

Vale of Paradise



City of Valparaiso, Florida Financial Statements September 30, 2016

I. INTORDUCTORY SECTION

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FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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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, as of and for the year ended September 30, 2016, 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, Streets Fund, and Stormwater Fund for the year then ended 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, budgetary comparison information on pages 62-64, Schedules of Proportionate Share of Net Pension Liability for the Florida Retirement System and Health Insurance Subsidy on pages 65-66, Schedule of Contributions for the Florida Retirement System and Health Insurance Subsidy on pages 67-68, Schedule of Changes in Net Pension Liability and Related Ratios for the Public Safety Pension Plan on page 69, Schedule of Contributions for the Public Safety Pension Plan on page 70, and Notes to the Schedule of Contributions for the Public Safety Pension Plan on page 71 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 April 10, 2017, on our consideration of the City of Valparaiso, Florida'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 City of Valparaiso, Florida's internal control over financial reporting and compliance.

Warren Averett, LLC

Fort Walton Beach, Florida
April 10, 2017

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, 2016. The MD&A provides summary level financial information; therefore, it should be read in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS

- Total assets decreased \$541,400.
- Net position decreased by \$101,594.
- Total revenues decreased by 4.0% or \$299,364 and total expenses increased by 7.9% or \$540,787. A significant portion of the decrease in revenues relates to timing of grant funding. A significant portion of the increase in expenses is due to paying out a legal settlement during the year, as well as increased costs related to providing communication 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 9. 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, 2016 AND 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 2,684,936	\$ 2,631,230	\$ 3,394,758	\$ 3,622,552	\$ 6,079,694	\$ 6,253,782
Capital assets, net	3,766,065	3,884,215	4,090,486	4,339,848	7,856,551	8,224,063
Total assets	6,451,001	6,515,445	7,485,244	7,962,400	13,936,245	14,477,845
Deferred outflows of resources	95,170	113,473	20,066	5,409	115,236	118,882
Current liabilities	110,440	120,251	435,744	325,875	546,184	446,126
Other liabilities	825,725	972,630	3,199,337	3,513,811	4,025,062	4,486,441
Total liabilities	936,165	1,092,881	3,635,081	3,839,686	4,571,246	4,932,567
Deferred inflows of resources	39,962	106,379	46,665	62,579	86,627	168,958
Net position						
Net investment in capital assets	3,154,371	3,162,692	1,159,224	1,066,412	4,313,595	4,229,104
Restricted	671,861	609,171	585,405	892,833	1,257,266	1,502,004
Unrestricted	1,743,812	1,657,795	2,078,935	2,106,299	3,822,747	3,764,094
Total net position	\$ 5,570,044	\$ 5,429,658	\$ 3,823,564	\$ 4,065,544	\$ 9,393,608	\$ 9,495,202

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

Total assets decreased by \$541,400 during the fiscal year ended September 30, 2016 primarily due to disposals of capital assets. Total liabilities decreased by \$361,321 from one year ago September 30, 2016 primarily due to a decrease in bonds payable in 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, 2016 AND 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program revenues						
Charges for services	\$ 562,167	\$ 531,913	\$ 3,806,097	\$ 3,865,652	\$ 4,368,264	\$ 4,397,565
Operating grants and contributions	64,781	46,287	-	38,293	64,781	84,580
Capital grants and contributions	-	294,647	-	-	-	294,647
General revenues						
Property taxes	959,745	832,092	-	-	959,745	832,092
Public service taxes	1,083,022	1,066,059	-	-	1,083,022	1,066,059
Franchise taxes	328,228	367,275	-	-	328,228	367,275
Intergovernmental, unrestricted	394,365	382,593	-	-	394,365	382,593
Investment earnings	25,188	124,071	2,643	2,119	27,831	126,190
Sales of investments and capital assets	32,440	5,537	3,570	11,050	36,010	16,587
Miscellaneous	18,656	16,095	6,696	3,279	25,352	19,374
TOTAL REVENUES	3,468,592	3,666,569	3,819,006	3,920,393	7,287,598	7,586,962
EXPENSES						
Primary government						
General government	948,967	751,459	-	-	948,967	751,459
Public safety	1,286,020	1,290,037	-	-	1,286,020	1,290,037
Physical environment	195,798	362,706	-	-	195,798	362,706
Transportation	348,683	223,413	-	-	348,683	223,413
Culture and recreation	520,769	510,370	-	-	520,769	510,370
Debt service interest	27,969	35,528	-	-	27,969	35,528
Business-type activities						
Utility	-	-	1,438,025	1,267,205	1,438,025	1,267,205
Communication	-	-	1,880,255	1,690,562	1,880,255	1,690,562
Sanitation	-	-	742,706	717,125	742,706	717,125
TOTAL EXPENSES	3,328,206	3,173,513	4,060,986	3,674,892	7,389,192	6,848,405
CHANGE IN NET POSITION	140,386	493,056	(241,980)	245,501	(101,594)	738,557
NET POSITION – BEGINNING	5,429,658	4,936,602	4,065,544	3,820,043	9,495,202	8,756,645
NET POSITION – ENDING	\$ 5,570,044	\$ 5,429,658	\$ 3,823,564	\$ 4,065,544	\$ 9,393,608	\$ 9,495,202

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

The City's total revenues decreased by \$299,364 or 3.9% and total expenses increased by \$540,787, or 7.9%. Net position decreased by \$101,594 for fiscal year 2016. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The City's revenue for governmental activities decreased \$197,977, or 5.4%, compared to the prior year. This decrease is attributable to the City not receiving a FDOT grant that was received in the prior year. Expenses increased \$154,693, or 4.9% from the previous year.

Business-type Activities

Revenues of the City's business-type activities show an decreased of 2.6% or \$101,387 from the previous fiscal year. This decrease is primarily related to a decrease in equity earnings in joint venture. Expenses increased 10.5% or \$386,094. The increase correlates to the increases in direct costs of providing services to the citizens.

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 \$1.9 million, which is \$12 thousand lower than last year's total.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2016, the City had approximately \$7.9 million invested in capital assets (net of depreciation). This amount represents a net decrease (including additions and deductions) of \$367,514 or 4.5% over the fiscal year 2015 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, 2016 AND 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 455,209	\$ 455,209	\$ 90,603	\$ 90,603	\$ 545,812	\$ 545,812
Buildings and improvements	1,051,781	1,103,738	1,972,217	2,016,935	3,023,998	3,120,673
Infrastructure	1,701,392	1,868,506	-	-	1,701,392	1,868,506
Machinery, equipment and vehicles	557,683	456,762	2,027,664	2,232,310	2,585,347	2,689,072
Total	\$ 3,766,065	\$ 3,884,215	\$ 4,090,484	\$ 4,339,848	\$ 7,856,549	\$ 8,224,063

Debt

At September 30, 2016, the City had \$3.7 million in bonds outstanding, net of unamortized discount, premium and deferred refunding expenses, versus \$4.2 million in the prior year, a decrease of \$450,910 as shown below. The City also had \$9,423 in lease obligations versus \$28,004 in the prior year, a decrease of \$18,581 due to payments being made on the lease in the current year.

Table 4
CITY OF VALPARAISO, FLORIDA
LONG-TERM DEBT OUTSTANDING
AS OF SEPTEMBER 30, 2016 AND 2015

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Capital leases	\$ 9,423	\$ 28,004	\$ -	\$ -	9,423	\$ 28,004
Bonds payable, net	602,271	693,519	3,102,053	3,443,134	3,704,324	4,136,653
Total	\$ 611,694	\$ 721,523	\$ 3,102,053	\$ 3,443,134	\$ 3,713,747	\$ 4,164,657

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 \$445,013 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 2017 General Fund budget are approximately \$2.9 million which is an increase from the final FY 2016 budget by approximately \$250 thousand. The City added no major new programs to the FY 2017 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

**CITY OF VALPARAISO, FLORIDA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,150,595	\$ 862,867	\$ 2,013,462
Investments	309,330	-	309,330
Accounts receivables, net	9,609	230,009	239,618
Internal balances	440,467	(440,467)	-
Due from other governments	94,716	-	94,716
Inventory, at cost	-	70,373	70,373
Prepaid items	8,358	14,625	22,983
Restricted assets			
Cash and cash equivalents	19,074	879,527	898,601
Capital assets			
Non-depreciable	455,209	90,603	545,812
Depreciable, net	3,310,856	3,999,883	7,310,739
Other assets			
Investment in joint venture	-	1,777,824	1,777,824
Net pension asset	652,787	-	652,787
TOTAL ASSETS	6,451,001	7,485,244	13,936,245
DEFERRED OUTFLOW OF RESOURCES	95,170	20,066	115,236
LIABILITIES			
Accounts payable	68,421	237,168	305,589
Accrued liabilities	27,331	11,160	38,491
Accrued interest	53	64,085	64,138
Due to other governments	14,635	-	14,635
Payable from restricted assets			
Customer deposits	-	123,331	123,331
Non-current liabilities			
Due within one year			
Compensated absences	145,350	39,460	184,810
Lease payable	9,423	-	9,423
Bonds payable	-	35,000	35,000
Due in more than one year			
Net pension liability	68,681	57,824	126,505
Lease payable	-	-	-
Bonds payable, net	602,271	3,067,053	3,669,324
TOTAL LIABILITIES	936,165	3,635,081	4,571,246
DEFERRED INFLOW OF RESOURCES	39,962	46,665	86,627
NET POSITION			
Net investment in capital assets	3,154,371	1,159,224	4,313,595
Restricted			
Debt service	-	443,107	443,107
Capital projects	-	142,298	142,298
Library	10,227	-	10,227
Public safety	8,847	-	8,847
Pension	652,787	-	652,787
Unrestricted	1,743,812	2,078,935	3,822,747
TOTAL NET POSITION	\$ 5,570,044	\$ 3,823,564	\$ 9,393,608

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Function/program activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 948,967	\$ 458,322	\$ -	\$ -	\$ (490,645)	\$ -	\$ (490,645)
Public safety	1,286,020	28,427	-	-	(1,257,593)	-	(1,257,593)
Physical environment	195,798	73,195	-	-	(122,603)	-	(122,603)
Transportation	348,683	-	-	-	(348,683)	-	(348,683)
Culture and recreation	520,769	2,223	64,781	-	(453,765)	-	(453,765)
Debt service interest	27,969	-	-	-	(27,969)	-	(27,969)
Total governmental activities	3,328,206	562,167	64,781	-	(2,701,258)	-	(2,701,258)
Business-type activities							
Utility	1,438,025	1,343,983	-	-	-	(94,042)	(94,042)
Communication	1,880,255	1,677,074	-	-	-	(203,181)	(203,181)
Sanitation	742,706	785,040	-	-	-	42,334	42,334
Total business-type activities	4,060,986	3,806,097	-	-	-	(254,889)	(254,889)
Total primary government	\$ 7,389,192	\$ 4,368,264	\$ 64,781	\$ -	\$ (2,701,258)	\$ (254,889)	\$ (2,956,147)
General revenues							
Taxes							
Property taxes					\$ 959,745	\$ -	\$ 959,745
Utility service taxes					604,516	-	604,516
Sales taxes					478,506	-	478,506
Franchise taxes					328,228	-	328,228
Intergovernmental, unrestricted					394,365	-	394,365
Investment earnings					25,188	2,643	27,831
Gain on sale of assets					32,440	3,570	36,010
Miscellaneous					18,656	6,696	25,352
Total general revenues					2,841,644	12,909	2,854,553
CHANGE IN NET POSITION					140,386	(241,980)	(101,594)
NET POSITION AT BEGINNING OF YEAR					5,429,658	4,065,544	9,495,202
NET POSITION AT END OF YEAR					\$ 5,570,044	\$ 3,823,564	\$ 9,393,608

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2016**

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 775,673	\$ 246,201	\$ 128,721	\$ 1,150,595
Investments	309,330	-	-	309,330
Accounts receivables, net	4,715	-	4,894	9,609
Due from (to) other funds	535,773	(98,247)	2,941	440,467
Due from other governments	68,621	26,095	-	94,716
Prepaid items	8,358	-	-	8,358
Restricted assets				
Cash and cash equivalents	19,074	-	-	19,074
TOTAL ASSETS	<u>\$ 1,721,544</u>	<u>\$ 174,049</u>	<u>\$ 136,556</u>	<u>\$ 2,032,149</u>
LIABILITIES				
Accounts payable	\$ 63,040	\$ 4,089	\$ 1,292	\$ 68,421
Accrued liabilities	26,362	952	17	27,331
Due to other governments	14,635	-	-	14,635
TOTAL LIABILITIES	<u>104,037</u>	<u>5,041</u>	<u>1,309</u>	<u>110,387</u>
FUND BALANCE				
Nonspendable	8,358	-	-	8,358
Restricted	19,074	-	-	19,074
Committed	226,118	-	135,247	361,365
Assigned	29,288	169,008	-	198,296
Unassigned	1,334,669	-	-	1,334,669
TOTAL FUND BALANCE	<u>1,617,507</u>	<u>169,008</u>	<u>135,247</u>	<u>1,921,762</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,721,544</u>	<u>\$ 174,049</u>	<u>\$ 136,556</u>	<u>\$ 2,032,149</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, 2016**

Fund balance, total governmental funds (page 11)	\$ 1,921,762
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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	7,968,513	
Less accumulated depreciation	<u>(4,657,657)</u>	
		3,766,065

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

Net pension asset	652,787
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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	95,170	
Deferred inflows of resources related to pensions	<u>(39,962)</u>	
		55,208

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

Bonds payable	(602,271)	
Lease payable	(9,423)	
Accrued interest	(53)	
Compensated absences	(145,350)	
Net pension liability	<u>(68,681)</u>	
		<u>(825,778)</u>

Net position of governmental activities (page 9)	<u>\$ 5,570,044</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, 2016**

	General Fund	Streets Fund	Stormwater Fund	Total Governmental Funds
REVENUES				
Taxes	\$ 1,455,962	\$ 225,174	\$ -	\$ 1,681,136
Permits and fees	399,472	-	-	399,472
Intergovernmental	719,994	121,293	-	841,287
Charges for services	383,128	-	46,225	429,353
Fines and forfeits	13,295	-	-	13,295
Miscellaneous	80,038	57,929	2,837	140,804
Total revenues	<u>3,051,889</u>	<u>404,396</u>	<u>49,062</u>	<u>3,505,347</u>
EXPENDITURES				
Current				
General government	976,558	-	-	976,558
Public safety	1,260,694	-	-	1,260,694
Physical environment	170,879	-	11,400	182,279
Transportation	-	188,864	-	188,864
Culture and recreation	437,009	-	-	437,009
Capital outlay	128,676	176,227	15,435	320,338
Debt service				
Principal and interest	9,382	51,095	-	60,477
Total expenditures	<u>2,983,198</u>	<u>416,186</u>	<u>26,835</u>	<u>3,426,219</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>68,691</u>	<u>(11,790)</u>	<u>22,227</u>	<u>79,128</u>
OTHER FINANCING SOURCES				
Payment to refund bond escrow	(143,750)	(549,769)	-	(693,519)
Refunding bonds issued	105,905	496,366	-	602,271
Total other financing sources	<u>(37,845)</u>	<u>(53,403)</u>	<u>-</u>	<u>(91,248)</u>
NET CHANGE IN FUND BALANCE	30,846	(65,193)	22,227	(12,120)
FUND BALANCE AT BEGINNING OF YEAR	1,586,661	234,201	113,020	1,933,882
FUND BALANCE AT END OF YEAR	<u>\$ 1,617,507</u>	<u>\$ 169,008</u>	<u>\$ 135,247</u>	<u>\$ 1,921,762</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, 2016**

Net change in fund balance – governmental funds (page 13)		\$ (12,120)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is depreciated/amortized over the estimated useful lives of the assets.</p>		
Expenditures for capital assets	320,338	
Loss on disposal of capital assets	(36,755)	
Less current year depreciation	<u>(401,734)</u>	(118,151)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.</p>		
Principal payments on bond	693,519	
Principal payments on lease	18,581	
Proceeds from bond insurance	(602,271)	
Change in accrued interest on long-term debt	<u>13,928</u>	123,757
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:</p>		
Change in net pension asset and related deferred inflows and outflows of resources	83,221	
Change in long-term compensated absences	(6,821)	
Settlement of loss contingency	<u>70,500</u>	146,900
Change in net position of governmental activities (page 10)		<u><u>\$ 140,386</u></u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2016**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 320,834	\$ 202,408	\$ 339,625	\$ 862,867
Accounts receivables, net	111,969	59,469	58,571	230,009
Inventory, at cost	45,907	24,466	-	70,373
Prepaid items	-	14,625	-	14,625
Total current assets	<u>478,710</u>	<u>300,968</u>	<u>398,196</u>	<u>1,177,874</u>
Non-current assets				
Restricted assets				
Cash and cash equivalents	<u>874,082</u>	<u>5,445</u>	<u>-</u>	<u>879,527</u>
Capital assets				
Non-depreciable	40,287	50,316	-	90,603
Depreciable, net	<u>2,385,790</u>	<u>1,220,305</u>	<u>393,788</u>	<u>3,999,883</u>
Total capital assets	<u>2,426,077</u>	<u>1,270,621</u>	<u>393,788</u>	<u>4,090,486</u>
Other assets				
Investment in joint venture	<u>1,777,824</u>	<u>-</u>	<u>-</u>	<u>1,777,824</u>
Total non-current assets	<u>5,077,983</u>	<u>1,276,066</u>	<u>393,788</u>	<u>6,747,837</u>
TOTAL ASSETS	<u>5,556,693</u>	<u>1,577,034</u>	<u>791,984</u>	<u>7,925,711</u>
DEFERRED OUTFLOW OF RESOURCES				
	<u>5,802</u>	<u>5,466</u>	<u>8,798</u>	<u>20,066</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION – CONTINUED
 SEPTEMBER 30, 2016**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
LIABILITIES				
Current liabilities				
Accounts payable	159,291	71,414	6,463	237,168
Accrued liabilities				
Compensated absences	10,031	12,929	16,500	39,460
Other	3,583	3,364	4,213	11,160
Due to other funds	253,404	98,251	88,812	440,467
Payable from restricted assets				
Customer deposits	123,331	-	-	123,331
Accrued interest	38,888	25,197	-	64,085
Revenue bonds payable	35,000	-	-	35,000
Total current liabilities	<u>623,528</u>	<u>211,155</u>	<u>115,988</u>	<u>950,671</u>
Non-current liabilities				
Net pension liability	16,719	15,752	25,353	57,824
Revenue bonds payable, net	1,932,161	1,134,892	-	3,067,053
Total non-current liabilities	<u>1,948,880</u>	<u>1,150,644</u>	<u>25,353</u>	<u>3,124,877</u>
TOTAL LIABILITIES	<u>2,572,408</u>	<u>1,361,799</u>	<u>141,341</u>	<u>4,075,548</u>
DEFERRED INFLOW OF RESOURCES	<u>13,493</u>	<u>12,712</u>	<u>20,460</u>	<u>46,665</u>
NET POSITION				
Net investment in capital assets	629,707	135,729	393,788	1,159,224
Restricted				
Debt service	437,662	5,445	-	443,107
Capital projects	142,298	-	-	142,298
Unrestricted	1,766,927	66,815	245,193	2,078,935
TOTAL NET POSITION	<u>\$ 2,976,594</u>	<u>\$ 207,989</u>	<u>\$ 638,981</u>	<u>\$ 3,823,564</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services	\$ 1,332,934	\$ 1,677,074	\$ 785,040	\$ 3,795,048
OPERATING EXPENSES				
Personal services	288,591	291,317	372,170	952,078
Operating	809,683	1,306,364	292,423	2,408,470
Depreciation expense	236,551	210,656	78,113	525,320
Total operating expenses	1,334,825	1,808,337	742,706	3,885,868
OPERATING INCOME (LOSS)	(1,891)	(131,263)	42,334	(90,820)
NON-OPERATING REVENUES (EXPENSES)				
Interest expense	(98,161)	(69,954)	-	(168,115)
Other debt service costs	(5,039)	(1,964)	-	(7,003)
Equity earnings in joint venture	8,758	-	-	8,758
Interest income	1,899	445	299	2,643
Miscellaneous	2,291	6,696	3,570	12,557
Total non-operating revenues (expenses)	(90,252)	(64,777)	3,869	(151,160)
CHANGE IN NET POSITION	(92,143)	(196,040)	46,203	(241,980)
NET POSITION AT BEGINNING OF YEAR	3,068,737	404,029	592,778	4,065,544
NET POSITION AT END OF YEAR	<u>\$ 2,976,594</u>	<u>\$ 207,989</u>	<u>\$ 638,981</u>	<u>\$ 3,823,564</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<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	\$ 1,414,460	\$ 1,665,550	\$ 809,466	\$ 3,889,476
Payments to suppliers	(687,832)	(1,305,621)	(299,398)	(2,292,851)
Payments to employees	(295,195)	(294,954)	(373,051)	(963,200)
Miscellaneous income	2,291	6,696	3,570	12,557
Net cash provided by operating activities	<u>433,724</u>	<u>71,671</u>	<u>140,587</u>	<u>645,982</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Receipts (payments) on interfund balances	<u>(32,483)</u>	<u>(170,822)</u>	<u>71,199</u>	<u>(132,106)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets related to joint venture	(3,875)	-	-	(3,875)
Purchase and construction of capital assets	(185,153)	(90,805)	-	(275,958)
Principal paid on bonds	(189,732)	(122,101)	-	(311,833)
Interest paid on bonds	(111,768)	(89,277)	-	(201,045)
Other debt service costs	(5,039)	(1,964)	-	(7,003)
Net cash used in capital and related financing activities	<u>(495,567)</u>	<u>(304,147)</u>	<u>-</u>	<u>(799,714)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	<u>1,899</u>	<u>445</u>	<u>299</u>	<u>2,643</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(92,427)	(402,853)	212,085	(283,195)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,287,343</u>	<u>610,706</u>	<u>127,540</u>	<u>2,025,589</u>
CASH AND CASH EQUIVALENTS AT END 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 CONSIST OF				
Current	\$ 320,834	\$ 202,408	\$ 339,625	\$ 862,867
Restricted	<u>874,082</u>	<u>5,445</u>	<u>-</u>	<u>879,527</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,194,916</u>	<u>\$ 207,853</u>	<u>\$ 339,625</u>	<u>\$ 1,742,394</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS – CONTINUED
 FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<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)	\$ (1,891)	\$ (131,263)	\$ 42,334	\$ (90,820)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	236,551	210,656	78,113	525,320
Miscellaneous revenue	2,291	6,696	3,570	12,557
Decrease (increase) in assets:				
Accounts receivable, net	77,057	(11,524)	24,426	89,959
Inventory	8,395	(263)	-	8,132
Prepaid items	-	(8,753)	-	(8,753)
Increase in deferred outflow of resources	(4,238)	(3,993)	(6,426)	(14,657)
Increase (decrease) in liabilities:				
Accounts payable	113,456	9,759	(6,975)	116,240
Customer deposits – restricted	4,469	-	-	4,469
Salaries and benefits payable	(2,096)	(2,680)	(2,382)	(7,158)
Accrued compensated absences	(2,144)	1,271	5,084	4,211
Net pension liability	6,475	6,101	9,820	22,396
Decrease in deferred inflow of resources	(4,601)	(4,336)	(6,977)	(15,914)
Net cash provided by operating activities	<u>\$ 433,724</u>	<u>\$ 71,671</u>	<u>\$ 140,587</u>	<u>\$ 645,982</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2016**

	Pension Trust Fund
ASSETS	
Cash and cash equivalents	\$ 17,787
Investments, at fair value	
Fixed income mutual funds	876,016
Equity mutual funds	1,329,588
Due from State of Florida	6,099
Employer receivable	7,587
Plan member receivable	948
TOTAL ASSETS	\$ 2,238,025
FIDUCIARY NET POSITION	
Held in trust for pension and employee retirement benefits	\$ 2,238,025

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, 2016**

	Pension Trust Fund
ADDITIONS	
Contributions	
Employer	\$ 83,738
Plan members	10,430
State of Florida	80,993
Total contributions	175,161
Investment income	
Net appreciation (decline) in fair value of investments	160,112
Less investment expense	(4,022)
Net investment income (loss)	156,090
TOTAL ADDITIONS	331,251
DEDUCTIONS	
Pension benefits paid	30,039
Professional services	4,500
Administrative expense	1,000
TOTAL DEDUCTIONS	35,539
CHANGE IN FIDUCIARY NET POSITION	295,712
FIDUCIARY NET POSITION AT BEGINNING OF YEAR	1,942,313
FIDUCIARY NET POSITION AT END OF YEAR	\$ 2,238,025

See notes to the financial statements.

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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, 2016

**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 unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

**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, 2016
Levy Date	November 1, 2016
Due Date	November 1, 2016
Delinquent Date	April 1, 2017

One-percent discounts are granted for each month taxes are paid prior to March 2016.

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, 2016

**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 or have a measurement focus. Pension Trust Funds are accounted for using the modified accrual basis of accounting. The Pension Trust Fund accounts for the assets of the City's Police Officers' Retirement Trust Fund and the Firefighters' Retirement Trust Fund.

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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

Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Equity

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term highly liquid investments with original maturities of three months or less.

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

Under this method, all the City's deposits are fully insured or collateralized at the highest level of security as defined by Governmental Accounting Standards Board, Statement Number 40, Deposits and Investment Disclosures (An Amendment of Governmental Accounting Standards Board, Statement Number 3).

Investments

The City's investment policy, in compliance with state statutes, authorizes 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, 2016**

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

**Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Equity –
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, 2016, accounts receivable totaled \$25,522, net of an allowance of doubtful accounts of \$15,913.

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, 2016, accounts receivable totaled \$440,981, net of an allowance for doubtful accounts of \$210,972.

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, 2016

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

**Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Equity –
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 fair value on the date donated.

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

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

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

**Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Equity –
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
Building improvements	15-25 Years
Infrastructure	20-50 Years
Vehicles	5-10 Years
Office equipment	5-10 Years
Machinery and equipment	5-15 Years
CATV system	5-15 Years
Water and sewer systems	20-50 Years

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 8 and 9 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 fund balance 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 Governmental Accounting Standards Board 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, 2016

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

**Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Equity –
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 8 and 9 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, 2016**

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

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

Categories and Classification Fund Equity

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

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

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, 2016

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

**Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Equity –
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 through April 10, 2017, 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, and proprietary funds. The annual budgets for the General Fund and Streets Fund are adopted using the cash basis of accounting, which is not in accordance with U.S. GAAP required for governmental fund types. Every appropriation, except an appropriation for a capital expenditure, lapses at the end of the year to the extent it has not been expended or encumbered.

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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.

Budgets for all funds are prepared on the cash receipts and disbursements basis of accounting which differs from the basis used for financial reporting purposes. These differences are usually not significant for the governmental funds. Revenues are budgeted in the year receipt is expected and expenditures are budgeted in the year that the applicable purchase orders are expected to be issued. Occasionally, a portion of unassigned fund balance from the previous year will be included as budgeted source for the current year.

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

3. CASH AND INVESTMENTS

Deposits

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

At year-end, the value of the City's deposits was \$2,623,887, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

3. CASH AND INVESTMENTS – CONTINUED

Fair Value of Investments

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

The following table presents the investments carried at fair value on September 30, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Intermediate HQ Bond Fund	\$ 52,087	\$ -	\$ 52,087	\$ -
Board Market HQ Bond Fund	398,987	-	398,987	-
High Quality Growth Portfolio	220,213	-	220,213	-
Russell 1000 Enhanced Index	561,166	-	561,166	-
Large Cap Diversified Value	230,471	-	230,471	-
Core Plus Fixed Income	529,167	-	-	529,167
Diversified Small to Mid Cap Equity	251,243	-	251,243	-
International Equity Portfolio	217,892	-	217,892	-
Expanded High Yield Bond	53,707	-	-	53,707
Total Investments Measured at Fair Value	<u>\$2,514,933</u>	<u>\$ -</u>	<u>\$1,932,059</u>	<u>\$ 582,874</u>

Investments

As of September 30, 2016, the City's investments consist of those held in the general fund as well as the pension trust funds. The types of investments, which can be made by the City, are restricted by state statutes, retirement fund plan documents, and other contractual agreements. A description of the requirements and the types of investments allowed can be found in Note 1.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

3. CASH AND INVESTMENTS – CONTINUED

Investments – Continued

The City has a beneficial interest in shares in a local government investment pool and not the individual securities held within each portfolio. As of September 30, 2016, the asset allocation for the defined benefit plan investment pool was as follows:

Investment Portfolio/Funds	Asset Allocation Percentage
Cash and Money Market	0.8%
FMIvT Broad Market High Quality Bond	15.6%
FMIvT Core Plus	23.8%
FMIvT High Quality Growth	7.6%
FMIvT Large Cap Diversified Value	8.2%
FMIvT Russell 1000 Enhanced Index	22.9%
FMIvT Diversified Small to Mid Cap Equity	11.3%
FMIvT International Equity	9.8%
Total	<u>100%</u>

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

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

Credit Risk – State law limits investments in money market funds and mutual bond funds to funds with the highest credit quality rating from nationally recognized statistical rating organizations. As of September 30, 2016, the City's investments were rated as follows:

Credit Risk for Investment Pool	
Fixed Income Funds	Fitch Rating
FMIvT Broad Market High Quality Bond Fund	AAf/S4
FMIvT Intermediate High Quality Bond Fund	AAAf/S3
FMIvT Core Plus Fixed Income Fund	Not Rated
Equity Portfolios	
FMIvT High Quality Growth	Not Rated
FMIvT Large Cap Diversified Value	Not Rated
FMIvT Russell 1000 Enhanced Index	Not Rated
FMIvT Diversified Small Cap Equity	Not Rated
FMIvT International Equity	Not Rated

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

3. CASH AND INVESTMENTS – CONTINUED

Investments – Continued

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

<u>Fixed Income Funds</u>	<u>Interest Rate Risk Information</u>	
	<u>Duration (Effective)</u>	<u>WAM</u>
FMIvT Broad Market High Quality Bond	4.45 Years	5.90 Years
FMIvT Core Plus Fixed Income Fund	2.04 Years	6.84 Years

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

Deposits	\$ 2,929,850
Investments	2,514,934
Total	<u>\$ 5,444,784</u>
Cash and cash equivalents, primary government	\$ 2,013,462
Restricted cash and cash equivalents, primary government	898,601
Investments, primary government	309,330
Total primary government	<u>3,221,393</u>
Cash and cash equivalents, fiduciary funds	17,787
Investments, fiduciary funds	2,205,604
Total fiduciary funds	<u>2,223,391</u>
Grand total	<u>\$ 5,444,784</u>

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. As of September 30, 2016, the City participated in the Intermediate High Quality Bond Fund, Broad Market High Quality Bond Fund, Expanded High Yield Bond Fund, High Quality Growth Equity Portfolio, Diversified Value Portfolio and Russell 1000 Enhanced Index Portfolio.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

3. CASH AND INVESTMENTS – CONTINUED

Governmental Fund – Continued

The City's primary government investments at September 30, 2016 are presented below:

	Fair Value
Intermediate HQ Bond Fund	\$ 52,087
Broad Market HQ Bond Fund	52,138
High Quality Growth Portfolio	51,235
Russell 1000 Enhanced Index	52,010
Large Cap Diversified Value	48,153
Expanded High Yield Bond	53,707
	\$ 309,330

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

Information about the exposure of the City's debt type investments to this risk, using the segmented time distribution model is illustrated in the table above. In addition, the Fund chooses to present its exposure to interest rate changes by using the weighted average maturity (WAM) and duration methods. The WAM for the Intermediate High Quality Bond Fund was 3.20 years and effective duration was 2.95 years at September 30, 2016. The WAM for the Broad Market High Quality Bond Fund was 5.90 years and effective duration was 4.45 years at September 30, 2016. The WAM for the Expanded High Yield Bond Fund was 6.29 years and effective duration was 3.52 years at September 30, 2016. The Russell 1000 Enhanced Index, Large Cap Diversified Value, and Expanded High Yield Bond are equity funds, and thus have no exposure to interest rate risk.

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, 2016 are with the Florida Municipal Investment Trust and therefore, are not categorized as to concentration to credit risk.

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

4. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016, 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	2,251,123	27,723	(2,382)	2,276,464
Infrastructure	3,537,197	-	-	3,537,197
Machinery, equipment, and vehicles	2,134,913	292,615	(272,676)	2,154,852
Total capital assets being depreciated	<u>7,923,233</u>	<u>320,338</u>	<u>(275,058)</u>	<u>7,968,513</u>
Less accumulated depreciation				
Buildings	(1,147,384)	(79,681)	2,382	(1,224,683)
Infrastructure	(1,668,691)	(167,114)	-	(1,835,805)
Machinery, equipment, and vehicles	(1,678,151)	(154,939)	235,921	(1,597,169)
Total accumulated depreciation	<u>(4,494,226)</u>	<u>(401,734)</u>	<u>238,303</u>	<u>(4,657,657)</u>
Total capital assets being depreciated, net	<u>3,429,007</u>	<u>(81,396)</u>	<u>(36,755)</u>	<u>3,310,856</u>
Governmental activities, net	<u>\$ 3,884,216</u>	<u>\$ (81,396)</u>	<u>\$ (36,755)</u>	<u>\$ 3,766,065</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 90,603	\$ -	\$ -	\$ 90,603
Capital assets being depreciated				
Buildings and improvements	6,579,869	117,332	(15,595)	6,681,606
Machinery, equipment, and vehicles	4,862,015	158,624	(338,272)	4,682,367
Total capital assets being depreciated	<u>11,441,884</u>	<u>275,956</u>	<u>(353,867)</u>	<u>11,363,973</u>
Less accumulated depreciation				
Buildings and improvements	(4,562,934)	(162,050)	15,595	(4,709,389)
Machinery, equipment, and vehicles	(2,629,705)	(363,270)	338,272	(2,654,703)
Total accumulated depreciation	<u>(7,192,639)</u>	<u>(525,320)</u>	<u>353,867</u>	<u>(7,364,092)</u>
Total capital assets being depreciated, net	<u>4,249,245</u>	<u>(249,364)</u>	<u>-</u>	<u>3,999,881</u>
Business-type activities, net	<u>\$ 4,339,848</u>	<u>\$ (249,364)</u>	<u>\$ -</u>	<u>\$ 4,090,484</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

4. CHANGES IN CAPITAL ASSETS – CONTINUED

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

Governmental activities

General government	\$ 33,816
Public safety	101,351
Physical environment	13,611
Transportation	166,356
Culture and recreation	86,600
	<u>86,600</u>
Total depreciation/amortization expense – governmental activities	<u>\$ 401,734</u>

Business-type activities

Utility	\$ 236,552
Communication	210,655
Sanitation	78,113
	<u>78,113</u>
Total depreciation/amortization expense – business-type activities	<u>\$ 525,320</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 the fiscal year ending September 30, 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, 2016**

5. JOINT VENTURE – CONTINUED

The net operating results of the system are accounted for as a joint venture and accounted for under the equity method. The City's investment in joint venture increased \$12,633 for the year ended September 30, 2016, which is composed of \$8,758 in equity earnings and \$3,875 for the City's portion of the ongoing facility upgrades. The City's portion of the equity in the joint venture is \$1,777,824 at September 30, 2016.

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, 2016. 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, 2016**

Assets	
Current assets	\$ 1,748,989
Capital assets, net of accumulated depreciation	<u>7,377,606</u>
Total assets	<u>\$ 9,126,595</u>
Liabilities and net position	
Liabilities	\$ 177,993
Net position	<u>8,948,603</u>
Total liabilities and net position	<u>\$ 9,126,596</u>

**Summary of Operating Results
For the Year Ended June 30, 2016**

Sewer operating revenues	\$ 2,242,986
Operating expenses	<u>2,215,150</u>
Operating income	<u>27,836</u>
Non-operating revenues (expenses), net	<u>15,952</u>
Net income before capital contributions	<u>43,788</u>
Capital contributions	<u>-</u>
Change in net position	<u>\$ 43,788</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

6. LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

Long-term debt activity for the year ended September 30, 2016, 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	\$ 28,004	\$ -	\$ (18,581)	\$ 9,423	\$ 9,423
Bonds payable	693,519	602,271	(693,519)	602,271	-
Compensated absences	138,529	107,515	(100,694)	145,350	145,350
Total governmental activities	<u>\$ 860,052</u>	<u>\$ 709,786</u>	<u>\$ (812,794)</u>	<u>\$ 757,044</u>	<u>\$ 154,773</u>
Business-type activities					
Bonds payable	\$ 3,435,232	\$ 1,802,729	\$ (2,115,233)	\$ 3,122,728	\$ 35,000
Bond premium	30,108	-	(30,108)	-	-
Bond discount	(21,536)	-	861	(20,675)	-
Deferred refunded costs	(670)	-	670	-	-
Compensated absences	35,249	37,495	(33,284)	39,460	39,460
Total business-type activities	<u>\$ 3,478,383</u>	<u>\$ 1,840,224</u>	<u>\$ (2,177,094)</u>	<u>\$ 3,141,513</u>	<u>\$ 74,460</u>

Description of Long-Term Debt Outstanding

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
GOVERNMENTAL ACTIVITIES			
Lease			
\$55,229 capital lease payable, due in semiannual installments of \$9,512 through December 2016, bearing interest at 1.89%, collateralized by a truck.	\$ 9,423	\$ -	\$ 9,423
Revenue Bonds			
\$2,405,000 Florida Municipal Loan Council Revenue Bonds, Series 2016, due in annual installments of \$185,000 to \$315,000 through 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.	-	602,271	602,271
Total revenue bonds	-	602,271	602,271
Accrued Compensated Absences			
Total long-term portion of accumulated, vested annual and sick leave for governmental fund types	145,350	-	145,350
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 154,773</u>	<u>\$ 602,271</u>	<u>\$ 757,044</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

6. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
BUSINESS-TYPE ACTIVITIES			
<i>Revenue Bonds</i>			
<p>\$2,405,000 Florida Municipal Loan Council Revenue Bonds, Series 2016, due in annual installments of \$185,000 to \$315,000 through 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.</p>			
	\$ -	\$ 1,802,728	\$ 1,802,728
<p>\$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.</p>			
	35,000	1,285,000	1,320,000
Less unamortized bond discount	-	(20,675)	(20,675)
	35,000	1,264,325	1,299,325
Total revenue bonds	35,000	3,067,053	3,102,053

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

6. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

Accumulated, vested annual compensation for Enterprise Funds	\$ 39,460	\$ -	\$ 39,460
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$ 74,460</u>	<u>\$ 3,067,053</u>	<u>\$ 3,141,513</u>
GRAND TOTAL LONG-TERM DEBT			<u>\$ 3,898,557</u>

The City is required to comply with certain debt covenants under the 2010C bond agreement. As of September 30, 2016, the City is not aware of any material noncompliance.

Refunding Disclosure

On September 29, 2016, the City issued \$2,405,000 of Florida Municipal Loan Council Revenue Bonds, Series 2016, for the purpose of refunding the remaining \$510,000 of outstanding principal on its 2005A Bonds, and \$2,153,751 of its 2006 Revenue Bonds. The refunding transaction resulted in an economic gain of \$165,923 and cash flows savings of \$348,210.

Redemption Provisions

Series 2010C Bond Payable

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

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

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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, 2016, are as follows:

Governmental Activities		Capital Leases			Revenue Bonds		
Year Ending September 30	Principal	Interest	Total	Principal	Interest	Total	
2017	\$ 9,423	\$ 89	\$ 9,512	\$ -	\$ 8,489	\$ 8,489	
2018	-	-	-	72,623	16,065	88,688	
2019	-	-	-	75,127	14,212	89,339	
2020	-	-	-	76,380	11,557	87,937	
2021	-	-	-	78,884	8,846	87,730	
2022-2026	-	-	-	245,416	20,815	266,231	
2027	-	-	-	53,841	606	54,447	
Total	\$ 9,423	\$ 89	\$ 9,512	\$ 602,271	\$ 80,590	\$ 682,861	

Business-Type Activities		Revenue Bonds		
Year Ending September 30	Principal	Interest	Total	
2017	\$ 35,000	\$ 80,334	\$ 115,334	
2018	252,377	102,223	354,600	
2019	259,873	95,801	355,674	
2020	263,620	86,981	350,601	
2021	271,115	77,817	348,932	
2022-2026	934,584	300,392	1,234,976	
2027-2031	406,159	193,513	599,672	
2032-2036	310,000	131,175	441,175	
2037-2041	390,000	54,225	444,225	
Total	\$ 3,122,728	\$ 1,122,461	\$ 4,245,189	

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

6. LONG-TERM DEBT – CONTINUED

Capital Leases

The cost and accumulated depreciation for capital lease are:

Assets	Streets Fund
Ford F-550 Truck	\$ 55,229
Accumulated depreciation	(13,806)
Assets acquired by lease, net	\$ 41,423

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 Web site: 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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

Pension Plan – Continued

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.

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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

Pension Plan – Continued

Contributions

Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016, respectively, were as follows: Regular—7.26% and 7.52%; Special Risk—22.04% and 22.57%; Senior Management Service—21.43% and 21.77%; Elected Officers’—42.27% and 42.47%; and DROP participants—12.88% and 12.99%. These employer contribution rates include 1.66% and 1.66% HIS Plan subsidy for the periods October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016, respectively.

The City’s contributions, including employee contributions, to the Pension Plan totaled \$11,010 for the fiscal year ended September 30, 2016.

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

At September 30, 2016, the City reported a liability of \$80,255 for its proportionate share of the Pension Plan’s net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City’s proportionate share of the net pension liability was based on the City’s 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2016, the City’s proportionate share was 0.000317841 percent, which was an increase of 0.00002446 percent from its proportionate share measured as of June 30, 2015.

For the fiscal year ended September 30, 2016, the City recognized pension income of \$4,549. 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>
Differences between expected and actual experience	\$ 6,145	\$ 747
Change of assumptions	4,855	-
Net difference between projected and actual earnings on Pension Plan investments	20,745	-
Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions	2,907	63,800
City Pension Plan contributions subsequent to the measurement date	998	-
	<u>\$ 35,650</u>	<u>\$ 64,547</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

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 – Continued

A component of deferred outflows of resources related to the Pension Plan of \$998 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, 2016. 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
2016	\$ 12,516
2017	12,516
2018	4,429
2019	842
2020	206
Thereafter	(614)
	\$ 29,894

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumption, applied to all period included in the measurement:

Inflation	2.60%
Salary increases	3.25%, average, including inflation
Investment rate of return	7.60%, 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, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

Pension Plan – Continued

Actuarial Assumptions – Continued

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:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.00%	3.00%	1.70%
Fixed income	18.00%	4.70%	4.60%	4.60%
Global equity	53.00%	8.10%	6.80%	17.20%
Private equity	6.00%	11.50%	7.80%	30.00%
Strategic investments	12.00%	6.10%	5.60%	11.10%
Real estate (property)	10.00%	6.40%	5.80%	12.00%
Total	<u>100.00%</u>			
Assumed inflation – mean		2.60%		1.90%

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

Discount Rate

The discount rate used to measure the total pension liability was 7.60%. 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, 2016**

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 7.60%, 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 (6.60%) or one percentage point higher (8.60%) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
City's proportionate share of the net pension liability (asset)	\$ 147,755	\$ 80,255	\$ 24,070

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, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

HIS Plan – Continued

Contributions

The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2016, the HIS contribution for the period October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016 was 1.26% and 1.66%, respectively. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contribution 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 \$2,034 for the fiscal year ended September 30, 2016.

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

At September 30, 2016, the City reported a liability of \$46,252 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City's proportionate share of the net pension liability was based on the City's 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2016, the City's proportionate share was 0.000396859 percent, which was a decrease of 0.000388411 percent from its proportionate share measured as of June 30, 2015.

For the fiscal year ended September 30, 2016, the City recognized pension income of \$4,463. 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
Change of assumptions	\$ 7,258	\$ -
Net difference between projected and actual earnings on Pension Plan investments	23	105
Changes in proportion and differences between City Pension Plan contributions and proportionate share of contributions	-	36,753
City Pension Plan contributions subsequent to the measurement date	286	-
	<u>\$ 7,567</u>	<u>\$ 36,858</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

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 – Continued

A component of deferred outflows of resources related to the HIS Plan of \$286 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, 2016. 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>
2016	\$ 7,021
2017	7,021
2018	7,025
2019	7,028
2020	2,137
Thereafter	<u>(656)</u>
	<u>\$ 29,576</u>

Actuarial Assumptions

The total pension liability in the July 1, 2016, 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		2.85%

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

The actuarial assumptions used in the July 1, 2016, 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 2.85%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

HIS 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 2.85%, 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 (1.85%) or one percentage point higher (3.85%) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
City's proportionate share of the net pension liability (asset)	\$ 53,062	\$ 46,252	\$ 40,601

Pension Plan Fiduciary Net Position

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

8. DEFINED BENEFIT PENSION PLAN – PUBLIC SAFETY PENSION PLAN

Plan Description

Plan Administration

The Police Officers and Firefighters Retirement Plan (the Public Safety Pension Plan) is a single-employer defined benefit plan, established under Chapters 185 and 175 of the Florida Statutes, which covers all police officers and firefighters hired on or after January 1, 1996. The City of Valparaiso Board of Trustees assigns the authority to establish and amend benefit provisions to this plan. The City's payroll for employees covered by this plan applicable to the October 1, 2016 actuarial valuation was approximately \$405,994. 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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

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

Plan Description – Continued

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 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 2016, the City contributed \$83,738 in cash and applied \$72,568 of advance contributions to the plan. \$80,993 was contributed by the State of Florida. The employees' contributions to the plan for the current year totaled \$10,430. 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, 2016. The actuary's measurement date is September 30, 2015. The actuarial valuation date is October 1, 2015.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2015 updated to September 30, 2016 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 Combined Healthy Mortality Table, projected to 2016 by Scale AA. Based upon other studies of municipal police officers and firefighters, we feel this assumption sufficiently accommodates future mortality improvements.

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

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

Net Pension Liability – Continued

Actuarial Assumptions – Continued

Best estimates of arithmetic real rates of return for each major asset class included in the Public Safety Pension Plan's target asset allocation as of September 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Core bonds	16.00%	0.6%
Multi-sector	24.00%	1.1%
U.S. large cap equity	39.00%	6.1%
U.S. small cap equity	11.00%	6.8%
Non-U.S. equity	<u>10.00%</u>	6.8%
Total	<u><u>100%</u></u>	

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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

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

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at September 30, 2015	\$ 1,343,118	\$ 1,934,195	\$ (591,077)
Changes:			
Service cost	123,530	-	123,530
Interest	100,326	160,112	(59,786)
Experience	42,204	-	42,204
Contributions – employer	-	166,749	(166,749)
Contributions – employee	-	10,430	(10,430)
Benefit payments, including			
Refunds of employee contributions	(30,039)	(30,039)	-
Administrative expenses	-	(9,521)	9,521
Net changes during year	<u>236,021</u>	<u>297,731</u>	<u>(61,710)</u>
Balances at September 30, 2016	<u>\$ 1,579,139</u>	<u>\$ 2,231,926</u>	<u>\$ (652,787)</u>

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
	Sponsor's net pension liability (asset)	\$ (412,976)	\$ (652,787)

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.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

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

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

For the year ended September 30, 2016, the City recognized pension expense of \$106,393 related to the Public Safety Pension Plan. On September 30, 2016, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 119,444	\$ -
Differences between actual and expected experience	-	45,802
Total	\$ 119,444	\$ 45,802

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:

2017	\$ 23,575
2018	23,575
2019	23,576
2020	(3,180)
2021	815
Thereafter	5,281
	\$ 73,642

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

9. SUPPLEMENTAL RETIREMENT PLANS

Effective June 14, 2004, the City adopted the Florida Municipal Pension Trust Fund's Section 401(a) Deferred Contribution Plan. The plan is administered by the Florida Municipal Pension Trust Fund. The plan provisions are the same, 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 years ended September 30, 2016, 2015, and 2014, the amount of pension expense was \$107,355, \$102,563, and \$96,476, respectively. The City Commission has the authority to establish and amend the provisions of the plan.

Effective January 8, 1996, the City adopted the Florida Municipal Pension Trust Fund's Deferred Compensation Plan under Internal Revenue Code Section 457(b). The plan allows substantially all City employees to make pretax contributions to the plan, in accordance with the plan. The City does not make contributions to this plan.

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, 2016, 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.

11. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The following is a summary of interfund receivables and payables reported in the fund financial statements:

<u>September 30, 2016</u>	<u>Receivables</u>	<u>Payables</u>
Governmental funds		
General Fund	\$ 535,773	\$ -
Streets Fund		98,247
Stormwater Fund	2,941	-
Proprietary funds		
Utility Fund	-	253,404
Communication Fund	-	98,251
Sanitation Fund	-	88,812
Total	<u>\$ 538,714</u>	<u>\$ 538,714</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

11. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS – CONTINUED

Interfund amounts in the proprietary funds represent expenses paid by the General Fund on behalf of the other funds. The interfund amounts in the governmental funds represent revenues collected for the benefit of the special revenue funds that have not been transferred from the General Fund.

In fiscal year 2016 there were no interfund transfers.

12. LEASE EXPENSE

The City leases utility poles from Gulf Power for pole attachment privileges granted in connection with the furnishing of cable television services. The new agreement states rent is payable in advance annually at the rate of \$7.27 for the calendar year 2012, which will increase by 2% each calendar year extended (\$7.72 for calendar year 2016). Rent paid for the year ended September 30, 2016 was \$10,225. Beginning in October 2016, the lease was not formally renewed and is continuing under the same terms.

13. 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>
2017	\$ 53,416	\$ 25,664
2018	32,412	26,434
2019	17,951	27,227
2020	7,629	-
Total	<u>\$ 111,408</u>	<u>\$ 79,325</u>

The Utility Fund leases had original terms of five years and can be renewed for 4 successive 5 year periods on similar terms and conditions. The annual rent on these leases will increase by 3-4% per year. There was no unearned rent at September 30, 2016.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

13. LEASE REVENUE – CONTINUED

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. There was no unearned rent at September 30, 2016.

The General Fund's second lease is for a five year term at an annual rent of \$15,000. A second five year renewal option is available at renegotiated annual rent.

The General Fund and Utility Fund received a total of \$52,658 and \$24,916, respectively, in lease revenues during the current year.

14. GOVERNMENTAL FUND BALANCES

At September 30, 2016, 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	\$ 8,358	\$ -	\$ -	\$ 8,358
Restricted for				
Library	10,227	-	-	10,227
Law enforcement	8,847	-	-	8,847
Total restricted	19,074	-	-	19,074
Committed				
Cemetery maintenance	196,503	-	-	196,503
Public safety	29,615	-	-	29,615
Stormwater	-	-	135,247	135,247
Total committed	226,118	-	135,247	361,365
Assigned to				
Library	6,905	-	-	6,905
Parks	22,383	-	-	22,383
Transportation	-	169,008	-	169,008
Total assigned	29,288	169,008	-	198,296
Unassigned	1,334,669	-	-	1,334,669
Total Fund Balance	<u>\$ 1,617,507</u>	<u>\$ 169,008</u>	<u>\$ 135,247</u>	<u>\$ 1,921,762</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016**

15. CONTINGENT LIABILITIES

Litigation

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

16. 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.

17. 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.

18. LEGAL SETTLEMENT

In 2011, a former police officer filed a wrongful termination lawsuit against the City. In October 2014, a federal jury found in the former police officer's favor, and in December 2014, a judge ordered \$941,000 to be paid to the former officer in damages for future lost wages and benefits, emotional anguish and impairment of reputation, and other costs. In 2016, a final settlement of \$1.2 million was paid out to the plaintiff, which included the original judgement and legal costs. \$200,000 was paid out by the City and \$1,000,000 was paid by the City's insurance.

19. SUBSEQUENT EVENTS

In December 2016, the City entered into a Master Equipment Lease/Purchase Agreement with a financing institution for the purchase a firetruck. The total amount of the lease obligation is \$352,750. Annual payments are to be made in the amount of \$74,145, which includes interest at a rate of 1.68%. The lease will mature in December 2021.

In January 2017, the City entered into an agreement with Okaloosa County and City of Niceville to fund a portion of wastewater force main construction. The City will be responsible to cover costs in the amount of \$178,500, \$89,250 will be due upon 100% completion of planning and \$89,250 will be due after the project has achieved substantial completion.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF VALPARAISO, FLORIDA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,417,900	\$ 1,417,900	\$ 1,455,962	\$ 38,062
Permits and fees	371,500	371,500	399,472	27,972
Intergovernmental	688,540	688,540	719,994	31,454
Charges for services	416,000	416,000	383,128	(32,872)
Fines and forfeits	10,500	10,500	13,295	2,795
Miscellaneous	26,100	26,100	80,038	53,938
Total revenues	<u>2,930,540</u>	<u>2,930,540</u>	<u>3,051,889</u>	<u>121,349</u>
EXPENDITURES				
Current				
General government	795,710	995,710	976,558	19,152
Public safety	1,407,285	1,407,285	1,260,694	146,591
Physical environment	210,950	210,950	170,879	40,071
Culture and recreation	474,955	474,955	437,009	37,946
Capital outlay	139,750	139,750	128,676	11,074
Debt service				
Principal and interest	33,890	33,890	9,382	24,508
Total expenditures	<u>3,062,540</u>	<u>3,262,540</u>	<u>2,983,198</u>	<u>279,342</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>(132,000)</u>	<u>(332,000)</u>	<u>68,691</u>	<u>400,691</u>
OTHER FINANCING SOURCES (USES)				
Payment to refunded bond escrow	-	-	(143,750)	(143,750)
Refunding bonds issued	26,000	26,000	105,905	79,905
Transfers out	(6,000)	(6,000)	-	6,000
Total other financing sources (uses)	<u>20,000</u>	<u>20,000</u>	<u>(37,845)</u>	<u>(57,845)</u>
NET CHANGE IN FUND BALANCE	<u>(112,000)</u>	<u>(312,000)</u>	<u>30,846</u>	<u>342,846</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>112,000</u>	<u>312,000</u>	<u>1,586,661</u>	<u>1,274,661</u>
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,617,507</u>	<u>\$ 1,617,507</u>

**CITY OF VALPARAISO, FLORIDA
STREETS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 223,000	\$ 223,000	\$ 225,174	\$ 2,174
Intergovernmental	134,885	134,885	121,293	(13,592)
Miscellaneous	200	200	57,929	57,729
Total revenues	<u>358,085</u>	<u>358,085</u>	<u>404,396</u>	<u>46,311</u>
EXPENDITURES				
Current				
Transportation	288,285	288,285	188,864	99,421
Capital outlay	132,000	132,000	176,227	(44,227)
Debt service				
Principal and interest	58,300	58,300	51,095	7,205
Total expenditures	<u>478,585</u>	<u>478,585</u>	<u>416,186</u>	<u>62,399</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(120,500)</u>	<u>(120,500)</u>	<u>(11,790)</u>	<u>(16,088)</u>
OTHER FINANCING SOURCES (USES)				
Payment to refunded bond escrow	-	-	(549,769)	549,769
Refunding bonds issued	-	-	496,366	(496,366)
Total other financing sources	<u>-</u>	<u>-</u>	<u>(53,403)</u>	<u>53,403</u>
NET CHANGE IN FUND BALANCE	(120,500)	(120,500)	(65,193)	37,315
FUND BALANCE AT BEGINNING OF YEAR	120,500	120,500	234,201	113,701
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 169,008</u>	<u>\$ 169,008</u>

**CITY OF VALPARAISO, FLORIDA
STORMWATER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET
AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	\$ 45,000	\$ 45,000	\$ 46,225	\$ 1,225
Miscellaneous	75	75	2,837	2,762
Total revenues	<u>45,075</u>	<u>45,075</u>	<u>49,062</u>	<u>3,987</u>
EXPENDITURES				
Current				
Physical environment	45,075	26,075	11,400	14,675
Capital outlay	-	19,000	15,435	3,565
Total expenditures	<u>45,075</u>	<u>45,075</u>	<u>26,835</u>	<u>18,240</u>
NET CHANGE IN FUND BALANCE	-	-	22,227	18,662
FUND BALANCE AT BEGINNING OF YEAR	-	-	113,020	113,020
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 135,247</u>	<u>\$ 131,682</u>

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

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.000317841%	0.000293381%
City's proportionate share of the net pension liability (asset)	\$ 80,255	\$ 37,894
City's covered-employee payroll	\$ 1,356,940	\$ 1,324,519
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	5.91%	2.86%
Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%

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

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

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.000396859%	0.000388411%
City's proportionate share of the net pension liability (asset)	\$ 46,252	\$ 39,612
City's covered-employee payroll	\$ 1,356,940	\$ 1,324,519
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	3.41%	2.99%
Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%

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

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

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 7,751	\$ 7,153
Contributions in relation to the contractually required contribution	<u>(7,751)</u>	<u>(7,153)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,356,940	\$ 1,324,519
Contributions as a percentage of covered-employee payroll	0.57%	0.54%

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

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

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,034	\$ 1,485
Contributions in relation to the contractually required contribution	<u>(2,034)</u>	<u>(1,485)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,356,940	\$ 1,324,519
Contributions as a percentage of covered-employee payroll	0.15%	0.11%

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

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

Measurement Date	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 123,530	\$ 99,473
Interest	100,326	89,976
Differences between expected and actual experience	42,204	(34,250)
Benefit payments, including refunds of employee contributions	<u>(30,039)</u>	<u>(29,141)</u>
Net change in total pension liability	236,021	126,058
Total pension liability – beginning	<u>1,343,118</u>	<u>1,217,060</u>
Total pension liability – ending (a)	<u><u>\$ 1,579,139</u></u>	<u><u>\$ 1,343,118</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 166,749	\$ 153,593
Contributions – employee	10,430	10,255
Interest	140,129	131,153
Net investment income	19,983	(133,786)
Benefit payments, including refunds of employee contributions	<u>(30,039)</u>	<u>(29,141)</u>
Administrative expenses	<u>(9,521)</u>	<u>(10,374)</u>
Net change in plan fiduciary net position	297,731	121,700
Plan fiduciary net position – beginning	<u>1,934,195</u>	<u>1,812,495</u>
Plan fiduciary net position – ending (b)	<u><u>\$ 2,231,926</u></u>	<u><u>\$ 1,934,195</u></u>
Net pension liability (asset) – ending (a) – (b)	<u><u>\$ (652,787)</u></u>	<u><u>\$ (591,077)</u></u>
Plan fiduciary net position as a percentage of the total pension liability (asset)	141.34%	144.01%
Covered employee payroll	\$ 405,994	\$ 339,428
Net pension liability (asset) as a percentage of covered employee payroll	-160.79%	-174.14%

Notes to schedule:

Benefit changes: No changes in benefits.

Changes of assumptions: Change in enrolled actuary.

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

	<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>	<u>2007</u>
Actuarially determined contribution	\$ 94,181	\$ 65,067	\$ 226,641	\$ 191,687	\$ 105,205	\$ 139,758	\$ 138,587	\$ 102,297	\$ 97,072	\$ 92,935
Contributions in relation to the actuarially determined contributions	<u>166,749</u>	<u>153,593</u>	<u>146,466</u>	<u>131,683</u>	<u>122,951</u>	<u>121,084</u>	<u>117,939</u>	<u>104,931</u>	<u>146,957</u>	<u>87,274</u>
Contribution deficiency (excess)	<u><u>\$ (72,568)</u></u>	<u><u>\$ (88,526)</u></u>	<u><u>\$ 80,175</u></u>	<u><u>\$ 60,004</u></u>	<u><u>\$ (17,746)</u></u>	<u><u>\$ 18,674</u></u>	<u><u>\$ 20,648</u></u>	<u><u>\$ (2,634)</u></u>	<u><u>\$ (49,885)</u></u>	<u><u>\$ 5,661</u></u>
Covered employee payroll	\$ 405,994	\$ 339,428	Not available	\$ 297,343	\$ 337,623	Not available	\$ 374,161	Not available	Not available	Not available
Contributions as a percentage of covered employee payroll	41.07%	45.25%	Not available	44.29%	36.42%	Not available	31.52%	Not available	Not available	Not available

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

Valuation Date: October 1, 2015

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: 7.0% per year

Wage Inflation Rate: 2.9% per year

Salary increases: 4.5% per year

Mortality: RP-2000 Combined Healthy Participant Mortality Tables, projected to 2015 by Scale AA, as published by the Internal Revenue Service (IRS) for purposes of Internal Revenue Code (IRC) section 430; future generational improvements in mortality have not been reflected

Retirement: Retirement is assumed to occur at normal retirement age

Non-investment
expenses: 2.3% of covered payroll

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

**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, 2016.

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, 2016.

Warren Averett, LLC

Fort Walton Beach, Florida
April 10, 2017

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, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Valparaiso, Florida's basic financial statements and have issued our report thereon dated April 10, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Valparaiso, Florida'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 of Valparaiso, Florida'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. We did identify certain deficiencies in internal control, described in the accompanying findings and responses that we consider to be material weaknesses. [2016-1 and 2016-2]

Compliance and Other Matters

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

City of Valparaiso, Florida's Response to Findings

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

Purpose of this Report

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

We noted certain matters that we reported to the City of Valparaiso, Florida, in a separate management letter dated April 10, 2017.

Warren Averett, LLC

Fort Walton Beach, Florida
April 10, 2017

**CITY OF VALPARASIO, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2016**

FINDING 2016-1: UTILITY AND SANITATION RECEIVABLES

Criteria –Adjustments were proposed by the auditors’ and accepted by management to increase the allowance for doubtful accounts in the utility and sanitation funds.

Condition – Incorrect parameters were used to generate the utility billing receivable sub ledger at September 30, 2016 and as such management was not aware the allowances were understated. During audit fieldwork management and the auditors worked with the City’s software consultants to generate the correct aging reports which resulted in audit adjustments.

Cause – City personnel did not have a complete understanding of the parameters needed to generate the reports.

Effect –Adjustments were made to the utility fund and sanitation fund at September 30, 2016 which reduced reported income by approximately \$66,000 and \$24,000 respectively.

Recommendations – We recommend that the City reconcile the utility billing sub ledger to the control accounts on a monthly basis. In addition the aging should be reviewed to monitor the accounts receivable over 90 days and adjust the allowance as needed.

Views of the Responsible Officials and Planned Corrective Action – Management agrees with the recommendation and will implement during the year ended September 30, 2017.

FINDING 2016-2: CABLE TELEVISION RECEIVABLES

Criteria – The cable television accounts receivable detail did not agree to the control account at September 30, 2016.

Condition – Due to an error in a particular type of cash receipt posting, which was essentially posted twice in the sub ledger, the sub ledger was incorrect at September 30, 2016. However because the detail is not reconciled to the control account City personnel were not aware of the error until audit fieldwork. City personnel and the auditor worked with the City’s software consultants to determine the nature of the error.

Cause - City personnel are not reconciling the sub ledger to the control account on a monthly basis and as such the error in the sub ledger was not detected timely. There were new personnel in the Cable television function which contributed to the error in the cash receipt posting to the sub ledger.

Effect – The City’s system of internal control should be designed to detect and correct errors on a timely basis. The system did not function properly due to the lack of monthly reconciliations which allowed the system error to go undetected.

Recommendations – City personnel should reconcile the cable television sub ledger to the control account on a monthly basis. Written procedures for posting receipts to the cable television software should be created and reviewed by staff responsible for that function.

Views of the Responsible Officials and Planned Corrective Action – Management agrees with the recommendation and will implement during the year ended September 30, 2017.

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, as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated April 10, 2017.

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 Reports

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 April 10, 2017 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 of Valparaiso, Florida has been disclosed in Note 1 to the financial statements.

Financial Condition

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 of Valparaiso, Florida 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 of Valparaiso, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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 of Valparaiso, Florida'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 of Valparaiso, Florida, for the fiscal year ended September 30, 2016, 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, 2016. 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 of Valparaiso, Florida has no special districts that are component units.

Other 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
April 10, 2017