

Vale of Paradise



City of Valparaiso, Florida Financial Statements September 30, 2020

**CITY OF VALPARAISO, FLORIDA
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Page
TITLE PAGE	
I. INTRODUCTORY SECTION	
Table of Contents	i-ii
II. FINANCIAL SECTION	
Independent Auditors' Report	1
A. MANAGEMENT'S DISCUSSION AND ANALYSIS	3
B. BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements	
<u><i>Governmental Funds</i></u>	
Balance Sheet	11
Reconciliation of the Balance Sheet to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balance	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	14
<u><i>Proprietary Funds</i></u>	
Statement of Net Position	15
Statement of Revenues, Expenses, and Changes in Net Position	17
Statement of Cash Flows	18
<u><i>Fiduciary Funds</i></u>	
Statement of Fiduciary Net Position	20
Statement of Changes in Fiduciary Net Position	21
Notes to the Financial Statements	22

**CITY OF VALPARAISO, FLORIDA
TABLE OF CONTENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Page
III. REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	61
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Streets Fund	62
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Stormwater Fund	63
Schedule of Proportionate Share of Net Pension Liability – Florida Retirement System	64
Schedule of Proportionate Share of Net Pension Liability – Health Insurance Subsidy	65
Schedule of Contributions – Florida Retirement System	66
Schedule of Contributions – Health Insurance Subsidy	67
Schedule of Changes in Net Pension Liability and Related Ratios – Public Safety Pension Plan	68
Schedule of Contributions – Public Safety Pension Plan	69
Notes to the Schedule of Contributions – Public Safety Pension Plan	70
Schedule of Investment Returns	71
IV. COMPLIANCE SECTION	
Independent Accountants’ Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, <i>Rules of the Auditor General</i>	72
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 <i>Government Auditing Standards</i>	73
Schedule of Findings and Responses	75
Management Letter	78

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valparaiso, Florida (the City), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valparaiso, Florida, as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Warren Averett, LLC
Fort Walton Beach, Florida
June 8, 2021

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, 2020. The MD&A provides summary level financial information; therefore, it should be read in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS

- Total assets increased by \$1,255,496.
- Net position increased by \$1,838,036.
- Total revenues increased by 6.1%, or \$571,256, and total expenses increased by 2.9%, or \$231,761. The primary cause for the increase in revenues was nonrecurring Coronavirus Aid, Relief, and Economic Security (CARES) Act grant funding received in the current fiscal year of \$472,140 for public safety personnel costs and emergency health supplies.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with financial reporting standards issued by the Governmental Accounting Standards Board. 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 users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in the reconciliations on pages 12 and 14.
- **Proprietary funds** – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the City’s proprietary funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS TRUSTEE

REPORTING THE CITY'S FIDUCIARY RESPONSIBILITIES

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

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

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

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

Table 1
CITY OF VALPARAISO, FLORIDA
STATEMENTS OF NET POSITION
AS OF SEPTEMBER 30, 2020 AND 2019

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 4,914,624	\$ 3,964,242	\$ 4,240,324	\$ 3,789,702	\$ 9,154,948	\$ 7,753,944
Capital assets, net	3,699,991	4,013,677	5,198,737	5,030,559	8,898,728	9,044,236
Total assets	8,614,615	7,977,919	9,439,061	8,820,261	18,053,676	16,798,180
Deferred outflows of resources	238,694	232,779	73,012	29,970	311,706	262,749
Current liabilities	127,876	170,902	324,891	372,282	452,767	543,184
Other liabilities	1,326,572	1,455,719	3,377,914	3,757,622	4,704,486	5,213,341
Total liabilities	1,454,448	1,626,621	3,702,805	4,129,904	5,157,253	5,756,525
Deferred inflows of resources	263,996	189,949	8,705	17,063	272,701	207,012
Net position						
Net investment in capital assets	2,686,772	2,835,497	2,112,134	1,502,507	4,798,906	4,338,004
Restricted	1,206,935	1,115,889	944,684	1,107,514	2,151,619	2,223,403
Unrestricted	3,241,158	2,442,742	2,743,745	2,093,243	5,984,903	4,535,985
Total net position	\$ 7,134,865	\$ 6,394,128	\$ 5,800,563	\$ 4,703,264	\$ 12,935,428	\$ 11,097,392

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

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

Table 2
CITY OF VALPARAISO, FLORIDA
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
REVENUES						
Program revenues						
Charges for services	\$ 620,401	\$ 567,277	\$ 4,444,625	\$ 4,265,781	\$ 5,065,026	\$ 4,833,058
Operating grants and contributions	537,427	60,845	-	58,748	537,427	119,593
Capital grants and contributions	38,582	69,430	574,293	721,411	612,875	790,841
General revenues						
Property taxes	1,230,939	1,136,959	-	-	1,230,939	1,136,959
Utility service taxes	412,929	390,283	-	-	412,929	390,283
Sales taxes	1,349,160	1,246,003	-	-	1,349,160	1,246,003
Franchise taxes	354,908	354,790	-	-	354,908	354,790
Intergovernmental, unrestricted	247,170	347,760	-	-	247,170	347,760
Investment earnings	43,636	23,667	10,728	10,228	54,364	33,895
Sales of investments and capital assets	-	12,430	4,038	30,920	4,038	43,350
Miscellaneous	28,246	19,426	36,969	46,837	65,215	66,263
TOTAL REVENUES	4,863,398	4,228,870	5,070,653	5,133,925	9,934,051	9,362,795
EXPENSES						
Primary government						
General government	1,372,262	840,234	-	-	1,372,262	840,234
Public safety	1,394,355	1,430,781	-	-	1,394,355	1,430,781
Physical environment	258,734	230,737	-	-	258,734	230,737
Transportation	412,229	436,117	-	-	412,229	436,117
Culture and recreation	572,578	614,239	-	-	572,578	614,239
Debt service interest	29,922	34,828	-	-	29,922	34,828
Business-type activities						
Utility	-	-	1,482,410	1,621,581	1,482,410	1,621,581
Communication	-	-	1,732,137	1,815,630	1,732,137	1,815,630
Sanitation	-	-	841,388	840,107	841,388	840,107
TOTAL EXPENSES	4,040,080	3,586,936	4,055,935	4,277,318	8,096,015	7,864,254
CHANGE IN NET POSITION	740,737	641,934	1,097,299	856,607	1,838,036	1,498,541
NET POSITION – BEGINNING	6,394,128	5,752,194	4,703,264	3,846,657	11,097,392	9,598,851
NET POSITION – ENDING	\$ 7,134,865	\$ 6,394,128	\$ 5,800,563	\$ 4,703,264	\$ 12,935,428	\$ 11,097,392

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

The City's total revenues increased by \$571,256, or 6.1%, and total expenses increased by \$231,731, or 2.9%. Net position increased by \$1,838,036 for fiscal year 2020. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The City's revenue for governmental activities increased \$634,528, or 15.0%, compared to the prior year. This increase is primarily attributable to CARES Act grant funding for public safety personnel costs and emergency health supplies. Expenses increased by \$453,144, or 12.6% from the previous year, primarily related to a nonrecurring loss recognized on a transfer of capital assets to the Utility Fund.

Business-type Activities

Revenues of the City's business-type activities showed a decrease of \$63,272, or 1.2%, from the previous fiscal year. This decrease is primarily attributable to a decrease in capital grant contributions received for a project to improve the City's wastewater distribution system that was completed in the prior fiscal year. Expenses decreased \$221,383, or 5.2%. The main causes of the decrease were a decrease in operation and maintenance costs related to the City's water and sewer system and a decrease in salaries and personnel-related costs.

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 \$3,808,419, which is \$821,758 higher than last year's total primarily due to CARES Act grant funding recognized in the current fiscal year to fund public safety personnel costs and emergency health supplies during the COVID-19 pandemic.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2020, the City had \$8,898,728 invested in capital assets (net of depreciation). This amount represents a net decrease (including additions and deductions) of \$145,508, or 1.6%, over the fiscal year 2019 total. See note 4 for additional information. A listing of capital assets of governmental and business-type activities by major category, net of depreciation, for the current and prior year follows:

Table 3
CITY OF VALPARAISO, FLORIDA
CAPITAL ASSETS
(net of depreciation)
AS OF SEPTEMBER 30, 2020 AND 2019

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 455,209	\$ 455,209	\$ 90,603	\$ 90,603	\$ 545,812	\$ 545,812
Construction in process	6,156	6,156	-	-	6,156	6,156
Buildings and improvements	889,673	971,595	3,720,260	3,481,341	4,609,933	4,452,936
Infrastructure	1,465,087	1,630,441	-	-	1,465,087	1,630,441
Machinery, equipment, and vehicles	883,866	950,276	1,387,874	1,458,615	2,271,740	2,408,891
Total	\$ 3,699,991	\$ 4,013,677	\$ 5,198,737	\$ 5,030,559	\$ 8,898,728	\$ 9,044,236

Debt

At September 30, 2020, the City had \$4,073,525 of bonds and notes outstanding, net of unamortized discounts and premiums, versus \$4,532,302 in the prior year, a decrease of \$458,777, as shown below. The City also had \$178,397 of capital lease obligations versus \$281,658 in the prior year, a decrease of \$103,261.

Table 4
CITY OF VALPARAISO, FLORIDA
LONG-TERM DEBT OUTSTANDING
AS OF SEPTEMBER 30, 2020 AND 2019

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Capital leases	\$ 144,635	\$ 215,166	\$ 33,762	\$ 66,492	\$ 178,397	\$ 281,658
Bonds payable, net	868,584	963,014	3,204,941	3,569,288	4,073,525	4,532,302
Total	\$ 1,013,219	\$ 1,178,180	\$ 3,238,703	\$ 3,635,780	\$ 4,251,922	\$ 4,813,960

The last payment on the debt is due in fiscal year 2041. The maximum debt service in any one year on this debt is \$475,310 in fiscal year 2021.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Amounts available for appropriation in the fiscal year 2021 General Fund budget are \$3,644,495, which is a decrease from the final fiscal year 2020 budget of \$796,735. The City added no major new programs to the fiscal year 2021 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, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,671,056	\$ 1,549,863	\$ 3,220,919
Investments	424,773	-	424,773
Accounts receivables, net	15,606	228,755	244,361
Internal balances	700,653	(700,653)	-
Due from other governments	635,102	-	635,102
Inventory, at cost	-	147,602	147,602
Prepaid items	7,159	13,446	20,605
Restricted assets			
Cash and cash equivalents	465,744	1,186,499	1,652,243
Net pension asset	994,531	-	994,531
Capital assets			
Non-depreciable	461,365	90,603	551,968
Depreciable, net	3,238,626	5,108,134	8,346,760
Other assets			
Investment in joint venture	-	1,814,812	1,814,812
TOTAL ASSETS	8,614,615	9,439,061	18,053,676
DEFERRED OUTFLOW OF RESOURCES	238,694	73,012	311,706
LIABILITIES			
Accounts payable	59,077	131,384	190,461
Accrued liabilities	49,132	21,166	70,298
Accrued interest	16,202	39,273	55,475
Due to other governments	3,465	-	3,465
Payable from restricted assets			
Customer deposits	-	133,068	133,068
Non-current liabilities			
Due within one year			
Compensated absences	191,532	46,645	238,177
Lease payable	71,715	33,762	105,477
Bonds payable	95,605	269,393	364,998
Due in more than one year			
Other postemployment benefits (OPEB)	11,878	-	11,878
Net pension liability	109,943	92,566	202,509
Lease payable	72,920	-	72,920
Bonds payable, net	772,979	2,935,548	3,708,527
TOTAL LIABILITIES	1,454,448	3,702,805	5,157,253
DEFERRED INFLOW OF RESOURCES	263,996	8,705	272,701
NET POSITION			
Net investment in capital assets	2,686,772	2,112,134	4,798,906
Restricted			
Debt service	-	601,294	601,294
Capital projects	79,000	343,390	422,390
Pensions	741,191	-	741,191
Other purposes	386,744	-	386,744
Unrestricted	3,241,158	2,743,745	5,984,903
TOTAL NET POSITION	\$ 7,134,865	\$ 5,800,563	\$ 12,935,428

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Function/program activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 1,372,262	\$ 433,757	\$ 13,934	\$ -	\$ (924,571)	\$ -	\$ (924,571)
Public safety	1,394,355	21,763	458,206	38,582	(875,804)	-	(875,804)
Physical environment	258,734	94,055	300	-	(164,379)	-	(164,379)
Transportation	412,229	68,868	-	-	(343,361)	-	(343,361)
Culture and recreation	572,578	1,958	64,987	-	(505,633)	-	(505,633)
Debt service interest	29,922	-	-	-	(29,922)	-	(29,922)
Total governmental activities	<u>4,040,080</u>	<u>620,401</u>	<u>537,427</u>	<u>38,582</u>	<u>(2,843,670)</u>	<u>-</u>	<u>(2,843,670)</u>
Business-type activities							
Utility	1,482,410	1,572,093	-	574,293	-	663,976	663,976
Communication	1,732,137	2,067,216	-	-	-	335,079	335,079
Sanitation	841,388	805,316	-	-	-	(36,072)	(36,072)
Total business-type activities	<u>4,055,935</u>	<u>4,444,625</u>	<u>-</u>	<u>574,293</u>	<u>-</u>	<u>962,983</u>	<u>962,983</u>
Total primary government	<u>\$ 8,096,015</u>	<u>\$ 5,065,026</u>	<u>\$ 537,427</u>	<u>\$ 612,875</u>	<u>\$ (2,843,670)</u>	<u>\$ 962,983</u>	<u>\$ (1,880,687)</u>
General revenues							
Taxes							
Property taxes					\$ 1,230,939	\$ -	\$ 1,230,939
Utility service taxes					412,929	-	412,929
Sales and excise taxes					1,349,160	-	1,349,160
Franchise taxes					354,908	-	354,908
Intergovernmental, unrestricted					247,170	-	247,170
Investment earnings					43,636	10,728	54,364
Gain on sale of capital assets					-	4,038	4,038
Miscellaneous					28,246	36,969	65,215
Transfers					(82,581)	82,581	-
Total general revenues					<u>3,584,407</u>	<u>134,316</u>	<u>3,718,723</u>
CHANGE IN NET POSITION					<u>740,737</u>	<u>1,097,299</u>	<u>1,838,036</u>
NET POSITION AT BEGINNING OF YEAR					<u>6,394,128</u>	<u>4,703,264</u>	<u>11,097,392</u>
NET POSITION AT END OF YEAR					<u>\$ 7,134,865</u>	<u>\$ 5,800,563</u>	<u>\$ 12,935,428</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2020**

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,034,428	\$ 395,950	\$ 240,678	\$ 1,671,056
Investments	424,773	-	-	424,773
Accounts receivables, net	11,306	-	4,300	15,606
Due (to) from other funds	719,006	(42,594)	24,241	700,653
Due from other governments	608,216	26,886	-	635,102
Prepaid items	7,159	-	-	7,159
Restricted assets				
Cash and cash equivalents	465,744	-	-	465,744
TOTAL ASSETS	<u>\$ 3,270,632</u>	<u>\$ 380,242</u>	<u>\$ 269,219</u>	<u>\$ 3,920,093</u>
LIABILITIES				
Accounts payable	\$ 47,516	\$ 11,561	\$ -	\$ 59,077
Accrued liabilities	45,895	2,870	367	49,132
Due to other governments	3,465	-	-	3,465
TOTAL LIABILITIES	<u>96,876</u>	<u>14,431</u>	<u>367</u>	<u>111,674</u>
FUND BALANCE				
Nonspendable	7,159	-	-	7,159
Restricted	465,744	-	-	465,744
Committed	157,831	-	268,852	426,683
Assigned	62,083	365,811	-	427,894
Unassigned	2,480,939	-	-	2,480,939
TOTAL FUND BALANCE	<u>3,173,756</u>	<u>365,811</u>	<u>268,852</u>	<u>3,808,419</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,270,632</u>	<u>\$ 380,242</u>	<u>\$ 269,219</u>	<u>\$ 3,920,093</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, 2020**

Fund balance, total governmental funds (page 11)	\$ 3,808,419
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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	461,365	
Governmental depreciable assets	8,857,562	
Less accumulated depreciation	<u>(5,618,936)</u>	3,699,991

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

Net pension asset	994,531
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Deferred inflows of resources and deferred outflows of resources related to pensions and other post-employment benefits are not available/receivable or due/payable, respectively, in the current period and therefore are not reported in the governmental funds.

Deferred outflows of resources related to pension plans	236,296	
Deferred inflows of resources related to pension plans	(263,682)	
Deferred outflows of resources related to OPEB plan	2,398	
Deferred inflows of resources related to OPEB plan	<u>(314)</u>	(25,302)

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

Bonds payable, net	(868,584)	
Lease payable	(144,635)	
Accrued interest	(16,202)	
Compensated absences	(191,532)	
Other postemployment benefits (OPEB)	(11,878)	
Net pension liability	<u>(109,943)</u>	(1,342,774)

Net position of governmental activities (page 9)	<u>\$ 7,134,865</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, 2020**

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Stormwater Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,739,472	\$ 237,264	\$ -	\$ 1,976,736
Permits and fees	455,683	-	-	455,683
Intergovernmental	1,777,911	126,321	-	1,904,232
Charges for services	303,400	-	48,715	352,115
Fines and forfeitures	22,651	-	-	22,651
Miscellaneous	143,198	7,488	1,295	151,981
Total revenues	<u>4,442,315</u>	<u>371,073</u>	<u>50,010</u>	<u>4,863,398</u>
EXPENDITURES				
Current				
General government	849,014	-	-	849,014
Public safety	1,332,992	-	-	1,332,992
Physical environment	220,376	-	19,604	239,980
Transportation	-	233,748	-	233,748
Culture and recreation	485,853	-	-	485,853
Capital outlay	611,792	8,000	-	619,792
Debt service				
Principal and interest	96,728	100,952	-	197,680
Total expenditures	<u>3,596,755</u>	<u>342,700</u>	<u>19,604</u>	<u>3,959,059</u>
REVENUES OVER EXPENDITURES	845,560	28,373	30,406	904,339
OTHER FINANCING SOURCES				
Transfers out	<u>(82,581)</u>	-	-	<u>(82,581)</u>
NET CHANGE IN FUND BALANCE	762,979	28,373	30,406	821,758
FUND BALANCE AT BEGINNING OF YEAR	<u>2,410,777</u>	<u>337,438</u>	<u>238,446</u>	<u>2,986,661</u>
FUND BALANCE AT END OF YEAR	<u>\$ 3,173,756</u>	<u>\$ 365,811</u>	<u>\$ 268,852</u>	<u>\$ 3,808,419</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, 2020**

Net change in fund balance – governmental funds (page 13)		\$ 821,758
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is depreciated/amortized over the estimated useful lives of the assets.</p>		
Expenditures for capital assets	619,792	
Disposals / transfers of capital assets	(685,588)	
Accumulated depreciation associated with disposals / transfers	205,936	
Less current year depreciation	<u>(453,826)</u>	(313,686)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.</p>		
Principal payments on revenue bonds	93,103	
Principal payments on capital leases	70,531	
Bond premium amortization	1,327	
Change in accrued interest on long-term debt	<u>2,797</u>	167,758
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:</p>		
Change in net pension asset (liability)	156,684	
Change in deferred outflows of resources related to pensions	6,133	
Change in deferred inflows of resources related to pensions	(74,076)	
Change in long-term compensated absences	(23,645)	
Change in other postemployment benefits liability and related deferred outflows and inflows of resources	<u>(189)</u>	64,907
Change in net position of governmental activities (page 10)		<u><u>\$ 740,737</u></u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2020**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 940,800	\$ 516,209	\$ 92,854	\$ 1,549,863
Accounts receivables, net	142,762	18,296	67,697	228,755
Inventory, at cost	106,511	41,091	-	147,602
Due from other funds	-	-	64,643	64,643
Prepaid items	8,817	4,629	-	13,446
Restricted assets				
Cash and cash equivalents	738,174	448,325	-	1,186,499
Total current assets	<u>1,937,064</u>	<u>1,028,550</u>	<u>225,194</u>	<u>3,190,808</u>
Non-current assets				
Capital assets				
Non-depreciable	40,287	50,316	-	90,603
Depreciable, net	4,082,638	612,127	413,369	5,108,134
Total capital assets	<u>4,122,925</u>	<u>662,443</u>	<u>413,369</u>	<u>5,198,737</u>
Other assets				
Investment in joint venture	1,814,812	-	-	1,814,812
Total non-current assets	<u>5,937,737</u>	<u>662,443</u>	<u>413,369</u>	<u>7,013,549</u>
TOTAL ASSETS	<u>7,874,801</u>	<u>1,690,993</u>	<u>638,563</u>	<u>10,204,357</u>
DEFERRED OUTFLOWS OF RESOURCES				
	<u>51,930</u>	<u>8,080</u>	<u>13,002</u>	<u>73,012</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION – CONTINUED
 SEPTEMBER 30, 2020**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 41,874	\$ 74,462	\$ 15,048	\$ 131,384
Accrued liabilities				
Compensated absences	23,493	18,577	4,575	46,645
Other	7,542	5,257	8,367	21,166
Due to other funds	335,806	429,490	-	765,296
Payable from restricted assets				
Customer deposits	133,068	-	-	133,068
Accrued interest	29,823	9,450	-	39,273
Lease payable	33,762	-	-	33,762
Revenue bonds and notes payable	120,749	148,644	-	269,393
Total current liabilities	<u>726,117</u>	<u>685,880</u>	<u>27,990</u>	<u>1,439,987</u>
Non-current liabilities				
Net pension liability	26,765	25,216	40,585	92,566
Revenue bonds and notes payable, net	2,371,640	563,908	-	2,935,548
Total non-current liabilities	<u>2,398,405</u>	<u>589,124</u>	<u>40,585</u>	<u>3,028,114</u>
TOTAL LIABILITIES	<u>3,124,522</u>	<u>1,275,004</u>	<u>68,575</u>	<u>4,468,101</u>
DEFERRED INFLOWS OF RESOURCES				
	<u>2,518</u>	<u>2,371</u>	<u>3,816</u>	<u>8,705</u>
NET POSITION				
Net investment in capital assets	1,748,874	(50,109)	413,369	2,112,134
Restricted				
Debt service	152,969	448,325	-	601,294
System improvements	343,390	-	-	343,390
Unrestricted	2,554,458	23,482	165,805	2,743,745
TOTAL NET POSITION	<u>\$ 4,799,691</u>	<u>\$ 421,698</u>	<u>\$ 579,174</u>	<u>\$ 5,800,563</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, 2020**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services	\$ 1,572,093	\$ 2,067,216	\$ 805,316	\$ 4,444,625
OPERATING EXPENSES				
Personal services	339,998	266,027	428,556	1,034,581
Operating	662,837	1,251,798	331,079	2,245,714
Depreciation expense	336,882	194,109	77,475	608,466
Total operating expenses	1,339,717	1,711,934	837,110	3,888,761
OPERATING INCOME (LOSS)	232,376	355,282	(31,794)	555,864
NON-OPERATING REVENUES (EXPENSES)				
Interest expense	(79,360)	(18,899)	-	(98,259)
Other debt service costs	(53,708)	(1,304)	-	(55,012)
Rental income	30,450	392	-	30,842
Equity earnings in joint venture	(9,625)	-	-	(9,625)
Interest income	6,771	2,607	1,350	10,728
Gain (loss) on disposal of assets	4,038	-	(4,278)	(240)
Miscellaneous	974	1,412	3,741	6,127
Total non-operating revenues (expenses)	(100,460)	(15,792)	813	(115,439)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	131,916	339,490	(30,981)	440,425
CAPITAL CONTRIBUTIONS AND TRANSFERS				
Capital grants and contributions	461,633	-	-	461,633
Impact fees	112,660	-	-	112,660
Transfers in	82,581	-	-	82,581
Total capital contributions and transfers	656,874	-	-	656,874
CHANGE IN NET POSITION	788,790	339,490	(30,981)	1,097,299
NET POSITION AT BEGINNING OF YEAR	4,010,901	82,208	610,155	4,703,264
NET POSITION AT END OF YEAR	<u>\$ 4,799,691</u>	<u>\$ 421,698</u>	<u>\$ 579,174</u>	<u>\$ 5,800,563</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,595,643	\$ 2,057,775	\$ 800,985	\$ 4,454,403
Payments to suppliers	(700,555)	(1,297,076)	(330,161)	(2,327,792)
Payments to employees	(337,227)	(259,813)	(425,664)	(1,022,704)
Miscellaneous income	31,424	1,804	3,741	36,969
Net cash provided by operating activities	<u>589,285</u>	<u>502,690</u>	<u>48,901</u>	<u>1,140,876</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Change in interfund balances	<u>117,748</u>	<u>32,852</u>	<u>(31,084)</u>	<u>119,516</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from impact fees	112,660	-	-	112,660
Proceeds from sale of assets	4,038	-	-	4,038
Acquisition of capital assets	(121,639)	(34,569)	(163,081)	(319,289)
Proceeds from issuance of bonds	1,097,103	-	-	1,097,103
Principal paid on revenue bonds	(1,376,324)	(143,926)	-	(1,520,250)
Principal paid on capital leases	(32,730)	-	-	(32,730)
Interest	(86,653)	(21,777)	-	(108,430)
Other debt service costs	(53,708)	(1,304)	-	(55,012)
Net cash provided by (used in) capital and related financing activities	<u>(457,253)</u>	<u>(201,576)</u>	<u>(163,081)</u>	<u>(821,910)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	<u>6,771</u>	<u>2,607</u>	<u>1,350</u>	<u>10,728</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	256,551	336,573	(143,914)	449,210
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
	<u>1,422,423</u>	<u>627,961</u>	<u>236,768</u>	<u>2,287,152</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	<u>\$ 1,678,974</u>	<u>\$ 964,534</u>	<u>\$ 92,854</u>	<u>\$ 2,736,362</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR CONSIST OF				
Current	\$ 940,800	\$ 516,209	\$ 92,854	\$ 1,549,863
Restricted	738,174	448,325	-	1,186,499
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,678,974</u>	<u>\$ 964,534</u>	<u>\$ 92,854</u>	<u>\$ 2,736,362</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS – CONTINUED
 FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>Utility Fund</u>	<u>Communication Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 232,376	\$ 355,282	\$ (31,794)	\$ 555,864
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	336,882	194,109	77,475	608,466
Miscellaneous revenue	31,424	1,804	3,741	36,969
Decrease (increase) in assets:				
Accounts receivable, net	20,361	(9,441)	(4,331)	6,589
Inventory	(34,362)	(19,923)	-	(54,285)
Prepaid items	(255)	(21)	-	(276)
Increase in deferred outflows of resources	88	85	138	311
Increase (decrease) in liabilities:				
Accounts payable	(3,101)	(25,334)	918	(27,517)
Customer deposits – restricted	3,189	-	-	3,189
Salaries and benefits payable	(2,894)	2,146	3,303	2,555
Accrued compensated absences	5,030	3,470	(1,375)	7,125
Net pension liability	2,962	2,790	4,492	10,244
Decrease in deferred inflows of resources	(2,415)	(2,277)	(3,666)	(8,358)
Net cash provided by operating activities	<u>\$ 589,285</u>	<u>\$ 502,690</u>	<u>\$ 48,901</u>	<u>\$ 1,140,876</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Contributions of assets from other funds	<u>\$ 461,633</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 461,633</u>

See notes to the financial statements.

**CITY OF VALPARAISO, FLORIDA
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 SEPTEMBER 30, 2020**

	Pension Trust Fund
ASSETS	
Cash and cash equivalents	\$ 26,298
Investments, at fair value	
Fixed income mutual funds	917,154
Equity mutual funds	2,343,837
Due from State of Florida	245
Employer receivable	2,650
Plan member receivable	815
TOTAL ASSETS	3,290,999
LIABILITIES	-
NET POSITION	\$ 3,290,999

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, 2020**

	Pension Trust Fund
ADDITIONS	
Contributions	
Employer	\$ 33,504
Plan members	10,392
State of Florida	73,514
Total contributions	117,410
Investment income	
Net appreciation (decline) in fair value of investments	199,174
Less investment expense	(5,978)
Net investment income (loss)	193,196
TOTAL ADDITIONS	310,606
DEDUCTIONS	
Pension benefit payments	52,468
Professional services	4,200
Administrative expense	1,000
TOTAL DEDUCTIONS	57,668
CHANGE IN FIDUCIARY NET POSITION	252,938
NET POSITION RESTRICTED FOR PENSIONS	
Beginning of year	3,038,061
End of year	\$ 3,290,999

See notes to the financial statements.

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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

Description of the City

The City of Valparaiso, Florida (the City) was incorporated in 1921 under the provisions of the Laws of Florida, Chapter 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 the GASB literature. 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 in 2007 by Ordinance No. 564 qualifies as a blended component unit and is designated as the Communication Fund in the proprietary funds financial statements. The City does not issue a separate financial statement for this component unit.

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

Government-Wide and Fund Financial Statements

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

Government-Wide and Fund Financial Statements – Continued

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

Measurement Focus and Basis of Accounting – Continued

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

The following is the current property tax calendar:

Lien Date	January 1st
Levy Date	November 1st
Due Date	November 1st
Delinquent Date	April 1st

One-percent discounts are granted for each month taxes are paid prior to March 1st.

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

Basis of Presentation

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

Governmental

Governmental funds include the following major funds:

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

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

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

Basis of Presentation – Continued

Enterprise

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

Enterprise funds include the following major funds:

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

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

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

Enterprise 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 an enterprise fund’s principal ongoing operations. The principal operating revenues of the City’s enterprise funds are charges to customers for sales of water, sewer, and communication services. Operating expenses for enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary

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

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

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

Cash and Cash Equivalents

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

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

Investments

The City's does not have a written investment policy but has adopted the provisions of Section 218.415, Florida Statutes, which permits the City to invest surplus funds in the following:

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

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

The police and firefighters pension trust funds are allowed to invest in corporate stocks and bonds subject to certain limitations. The police and firefighter pension plan investments consist primarily of mutual funds. Investments are reported at fair value. The City invests all of its surplus funds for the primary government and the pension trust fund with the Florida Municipal Investment Trust (FMIvT). The FMIvT is administered by the Florida League of Cities and was created to offer diversified and professionally managed portfolios for the investment of the assets of participating municipalities. The FMIvT is a local government investment pool (LGIP) and is therefore considered an external investment pool for GASB reporting purposes. The City's investment is the FMIvT portfolio, not the individual securities held within the portfolio. A copy of the FMIvT financial statements can be obtained online from the Florida League of Cities website (www.floridaleagueofcities.com).

Receivables and Payables

Internal Balances

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

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

Receivables and Payables – Continued

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

Governmental Fund Receivables

All receivables in governmental funds are shown net of an allowance for uncollectible amounts. At September 30, 2020, gross accounts receivable totaled \$25,233, with an allowance of doubtful accounts of \$9,627.

Services provided, deemed to be at market, or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

Enterprise Fund Receivables

Accounts receivable from customers are reported at the outstanding balance due from customers, net of any allowance for doubtful accounts. The City provides for doubtful accounts based on experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectible, they are written off by charging the allowance and crediting the receivable. September 30, 2020, gross accounts receivable totaled \$296,383, with an allowance for doubtful accounts of \$67,628.

Inventories and Prepaid Items

Inventories in proprietary funds consist of expendable supplies held for consumption. They are reported at cost 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, 2020**

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

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

Restricted Assets

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

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

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

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

Capital Assets

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

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

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

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

Capital Assets – Continued

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

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

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of financial position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources of pension and OPEB-related items, as well as a deferred loss on advance refunding of debt recorded in the Utility Fund. See Notes 7 and 8 for additional information on the City's deferred outflows of resources.

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

Unearned Revenues

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

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 the GASB guidance, no liability is recorded for non-vesting accumulating rights to receive sick pay or personal leave benefits.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

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

Compensated Absences – Continued

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.

Long-Term Obligations

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

Other Postemployment Benefits (OPEB) Liability

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

The City has implemented GASB Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other Than Pensions*, and reported a total OPEB liability of \$11,878, deferred outflows of resources of \$2,398, and deferred inflows of resources of \$314, as of September 30, 2020. These amounts have been recognized in the government-wide financial statements. Due to the insignificant amounts involved, management has elected not to provide the detailed footnotes as required by GASB guidance.

Net Pension Liability

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

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

Net Pension Liability – Continued

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

Classification of Fund Balances

GASB literature 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, are comprised of the following:

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

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

Classification of Fund Balances – Continued

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.

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

Net Position

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

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

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

Capital Contributions

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events were evaluated from September 30, 2020, through June 8, 2021, which is the date the financial statements were available to be issued.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

3. CASH AND INVESTMENTS

Deposits

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

At year-end, the value of the City's deposits was \$4,918,169, all of which was held by qualified public depositories under Chapter 280, Florida Statutes.

Fair Value of Investments

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

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

The following table presents the investments carried at fair value on September 30, 2020:

Investment Type	Fair Value	Level 1	Level 2	Level 3
Florida Municipal Investment Trust				
High quality bond funds	\$ 575,250	\$ -	\$ 575,250	\$ -
High yield bond funds	61,423	-	-	61,423
Core plus fixed income funds	460,221	-	-	460,221
Large cap equity funds	1,431,744	-	1,431,744	-
Small to mid cap equity funds	335,304	-	335,304	-
International equity funds	522,679	-	522,679	-
Real estate funds	299,143	-	-	299,143
Total investments measured at fair value	<u>\$ 3,685,764</u>	<u>\$ -</u>	<u>\$ 2,864,977</u>	<u>\$ 820,787</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

3. CASH AND INVESTMENTS – CONTINUED

Investments

As of September 30, 2020, the City's investments consist of those held in the General Fund as well as the pension trust funds. The types of investments, which can be made by the City, are restricted by state statutes, retirement fund plan documents, and other contractual agreements.

Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to meet its obligations. The City is required to disclose the credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed-income securities. Investments may be aggregated by rating categories within the disclosure. 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 (i.e. Fitch, S&P). As of September 30, 2020, the City's investments were rated as follows:

Credit Risk for Investment Pool

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

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. 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 is required to disclose if investments are uninsured, unregistered and held by either the counterparty or the counterparty's trust department or agent but not in the City's name. The City's investment in FMIvT is with the investment pool, not the securities that make up the pool; therefore, no disclosure is required. The City may make redemptions of its investments in the FMIvT twice a month with five business days of notice.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

3. CASH AND INVESTMENTS – CONTINUED

Investments – Continued

Concentration Risk

The City is required to disclose the concentration of credit risk when five percent or more of the total assets of the portfolio are invested with a single issuer. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investments pools, and other pooled investments are excluded from the concentration of credit risk disclosure requirements. The City has no limit on the amount it may invest in any one issuer. The FMIvT is an external investment pool; therefore, no additional disclosure is required.

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. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

GASB 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. The City’s investment policy is limited to complying with statutory regulations. The state statutes have not addressed interest rate risk and therefore, the City has not adopted an investment policy on that point. It is the City’s intention for its investments to provide sufficient liquidity to pay obligations as they become due. The City’s WAM and duration for its investment in the FMIvT were as follows:

Fixed Income Funds	Interest Rate Risk Information	
	Duration (Effective)	WAM
FMIvT Intermediate HQ Bond Fund	3.10 Years	3.40 Years
FMIvT Broad Market HQ Bond Fund	5.52 Years	6.60 Years
FMIvT Expanded High Yield Bond Fund	3.61 Years	6.47 Years
FMIvT Core Plus Fixed Income Fund	3.35 Years	5.82 Years

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

3. CASH AND INVESTMENTS – CONTINUED

Investments – Continued

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

Deposits	\$ 4,899,460
Investments	<u>3,685,764</u>
Total	<u>\$ 8,585,224</u>
Cash and cash equivalents, primary government	\$ 3,220,919
Restricted cash and cash equivalents, primary government	1,652,243
Investments, primary government	<u>424,773</u>
Total primary government	5,297,935
Cash and cash equivalents, fiduciary funds	26,298
Investments, fiduciary funds	<u>3,260,991</u>
Total fiduciary funds	<u>3,287,289</u>
Grand total	<u>\$ 8,585,224</u>

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 455,209	\$ -	\$ -	\$ 455,209
Construction WIP	6,156	461,633	(461,633)	6,156
Total capital assets not being depreciated	<u>461,365</u>	<u>461,633</u>	<u>(461,633)</u>	<u>461,365</u>
Capital assets being depreciated				
Buildings and improvements	2,323,728	5,000	(9,416)	2,319,312
Infrastructure	3,997,112	17,176	(1,752)	4,012,536
Machinery, equipment, and vehicles	2,602,518	135,983	(212,787)	2,525,714
Total capital assets being depreciated	<u>8,923,358</u>	<u>158,159</u>	<u>(223,955)</u>	<u>8,857,562</u>
Less accumulated depreciation				
Buildings and improvements	(1,352,133)	(86,866)	9,360	(1,429,639)
Infrastructure	(2,366,671)	(182,297)	1,519	(2,547,449)
Machinery, equipment, and vehicles	(1,652,242)	(184,663)	195,057	(1,641,848)
Total accumulated depreciation	<u>(5,371,046)</u>	<u>(453,826)</u>	<u>205,936</u>	<u>(5,618,936)</u>
Total capital assets being depreciated, net	<u>3,552,312</u>	<u>(295,667)</u>	<u>(18,019)</u>	<u>3,238,626</u>
Governmental activities, net	<u>\$ 4,013,677</u>	<u>\$ 165,966</u>	<u>\$ (479,652)</u>	<u>\$ 3,699,991</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 90,603	\$ -	\$ -	\$ 90,603
Total capital assets not being depreciated	<u>90,603</u>	<u>-</u>	<u>-</u>	<u>90,603</u>
Capital assets being depreciated				
Buildings and improvements	8,328,519	30,444	461,633	8,820,596
Machinery, equipment, and vehicles	4,820,341	288,841	(314,076)	4,795,106
Total capital assets being depreciated	<u>13,148,860</u>	<u>319,285</u>	<u>147,557</u>	<u>13,615,702</u>
Less accumulated depreciation				
Buildings and improvements	(4,847,178)	(253,158)	-	(5,100,336)
Machinery, equipment, and vehicles	(3,361,726)	(355,308)	309,802	(3,407,232)
Total accumulated depreciation	<u>(8,208,904)</u>	<u>(608,466)</u>	<u>309,802</u>	<u>(8,507,568)</u>
Total capital assets being depreciated, net	<u>4,939,956</u>	<u>(289,181)</u>	<u>457,359</u>	<u>5,108,134</u>
Business-type activities, net	<u>\$ 5,030,559</u>	<u>\$ (289,181)</u>	<u>\$ 457,359</u>	<u>\$ 5,198,737</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

4. CAPITAL ASSETS – CONTINUED

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

Governmental activities

General government	\$ 39,267
Public safety	132,643
Physical environment	18,730
Transportation	188,035
Culture and recreation	<u>75,151</u>
Total depreciation/amortization expense – governmental activities	<u><u>\$ 453,826</u></u>

Business-type activities

Utility	\$ 336,882
Communication	194,109
Sanitation	<u>77,475</u>
Total depreciation/amortization expense – business-type activities	<u><u>\$ 608,466</u></u>

5. JOINT VENTURE

A regional sanitary sewer system designed to provide service to residents of Valparaiso, Niceville, and Okaloosa County was completed and placed in service during 1982. During 2012, Okaloosa County transferred its ownership to the City of Niceville, as described in the subsequent paragraph. The project was funded 75% by U.S. Environmental Protection Agency (EPA) grants 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 subsequent additions related to the regional sanitary sewer system obtained by the City are recorded to the investment in joint venture.

In 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 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 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 (subsequent to Okaloosa diverting its flow from the Board's facility).

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

5. JOINT VENTURE – CONTINUED

The net operating results of the system are accounted for as a joint venture and accounted for under the equity method. The City's investment in joint venture decreased \$9,625 for the year ended September 30, 2020. The City's portion of the equity in the joint venture is \$1,814,812 at September 30, 2020.

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, 2020. 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, 2020**

<hr/>	
Assets	
Current assets	\$ 2,076,836
Capital assets, net of accumulated depreciation	<u>7,103,245</u>
Total assets	<u><u>\$ 9,180,081</u></u>
Liabilities and net position	
Liabilities	\$ 107,021
Net position	<u>9,073,060</u>
Total liabilities and net position	<u><u>\$ 9,180,081</u></u>

**Summary of Operating Results
For the Year Ended June 30, 2020**

<hr/>	
Sewer operating revenues	\$ 2,115,371
Operating expenses	<u>2,203,326</u>
Operating loss	<u>(87,955)</u>
Non-operating revenues (expenses), net	<u>39,832</u>
Change in net position	<u><u>\$ (48,123)</u></u>

CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

6. LONG-TERM DEBT

Changes in Long-Term Debt Liabilities

Long-term debt activity for the year ended September 30, 2020, is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
<i>Direct borrowings</i>					
FMLC Revenue Bonds, Series 2016	\$ 454,521	\$ -	\$ (76,381)	\$ 378,140	\$ 78,883
FMLC Revenue Bonds, Series 2017B	483,278	-	(16,722)	466,556	16,722
Bond premium	25,215	-	(1,327)	23,888	-
Capital lease payable	215,166	-	(70,531)	144,635	71,715
Compensated absences	167,887	126,079	(102,434)	191,532	191,532
Total governmental activities	<u>\$ 1,346,067</u>	<u>\$ 126,079</u>	<u>\$ (267,395)</u>	<u>\$ 1,204,751</u>	<u>\$ 358,852</u>
Business-type activities					
<i>Direct borrowings</i>					
FMLC Revenue Bonds, Series 2010C	\$ 1,215,000	\$ -	\$ (1,215,000)	\$ -	\$ -
Bond discount	(18,090)	-	18,090	-	-
FMLC Revenue Bonds, Series 2016	1,360,479	-	(228,620)	1,131,859	236,115
FMLC Revenue Bonds, Series 2017B	961,722	-	(33,278)	928,444	33,278
Bond premium	50,177	-	(2,642)	47,535	-
Refunding Revenue Note, Series 2020	-	1,097,103	-	1,097,103	-
Capital lease payable	66,492	-	(32,730)	33,762	33,762
Compensated absences	39,520	31,237	(24,112)	46,645	46,645
Total business-type activities	<u>\$ 3,675,300</u>	<u>\$ 1,128,340</u>	<u>\$ (1,518,292)</u>	<u>\$ 3,285,348</u>	<u>\$ 349,800</u>

Description of Long-Term Debt Outstanding

Governmental Activities – Direct Borrowings

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

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

6. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

Governmental Activities – Direct Borrowings – Continued

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

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

Business-Type Activities – Direct Borrowings

\$1,465,000 Florida Municipal Loan Council Revenue Bonds, Series 2010C, due in semi annual installments of \$25,000 to \$85,000 through 2040; interest at 2% to 4.5%. Available non ad valorem revenues from Utility Fund are pledged for payment of the bonds. Proceeds used for the purposes of financing or refinancing the cost of, or receiving reimbursement for the equity in, the construction and renovation to Niceville Valparaiso Okaloosa wastewater treatment (portion of costs allocated to City of Valparaiso, Florida as a member) and other capital improvements to the City of Valparaiso, Florida's sewer system. This issuance was refunded during the fiscal year ended September 30, 2020.

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

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

\$1,097,103 Refunding Revenue Note, Series 2020, due in annual installments of \$34,347 to \$69,453 through October 2040; interest at 2.73%. Available non ad valorem revenues from the Utility Fund are pledged for payment of the note. Proceeds from this note were used to fully refund the Series 2010C Revenue Bonds described above.

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

6. LONG-TERM DEBT – CONTINUED

Description of Long-Term Debt Outstanding – Continued

Business-Type Activities – Direct Borrowings

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

The City is required to comply with certain debt covenants under bond agreements. As of September 30, 2020, the City is not aware of any material noncompliance.

Advance Refunding

The Refunding Revenue Note, Series 2020 was issued to advance refund a prior bond issue. The note was issued at par, after payment of issuance costs of \$48,250. The advance refunding resulted in an economic gain of \$151,777 with total cash flow savings of \$245,201.

The reacquisition price of the old debt exceeded its net carrying amount on the date of refunding by \$43,759. This difference is reported as a deferred loss on refunding and is classified as a deferred outflow of resources in the Utility Fund in the accompanying financial statements. The deferred loss on advance refunding will be amortized over the life of the Series 2020 Note using the straight-line method.

Annual Requirements to Amortize Debt Outstanding

The annual requirements to amortize all debt outstanding except accrued and annual leave as of September 30, 2020, are as follows:

<u>Governmental Activities</u>	Capital Lease			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
Year Ending September 30						
2021	\$ 71,715	\$ 2,430	\$ 74,145	\$ 95,605	\$ 26,970	\$ 122,575
2022	72,920	1,225	74,145	64,724	24,213	88,937
2023	-	-	-	65,976	21,647	87,623
2024	-	-	-	70,152	19,233	89,385
2025	-	-	-	71,824	17,186	89,010
2026-2030	-	-	-	227,251	56,862	284,113
2031-2035	-	-	-	148,829	29,761	178,590
2036-2040	-	-	-	100,335	5,366	105,701
Total	\$ 144,635	\$ 3,655	\$ 148,290	\$ 844,696	\$ 201,238	\$ 1,045,934

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

6. LONG-TERM DEBT – CONTINUED

Annual Requirements to Amortize Debt Outstanding – Continued

Business-Type Activities

Year Ending September 30	Capital Lease			Revenue Bonds and Notes		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 33,762	\$ 1,063	\$ 34,825	\$ 269,393	\$ 83,342	\$ 352,735
2022	-	-	-	209,623	84,656	294,279
2023	-	-	-	223,960	76,816	300,776
2024	-	-	-	234,570	69,331	303,901
2025	-	-	-	237,679	63,034	300,713
2026-2030	-	-	-	804,487	225,670	1,030,157
2031-2035	-	-	-	579,284	133,351	712,635
2036-2040	-	-	-	528,957	43,013	571,970
2041-2045	-	-	-	69,453	948	70,401
Total	<u>\$ 33,762</u>	<u>\$ 1,063</u>	<u>\$ 34,825</u>	<u>\$ 3,157,406</u>	<u>\$ 780,161</u>	<u>\$ 3,937,567</u>

Capital Leases

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

<u>Assets</u>	<u>Governmental Activities General Fund</u>
Pumper fire truck	\$ 426,000
Accumulated depreciation	(159,750)
Assets acquired by lease, net	<u>\$ 266,250</u>
<u>Assets</u>	<u>Business-Type Activities Utility Fund</u>
Backhoe	\$ 100,126
Accumulated depreciation	(16,688)
Assets acquired by lease, net	<u>\$ 83,438</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

7. FLORIDA RETIREMENT SYSTEM

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

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

Pension Plan

Plan Description

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

Benefits Provided

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

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

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

Pension Plan – Continued

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

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

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

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

Contributions

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Regular Class:	10.00%	8.47%	8.26%
Special Risk Class:	24.45%	25.48%	24.50%
Senior Management Class:	27.29%	25.41%	24.06%
DROP:	16.98%	14.60%	14.03%

These employer contribution rates include 1.66% for HIS Plan subsidies for the periods October 1, 2017 through September 30, 2020. The City's contributions, including employee contributions, to the pension plan totaled \$12,553, \$12,259, and \$10,967 for the fiscal years ended September 30, 2020, 2019, and 2018, respectively.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

Pension Plan – Continued

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

At September 30, 2020, the City reported a liability of \$157,076 for its proportionate share of the pension plan's net pension liability. The City's proportionate share of the net pension liability was based on the City's share of contributions to the FRS relative to the contributions of all participating members. At June 30, 2020, the City's proportionate share was 0.000362415%.

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020.

For the fiscal year ended September 30, 2020, the City recognized pension expense of \$24,414. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 6,012	\$ -
Changes of assumptions	28,436	-
Net difference between projected and actual earnings on pension plan investments	9,352	-
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	7,429	8,361
City pension plan contributions subsequent to the measurement date	3,489	-
	<u>\$ 54,718</u>	<u>\$ 8,361</u>

A component of deferred outflows of resources related to the pension plan of \$3,489, resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2021. Other components reported as deferred outflows of resources and deferred inflows of resources related to the pension plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30:	<u>Amount</u>
2021	\$ 8,302
2022	14,998
2023	12,171
2024	6,693
2025	704
	<u>\$ 42,868</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

Pension Plan – Continued

Actuarial Assumptions

The total pension liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.40%
Salary increases	3.25%, average, including inflation
Investment rate of return	6.80%, net of pension plan investment expense, including inflation

Mortality rates were based on the PUB-2010 based table, projected generationally with Scale MP-2018.

The actuarial assumptions used in the July 1, 2020, valuation were based on the results of a 2019 actuarial experience study for the period July 1, 2013 through June 30, 2018.

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

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.0%	2.2%	2.2%	1.2%
Fixed income	19.0%	3.0%	2.9%	3.5%
Global equity	54.2%	8.0%	6.7%	17.1%
Private equity	11.1%	10.8%	8.1%	25.7%
Strategic investments	4.4%	5.5%	5.3%	6.9%
Real estate (property)	<u>10.3%</u>	6.4%	5.8%	11.7%
Total	<u><u>100.0%</u></u>			
Assumed inflation – mean			2.4%	1.7%

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

Pension Plan – Continued

Discount Rate

The discount rate used to measure the total pension liability was 6.80%. The pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

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

The following represents the City’s proportionate share of the net pension liability calculated using the discount rate of 6.80%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.80%)	Current Discount Rate (6.80%)	1% Increase (7.80%)
City's proportionate share of the net pension liability	\$ 250,824	\$ 157,076	\$ 78,777

Pension Plan Fiduciary Net Position

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

HIS Plan

Plan Description

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

Benefits Provided

For the fiscal year ended September 30, 2020, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

HIS Plan – Continued

Contributions

The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2020, the HIS contribution for the plan was 1.66%. The City contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The City's contributions to the HIS Plan totaled \$2,127, \$2,228, and \$2,114 for the fiscal years ended September 30, 2020, 2019, and 2018, respectively.

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

At September 30, 2020, the City reported a liability of \$45,433 for its proportionate share of the HIS Plan's net pension liability. The City's proportionate share of the net pension liability was based on the City's share of contributions to the HIS plan relative to the contributions of all participating members. At June 30, 2020, the City's proportionate share was 0.000372103%.

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020.

For the fiscal year ended September 30, 2020, the City recognized pension income of \$4,918. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual experience	\$ 1,858	\$ 35
Changes of assumptions	4,885	2,642
Net difference between projected and actual earnings on pension plan investments	36	-
Changes in proportion and differences between City pension plan contributions and proportionate share of contributions	2,874	8,009
City pension plan contributions subsequent to the measurement date	513	-
	<u>\$ 10,166</u>	<u>\$ 10,686</u>

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

HIS Plan – Continued

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

A component of deferred outflows of resources related to the HIS Plan of \$513, resulting from City contributions to the plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2021. Other components reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense (income) as follows:

Fiscal Year Ending September 30:	<u>Amount</u>
2021	\$ (2,458)
2022	185
2023	(99)
2024	570
2025	608
Thereafter	<u>161</u>
	<u>\$ (1,033)</u>

Actuarial Assumptions

The total pension liability in the July 1, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		2.40%
Salary increases	3.25%, average, including inflation	
Investment rate of return		2.21%

Mortality rates were based on the PUB-2010 based table, projected generationally with Scale MP-2018.

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

Discount Rate

The discount rate used to measure the total pension liability was 2.21%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

7. FLORIDA RETIREMENT SYSTEM – CONTINUED

HIS Plan – Continued

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

The following represents the City’s proportionate share of the net pension liability calculated using the discount rate of 2.21%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
City’s proportionate share of the net pension liability	\$ 52,519	\$ 45,433	\$ 39,634

Pension Plan Fiduciary Net Position

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

8. DEFINED BENEFIT PENSION PLAN – PUBLIC SAFETY PENSION PLAN

Plan Description

Plan Administration

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

Inactive plan members or beneficiaries currently receiving benefits	3
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	11
	17

Benefits Provided

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

Plan Description – Continued

Funding Policy

The City's Public Safety Pension Plan is funded by employer contributions at actuarially determined rates, which is expressed as a percentage of annual covered payroll, that are sufficient to accumulate sufficient assets to pay benefits when due. The employees of the plan contribute at a rate of 2% of their annual salary. For 2020, the City contributed \$33,504 to the plan. \$73,269 was contributed by the State of Florida. The employees' contributions to the plan for the current year totaled \$10,392. The contributions are deposited with the Florida Municipal Pension Trust Fund where they are invested in mutual funds. Administration costs of the Public Safety Pension Plan are financed through investment earnings.

Net Pension Liability

The employer's reporting date is September 30, 2020. The actuary's measurement date is September 30, 2020. The actuarial valuation date is October 1, 2019.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2019 updated to September 30, 2020, using the following actuarial assumptions:

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

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

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

Net Pension Liability – Continued

Actuarial Assumptions – Continued

Best estimates of arithmetic real rates of return for each major asset class included in the Public Safety Pension Plan's target asset allocation as of September 30, 2020, are summarized in the following table:

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

Discount Rate

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) – (b)
Balances at September 30, 2019	\$ 2,212,383	\$ 3,038,061	\$ (825,678)
Changes:			
Service cost	124,018	-	124,018
Interest	160,272	214,506	(54,234)
Investment income	-	(15,332)	15,332
Demographic experience	(147,982)	-	(147,982)
Contributions – employer	-	106,773	(106,773)
Contributions – employee	-	10,392	(10,392)
Benefit payments, including refunds of employee contributions	(52,468)	(52,468)	-
Administrative expenses	-	(11,178)	11,178
Net changes during year	<u>83,840</u>	<u>252,693</u>	<u>(168,853)</u>
Balances at September 30, 2020	<u>\$ 2,296,223</u>	<u>\$ 3,290,754</u>	<u>\$ (994,531)</u>

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

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

	Current Discount		
	1% Decrease 6.00%	Rate 7.00%	1% Increase 8.00%
Sponsor's net pension liability (asset)	\$ (633,891)	\$ (994,531)	\$ (1,286,273)

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

Changes in Net Pension Liability (Asset) – Continued

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

For the year ended September 30, 2020, the City recognized pension expense of \$24,401 related to the Public Safety Pension Plan. On September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pension on the Public Safety Pension Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings on pension plan investments	\$ 8,679	\$ -
Differences between actual and expected experience	27,447	253,340
Changes of assumptions	58,172	-
City pension plan contributions subsequent to the measurement date	106,773	-
Total	\$ 201,071	\$ 253,340

A component of deferred outflows of resources related to the Public Safety Pension Plan totaling \$106,773 resulting from City contributions to the plan subsequent to the measurement date, will be recognized as reduction in the net pension liability in the fiscal year ended September 30, 2021. Other components reported as deferred outflows of resources and deferred inflows of resources related to the Public Safety Pension Plan will be recognized in pension expense (income) as follows:

Year ended September 30:

2021		\$ (42,175)
2022		(13,684)
2023		(11,487)
2024		(21,251)
2025		(24,319)
Thereafter		(46,126)
		\$ (159,042)

Pension Plan Fiduciary Net Position

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

9. SUPPLEMENTAL RETIREMENT PLANS

Defined Contribution Retirement Plan

In 2004, the City adopted the Florida Municipal Pension Trust Fund's Section 401(a) Defined Contribution Retirement Plan (the Plan). The Plan is administered by the Florida Municipal Pension Trust Fund. The Plan's eligibility provisions are the same as the defined benefit pension plan, except that the minimum age requirement was removed. The Plan provides retirement benefits to substantially all City employees. All benefits vest after ten years of credited service. To be eligible for the Plan, employees must have completed ninety (90) days of service. Contributions to the Plan are discretionary but are currently funded by the City at 9% of each eligible employee's compensation. For the year ended September 30, 2020, the City's contributions to the Plan totaled \$123,435. The City Commission has the authority to establish and amend the provisions of the Plan.

Deferred Compensation Plan

In 1996, the City adopted the Florida Municipal Pension Trust Fund's Deferred Compensation Plan (Plan) under Internal Revenue Code Section 457(b). The Plan allows substantially all City employees to make pretax contributions, in accordance with the Plan. The City does not make contributions to the Plan. The City's fiduciary responsibility is to administer the Plan properly and to assure the investment alternatives made available are reasonable. Contributions made by Plan members during the year ended September 30, 2020, were \$64,669.

10. INTERFUND BALANCES AND TRANSFERS

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

Due to Fund	Due from Fund				Total
	Governmental Funds		Enterprise Funds		
	General Fund	Streets Fund	Utility Fund	Communication Fund	
Governmental funds					
General Fund	\$ -	\$ 42,594	\$ 335,806	\$ 429,490	\$ 807,890
Stormwater Fund	24,241	-	-	-	24,241
Enterprise funds					
Sanitation Fund	64,643	-	-	-	64,643
Total	\$ 88,884	\$ 42,594	\$ 335,806	\$ 429,490	\$ 896,774

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

10. INTERFUND BALANCES AND TRANSFERS – CONTINUED

During the fiscal year ended September 30, 2020, the General Fund transferred \$82,581 to the Utility Fund. The majority of the amount transferred was used to apply restricted discretionary sales tax proceeds to debt service expenses in the Utility Fund.

11. LEASE REVENUE

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

	General Fund	Utility Fund
2021	\$ 38,153	\$ 28,884
2022	26,366	29,751
2023	10,705	30,644
2024	2,696	31,563
Total	\$ 77,920	\$ 120,842

The Utility Fund lease had original terms of five years and can be renewed for four successive five-year periods on similar terms and conditions. The annual rent on these leases will increase by 3-4% per year. There was no unearned rent at September 30, 2020.

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

The General Fund also has a property lease for a five-year term at an annual rent of \$16,417. The lease expires in December 2020.

The General Fund and Utility Fund reported a total of \$52,398 and \$30,450, respectively, from operating lease revenues during fiscal year 2020.

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

12. GOVERNMENTAL FUND BALANCES

At September 30, 2020, the City's governmental fund balances were classified as follows:

	General Fund	Streets Fund	Stormwater Fund	Total Governmental Funds
Nonspendable				
Prepaid items	\$ 7,159	\$ -	\$ -	\$ 7,159
Restricted for				
Discretionary sales taxes	365,425	-	-	365,425
Capital improvements - fire	79,000	-	-	79,000
Library	12,363	-	-	12,363
Law enforcement	8,956	-	-	8,956
Total restricted	<u>465,744</u>	<u>-</u>	<u>-</u>	<u>465,744</u>
Committed				
Perpetual maintenance	157,831	-	-	157,831
Stormwater system	-	-	268,852	268,852
Total committed	<u>157,831</u>	<u>-</u>	<u>268,852</u>	<u>426,683</u>
Assigned for				
Parks and recreation	55,107	-	-	55,107
Library	6,976	-	-	6,976
Transportation	-	365,811	-	365,811
Total assigned	<u>62,083</u>	<u>365,811</u>	<u>-</u>	<u>427,894</u>
Unassigned	<u>2,480,939</u>	<u>-</u>	<u>-</u>	<u>2,480,939</u>
Total Fund Balance	<u>\$ 3,173,756</u>	<u>\$ 365,811</u>	<u>\$ 268,852</u>	<u>\$ 3,808,419</u>

13. RISK MANAGEMENT

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

**CITY OF VALPARAISO, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

14. FEDERAL AND STATE GRANTS

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

15. COMMITMENTS AND CONTINGENCIES

Litigation

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

Fire Protection Services Agreement

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

16. RELATED PARTY TRANSACTIONS

In 2019, the City Commission approved a scanning service contract with Pak Mail of Bluewater Bay (Pak Mail) to convert the City's existing paper records to an electronic format. The City Clerk holds a 50% ownership interest in Pak Mail. As of September 30, 2020, the City had no balance due to Pak Mail, and the City incurred expenditures of \$571 for services rendered during fiscal year 2020.

17. SUBSEQUENT EVENTS

Capital Lease Financing Agreement

In November 2020, the City entered into a capital lease financing agreement to acquire a grapple boom truck for public works in the amount of \$150,500. The contract interest rate is 1.61% and calls for annual principal and interest payments of \$39,152 through November 2024. Once the final rental payment is made under the agreement, the City will take ownership of the truck.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF VALPARAISO, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,721,500	\$ 1,721,500	\$ 1,739,472	\$ 17,972
Permits and fees	381,000	381,000	455,683	74,683
Intergovernmental	1,332,555	1,332,555	1,777,911	445,356
Charges for services	334,380	334,380	303,400	(30,980)
Fines and forfeitures	15,350	15,350	22,651	7,301
Miscellaneous	78,900	78,900	143,198	64,298
Total revenues	<u>3,863,685</u>	<u>3,863,685</u>	<u>4,442,315</u>	<u>578,630</u>
EXPENDITURES				
Current				
General government	882,215	882,215	849,014	33,201
Public safety	1,609,160	1,609,160	1,332,992	276,168
Physical environment	241,800	241,800	220,376	21,424
Culture and recreation	570,135	570,135	485,853	84,282
Capital outlay	1,023,400	1,023,400	611,792	411,608
Debt service				
Principal and interest	81,475	81,475	96,728	(15,253)
Total expenditures	<u>4,408,185</u>	<u>4,408,185</u>	<u>3,596,755</u>	<u>811,430</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(544,500)</u>	<u>(544,500)</u>	<u>845,560</u>	<u>1,390,060</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(33,045)</u>	<u>(33,045)</u>	<u>(82,581)</u>	<u>(49,536)</u>
NET CHANGE IN FUND BALANCE	<u>(577,545)</u>	<u>(577,545)</u>	<u>762,979</u>	<u>1,340,524</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>577,545</u>	<u>577,545</u>	<u>2,410,777</u>	<u>1,833,232</u>
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,173,756</u>	<u>\$ 3,173,756</u>

CITY OF VALPARAISO, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
STREETS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 241,000	\$ 241,000	\$ 237,264	\$ (3,736)
Intergovernmental	126,145	126,145	126,321	176
Miscellaneous	250	250	7,488	7,238
Total revenues	<u>367,395</u>	<u>367,395</u>	<u>371,073</u>	<u>3,678</u>
EXPENDITURES				
Current				
Transportation	307,835	307,835	233,748	74,087
Capital outlay	50,000	50,000	8,000	42,000
Debt service				
Principal and interest	82,600	82,600	100,952	(18,352)
Total expenditures	<u>440,435</u>	<u>440,435</u>	<u>342,700</u>	<u>97,735</u>
NET CHANGE IN FUND BALANCE	(73,040)	(73,040)	28,373	(94,057)
FUND BALANCE AT BEGINNING OF YEAR	73,040	73,040	337,438	264,398
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 365,811</u>	<u>\$ 365,811</u>

**CITY OF VALPARAISO, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
STORMWATER FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	\$ 47,500	\$ 47,500	\$ 48,715	\$ 1,215
Miscellaneous	25	25	1,295	1,270
Total revenues	<u>47,525</u>	<u>47,525</u>	<u>50,010</u>	<u>2,485</u>
EXPENDITURES				
Current				
Physical environment	<u>47,525</u>	<u>47,525</u>	<u>19,604</u>	<u>27,921</u>
Total expenditures	<u>47,525</u>	<u>47,525</u>	<u>19,604</u>	<u>27,921</u>
NET CHANGE IN FUND BALANCE	-	-	30,406	30,406
FUND BALANCE AT BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>238,446</u>	<u>238,446</u>
FUND BALANCE AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 268,852</u>	<u>\$ 268,852</u>

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.000362415%	0.000392533%	0.000372639%	0.000352555%	0.000317841%	0.000293381%	0.000561073%
City's proportionate share of the net pension liability	\$ 157,076	\$ 135,183	\$ 112,241	\$ 104,284	\$ 80,255	\$ 37,894	\$ 34,234
City's covered payroll	\$ 1,412,503	\$ 1,444,155	\$ 1,448,593	\$ 1,353,312	\$ 1,356,940	\$ 1,324,519	\$ 1,244,776
City's proportionate share of the net pension liability as a percentage of its covered payroll	11.12%	9.36%	7.75%	7.71%	5.91%	2.86%	2.75%
Plan fiduciary net position as a percentage of the total pension liability	78.85%	82.61%	84.26%	83.89%	84.88%	92.00%	96.09%

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

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability (asset)	0.000372103%	0.000401405%	0.000383910%	0.000361564%	0.000396859%	0.000388411%	0.000555127%
City's proportionate share of the net pension liability	\$ 45,433	\$ 44,913	\$ 40,633	\$ 38,660	\$ 46,252	\$ 39,612	\$ 51,906
City's covered payroll	\$ 1,412,503	\$ 1,444,155	\$ 1,448,593	\$ 1,353,312	\$ 1,356,940	\$ 1,324,519	\$ 1,244,776
City's proportionate share of the net pension liability as a percentage of its covered payroll	3.22%	3.11%	2.80%	2.86%	3.41%	2.99%	4.17%
Plan fiduciary net position as a percentage of the total pension liability	3.00%	2.63%	2.15%	1.64%	0.97%	0.50%	0.99%

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

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 12,553	\$ 12,259	\$ 10,967	\$ 10,722	\$ 7,056	\$ 7,153	\$ 12,290
Contributions in relation to the contractually required contribution	<u>(12,553)</u>	<u>(12,259)</u>	<u>(10,967)</u>	<u>(10,722)</u>	<u>(7,056)</u>	<u>(7,153)</u>	<u>(12,290)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 1,412,503	\$ 1,444,155	\$ 1,448,593	\$ 1,353,312	\$ 1,356,940	\$ 1,324,519	\$ 1,244,776
Contributions as a percentage of covered-employee payroll	0.89%	0.85%	0.76%	0.79%	0.52%	0.54%	0.99%

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

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 2,127	\$ 2,228	\$ 2,114	\$ 2,127	\$ 1,814	\$ 1,485	\$ 1,902
Contributions in relation to the contractually required contribution	(2,127)	(2,228)	(2,114)	(2,127)	(1,814)	(1,485)	(1,902)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered payroll	\$ 1,412,503	\$ 1,444,155	\$ 1,448,593	\$ 1,353,312	\$ 1,356,940	\$ 1,324,519	\$ 1,244,776
Contributions as a percentage of covered-employee payroll	0.15%	0.15%	0.15%	0.16%	0.13%	0.11%	0.15%

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

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

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

Measurement Date *	2020	2019	2018	2017	2016	2015
Total Pension Liability						
Service cost	\$ 124,018	\$ 141,025	\$ 140,605	\$ 134,635	\$ 123,530	\$ 99,473
Interest	160,272	146,089	137,846	117,428	100,326	89,976
Differences between expected and actual experience	(147,982)	523	(127,361)	(24,617)	42,204	(34,250)
Changes of assumptions	-	-	-	90,444	-	-
Benefit payments, including refunds of employee contributions	(52,468)	(62,891)	(30,466)	(30,016)	(30,039)	(29,141)
Net change in total pension liability	83,840	224,746	120,624	287,874	236,021	126,058
Total pension liability – beginning	2,212,383	1,987,637	1,867,013	1,579,139	1,343,118	1,217,060
Total pension liability – ending (a)	\$ 2,296,223	\$ 2,212,383	\$ 1,987,637	\$ 1,867,013	\$ 1,579,139	\$ 1,343,118
Plan Fiduciary Net Position						
Contributions – employer	\$ 106,773	\$ 97,787	\$ 84,921	\$ 99,862	\$ 166,749	\$ 153,593
Contributions – employee	10,392	9,980	11,218	10,283	10,430	10,255
Interest	214,506	200,835	184,080	158,634	140,129	131,153
Net investment income	(15,332)	(48,826)	10,972	142,461	19,983	(133,786)
Benefit payments, including refunds of employee contributions	(52,468)	(62,891)	(30,466)	(30,016)	(30,039)	(29,141)
Administrative expenses	(11,178)	(11,467)	(10,838)	(10,394)	(9,521)	(10,374)
Net change in plan fiduciary net position	252,693	185,418	249,887	370,830	297,731	121,700
Plan fiduciary net position – beginning	3,038,061	2,852,643	2,602,756	2,231,926	1,934,195	1,812,495
Plan fiduciary net position – ending (b)	\$ 3,290,754	\$ 3,038,061	\$ 2,852,643	\$ 2,602,756	\$ 2,231,926	\$ 1,934,195
Net pension liability (asset) – ending (a) – (b)	\$ (994,531)	\$ (825,678)	\$ (865,006)	\$ (735,743)	\$ (652,787)	\$ (591,077)
Plan fiduciary net position as a percentage of the total pension liability (asset)	143.31%	137.32%	143.52%	139.41%	141.34%	144.01%
Covered payroll	\$ 376,973	\$ 431,944	\$ 430,057	\$ 417,258	\$ 405,994	\$ 339,428
Net pension liability (asset) as a percentage of covered payroll	-263.82%	-191.15%	-201.14%	-176.33%	-160.79%	-174.14%

Notes to schedule:

Benefit changes: No changes in benefits provided.

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

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ 82,455	\$ 86,629	\$ 110,221	\$ 100,519	\$ 94,181	\$ 65,067	\$ 226,641	\$ 191,687	\$ 105,205	\$ 139,758
Contributions in relation to the actuarially determined contributions	<u>106,773</u>	<u>97,787</u>	<u>84,921</u>	<u>99,862</u>	<u>166,749</u>	<u>153,593</u>	<u>146,466</u>	<u>131,683</u>	<u>122,951</u>	<u>121,084</u>
Contribution deficiency (excess)	<u>\$ (24,318)</u>	<u>\$ (11,158)</u>	<u>\$ 25,300</u>	<u>\$ 657</u>	<u>\$ (72,568)</u>	<u>\$ (88,526)</u>	<u>\$ 80,175</u>	<u>\$ 60,004</u>	<u>\$ (17,746)</u>	<u>\$ 18,674</u>
Covered payroll	\$ 376,973	\$ 431,944	\$ 430,057	\$ 417,258	\$ 405,994	\$ 339,428	Not available	\$ 297,343	\$ 337,623	Not available
Contributions as a percentage of covered payroll	28.32%	22.64%	19.75%	23.93%	41.07%	45.25%	Not available	44.29%	36.42%	Not available

See notes to schedule of contributions

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

Valuation Date: October 1, 2019

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method: Aggregate Cost Method

Financing of unfunded

actuarial accrued
liabilities:

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

Discount rate: 7.00% per year

Wage Inflation Rate: 2.77% per year

Salary increases: 4.50% per year

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

Retirement: Retirement is assumed to occur at normal retirement age

Non-investment
expenses: 2.25% of covered payroll

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

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

	<u>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
Public Safety Pension Plan						
Annual Money-Weighted Rate of Return						
Net of Investment Expense	0.91%	0.72%	1.08%	2.51%	1.21%	-2.44%

Note: This information is not available for previous years.

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

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

We have examined the City of Valparaiso, Florida's (the City) compliance with Section 218.415, Florida Statutes, with regards to the investments for the year ended September 30, 2020.

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

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

In our opinion, the City of Valparaiso, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2020.

Warren Averett, LLC
Fort Walton Beach, Florida
June 8, 2021

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valparaiso, Florida (the City), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 8, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify the deficiencies in internal control shown in the accompanying schedule of findings and responses (#2020-001, #2020-002, and #2020-003) that we consider to be significant deficiencies.

Compliance and Other Matters

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

City of Valparaiso, Florida's Response to Findings

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

Purpose of this Report

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

Warren Averett, LLC

Fort Walton Beach, Florida

June 8, 2021

**CITY OF VALPARAISO, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2020**

2020-001 Reporting on Interfund Balances

Criteria

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

Condition

As of September 30, 2020, the Utility Fund and Communications Fund each owe the General Fund \$335,806 and \$429,490, respectively.

Cause

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

Effect

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

Recommendation

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

Management's Response

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

2020-002 IT Risk Assessment

Criteria

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

Condition

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

**CITY OF VALPARAISO, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
SEPTEMBER 30, 2020**

2020-002 IT Risk Assessment – Continued

Cause

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

Effect

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

Recommendation

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

Management's Response

In August 2020, the City Commission voted not to pursue an IT risk assessment after evaluation of the costs and benefits.

2020-003 Timeliness and Review of Bank Reconciliations

Criteria

Internal control is defined as a process affected by those charged with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the City's objectives with regards to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Condition

Bank reconciliations were not performed on a timely basis at the end of each month from June 2020 through September 2020. In addition, bank reconciliations examined by auditors did not provide clear evidence as to who prepared the reconciliation or whether the reconciliation was reviewed by appropriate City personnel.

Cause

Due to several coronavirus cases among the City's staff and the subsequent retirement of the former Deputy City Clerk, delays in completing the bank reconciliations began to occur during the period from June 2020 to September 2020.

**CITY OF VALPARAISO, FLORIDA
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
SEPTEMBER 30, 2020**

2020-003 Timeliness and Review of Bank Reconciliations – Continued

Effect

The internal controls over cash during the period from June 2020 to September 2020 did not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct a material misstatement on a timely basis. Changes to the system of internal control were instituted subsequent to year-end. As bank reconciliations are a key control, and the delay in preparing bank reconciliations was present for a portion of the period under audit, the finding is required to be reported.

Recommendation

We recommend management adopt a written policy that: 1) requires bank reconciliations to be prepared within a specified number of days after the end of the month, 2) identifies who is responsible for preparing monthly account reconciliations, and 3) specifies who is responsible for reviewing and approving the bank reconciliations.

Management's Response

The City will improve the timeliness of completing monthly bank reconciliations, and management will draft and present a written policy for bank reconciliations to the City Commission for approval.

MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the financial statements of the City of Valparaiso, Florida (the City), as of and for the fiscal year ended September 30, 2020, and have issued our report thereon dated June 8, 2021.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.550, *Rules of the Auditor General*.

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards*; and Independent Accountants' Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in these reports, which are dated June 8, 2021 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. The table below summarizes the uncorrected audit findings over the preceding three-year period.

Tabulation of Uncorrected Audit Findings			
Description	Current Year Finding #	2018-19 FY Finding #	2017-18 FY Finding #
Interfund Balances ¹	2020-001	2019-001	N/A
IT Risk Assessment ¹	2020-002	2019-002	N/A
Bank Reconciliations ¹	2020-003	N/A	N/A

¹ - significant deficiency

Official Title and Legal Authority

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

Financial Condition and Management

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

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

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

Additional Matters


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

Purpose of this Letter

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

We sincerely hope this comment and recommendation will be of assistance in the administration and operation of the City. Please feel free to contact us regarding the preceding or any other aspect of the audit of your financial statements.

We greatly appreciate the assistance and cooperation extended to us during our audit.


Fort Walton Beach, Florida
June 8, 2021