

*Vale of Paradise*



# City of Valparaiso, Florida Financial Statements September 30, 2014

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## **II. FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valparaiso, Florida, as of and for the year ended September 30, 2014, 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.

### ***Basis for Qualified Opinions***

As more fully described in Note 9 to the financial statements, the City has not implemented the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The City also has not implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as described in Note 11. In our opinion, the effects of these departures from accounting principles generally accepted in the United States of America on the governmental activities, business-type activities and the governmental funds are not reasonably determinable.

### ***Qualified Opinions***

In our opinion, except for the effects of not implementing the provisions of GASB Statement No. 67 and GASB Statement No. 45 as described in the Basis for Qualified Opinion paragraph, 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, 2014, 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 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 February 26, 2015, 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  
February 26, 2015

## **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, 2014. 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 \$200,127.
- Net position increased by \$115,328. Beginning net position was decreased \$92,224 as a result of a restatement due to the adoption of GASB Statement No. 65.
- Total revenues increased by 2.4% or \$163,715 and total expenses decreased by 0.7% or \$50,690. A significant portion of the increase in revenues is due to three factors: 1) increase in property tax revenues based on assessed values, 2) increase in utility tax and franchise fees based on consumption, and 3) proceeds from a mutual release agreement.

### **USING THE ANNUAL REPORT**

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by Statement 37. The Statement of Net Position and the Statement of Activities (on pages 9-10) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### **REPORTING THE CITY AS A WHOLE**

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

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

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



In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

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

## **REPORTING THE CITY'S FUNDS**

### ***FUND FINANCIAL STATEMENTS***

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

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

## **THE CITY AS TRUSTEE**

### ***REPORTING THE CITY'S FIDUCIARY RESPONSIBILITIES***

The City is the trustee, or fiduciary, for its employees' pension plan. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position on pages 23 and 24.

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, 2014 AND 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 1,977,944	\$ 1,763,744	\$ 3,637,654	\$ 3,752,544	\$ 5,615,598	\$ 5,516,288
Capital assets, net	3,805,010	3,952,640	4,309,107	4,460,914	8,114,117	8,413,554
<b>Total assets</b>	<b>5,782,954</b>	<b>5,716,384</b>	<b>7,946,761</b>	<b>8,213,458</b>	<b>13,729,715</b>	<b>13,929,842</b>
Current liabilities	193,359	232,889	381,072	393,763	574,431	626,652
Other liabilities	998,229	937,264	3,684,133	3,916,108	4,682,362	4,853,372
<b>Total liabilities</b>	<b>1,191,588</b>	<b>1,170,153</b>	<b>4,065,205</b>	<b>4,309,871</b>	<b>5,256,793</b>	<b>5,480,024</b>
Net position						
Net investment in capital assets	3,007,452	3,144,671	988,654	1,136,604	3,996,106	4,281,275
Restricted	18,210	16,986	600,741	559,848	618,951	576,834
Unrestricted	1,565,704	1,384,574	2,292,161	2,207,135	3,857,865	3,591,709
<b>Total net position</b>	<b>\$ 4,591,366</b>	<b>\$ 4,546,231</b>	<b>\$ 3,881,556</b>	<b>\$ 3,903,587</b>	<b>\$ 8,472,922</b>	<b>\$ 8,449,818</b>

For more detailed information, see the accompanying Statement of Net Position.

Total assets decreased by \$200,127 during the fiscal year ended September 30, 2014 primarily due to depreciation expense. Total liabilities decreased by \$223,231 from one year ago September 30, 2014 primarily due to repayments on bonds payable in the business-type activities.

The table on the following page 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, 2014 AND 2013**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>REVENUES</b>						
<b>Program revenues</b>						
Charges for services	\$ 533,554	\$ 556,569	\$ 3,595,659	\$ 3,597,681	\$ 4,129,213	\$ 4,154,250
Operating grants and contributions	50,067	44,101	-	-	50,067	44,101
Capital grants and contributions	25,355	18,095	-	-	25,355	18,095
<b>General revenues</b>						
Property taxes	812,089	787,355	-	-	812,089	787,355
Public service taxes	1,032,822	998,660	-	-	1,032,822	998,660
Franchise taxes	354,983	316,166	-	-	354,983	316,166
Intergovernmental, unrestricted	381,255	376,576	-	-	381,255	376,576
Investment earnings	4,698	4,305	2,480	2,797	7,178	7,102
Sales of capital assets	4,047	3,702	-	-	4,047	3,702
Miscellaneous	79,167	11,237	7,755	2,972	86,922	14,209
<b>TOTAL REVENUES</b>	<b>3,278,037</b>	<b>3,116,766</b>	<b>3,605,894</b>	<b>3,603,450</b>	<b>6,883,931</b>	<b>6,720,216</b>
<b>EXPENSES</b>						
<b>Primary government</b>						
General government	868,590	750,629	-	-	868,590	750,629
Public safety	1,220,615	1,342,768	-	-	1,220,615	1,342,768
Physical environment	235,613	269,532	-	-	235,613	269,532
Transportation	375,221	404,774	-	-	375,221	404,774
Culture and recreation	497,394	472,817	-	-	497,394	472,817
Debt service interest	35,469	16,999	-	-	35,469	16,999
<b>Business-type activities</b>						
Utility	-	-	1,257,558	1,227,704	1,257,558	1,227,704
Communication	-	-	1,594,020	1,648,699	1,594,020	1,648,699
Sanitation	-	-	684,123	685,371	684,123	685,371
<b>TOTAL EXPENSES</b>	<b>3,232,902</b>	<b>3,257,519</b>	<b>3,535,701</b>	<b>3,561,774</b>	<b>6,768,603</b>	<b>6,819,293</b>
<b>Increase (decrease) in net position before transfers</b>	<b>45,135</b>	<b>(140,753)</b>	<b>70,193</b>	<b>41,676</b>	<b>115,328</b>	<b>(99,077)</b>
Transfers	-	(383,481)	-	383,481	-	-
<b>CHANGE IN NET POSITION</b>	<b>45,135</b>	<b>(524,234)</b>	<b>70,193</b>	<b>425,157</b>	<b>115,328</b>	<b>(99,077)</b>
<b>NET POSITION AT BEGINNING OF YEAR, RESTATED</b>	<b>4,546,231</b>	<b>5,070,465</b>	<b>3,811,363</b>	<b>3,478,430</b>	<b>8,357,594</b>	<b>8,548,895</b>
<b>NET POSITION AT END OF YEAR</b>	<b>\$ 4,591,366</b>	<b>\$ 4,546,231</b>	<b>\$ 3,881,556</b>	<b>\$ 3,903,587</b>	<b>\$ 8,472,922</b>	<b>\$ 8,449,818</b>

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

The City's total revenues increased by \$163,715 or 2.4% and total expenses decreased by \$50,690, or 0.7%. Net position increased by \$115,328 for fiscal year 2014. Our analysis below separately considers the operations of governmental and business-type activities.

### **Governmental Activities**

The City's revenue for governmental activities increased \$161,271, or 5.2%, compared to the prior year. This increase is attributable towards increased utility franchise fees and taxes, along with increased property tax revenue, compared to the prior year. Expenses decreased \$24,617, or 0.8% from the previous year.

### **Business-type Activities**

Revenues of the City's business-type activities show an increase of 0.1% or \$2,444 from the previous fiscal year. Expenses decreased 0.7% or \$26,073.

## **THE CITY'S FUNDS**

As the City completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of \$1.7 million, which is \$130 thousand higher than last year's total. The increase in fund balance is primarily the result of issuances of capital lease obligations among other factors.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **CAPITAL ASSETS**

At September 30, 2014, the City had approximately \$8.1 million invested in capital assets (net of depreciation). This amount represents a net decrease (including additions and deductions) of \$299,437 or 3.6% over the fiscal year 2013 total. See note 5 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, 2014 AND 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 455,209	\$ 455,209	\$ 90,603	\$ 90,603	\$ 545,812	\$ 545,812
Buildings and improvements	1,144,946	1,148,510	2,151,669	2,221,096	3,296,615	3,369,606
Infrastructure	1,690,780	1,823,871	-	-	1,690,780	1,823,871
Machinery, equipment and vehicles	514,075	525,050	2,066,835	2,149,215	2,580,910	2,674,265
<b>Total</b>	<b>\$ 3,805,010</b>	<b>\$ 3,952,640</b>	<b>\$ 4,309,107</b>	<b>\$ 4,460,914</b>	<b>\$ 8,114,117</b>	<b>\$ 8,413,554</b>

## DEBT

At September 30, 2014, the City had \$4.4 million in bonds outstanding, net of unamortized discount, premium and deferred refunding expenses, versus \$4.7 million in the prior year, a decrease of \$230,588 as shown below. The City also had \$46,239 in lease obligations versus \$15,951 in the prior year, an increase of \$30,288 due to the lease of a new truck in the current fiscal year.

Table 4  
CITY OF VALPARAISO, FLORIDA  
LONG-TERM DEBT OUTSTANDING  
AS OF SEPTEMBER 30, 2014 AND 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Capital leases	\$ 46,239	\$ -	\$ -	\$ 15,951	\$ 46,239	\$ 15,951
Bonds payable, net	751,319	807,969	3,654,958	3,859,184	4,406,277	4,667,153
<b>Total</b>	<b>\$ 797,558</b>	<b>\$ 807,969</b>	<b>\$ 3,654,958</b>	<b>\$ 3,875,135</b>	<b>\$ 4,452,516</b>	<b>\$ 4,683,104</b>

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 \$463,683 in 2016.

For additional information on debt, see Note 7 in the accompanying financial statements.

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

Amounts available for appropriation in the FY 2015 General Fund budget are approximately \$2.9 million which is lower than the final FY 2014 budget by approximately \$100,000. The City added no major new programs to the FY 2015 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, 2014**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,387,409	\$ 781,012	\$ 2,168,421
Accounts receivables, net	11,921	292,041	303,962
Internal balances	320,104	(320,104)	-
Due from other governments	94,996	-	94,996
Inventory, at cost	-	75,991	75,991
Prepaid items	3,528	7,669	11,197
Restricted assets			
Cash and cash equivalents	35,434	1,185,973	1,221,407
Capital assets			
Non-depreciable	455,209	90,603	545,812
Depreciable, net	3,349,801	4,218,504	7,568,305
Other assets			
Investment in joint venture	-	1,615,072	1,615,072
Net pension asset	124,552	-	124,552
<b>TOTAL ASSETS</b>	<b>5,782,954</b>	<b>7,946,761</b>	<b>13,729,715</b>
<b>LIABILITIES</b>			
Accounts payable	133,590	150,227	283,817
Accrued liabilities	35,217	12,910	48,127
Accrued interest	13,805	-	13,805
Due to other governments	10,747	-	10,747
Payable from restricted assets			
Accrued interest	-	71,169	71,169
Customer deposits	-	146,766	146,766
Non-current liabilities			
Due within one year			
Compensated absences	130,171	29,175	159,346
Lease payable	18,235	-	18,235
Bonds payable	57,800	212,200	270,000
Due in more than one year			
Lease payable	28,004	-	28,004
Bonds payable, net	693,519	3,442,758	4,136,277
Contingency payable	70,500	-	70,500
<b>TOTAL LIABILITIES</b>	<b>1,191,588</b>	<b>4,065,205</b>	<b>5,256,793</b>
<b>NET POSITION</b>			
Net investment in capital assets	3,007,452	988,654	3,996,106
Restricted			
Debt service	-	496,986	496,986
Capital projects	-	103,755	103,755
Library	9,391	-	9,391
Public safety	8,819	-	8,819
Unrestricted	1,565,704	2,292,161	3,857,865
<b>TOTAL NET POSITION</b>	<b>\$ 4,591,366</b>	<b>\$ 3,881,556</b>	<b>\$ 8,472,922</b>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Function/program activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental activities							
General government	\$ 868,590	\$ 421,439	\$ -	\$ -	\$ (447,151)	\$ -	\$ (447,151)
Public safety	1,220,615	23,414	-	5,976	(1,191,225)	-	(1,191,225)
Physical environment	235,613	85,154	-	-	(150,459)	-	(150,459)
Transportation	375,221	-	-	-	(375,221)	-	(375,221)
Culture and recreation	497,394	3,547	50,067	19,379	(424,401)	-	(424,401)
Debt service interest	35,469	-	-	-	(35,469)	-	(35,469)
<b>Total governmental activities</b>	<b>3,232,902</b>	<b>533,554</b>	<b>50,067</b>	<b>25,355</b>	<b>(2,623,926)</b>	<b>-</b>	<b>(2,623,926)</b>
Business-type activities							
Utility	1,257,558	1,332,348	-	-	-	74,790	74,790
Communication	1,594,020	1,485,349	-	-	-	(108,671)	(108,671)
Sanitation	684,123	777,962	-	-	-	93,839	93,839
<b>Total business-type activities</b>	<b>3,535,701</b>	<b>3,595,659</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,958</b>	<b>59,958</b>
<b>Total primary government</b>	<b>\$ 6,768,603</b>	<b>\$ 4,129,213</b>	<b>\$ 50,067</b>	<b>\$ 25,355</b>	<b>\$ (2,623,926)</b>	<b>\$ 59,958</b>	<b>\$ (2,563,968)</b>
<b>General revenues</b>							
Taxes							
Property taxes					\$ 812,089	\$ -	\$ 812,089
Utility service taxes					602,249	-	602,249
Sales taxes					430,573	-	430,573
Franchise taxes					354,983	-	354,983
Intergovernmental, unrestricted					381,255	-	381,255
Investment earnings					4,698	2,480	7,178
Gain (loss) on sale of assets					4,047	-	4,047
Miscellaneous					79,167	7,755	86,922
<b>Total general revenues and transfers</b>					<b>2,669,061</b>	<b>10,235</b>	<b>2,679,296</b>
Change in net position					45,135	70,193	115,328
Net position - beginning of year, as restated (see footnote 3)					4,546,231	3,811,363	8,357,594
Net position - end of year					<b>\$ 4,591,366</b>	<b>\$ 3,881,556</b>	<b>\$ 8,472,922</b>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
SEPTEMBER 30, 2014**

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,167,713	\$ 126,080	\$ 93,616	\$ 1,387,409
Accounts receivables, net	6,636	-	5,285	11,921
Due from other funds	231,138	86,189	2,777	320,104
Due from other governments	64,094	30,902	-	94,996
Prepaid items	3,528	-	-	3,528
Restricted assets				
Cash and cash equivalents	35,434	-	-	35,434
<b>TOTAL ASSETS</b>	<u>\$ 1,508,543</u>	<u>\$ 243,171</u>	<u>\$ 101,678</u>	<u>\$ 1,853,392</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 127,768	\$ 5,822	\$ -	\$ 133,590
Accrued liabilities	33,725	426	1,066	35,217
Due to other governments	10,747	-	-	10,747
Total liabilities	<u>172,240</u>	<u>6,248</u>	<u>1,066</u>	<u>179,554</u>
<b>FUND BALANCE</b>				
Nonspendable	3,528	-	-	3,528
Restricted	18,210	-	-	18,210
Committed	200,573	-	100,612	301,185
Assigned	71,940	236,923	-	308,863
Unassigned	1,042,052	-	-	1,042,052
Total fund balance	<u>1,336,303</u>	<u>236,923</u>	<u>100,612</u>	<u>1,673,838</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 1,508,543</u>	<u>\$ 243,171</u>	<u>\$ 101,678</u>	<u>\$ 1,853,392</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, 2014**

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Fund balance, total governmental funds (page 11)	\$ 1,673,838
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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	7,747,458	
Less accumulated depreciation	<u>(4,397,657)</u>	
		3,805,010

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

Net pension asset	124,552
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Bonds payable	(751,319)	
Lease payable	(46,239)	
Accrued interest	(13,805)	
Contingency payable	(70,500)	
Compensated absences	<u>(130,171)</u>	
		<u>(1,012,034)</u>

Net position of governmental activities (page 9)	<u><u>\$ 4,591,366</u></u>
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See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 1,311,121	\$ 203,588	\$ -	\$ 1,514,709
Permits and fees	398,872	-	-	398,872
Intergovernmental	671,147	137,682	-	808,829
Charges for services	380,945	-	45,321	426,266
Fines and forfeits	20,332	-	-	20,332
Miscellaneous	104,263	4,645	121	109,029
Total revenues	<u>2,886,680</u>	<u>345,915</u>	<u>45,442</u>	<u>3,278,037</u>
<b>EXPENDITURES</b>				
Current				
General government	761,756	-	-	761,756
Public safety	1,236,003	-	-	1,236,003
Physical environment	208,606	-	12,064	220,670
Transportation	-	232,984	-	232,984
Culture and recreation	403,052	-	-	403,052
Capital outlay	157,370	91,144	-	248,514
Debt service				
Principal and interest	33,890	66,587	-	100,477
Total expenditures	<u>2,800,677</u>	<u>390,715</u>	<u>12,064</u>	<u>3,203,456</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>86,003</u>	<u>(44,800)</u>	<u>33,378</u>	<u>74,581</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuances of debt	-	55,229	-	55,229
Transfers in	-	27,155	-	27,155
Transfers out	(27,155)	-	-	(27,155)
Total other financing sources (uses)	<u>(27,155)</u>	<u>82,384</u>	<u>-</u>	<u>55,229</u>
<b>NET CHANGE IN FUND BALANCE</b>	58,848	37,584	33,378	129,810
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>1,277,455</u>	<u>199,339</u>	<u>67,234</u>	<u>1,544,028</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 1,336,303</u>	<u>\$ 236,923</u>	<u>\$ 100,612</u>	<u>\$ 1,673,838</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, 2014**

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Net change in fund balance - governmental funds (page 13) \$ 129,810

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

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

Expenditures for capital assets	248,514	
Less current year depreciation	<u>(396,144)</u>	
		(147,630)

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.

Issuance of capital lease	(55,229)	
Principal payments on bond	56,650	
Principal payments on lease	8,990	
Change in accrued interest on long-term debt	<u>(632)</u>	
		9,779

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

Change in net pension asset	124,552	
Change in long-term compensated absences	(876)	
Accrual of contingency payable	<u>(70,500)</u>	
		<u>53,176</u>

Change in net position of governmental activities (page 10) \$ 45,135

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Taxes	\$ 1,297,070	\$ 1,297,070	\$ 1,311,121	\$ 14,051
Permits and fees	362,000	362,000	398,872	36,872
Intergovernmental	665,125	665,125	671,147	6,022
Charges for services	395,850	395,850	380,945	(14,905)
Fines and forfeits	21,800	21,800	20,332	(1,468)
Miscellaneous	107,970	107,970	104,263	(3,707)
Total revenues	<u>2,849,815</u>	<u>2,849,815</u>	<u>2,886,680</u>	<u>36,865</u>
<b>EXPENDITURES</b>				
Current				
General government	771,920	771,920	761,756	10,164
Public safety	1,327,835	1,327,835	1,236,003	91,832
Physical environment	237,000	237,000	208,606	28,394
Culture and recreation	433,075	433,075	403,052	30,023
Capital outlay	93,500	142,500	157,370	(14,870)
Debt service				
Principal and interest	7,830	7,830	33,890	(26,060)
Total expenditures	<u>2,871,160</u>	<u>2,920,160</u>	<u>2,800,677</u>	<u>119,483</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(21,345)</u>	<u>(70,345)</u>	<u>86,003</u>	<u>156,348</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(176,455)	(176,455)	(27,155)	149,300
<b>NET CHANGE IN FUND BALANCE</b>	(197,800)	(246,800)	58,848	305,648
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	197,800	246,800	1,277,455	1,030,655
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,336,303</u>	<u>\$ 1,336,303</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
STREETS FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Taxes	\$ 239,740	\$ 239,740	\$ 203,588	\$ (36,152)
Intergovernmental	130,195	130,195	137,682	7,487
Miscellaneous	500	500	4,645	4,145
Total revenues	<u>370,435</u>	<u>370,435</u>	<u>345,915</u>	<u>(24,520)</u>
<b>EXPENDITURES</b>				
Current				
Transportation	283,290	283,290	232,984	50,306
Capital outlay	68,000	68,000	91,144	(23,144)
Debt service				
Principal and interest	58,300	58,300	66,587	(8,287)
Total expenditures	<u>409,590</u>	<u>409,590</u>	<u>390,715</u>	<u>18,875</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(39,155)</u>	<u>(39,155)</u>	<u>(44,800)</u>	<u>(5,645)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuances of debt	-	-	55,229	55,229
Transfers in	-	-	27,155	27,155
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>82,384</u>	<u>82,384</u>
<b>NET CHANGE IN FUND BALANCE</b>	(39,155)	(39,155)	37,584	76,739
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>39,155</u>	<u>39,155</u>	<u>199,339</u>	<u>160,184</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 236,923</u>	<u>\$ 236,923</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
STORMWATER FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Charges for services	\$ 45,000	\$ 45,000	\$ 45,321	\$ 321
Miscellaneous	50	50	121	71
Total revenues	<u>45,050</u>	<u>45,050</u>	<u>45,442</u>	<u>392</u>
<b>EXPENDITURES</b>				
Current				
Physical environment	19,983	19,983	12,064	7,919
<b>NET CHANGE IN FUND BALANCE</b>	25,067	25,067	33,378	8,311
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>67,234</u>	<u>67,234</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 25,067</u>	<u>\$ 25,067</u>	<u>\$ 100,612</u>	<u>\$ 75,545</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2014**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 178,076	\$ 423,661	\$ 179,275	\$ 781,012
Accounts receivables, net	180,742	31,965	79,334	292,041
Inventory, at cost	52,934	23,057	-	75,991
Prepaid items	-	7,669	-	7,669
<b>Total current assets</b>	<u>411,752</u>	<u>486,352</u>	<u>258,609</u>	<u>1,156,713</u>
Non-current assets				
Restricted assets				
Cash and cash equivalents	989,562	196,411	-	1,185,973
Capital assets				
Non-depreciable	40,287	50,316	-	90,603
Depreciable, net	2,491,285	1,362,714	364,505	4,218,504
<b>Total capital assets</b>	<u>2,531,572</u>	<u>1,413,030</u>	<u>364,505</u>	<u>4,309,107</u>
Other assets				
Investment in joint venture	1,615,072	-	-	1,615,072
<b>Total non-current assets</b>	<u>5,136,206</u>	<u>1,609,441</u>	<u>364,505</u>	<u>7,110,152</u>
<b>TOTAL ASSETS</b>	<u>5,547,958</u>	<u>2,095,793</u>	<u>623,114</u>	<u>8,266,865</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION - CONTINUED  
 SEPTEMBER 30, 2014**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	52,478	76,115	21,634	150,227
Accrued liabilities				
Compensated absences	8,382	7,237	13,556	29,175
Other	3,364	4,080	5,466	12,910
Due to other funds	176,482	124,755	18,867	320,104
Payable from restricted assets				
Customer deposits	146,766	-	-	146,766
Accrued interest	42,057	29,112	-	71,169
Revenue bonds payable	136,800	75,400	-	212,200
Total current liabilities	<u>566,329</u>	<u>316,699</u>	<u>59,523</u>	<u>942,551</u>
Non-current liabilities				
Revenue bonds payable, net	2,166,924	1,275,834	-	3,442,758
<b>TOTAL LIABILITIES</b>	<u>2,733,253</u>	<u>1,592,533</u>	<u>59,523</u>	<u>4,385,309</u>
<b>NET POSITION</b>				
Net investment in capital assets	562,353	61,796	364,505	988,654
Restricted				
Debt service	300,575	196,411	-	496,986
Capital projects	103,755	-	-	103,755
Unrestricted	1,848,022	245,053	199,086	2,292,161
<b>TOTAL NET POSITION</b>	<u>\$ 2,814,705</u>	<u>\$ 503,260</u>	<u>\$ 563,591</u>	<u>\$ 3,881,556</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, 2014**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,243,857	\$ 1,485,349	\$ 777,962	\$ 3,507,168
<b>OPERATING EXPENSES</b>				
Personal services	240,772	238,580	374,157	853,509
Operating	675,273	1,092,905	266,223	2,034,401
Depreciation expense	236,785	204,355	43,743	484,883
Total operating expenses	<u>1,152,830</u>	<u>1,535,840</u>	<u>684,123</u>	<u>3,372,793</u>
<b>OPERATING INCOME (LOSS)</b>	<u>91,027</u>	<u>(50,491)</u>	<u>93,839</u>	<u>134,375</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest expense	(97,189)	(56,380)	-	(153,569)
Other debt service costs	(7,539)	(1,800)	-	(9,339)
Equity earnings in joint venture	88,491	-	-	88,491
Interest income	1,261	750	469	2,480
Miscellaneous	678	3,479	3,598	7,755
Total non-operating revenues (expenses)	<u>(14,298)</u>	<u>(53,951)</u>	<u>4,067</u>	<u>(64,182)</u>
<b>CHANGE IN NET POSITION</b>	<u>76,729</u>	<u>(104,442)</u>	<u>97,906</u>	<u>70,193</u>
<b>NET POSITION AT BEGINNING OF YEAR, RESTATED</b>	<u>2,737,976</u>	<u>607,702</u>	<u>465,685</u>	<u>3,811,363</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 2,814,705</u>	<u>\$ 503,260</u>	<u>\$ 563,591</u>	<u>\$ 3,881,556</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 1,242,828	\$ 1,470,015	\$ 768,225	\$ 3,481,068
Payments to suppliers	(721,589)	(1,075,877)	(254,013)	(2,051,479)
Payments to employees	(242,560)	(252,261)	(374,409)	(869,230)
Miscellaneous income	678	3,479	3,598	7,755
Net cash provided by operating activities	<u>279,357</u>	<u>145,356</u>	<u>143,401</u>	<u>568,114</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Receipts (payments) on interfund balances	<u>9,770</u>	<u>(5,931)</u>	<u>(68,879)</u>	<u>(65,040)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets related to joint venture	(141,030)	-	-	(141,030)
Purchase and construction of capital assets	(100,372)	(12,821)	(219,883)	(333,076)
Principal paid on bonds	(123,533)	(72,500)	(15,951)	(211,984)
Interest paid on bonds and leases	(100,623)	(59,379)	-	(160,002)
Other debt service costs	(4,997)	(1,800)	-	(6,797)
Net cash used in capital and related financing activities	<u>(470,555)</u>	<u>(146,500)</u>	<u>(235,834)</u>	<u>(852,889)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	<u>1,261</u>	<u>750</u>	<u>469</u>	<u>2,480</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(180,167)	(6,325)	(160,843)	(347,335)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,347,805</u>	<u>626,397</u>	<u>340,118</u>	<u>2,314,320</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,167,638</u>	<u>\$ 620,072</u>	<u>\$ 179,275</u>	<u>\$ 1,966,985</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF</b>				
Current	\$ 178,076	\$ 423,661	\$ 179,275	\$ 781,012
Restricted	<u>989,562</u>	<u>196,411</u>	<u>-</u>	<u>1,185,973</u>
Total cash and cash equivalents	<u>\$ 1,167,638</u>	<u>\$ 620,072</u>	<u>\$ 179,275</u>	<u>\$ 1,966,985</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS - CONTINUED  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 91,027	\$ (50,491)	\$ 93,839	\$ 134,375
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	236,785	204,355	43,743	484,883
Miscellaneous revenue	678	3,479	3,598	7,755
Decrease (increase) in assets				
Accounts receivable, net	(15,695)	(15,334)	(9,737)	(40,766)
Inventory	(5,508)	10,101	-	4,593
Prepaid items	-	3,523	-	3,523
Increase (decrease) in liabilities				
Accounts payable	(40,808)	3,404	12,210	(25,194)
Customer deposits - restricted	14,666	-	-	14,666
Salaries and benefits payable	(346)	(2,481)	(1,096)	(3,923)
Accrued compensated absences	(1,442)	(11,200)	844	(11,798)
Net cash provided by operating activities	<u>\$ 279,357</u>	<u>\$ 145,356</u>	<u>\$ 143,401</u>	<u>\$ 568,114</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
SEPTEMBER 30, 2014**

	<b>Pension Trust Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 10,839
Investments, at fair value	
Fixed income mutual funds	711,753
Equity mutual funds	1,083,888
Due from State of Florida	10,747
Employer receivable	5,347
Plan member receivable	668
<b>TOTAL ASSETS</b>	<b>\$ 1,823,242</b>
<b>FIDUCIARY NET POSITION</b>	
Held in trust for pension and employee retirement benefits	<b>\$ 1,823,242</b>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<b>Pension Trust Fund</b>
<b>ADDITIONS</b>	
Contributions	
Employer	\$ 76,500
Plan members	9,563
State of Florida	70,606
Total contributions	156,669
Investment income	
Net appreciation in fair value of investments	134,621
Less investment expense	(3,334)
Net investment income	131,287
<b>TOTAL ADDITIONS</b>	<b>287,956</b>
<b>DEDUCTIONS</b>	
Pension benefits paid	31,997
Professional services	900
Administrative expense	1,000
<b>TOTAL DEDUCTIONS</b>	<b>33,897</b>
<b>CHANGE IN FIDUCIARY NET POSITION</b>	254,059
<b>FIDUCIARY NET POSITION AT BEGINNING OF YEAR</b>	1,569,183
<b>FIDUCIARY NET POSITION AT END OF YEAR</b>	<b>\$ 1,823,242</b>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

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**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 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, 2014**

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**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, 2014**

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**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, 2014
Levy Date	November 1, 2014
Due Date	November 1, 2014
Delinquent Date	April 1, 2015

One-percent discounts are granted for each month taxes are paid prior to March 2015.

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, 2014

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**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, 2014**

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**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 the Treasurer to invest 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: Bond Fund, Growth Fund, Index Fund, Small to Mid 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, 2014**

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**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, 2014, accounts receivable totaled \$26,308, net of an allowance of doubtful accounts of \$14,387.

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, 2014, accounts receivable totaled \$373,992, net of an allowance for doubtful accounts of \$81,951.

**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, 2014

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**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, 2014

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**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:

<u>Assets</u>	<u>Years</u>
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

**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.

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.

**CITY OF VALPARAISO, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**

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**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, 2014

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**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 February 26, 2015, 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, 2014**

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## **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. CHANGE IN ACCOUNTING PRINCIPLE - RESTATEMENT OF NET POSITION**

The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities (GASB 65)*, effective for reporting periods beginning after December 15, 2012. The statement amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The impact of the City's adoption of GASB 65 in 2014 requires the City to restate the beginning net position in the business-type activities statement of activities and the proprietary funds statement of revenues, expenses, and changes in net position in the amount of the deferred charges related to debt issuance costs of previously issued bonds payable. The City's beginning net position was decreased \$92,224, restated to \$3,811,363, and resulted in the removal of bond issuance costs, previously reported as an asset.

## **4. 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.



**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

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**4. CASH AND INVESTMENTS - CONTINUED**

At year-end, the value of the City's deposits was \$2,428,990, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

**Investments**

As of September 30, 2014, the City's investments consist of those held in the pension trust funds. The types of investments, which can be made by the City, are restricted by state statutes, retirement fund plan documents, and other contractual agreements. A description of the requirements and the types of investments allowed can be found in Note 1.

The City has a beneficial interest in shares in a local government investment pool and not the individual securities held within each portfolio. As of September 30, 2014, the asset allocation for the defined benefit plan investment pool was as follows:

Investment Portfolio/Funds	Asset Allocation Percentage
Cash and Money Market	0.6%
FMIvT Broad Market High Quality Bond	16.0%
FMIvT Core Plus	23.4%
FMIvT High Quality Growth	8.0%
FMIvT Large Cap Diversified Value	8.2%
FMIvT Russell 1000 Enhanced Index	23.4%
FMIvT Diversified Small to Mid Cap Equity	10.9%
FMIvT International Equity	9.5%
Total	100%

*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.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**4. CASH AND INVESTMENTS – CONTINUED**

**Investments – Continued**

*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, 2014, the City’s investments were rated as follows:

Credit Risk for Investment Pool	
Fixed Income Funds	Fitch Rating
FMLvT Broad Market High Quality Bond	AA/V4
FMLvT Core Plus Fixed Income Fund	Not Rated
Equity Portfolios	
FMLvT High Quality Growth	Not Rated
FMLvT Large Cap Diversified Value	Not Rated
FMLvT Russell 1000 Enhanced Index	Not Rated
FMLvT Diversified Small to Mid Cap Equity	Not Rated
FMLvT International Equity	Not Rated

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

Fixed Income Funds	Interest Rate Risk Information	
	Duration (Effective)	WAM
FMLvT Broad Market High Quality Bond	4.77 Years	6.47 Years
FMLvT Core Plus Fixed Income Fund	2.91 Years	6.52 Years

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

Deposits	\$ 3,400,667
Investments	1,795,641
	5,196,308
Total	\$ 5,196,308
Cash and cash equivalents, primary government	\$ 2,168,421
Restricted cash and cash equivalents, primary government	1,221,407
Total primary government	3,389,828
Cash and cash equivalents, fiduciary funds	10,839
Investments, fiduciary funds	1,795,641
Total fiduciary funds	1,806,480
Grand total	\$ 5,196,308

**CITY OF VALPARAISO, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**

**5. CHANGES IN CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 455,209	\$ -	\$ -	\$ 455,209
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>455,209</u>	<u>-</u>	<u>-</u>	<u>455,209</u>
Capital assets being depreciated				
Buildings	2,227,797	76,206	(50,452)	2,253,551
Infrastructure	3,296,320	18,250	-	3,314,570
Machinery, equipment, and vehicles	2,175,593	154,058	(150,314)	2,179,337
Total capital assets being depreciated	<u>7,699,710</u>	<u>248,514</u>	<u>(200,766)</u>	<u>7,747,458</u>
Less accumulated depreciation				
Buildings	(1,079,287)	(79,770)	50,452	(1,108,605)
Infrastructure	(1,472,449)	(151,341)	-	(1,623,790)
Machinery, equipment, and vehicles	(1,650,543)	(165,033)	150,314	(1,665,262)
Total accumulated depreciation	<u>(4,202,279)</u>	<u>(396,144)</u>	<u>200,766</u>	<u>(4,397,657)</u>
Total capital assets being depreciated, net	<u>3,497,431</u>	<u>(147,630)</u>	<u>-</u>	<u>3,349,801</u>
<b>Governmental activities, net</b>	<u>\$ 3,952,640</u>	<u>\$ (147,630)</u>	<u>\$ -</u>	<u>\$ 3,805,010</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 90,603	\$ -	\$ -	\$ 90,603
Capital assets being depreciated				
Buildings and improvements	6,455,458	96,696	(1,027)	6,551,127
Machinery, equipment, and vehicles	4,457,520	236,380	(132,244)	4,561,656
Total capital assets being depreciated	<u>10,912,978</u>	<u>333,076</u>	<u>(133,271)</u>	<u>11,112,783</u>
Less accumulated depreciation				
Buildings and improvements	(4,234,362)	(166,123)	1,027	(4,399,458)
Machinery, equipment, and vehicles	(2,308,305)	(318,760)	132,244	(2,494,821)
Total accumulated depreciation	<u>(6,542,667)</u>	<u>(484,883)</u>	<u>133,271</u>	<u>(6,894,279)</u>
Total capital assets being depreciated, net	<u>4,370,311</u>	<u>(151,807)</u>	<u>-</u>	<u>4,218,504</u>
<b>Business-type activities, net</b>	<u>\$ 4,460,914</u>	<u>\$ (151,807)</u>	<u>\$ -</u>	<u>\$ 4,309,107</u>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

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**5. CHANGES IN CAPITAL ASSETS – CONTINUED**

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

<b>Governmental activities</b>	
General government	\$ 33,448
Public safety	111,150
Physical environment	14,943
Transportation	140,120
Culture and recreation	<u>96,483</u>
Total depreciation/amortization expense - governmental activities	<u>\$ 396,144</u>
<b>Business-type activities</b>	
Utility	\$ 236,785
Communication	204,355
Sanitation	<u>43,743</u>
Total depreciation/amortization expense - business-type activities	<u>\$ 484,883</u>

**6. 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, 2014**

**6. 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 \$229,521 for the year ended September 30, 2014, which is composed of \$88,491 in equity earnings and \$141,030 for the City's portion of the ongoing facility upgrades. The City's portion of the equity in the joint venture is \$1,615,072 at September 30, 2014.

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, 2014. 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, 2014**

<b>Assets</b>	
Current assets	\$ 2,020,305
Capital assets, net of accumulated depreciation	<u>6,020,365</u>
<b>Total assets</b>	<u><u>\$ 8,040,670</u></u>
<b>Liabilities and net position</b>	
Liabilities	\$ 92,076
Net position	<u>7,948,594</u>
<b>Total liabilities and net position</b>	<u><u>\$ 8,040,670</u></u>

**Summary of Operating Results  
For the Year Ended June 30, 2014**

Sewer operating revenues	\$ 2,200,518
Operating expenses	<u>1,772,274</u>
Operating income	<u>428,244</u>
Non-operating revenues (expenses), net	<u>14,209</u>
Net income before capital contributions	<u>442,453</u>
Capital contributions	<u>735,732</u>
Change in net position	<u><u>\$ 1,178,185</u></u>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**7. LONG-TERM DEBT**

**Changes in Long – Term Debt Liabilities**

Long-term debt activity for the year ended September 30, 2014, is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Capital lease payable	\$ -	\$ 55,229	\$ (8,990)	\$ 46,239	\$ 18,235
Bonds payable	807,969	-	(56,650)	751,319	57,800
Compensated absences	129,295	67,108	(66,232)	130,171	130,171
<b>Total governmental activities</b>	<u>\$ 937,264</u>	<u>\$ 122,337</u>	<u>\$ (131,872)</u>	<u>\$ 927,729</u>	<u>\$ 206,206</u>
<b>Business-type activities</b>					
Bonds payable	\$ 3,852,032	\$ -	\$ (204,601)	\$ 3,647,431	\$ 212,200
Bond premium	39,120	-	(4,506)	34,614	-
Bond discount	(23,260)	-	862	(22,398)	-
Deferred refunded costs	(8,708)	-	4,019	(4,689)	-
Capital lease payable	15,951	-	(15,951)	-	-
Compensated absences	40,973	8,121	(19,919)	29,175	29,175
<b>Total business-type activities</b>	<u>\$ 3,916,108</u>	<u>\$ 8,121</u>	<u>\$ (240,096)</u>	<u>\$ 3,684,133</u>	<u>\$ 241,375</u>

**Description of Long-Term Debt Outstanding**

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES</b>			
<b>Lease</b>			
of \$9,512 through December 2016, bearing interest at 1.89%, collateralized by a truck.	\$ 18,235	\$ 28,004	\$ 46,239
<b>Revenue Bonds</b>			
\$1,555,000 Florida Municipal Loan Council Revenue Bonds, Series 2005A, due in semi annual installments of \$75,000 to \$135,000 through 2020; interest at 3% to 5%. Issue is pro rated between General Fund and Utility Fund. Available non ad valorem revenues from Utility Fund are pledged for payment of the bonds. This note was issued to current refund two prior bond issues. The original proceeds were used for renovations to the City Hall complex.	25,300	143,750	169,050
\$2,965,000 Florida Municipal Loan Council Revenue Bonds, Series 2006, due in semi annual installments of \$105,000 to \$225,000 through 2026; interest at 4% to 5%. Issue is pro rated between Streets Fund, Utility Fund, and Communications Fund. Available non ad valorem revenues from Communication Fund are pledged for payment of the bonds. Proceeds used for street improvement projects.	32,500	549,769	582,269
Total revenue bonds	<u>57,800</u>	<u>693,519</u>	<u>751,319</u>
<b>Accrued Compensated Absences</b>			
Total long-term portion of accumulated, vested annual and sick leave for governmental fund types	130,171	-	130,171
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 206,206</u>	<u>\$ 721,523</u>	<u>\$ 927,729</u>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**7. LONG-TERM DEBT - CONTINUED**

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

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b>BUSINESS-TYPE ACTIVITIES</b>			
<b><i>Revenue Bonds</i></b>			
\$1,555,000 Florida Municipal Loan Council Revenue Bonds, Series 2005A, due in semi annual installments of \$75,000 to \$135,000 through 2020; interest at 3% to 5%. Issue is pro rated between General Fund and Utility Fund. Available non ad valorem revenues from Utility Fund are pledged for payment of the bonds. This note was issued to current refund two prior bond issues. The original proceeds were used for improvements to the water system.	\$ 84,700	\$ 481,250	\$ 565,950
Plus unamortized bond premium	-	15,773	15,773
Less unamortized deferred loss on refunding	-	(4,689)	(4,689)
	<u>84,700</u>	<u>492,334</u>	<u>577,034</u>
\$2,965,000 Florida Municipal Loan Council Revenue Bonds, Series 2006, due in semi annual installments of \$105,000 to \$225,000 through 2026; interest at 4% to 5%. Issue is pro rated between Streets, Utility, and Communication Funds. Available non ad valorem revenues from Communication Fund are pledged for payment of the bonds. Proceeds used for rebuilding a CATV distribution plant and updating technology fiber to the plant.	97,500	1,603,981	1,701,481
Plus unamortized bond premium	-	18,841	18,841
	<u>97,500</u>	<u>1,622,822</u>	<u>1,720,322</u>
\$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.	30,000	1,350,000	1,380,000
Less unamortized bond discount	-	(22,398)	(22,398)
	<u>30,000</u>	<u>1,327,602</u>	<u>1,357,602</u>
Total revenue bonds	<u>212,200</u>	<u>3,442,758</u>	<u>3,654,958</u>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**7. LONG-TERM DEBT – CONTINUED**

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

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<b><i>Accrued Compensated Absences</i></b>			
Accumulated, vested annual compensation for Enterprise Funds	29,175	-	29,175
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<u>\$ 241,375</u>	<u>\$ 3,442,758</u>	<u>\$ 3,684,133</u>
<b>GRAND TOTAL LONG-TERM DEBT</b>			<u>\$ 4,611,862</u>

The City is required to comply with certain debt covenants under the 2005A, 2006, and 2010C bond agreement. As of September 30, 2014, the City is not aware of any material noncompliance. The City established reserve funds required under the 2005A and 2006 bond covenants by funding surety bonds at issuance.

**Advance Refunding**

*Series 2005A Bond Payable*

The \$1,555,000 Florida Municipal Loan Council Revenue Bonds, Series, 2005A was issued to current refund two prior bond issues. The note was issued at a premium of \$44,360 of which the net proceeds of \$1,561,227 (after payment of \$38,133 in underwriting fees, insurance and other issuance costs) were used to refund these prior issues.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$43,539. This difference, reported in the accompanying financial statements as a deduction from notes payable, is being charged to operations through the year 2015 using the effective interest method.

**Redemption Provisions**

*Series 2006 Bond Payable*

**Optional Redemption:** The bonds maturing on or before the October 1, 2016 are not subject to optional redemption prior to maturity. The bonds maturing after October 1, 2016 are subject to redemption at the option of the issuer on or after October 1, 2016 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.

**Extraordinary Mandatory Redemption:** The bonds are also subject to extraordinary mandatory redemption as a result of acceleration of a loan pursuant to a loan agreement at any time, in whole or in part, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, but only with the approval of the Insurer, from all liquidation proceeds or insurance proceeds received by the trustee as a result of an acceleration of any loan.

*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.



**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**7. LONG-TERM DEBT – CONTINUED**

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

**Redemption Provisions - Continued**

*Series 2010C Bond Payable - Continued*

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

**Annual Requirements to Amortize Debt Outstanding**

The annual requirements to amortize all debt outstanding except accrued and annual leave as of September 30, 2014, are as follows:

Governmental Activities

Year Ending September 30	Capital Leases			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 18,235	\$ 788	\$ 19,023	\$ 58,462	\$ 32,687	\$ 91,149
2016	18,581	442	19,023	62,163	30,048	92,211
2017	9,423	89	9,512	64,588	27,194	91,782
2018	-	-	-	67,014	24,081	91,095
2019	-	-	-	70,715	20,702	91,417
2020-2024	-	-	-	264,458	64,331	328,789
2025-2029	-	-	-	163,919	13,784	177,703
<b>Total</b>	<b>\$ 46,239</b>	<b>\$ 1,319</b>	<b>\$ 47,558</b>	<b>\$ 751,319</b>	<b>\$ 212,827</b>	<b>\$ 964,146</b>

Business-Type Activities

Year Ending September 30	Revenue Bonds		
	Principal	Interest	Total
2015	\$ 211,538	\$ 154,603	\$ 366,141
2016	222,837	145,877	368,714
2017	235,412	136,489	371,901
2018	242,986	126,070	369,056
2019	254,285	114,699	368,984
2020-2024	970,542	439,103	1,409,645
2025-2029	705,466	252,653	958,119
2030-2034	280,000	157,050	437,050
2035-2039	360,000	87,300	447,300
2040-2041	164,365	11,250	175,615
<b>Total</b>	<b>\$ 3,647,431</b>	<b>\$ 1,625,094</b>	<b>\$ 5,272,525</b>

	Governmental Activities	
	Assets	Streets Fund
Ford F-550 Truck		\$ 55,229
Accumulated depreciation		(4,602)
Assets acquired by lease, net		<b>\$ 50,627</b>

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**7. LONG-TERM DEBT – CONTINUED**

**Capital Leases**

The cost and accumulated depreciation for capital lease are:

	Assets	Governmental Activities Streets Fund
Ford F-550 Truck		\$ 55,229
Accumulated depreciation		(4,602)
Assets acquired by lease, net		\$ 50,627

**8. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM**

**Plan Description**

The City contributes to the Florida Retirement System (FRS), a cost sharing multiple employer defined benefit pension plan administered by the State of Florida, Division of Retirement Services. The FRS provides retirement and disability benefits, to annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established under Chapter 121, Florida Statutes, which may be amended by the Florida Legislature. Beginning in 2002, a defined contribution plan alternative to the existing defined benefit plan known as the Public Employee Optional Retirement Program or the FRS Investment became available to FRS members. The complete financial report of the FRS may be obtained by writing the State of Florida Division of Retirement, 1317 Winewood Boulevard, Building C, Tallahassee, Florida 32399-1560 or by calling 1-850- 488-5706.

Under this plan, the employer makes contributions to an account set up in the participant's name, and the participant controls where the contributions are invested among the plan's investment funds. New employees are by default enrolled in the defined benefit plan; however, they will have five months after the month of hire to elect to participate in the FRS Investment Plan. The FRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on the State of Florida Department of Management Services website at [www.dms.myflorida.com](http://www.dms.myflorida.com).

**FRS Plan Changes**

Effective July 1, 2011, the Florida Legislature passed Senate Bill 2100 that made substantive changes to the Florida Retirement System (FRS). The new Bill requires all FRS Investment and Pension Plan members (except those in DROP) to now pay a 3% employee contribution, on a pretax basis, beginning on or after July 1, 2011. Cost of living adjustments (COLA) on or after July 1, 2011 are not automatic at 3%, but based on total years of service earned prior to July 1, 2011 to total years of service at retirement, multiplied by 3%.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**8. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM - CONTINUED**

**FRS Plan Changes - Continued**

New members enrolling into FRS for the first time after July 1, 2011 will be subject to additional changes including 1) an increased vesting period from 6 years to 8 years, 2) a change in calculation of benefits using Average Final Compensation (AFC) on the highest eight years of compensation as compared to highest five years. In addition, the normal retirement date for Regular, Senior Management Service, Elected Officers', and Special Risk Administrative Support Classes was modified to be age 65, with 8 years of service or 33 years of service regardless of age. Normal retirement for Special Risk Class members now at age 60, with 8 years of service, or 30 years of special risk class service OR age 57, with 30 years of combined special risk class service and military service. For those members participating in the DROP program, the Legislature reduced the annual interest rate used for benefits from 6.5% to 1.3%. The funding policy relative to the FRS plan is disclosed below.

**Funding Policy**

Contribution requirements of the plan are established in Florida Statutes Chapter 121 and may only be amended by legislative action. Effective July 1, 2011, the Florida Legislature passed Senate Bill 2100 requiring all employee members to contribute 3% to the Plan. Formerly, only employers were required to contribute to the FRS Plan. The FRS funding policy now provides for monthly employer and employee contributions at actuarially determined rates that, expressed as percentages of annual covered payroll are adequate to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates, established by state law, are determined using the entry-age actuarial funding method. If an unfunded actuarial liability re-emerges as a result of future plan benefit changes, assumption changes, or methodology changes, it is assumed any unfunded actuarial liability would be amortized over 30 years, using level dollar amounts.

Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10% basis, as a level dollar amount. In July 2002, the Florida Legislature established a uniform contribution rate system for the FRS, which remained in effect with the passage of Senate Bill 2100. The uniform contribution system covers both the FRS Pension Plan and the FRS Investment Plan. Employers and employees contribute a percentage of the total payroll for each class of FRS membership.

The actuarially determined *employer contribution rates* (including HIS of 1.20%) for each class of employee expressed as a percentage of covered pre and post Senate Bill 2100 are listed below:

Class	Contribution Rates (10/1/13 - 6/30/14)	Contribution Rates (7/1/14 - 9/30/14)
Regular	6.95%	7.37%
Special Risk - Regular	19.06%	19.82%
Senior Management Senior Class	18.31%	21.14%
Elected Officials	33.03%	43.24%
Deferred Retirement Option Plan (DROP)	12.84%	12.28%

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

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**8. DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM - CONTINUED**

**Funding Policy**

Required contributions for the years ended September 30, 2014, 2013, and 2012 were \$16,587, \$15,458, and \$15,766, respectively. Percentage of covered payroll was 10.7% for 2014, 15.8% for 2013, and 4.8% for 2012.

Covered payroll for each of the years ended September 30, 2014, 2013 and 2012 was approximately \$154,000, \$244,000, and \$327,400, respectively.

**9. DEFINED BENEFIT PENSION PLAN – POLICE OFFICERS AND FIREFIGHTERS**

**Plan Description**

The Police Officers and Firefighters Retirement 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, 2014 actuarial valuation was approximately \$337,428. As of October 1, 2014, employee membership data related to the plan as follows:

Retirees and beneficiaries currently receiving benefits	1
Terminated employees entitled to benefits but not yet receiving them	0
Disabled employees currently receiving benefits	1
Inactive employees due a refund of contributions	1
Current active employees	
Vested	2
Nonvested	9
	<hr/>
Total	<hr/> <hr/> <u>14</u>

The Police Officers and Firefighters Retirement 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.

The City has not implemented the provisions of GASB 67, *Financial Reporting for Pension Plans*, as of September 30, 2014. The statement specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided about which information is required to be presented. The impact in fiscal year 2014 relates to the note disclosures only. The actuarial valuation needed to comply with GASB 67 was not available. The City intends to implement GASB 67 and GASB 68 with respect to the Police Officers and Firefighters Retirement Plan in fiscal year 2015.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**9. DEFINED BENEFIT PENSION PLAN - POLICE OFFICERS AND FIREFIGHTERS – CONTINUED**

**Funding Policy**

The City's 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 2014, the City contributed \$76,500 in cash and applied \$80,175 of advance contributions to the plan. \$70,606 was contributed by the State of Florida. The employees' contributions to the plan for the current year totaled \$9,563. The contributions are deposited with the Florida Municipal Pension Trust Fund where they are invested in mutual funds. Administration costs of this plan are financed through investment earnings.

**Actuarial Assumptions**

As of October 1, 2014 (the most recent actuarial valuation date), actuarial assumptions are as follows:

Valuation date	October 01, 2014
Actuarial cost method	Aggregate cost method
Amortization method	Level percentage, open
Amortization period	30 years
Asset valuation method	Market value
Investment rate of return	7.50%
Salary increases	4.50%

The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

**Three-Year Trend Information**

Year Ending	Annual Pension Cost (APC)	Employer Contribution		Percentage of APC Contribution	Net Pension Obligation (Asset)
		City	State		
September 30, 2014	\$ 144,877	\$ 156,675 <sup>1</sup>	\$ 69,967 <sup>2</sup>	156%	\$ (124,552)
September 30, 2013	\$ 140,981	\$ 125,884 <sup>3</sup>	\$ 65,803 <sup>2</sup>	136%	\$ (42,788)
September 30, 2012	\$ 94,935	\$ 42,078 <sup>4</sup>	\$ 63,127 <sup>2</sup>	111%	\$ 7,918

<sup>1</sup> Includes \$80,175 of advance contributions applied.

<sup>2</sup> Excludes amounts due from State.

<sup>3</sup> Includes \$60,004 of contributions applied.

<sup>4</sup> Deducts \$17,746 of contributions applied to advance.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**9. DEFINED BENEFIT PENSION PLAN - POLICE OFFICERS AND FIREFIGHTERS - CONTINUED**

The funded status of the plan as of September 30, 2014 (the most recent actuarial valuation date), is as follows:

Actuarial Value of Assets (a) <sup>1</sup>	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a) <sup>2</sup>	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Payroll [c/(b-a)]
\$ 1,796,373	\$ 1,140,763	\$ -	157.47%	\$ 339,428	0.00%

<sup>1</sup> At September 30, 2014, the City had excess contributions made by the City above actuarially required amounts of \$16,102, which have been deducted from the actuarial value of assets. In addition the \$16,747 due from the State of Florida at September 30, 2014 is not included in the actuarial value.

<sup>2</sup> The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

The schedule of employer required contributions is listed below:

Year Ending	Annual Required Contribution	Percent Contributed
September 30, 2005	\$ 24,697	100%
September 30, 2006	\$ 40,791	100%
September 30, 2007	\$ 42,806	100%
September 30, 2008	\$ 97,072	100%
September 30, 2009	\$ 102,297	100%
September 30, 2010	\$ 144,143	96%
September 30, 2011	\$ 152,421	92%
September 30, 2012	\$ 95,004	111%
September 30, 2013	\$ 140,929	136%
September 30, 2014	\$ 145,157	156%

The components of net pension cost, the increase in Net Pension Obligation, and the Net Pension Obligation (Asset) for the year ended September 30, 2014, for the Police Officers' and Firefighters' Retirement Fund is as follows:

Annual pension cost	\$ 144,877
Contribution made <sup>1</sup>	<u>(226,641)</u>
Change in net pension obligation	(81,764)
Net pension obligation (asset) - beginning of year	<u>(42,788)</u>
Net pension obligation (asset) - end of year	<u><u>\$ (124,552)</u></u>

<sup>1</sup> Includes \$80,175 of advance contributions applied. Excludes amounts due from the State of Florida at September 30, 2014.

The City does not issue a stand-alone financial report for the plan.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**10. 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, 2014, 2013, and 2012, the amount of pension expense was \$96,476, \$97,640, and \$91,788, 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.

**11. 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.

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.

**12. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

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

September 30, 2014	Receivables	Payables
<i>Governmental funds</i>		
General Fund	\$ 231,138	\$ -
Streets Fund	86,189	-
Stormwater Fund	2,777	-
<i>Proprietary funds</i>		
Utility Fund	-	176,482
Communication Fund	-	124,755
Sanitation Fund	-	18,867
	\$ 320,104	\$ 320,104
Total	\$ 320,104	\$ 320,104

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.

**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**12. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - CONTINUED**

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

September 30, 2014	Transfers In	Transfers Out
<i>Governmental funds</i>		
General Fund	\$ -	\$ 27,155
Streets Fund	27,155	-
Total	<u>\$ 27,155</u>	<u>\$ 27,155</u>

In fiscal year 2014, transfers were made, at the direction of the City Commission, from the General Fund to the Streets Funds as a part of the fiscal year 2014 budget process.

**13. 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 (\$7.57 for calendar year 2014). Rent paid for the year ended September 30, 2014 was \$9,879.

Future minimum rental payments due under this lease are as follows:

	Communication Fund
2015	<u>\$ 10,025</u>

**14. 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:

	General Fund	Utility Fund
2015	\$ 42,246	\$ 62,913
2016	35,743	65,188
2017	36,162	25,664
2018	14,813	26,434
2019	-	27,227
Total	<u>\$ 128,964</u>	<u>\$ 207,426</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, 2014.



**CITY OF VALPARAISO, FLORIDA  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**14. 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, 2014.

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 \$53,963 and \$58,097, respectively, in lease revenues during the current year.

**15. GOVERNMENTAL FUND BALANCES**

At September 30, 2014, the City's governmental fund balances were classified as follows:

	General Fund	Streets Fund	Stormwater Fund	Total Governmental Funds
Nonspendable				
Prepaid items	\$ 3,528	\$ -	\$ -	\$ 3,528
Restricted for				
Library	9,391	-	-	9,391
Law enforcement	8,819	-	-	8,819
Total restricted	18,210	-	-	18,210
Committed				
Cemetery maintenance	186,851	-	-	186,851
Public safety	13,722	-	-	13,722
Stormwater	-	-	100,612	100,612
Total committed	200,573	-	100,612	301,185
Assigned to				
Library	6,891	-	-	6,891
Parks	17,224	-	-	17,224
Transportation	-	236,923	-	236,923
FY 2015 budget appropriation	47,825	-	-	47,825
Total assigned	71,940	236,923	-	308,863
Unassigned	1,042,052	-	-	1,042,052
<b>Total Fund Balance</b>	<b>\$ 1,336,303</b>	<b>\$ 236,923</b>	<b>\$ 100,612</b>	<b>\$ 1,673,838</b>

**CITY OF VALPARAISO, FLORIDA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2014**

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## **16. CONTINGENT LIABILITIES**

### **Wrongful Termination Lawsuit**

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 that \$941,000 be paid to the former officer in damages for future lost wages and benefits, emotional anguish and impairment of reputation, attorneys' fees and other costs. Of this amount, the City estimates their liability to be approximately \$70,500, with the remaining amounts being covered by the City's insurance policy. For the year ended September 30, 2014, \$70,500 has been recorded as a contingency payable on the financial statements of its governmental activities. The City has subsequently asked the trial court to reverse the judgment.

### **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.

## **17. 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.

## **18. 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.

## **19. GASB PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED**

In June 2012, the GASB issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment to Statement No. 27. This Statement enhances the financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. It also enhances accountability and transparency through revised and new disclosures and required supplementary information. Management believes GASB Statement No. 68 will have a significant impact on the financial position and changes in net position of the City; however, the amounts are not quantifiable as of the date of this report. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, which requires the City to implement this statement in FY 2014–2015.

### **III. COMPLIANCE SECTION**

- **COMPLIANCE MATTERS**
- **SCHEDULE OF FINDINGS AND RESPONSES**
- **MANAGEMENT LETTER**
- **RESPONSES TO MANAGEMENT LETTER**

**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, 2014.

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, 2014.

*Warren Averett, LLC*

Fort Walton Beach, Florida  
February 26, 2015

**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, 2014, 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 February 26, 2015

**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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency.

### **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 February 26, 2015.

*Warren Averett, LLC*

Fort Walton Beach, Florida  
February 26, 2015

**CITY OF VALPARAISO, FLORIDA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE  
REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING  
STANDARDS (GAGAS)**

**I. SUMMARY OF SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

***FINDING 2014-1: UTILITY DEPOSITS PAYABLE***

**Criteria** – Utility meter deposits received from customers of the utility system are placed in a meter deposit account in the Utility Fund. The funds are restricted to use as payment for the final customer bill or returned to the customer upon settlement of final bill.

**Condition** – The subledger of utility deposits by customer did not reconcile to the utility deposit payable or restricted meter deposit cash account in the City's general ledger at September 30, 2014, 2013, and 2012.

**Cause** – City personnel believe the information was not accurately transferred to the Accufund software during conversion.

**Effect** – Utility deposits due to customers is possibly misstated in the financial statements of the City.

**Recommendations** – We recommend that the City reconcile the utility deposit subledger to the restricted meter deposit cash account and adjust the utility deposit payable control account in the accounting system as necessary.

**Views of the Responsible Officials and Planned Corrective Action** - The City is in the process of reconciling the utility deposit subledger to the restricted utility deposit cash account. This will continue to be an ongoing effort until the City can determine its true utility deposit amount on hand, detailed by customer and amount.

## 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, 2014, and have issued our report thereon dated February 26, 2015.

### 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, *Rules of the Auditor General*.

### Other Reports and Schedule

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*; Schedule of Findings and Responses; 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 and schedule, which are dated February 26, 2015 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. Except as noted below under the heading Prior Year Findings and Recommendations, corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

Tabulation of Uncorrected Audit Findings			
Description	Current Year Finding #	2012-13 FY Finding #	2011-12 FY Finding #
Utility Deposits Payable <sup>1</sup>	2014-1	2012-3	2012-3
OPEB Reporting <sup>2</sup>	2014-2	2011-9	2011-9
<sup>1</sup> - significant deficiency			
<sup>2</sup> - management letter comment			



**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., *Rules of the Auditor General*, requires that we 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., *Rules of the Auditor General*, requires that we 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, 2014, 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, 2014. 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. Our recommendations are outlined in the accompanying Schedule of Findings and Responses as well as below under the heading Prior Year Comments.

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.

## **PRIOR YEAR COMMENT**

### **2014-2: OPEB REPORTING**

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

The City has not engaged an actuary to perform an analysis of other post-employment benefit liability since retirees can participate in their medical insurance plan paying full rates. However, a potential liability continues to exist due to the concept of an implicit rate subsidy outlined in GASB 45. As such, our auditor's opinion has been modified as we do not know if the amount of the potential liability is material to the City's financial position, although that is not our expectation based on the facts represented by management. The City has not engaged an actuary due to the cost involved.

#### ***Status***

As of September 30, 2014, the City has not engaged an actuary to perform an assessment, and we continue to modify our auditor's opinion.

#### ***Recommendation***

We would recommend the City engage an actuary to perform an assessment. While we understand the desire by management to make prudent financial decisions the modified opinion could impact the City's ability to acquire future debt. Furthermore the expectation of the Florida Auditor General in the audit process required by Statute is the attainment of an unmodified audit opinion.

#### ***Management's Response***

City management will consider an actuarial assessment in FY2015 as it relates to the potential liability because of the concept of an implicit rate study.

#### **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  
February 26, 2015