219
Bonds payable	602,271	500,000	-	1,102,271	72,623
Bond premium	-	27,869	-	27,869	-
Compensated absences	145,350	128,177	(105,388)	168,139	168,139
Total governmental activities	<u>\$ 757,044</u>	<u>\$ 1,008,796</u>	<u>\$ (114,811)</u>	<u>\$ 1,651,029</u>	<u>\$ 308,981</u>
Business-type activities					
Bonds payable	\$ 3,122,728	\$ 995,000	\$ (35,000)	\$ 4,082,728	\$ 252,377
Bond premium	-	55,458	-	55,458	-
Bond discount	(20,675)	-	862	(19,813)	-
Compensated absences	39,460	40,800	(44,563)	35,697	35,697
Total business-type activities	<u>\$ 3,141,513</u>	<u>\$ 1,091,258</u>	<u>\$ (78,701)</u>	<u>\$ 4,154,070</u>	<u>\$ 288,074</u>

Description of Long-Term Debt Outstanding

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES			
Lease			
\$352,750 capital lease payable, due in semiannual installments of \$74,145 through December 2021, bearing interest at 1.68%, collateralized by a fire truck.	\$ 68,219	\$ 284,531	\$ 352,750
Revenue Bonds			
\$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.	72,623	529,648	602,271

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

6. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	Current	Long-Term	Total
GOVERNMENTAL ACTIVITIES - CONTINUED			
<i>Revenue Bonds - Continued</i>			
\$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.	-	500,000	500,000
Unamortized bond premium	-	27,869	27,869
Total revenue bonds	72,623	1,057,517	1,130,140
<i>Accrued Compensated Absences</i>			
Total long-term portion of accumulated, vested annual and sick leave for governmental fund types	168,139	-	168,139
TOTAL GOVERNMENTAL ACTIVITIES	\$ 308,981	\$ 1,342,048	\$ 1,651,029
	Current	Long-Term	Total
BUSINESS-TYPE ACTIVITIES			
<i>Revenue Bonds</i>			
\$1,465,000 Florida Municipal Loan Council Revenue Bonds, Series 2010C, due in semi annual installments of \$25,000 to \$85,000 through 2040; interest at 2% to 4.5%. Available non ad valorem revenues from Utility Fund are pledged for payment of the bonds. Proceeds used for the purposes of financing or refinancing the cost of, or receiving reimbursement for the equity in, the construction and renovation to Niceville Valparaiso Okaloosa wastewater treatment (portion of costs allocated to City of Valparaiso, Florida as a member) and other capital improvements to the City of Valparaiso, Florida's sewer system, and for depositing a portion of the proceeds in the amount of \$91,025 into the Reserve Fund.	\$ 35,000	\$ 1,250,000	\$ 1,285,000
Unamortized bond discount	-	(19,813)	(19,813)
\$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.	217,377	1,585,351	1,802,728

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

6. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	Current	Long-Term	Total
BUSINESS-TYPE ACTIVITIES - CONTINUED			
<i>Revenue Bonds - Continued</i>			
\$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 the Bayou Bridge.	-	995,000	995,000
Less unamortized bond premium	-	55,458	55,458
Total revenue bonds	252,377	3,865,996	4,118,373
 <i>Accrued Compensated Absences</i>			
Accumulated, vested annual compensation for Enterprise Funds	\$ 35,697	\$ -	\$ 35,697
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 288,074	\$ 3,865,996	\$ 4,154,070
GRAND TOTAL LONG-TERM DEBT			\$ 5,805,099

The City is required to comply with certain debt covenants under the Series 2010C bond agreement. As of September 30, 2017, the City is not aware of any material noncompliance.

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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

6. LONG-TERM DEBT – CONTINUED

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding except accrued and annual leave as of September 30, 2017, are as follows:

Governmental Activities

Year Ending September 30	Capital Leases			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 68,219	\$ 5,926	\$ 74,145	\$ 72,623	\$ 26,170	\$ 98,793
2019	69,365	4,780	74,145	91,850	33,756	125,606
2020	70,531	3,615	74,146	93,101	30,432	123,533
2021	71,715	2,430	74,145	95,605	26,969	122,574
2022	72,920	1,225	74,145	64,724	24,213	88,937
2023-2027	-	-	-	358,280	85,795	444,075
2028-2032	-	-	-	133,780	43,840	177,620
2033-2037	-	-	-	157,191	19,805	176,996
2038	-	-	-	35,117	615	35,732
Total	\$ 352,750	\$ 17,976	\$ 370,726	\$ 1,102,271	\$ 291,595	\$ 1,393,866

Business-Type Activities

Year Ending September 30	Revenue Bonds		
	Principal	Interest	Total
2018	\$ 252,377	\$ 123,810	\$ 376,187
2019	293,151	136,137	429,288
2020	296,898	125,863	422,761
2021	304,394	115,166	419,560
2022	210,276	106,668	316,944
2023-2027	1,176,720	419,511	1,596,231
2028-2032	521,220	269,310	790,530
2033-2037	637,809	155,004	792,813
2038-2042	389,883	33,621	423,504
Total	\$ 4,082,728	\$ 1,485,090	\$ 5,567,818

Capital Leases

The cost and accumulated depreciation for capital leases are:

Assets	Governmental Activities General Fund
Pumper fire truck	\$ 426,000
Accumulated depreciation	(31,950)
Assets acquired by lease, net	<u>\$ 394,050</u>

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the website: www.dms.myflorida.com.

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. For pension plan members enrolled before July 1, 2011, regular 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 1.6% 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 (sworn law enforcement officers, and firefighters) 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. 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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

Pension Plan – Continued

Benefits Provided - Continued

For 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 a 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 3% 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 the periods from October 1, 2016 through June 30, 2017 and from July 1, 2017 through September 30, 2017, respectively, were as follows: Regular—7.52% and 7.92%; Special Risk—22.57% and 23.27%; Senior Management Service—21.77% and 22.71%; Elected Officers'—42.47% and 45.50%; and DROP participants—12.99% and 13.26%. These employer contribution rates include 1.66% for HIS Plan subsidies for the periods October 1, 2016 through June 30, 2017 and from July 1, 2017 through September 30, 2017, respectively.

The City's contributions, including employee contributions, to the pension plan totaled \$11,720, \$11,010, and \$7,153 for the fiscal year ended September 30, 2017, 2016, and 2015, respectively.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

Pension Plan – Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2017, the City reported a liability of \$104,284 for its proportionate share of the pension plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The City's proportionate share of the net pension liability was based on the City's 2016-17 fiscal year contributions relative to the 2015-16 fiscal year contributions of all participating members. At June 30, 2017, the City's proportionate share was 0.000352555%, which was an increase of 0.000034714% from its proportionate share measured as of June 30, 2016.

For the fiscal year ended September 30, 2017, the City recognized pension expense of \$1,423. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ 8,993	\$ -
Changes of assumptions	35,047	-
Net difference between projected and actual earnings on pension plan investments	-	2,584
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	6,908	46,476
City pension plan contributions subsequent to the measurement date	2,542	-
	\$ 53,490	\$ 49,060

A component of deferred outflows of resources related to the pension plan of \$2,542, 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, 2018. Other components reported as deferred outflows of resources and deferred inflows of resources related to the pension plan, except for changes in the proportion and related differences in the share of contributions, will be recognized in pension expense (income) as follows:

Fiscal Year Ending September 30:	Amount
2018	\$ (10,535)
2019	(1,564)
2020	1,597
2021	1,445
2022	8,005
Thereafter	2,940
	\$ 1,888

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

Pension Plan – Continued

Actuarial Assumptions

The total pension liability in the July 1, 2017 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	7.10%, 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, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

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%	3.0%	3.0%	1.8%
Fixed income	18.0%	4.5%	4.4%	4.2%
Global equity	53.0%	7.8%	6.6%	17.0%
Private equity	6.0%	11.5%	7.8%	30.0%
Strategic investments	12.0%	6.1%	5.6%	9.7%
Real estate (property)	<u>10.0%</u>	6.6%	5.9%	12.8%
Total	<u><u>100.0%</u></u>			
Assumed inflation – mean		2.6%		1.9%

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

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. 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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

Pension Plan – Continued

Sensitivity of the City’s Proportionate Share 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 7.10%, 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 (6.10%) or one percentage point higher (8.10%) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
City’s proportionate share of the net pension liability	\$ 188,747	\$ 104,284	\$ 34,160

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, 2017, 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.

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, 2017, the HIS contribution for the period October 1, 2016 through June 30, 2017 and from July 1, 2017 through September 30, 2017 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 \$2,413, \$2,034, and \$1,485 for the fiscal year ended September 30, 2017, 2016, and 2015, respectively.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

HIS Plan – Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2017, the City reported a liability of \$38,660 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The City's proportionate share of the net pension liability was based on the City's 2016-17 fiscal year contributions relative to the 2015-16 fiscal year contributions of all participating members. At June 30, 2017, the City's proportionate share was 0.000361564%, which was a decrease of 0.00035295% from its proportionate share measured as of June 30, 2016.

For the fiscal year ended September 30, 2017, the City recognized pension income of \$5,849. In addition the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ -	\$ 80
Changes of assumptions	5,434	3,343
Net difference between projected and actual earnings on pension plan investments	21	-
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	573	32,013
City pension plan contributions subsequent to the measurement date	499	-
	<u>\$ 6,527</u>	<u>\$ 35,436</u>

A component of deferred outflows of resources related to the HIS Plan of \$499, 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, 2018. Other components reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan, except for changes in the proportion and related differences in the share of contributions, will be recognized in pension expense as follows:

Fiscal Year Ending September 30:	<u>Amount</u>
2018	\$ (8,156)
2019	(8,162)
2020	(8,162)
2021	(3,256)
2022	(604)
Thereafter	<u>(1,068)</u>
	<u>\$ (29,408)</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

HIS Plan – Continued

Actuarial Assumptions

The total pension liability in the July 1, 2017, 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	3.58%

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

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate

The discount rate used to measure the total pension liability was 3.58%. 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.

Sensitivity of the City's Proportionate Share 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 3.58%, 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 (2.58%) or one percentage point higher (4.58%) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
City's proportionate share of the net pension liability	\$ 44,116	\$ 38,660	\$ 34,115

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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

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, 2016 actuarial valuation was approximately \$417,258. As of October 1, 2016, employee membership data related to the Public Safety Pension Plan as follows:

Inactive plan members or beneficiaries currently receiving benefits	2
Inactive plan members entitled to but not yet receiving benefits	2
Active plan members	12
	16
	16

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.

Funding Policy

The City's Public Safety Pension Plan is funded by employer contributions at actuarially determined rates which expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. The employees of the plan contribute at a rate of 2% of their annual salary. For 2017, the City contributed \$31,928 to the plan. \$67,934 was contributed by the State of Florida. The employees' contributions to the plan for the current year totaled \$10,283. 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

Effective October 1, 2014, the City implemented provisions of GASB Statement No. 68, *Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27*, which significantly changed the City's accounting for pension amounts. The information below is presented in accordance with this new standard.

The employer's reporting date is September 30, 2017. The actuary's measurement date is September 30, 2017. The actuarial valuation date is October 1, 2016.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

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

Plan Description – Continued

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2016 updated to September 30, 2017 using the following actuarial assumptions:

Inflation	2.92%
Salary increases	4.50%
Discount rate	7.00%
Investment rate of return	4.08%

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.

Since the completion of the previous valuation, the mortality basis was changed from a projection of the RP-2000 Mortality Table for annuitants using Scale AA to a full generational projection using Scale BB as required by State law.

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.

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, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Core bonds	16.00%	0.58%
Multi-sector	24.00%	1.08%
U.S. large cap equity	39.00%	6.08%
U.S. small cap equity	11.00%	6.83%
Non-U.S. equity	10.00%	6.83%
Total	<u>100.00%</u>	4.08%

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent. 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.

Changes in Net Pension Liability (Asset)

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

	1% Decrease	Current Discount	1% Increase
	6.00%	Rate	8.00%
	_____	_____	_____
Sponsor's net pension liability (asset)	\$ (433,993)	\$ (735,743)	\$ (979,406)

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

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

Pension Plan Fiduciary Net Position

Detailed information about the Public Safety Pension Plan's fiduciary net position is available in a separately issued Plan actuarial report. A separate audited financial report of the Plan is not available.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension income of \$92,073 related to the Public Safety Pension Plan. On September 30, 2017, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on pension plan investments	\$ 53,515	\$ 125,958
Differences between actual and expected experience	36,140	50,020
Changes of assumptions	82,376	-
City pension plan contributions subsequent to the measurement date	<u>99,862</u>	<u>-</u>
Total	<u><u>\$ 271,893</u></u>	<u><u>\$ 175,978</u></u>

The 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:

2018	\$ 955
2019	956
2020	(25,800)
2021	(21,806)
2022	6,687
Thereafter	<u>35,061</u>
	<u><u>\$ (3,947)</u></u>

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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 (Plan). The Plan is administered by the Florida Municipal Pension Trust Fund. The Plan 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, 2017, the City's contributions to the Plan totaled \$113,889. 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 \$660,460 at September 30, 2017. Contributions made by Plan members during the year ended September 30, 2017, were \$59,210.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

As of September 30, 2017, there are no participants in the City's OPEB plan, and thus, the City has not implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities, note disclosures, and required supplementary information.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

11. INTERFUND BALANCES AND TRANSFERS

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

		Due from Fund			Total
		Governmental	Enterprise Funds		
		Funds			
		General	Utility	Communication	
Fund	Fund	Fund			
Due to Fund	Governmental funds				
	General Fund	\$ -	\$ 738,982	\$ 360,491	\$ 1,099,473
	Streets Fund	393,298	-	-	393,298
	Stormwater Fund	17,950	-	-	17,950
	Enterprise funds				
	Sanitation Fund	26,927	-	-	26,927
	Total	\$ 438,175	\$ 738,982	\$ 360,491	\$ 1,537,648

Interfund balances in the Utility Fund and Communication Fund represent expenses paid by the General Fund on behalf of those funds. The interfund balances in the governmental funds and the Sanitation Fund represent revenues and other financing sources collected for the benefit of those funds that have not been transferred from the General Fund.

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

	Transfers In	Transfers Out
Governmental funds		
General Fund	\$ -	\$ 122,295
Enterprise funds		
Utility Fund	122,295	-
Total	\$ 122,295	\$ 122,295

Interfund transfers were comprised of a \$33,045 reimbursement to the Utility Fund relating to the refunding of the 2005 bonds in the prior fiscal year and \$89,250 for the wastewater transmission main project discussed in Note 18 to the financial statements.

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

12. LEASE REVENUE

The City leases certain property predominantly to wireless telecommunications companies. These are non-cancelable operating leases.

Minimum rentals on non-cancelable leases for the remaining terms are as follows:

	<u>General Fund</u>	<u>Utility Fund</u>
2018	\$ 50,969	\$ 26,434
2019	30,062	27,226
2020	6,693	-
Total	<u>\$ 87,724</u>	<u>\$ 53,660</u>

The Utility Fund lease had original terms of five years and can be renewed for 4 successive 5 year periods on similar terms and conditions. The annual rent on these leases will increase by 3-4% per year. There was no unearned rent at September 30, 2017.

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 City recorded unearned rent of \$3,154 at September 30, 2017.

The General Fund also has a property lease for a five year term at an annual rent of \$16,064. The lease expires in February 2020.

The General Fund and Utility Fund received a total of \$57,551 and \$25,664, respectively, in lease revenues during the current year.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

13. GOVERNMENTAL FUND BALANCES

At September 30, 2017, the City's governmental fund balances were classified as follows:

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
Nonspendable				
Prepaid items	\$ 7,133	\$ -	\$ -	\$ 7,133
Restricted for				
Street paving projects	-	400,000	-	400,000
Capital improvements - parks	100,000	-	-	100,000
Library	10,902	-	-	10,902
Law enforcement	8,897	-	-	8,897
Total restricted	<u>119,799</u>	<u>400,000</u>	<u>-</u>	<u>519,799</u>
Committed				
Perpetual maintenance	204,453	-	-	204,453
Capital improvements - fire	32,745	-	-	32,745
Stormwater system	-	-	170,596	170,596
Total committed	<u>237,198</u>	<u>-</u>	<u>170,596</u>	<u>407,794</u>
Assigned for				
Parks and recreation	22,419	-	-	22,419
Library	6,911	-	-	6,911
Transportation	-	245,519	-	245,519
Total assigned	<u>29,330</u>	<u>245,519</u>	<u>-</u>	<u>274,849</u>
Unassigned	<u>1,322,022</u>	<u>-</u>	<u>-</u>	<u>1,322,022</u>
Total Fund Balance	<u><u>\$ 1,715,482</u></u>	<u><u>\$ 645,519</u></u>	<u><u>\$ 170,596</u></u>	<u><u>\$ 2,531,597</u></u>

14. CONTINGENT LIABILITIES

Litigation

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

15. 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.

16. 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.

17. COMMITMENTS AND CONTINGENCIES

Joint Wastewater System Project

In January 2017, the City entered into an interlocal agreement with Okaloosa County and the City of Niceville to fund an upgrade to the East Wastewater Transmission Main. The City paid \$89,250 during the year ended September 30, 2017, for its share of the project's costs. The City's remaining share of \$89,250 is payable upon completion of the project, which is expected to occur in the fiscal year ended September 30, 2018.

18. SUBSEQUENT EVENTS

In October 2017, the City entered into an agreement with a local marine-based contractor to remove and replace the existing fishing pier along Bayshore Drive for a cost of \$74,000. Half of the contract price is payable after the demolition of the existing pier, and the remaining half will be paid upon project completion. Electrical service for the pier is not included in the bid and will be performed in-house by City personnel.

In January 2018, the City entered into an agreement with a local asphalt paving system to pave various streets throughout the City for a cost of approximately \$370,000.

In April 2018, the City entered into an agreement with a local contractor to construct the boring for the utilities under Tom's Bayou Bridge for a cost of approximately \$205,000. The total cost of the project is currently estimated at \$300,000.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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CITY OF VALPARAISO, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,477,465	\$ 1,477,465	\$ 1,476,439	\$ (1,026)
Permits and fees	346,500	346,500	374,097	27,597
Intergovernmental	751,385	751,385	746,225	(5,160)
Charges for services	344,530	344,530	341,344	(3,186)
Fines and forfeitures	11,500	11,500	25,286	13,786
Miscellaneous	79,850	81,745	133,724	51,979
Total revenues	<u>3,011,230</u>	<u>3,013,125</u>	<u>3,097,115</u>	<u>83,990</u>
EXPENDITURES				
Current				
General government	245,215	847,505	789,472	58,033
Public safety	1,315,725	1,449,760	1,268,351	181,409
Physical environment	126,995	209,075	176,486	32,589
Culture and recreation	475,700	484,160	487,164	(3,004)
Capital outlay	142,125	594,100	613,696	(19,596)
Total expenditures	<u>2,305,760</u>	<u>3,584,600</u>	<u>3,335,169</u>	<u>249,431</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>705,470</u>	<u>(571,475)</u>	<u>(238,054)</u>	<u>333,421</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of new debt	-	-	100,000	100,000
Proceeds from capital leases	-	-	352,750	352,750
Transfers in	65,515	65,515	-	(65,515)
Transfers out	(39,045)	(39,045)	(122,295)	(83,250)
Total other financing sources (uses)	<u>26,470</u>	<u>26,470</u>	<u>330,455</u>	<u>303,985</u>
NET CHANGE IN FUND BALANCE	731,940	(545,005)	92,401	637,406
FUND BALANCE AT BEGINNING OF YEAR				
	<u>-</u>	<u>545,005</u>	<u>1,617,507</u>	<u>1,072,502</u>
FUND BALANCE AT END OF YEAR				
	<u>\$ 731,940</u>	<u>\$ -</u>	<u>\$ 1,709,908</u>	<u>\$ 1,709,908</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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	230,000	230,000	\$ 226,853	\$ (3,147)
Intergovernmental	134,885	134,885	110,684	(24,201)
Miscellaneous	100	100	3,971	3,871
Total revenues	<u>364,985</u>	<u>364,985</u>	<u>341,508</u>	<u>(23,477)</u>
EXPENDITURES				
Current				
Transportation	273,280	274,435	209,070	65,365
Capital outlay	0	70,000	61,892	8,108
Debt service				
Principal and interest	79,115	98,680	16,330	82,350
Total expenditures	<u>352,395</u>	<u>443,115</u>	<u>287,292</u>	<u>155,823</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>12,590</u>	<u>(78,130)</u>	<u>54,216</u>	<u>(179,300)</u>
OTHER FINANCING SOURCES				
Proceeds from issuance of new debt	-	-	400,000	(400,000)
Total other financing sources	<u>-</u>	<u>-</u>	<u>400,000</u>	<u>(400,000)</u>
NET CHANGE IN FUND BALANCE	12,590	(78,130)	454,216	(579,300)
FUND BALANCE AT BEGINNING OF YEAR	<u>-</u>	<u>78,130</u>	<u>169,008</u>	<u>90,878</u>
FUND BALANCE AT END OF YEAR	<u>\$ 12,590</u>	<u>\$ -</u>	<u>\$ 623,224</u>	<u>\$ 623,224</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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	45,000	45,000	\$ 46,536	\$ 1,536
Miscellaneous	25	25	25	-
Total revenues	<u>45,025</u>	<u>45,025</u>	<u>46,561</u>	<u>1,536</u>
EXPENDITURES				
Current				
Physical environment	21,860	21,860	6,270	15,590
Capital outlay	100,000	100,000	4,942	95,058
Debt service				
Principal and interest	<u>3,860</u>	<u>3,860</u>	<u>-</u>	<u>3,860</u>
Total expenditures	<u>125,720</u>	<u>125,720</u>	<u>11,212</u>	<u>114,508</u>
NET CHANGE IN FUND BALANCE	(80,695)	(80,695)	35,349	17,126
FUND BALANCE AT BEGINNING OF YEAR	<u>80,695</u>	<u>80,695</u>	<u>135,247</u>	<u>54,552</u>
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,596</u>	<u>\$ 71,678</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.000352555%	0.000317841%	0.000293381%	0.000561073%
City's proportionate share of the net pension liability	\$ 104,284	\$ 80,255	\$ 37,894	\$ 34,234
City's covered-employee payroll	\$ 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-employee payroll	7.71%	5.91%	2.86%	2.75%
Plan fiduciary net position as a percentage of the total pension liability	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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.000361564%	0.000396859%	0.000388411%	0.000555127%
City's proportionate share of the net pension liability (asset)	\$ 38,660	\$ 46,252	\$ 39,612	\$ 51,906
City's covered-employee payroll	\$ 1,353,312	\$ 1,356,940	\$ 1,324,519	\$ 1,244,776
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	2.86%	3.41%	2.99%	4.17%
Plan fiduciary net position as a percentage of the total pension liability	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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 9,178	\$ 7,751	\$ 7,153	\$ 12,290
Contributions in relation to the contractually required contribution	<u>(9,178)</u>	<u>(7,751)</u>	<u>(7,153)</u>	<u>(12,290)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,353,312	\$ 1,356,940	\$ 1,324,519	\$ 1,244,776
Contributions as a percentage of covered-employee payroll	0.68%	0.57%	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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,914	\$ 2,034	\$ 1,485	\$ 1,902
Contributions in relation to the contractually required contribution	(1,914)	(2,034)	(1,485)	(1,902)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,353,312	\$ 1,356,940	\$ 1,324,519	\$ 1,244,776
Contributions as a percentage of covered-employee payroll	0.14%	0.15%	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.

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

Measurement Date	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability			
Service cost	\$ 134,635	\$ 123,530	\$ 99,473
Interest	117,428	100,326	89,976
Differences between expected and actual experience	(24,617)	42,204	(34,250)
Changes of assumptions	90,444	-	-
Benefit payments, including refunds of employee contributions	(30,016)	(30,039)	(29,141)
Net change in total pension liability	287,874	236,021	126,058
Total pension liability – beginning	1,579,139	1,343,118	1,217,060
Total pension liability – ending (a)	\$ 1,867,013	\$ 1,579,139	\$ 1,343,118
Plan Fiduciary Net Position			
Contributions – employer	\$ 99,862	\$ 166,749	\$ 153,593
Contributions – employee	10,283	10,430	10,255
Interest	158,634	140,129	131,153
Net investment income	142,461	19,983	(133,786)
Benefit payments, including refunds of employee contributions	(30,016)	(30,039)	(29,141)
Administrative expenses	(10,394)	(9,521)	(10,374)
Net change in plan fiduciary net position	370,830	297,731	121,700
Plan fiduciary net position – beginning	2,231,926	1,934,195	1,812,495
Plan fiduciary net position – ending (b)	\$ 2,602,756	\$ 2,231,926	\$ 1,934,195
Net pension liability (asset) – ending (a) – (b)	\$ (735,743)	\$ (652,787)	\$ (591,077)
Plan fiduciary net position as a percentage of the total pension liability (asset)	139.41%	141.34%	144.01%
Covered employee payroll	\$ 417,258	\$ 405,994	\$ 339,428
Net pension liability (asset) as a percentage of covered employee payroll	-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.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution	\$ 100,519	\$ 94,181	\$ 65,067	\$ 226,641	\$ 191,687	\$ 105,205	\$ 139,758	\$ 138,587	\$ 102,297	\$ 97,072
Contributions in relation to the actuarially determined contributions	99,862	166,749	153,593	146,466	131,683	122,951	121,084	117,939	104,931	146,957
Contribution deficiency (excess)	<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>	<u>\$ (2,634)</u>	<u>\$ (49,885)</u>
Covered employee payroll	\$ 417,258	\$ 405,994	\$ 339,428	Not available	\$ 297,343	\$ 337,623	Not available	\$ 374,161	Not available	Not available
Contributions as a percentage of covered employee payroll	23.93%	41.07%	45.25%	Not available	44.29%	36.42%	Not available	31.52%	Not available	Not available

See notes to schedule of contributions

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

Valuation Date: October 1, 2016

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: 2.92% 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

Changes: Since the prior measurement date, the mortality basis was changed from a 2015 projection of the RP-2000 Mortality Table for annuitants to the RP-2000 Blue Collar Mortality Table with full generational improvements in mortality using Scale BB.

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**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
and Members of the City Commission
City of Valparaiso, Florida

We have examined the City of Valparaiso, Florida's (the City) compliance with Florida Statute 218.415 with regards to the investments for the year ended September 30, 2017.

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 and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City of Valparaiso, Florida complied, in all material respects, with Florida Statute 218.415 with regards to the investments for the year ended September 30, 2017.

Warren Averett, LLC

Fort Walton Beach, Florida
May 14, 2018

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
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, 2017, 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 14, 2018.

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. However, material weaknesses may exist that have not been identified.

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*.

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 14, 2018

MANAGEMENT LETTER

To the Honorable Mayor and
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, 2017, and have issued our report thereon dated May 14, 2018.

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 18, 2018 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 financial audit 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.c., and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Annual Financial Report

Section 10.554(1)(i)5.b. 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 the annual financial report for the City, for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2017. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

Section 10.554(1)(i)5.d, *Rules of the Auditor General*, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. The City has no special districts that are component units.

Additional Matters

Section 10.554(1)(i)2., *Rules of Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., *Rules of Auditor General*, requires that we address 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 14, 2018