

TAYLOR COASTAL WATER
AND SEWER DISTRICT

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2013

TAYLOR COASTAL WATER
AND SEWER DISTRICT
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended September 30, 2013

TABLE OF CONTENTS

	PAGE NO.
INTRODUCTORY SECTION	
List of Principal Officials	4
FINANCIAL SECTION	
Independent Auditor's Report	6 - 7
Management's Discussion and Analysis	8 - 10
Basic Financial Statements	
Statement of Net Position	12
Statement of Revenues, Expenses, and Changes in Net Position	13
Statement of Cash Flows	14
Notes to Financial Statements	15 - 22
COMPLIANCE SECTION	
Schedule of Expenditures of Federal Awards	24
Notes to Schedule of Expenditures of Federal Awards	25
Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of <i>Financial Statements Performed in Accordance with Government Auditing Standards</i>	26 - 27
Management Letter Required by Chapter 10.550. <i>Rules of the Auditor General</i>	28 - 29

INTRODUCTORY SECTION

TAYLOR COASTAL WATER
AND SEWER DISTRICT
LIST OF PRINCIPAL OFFICIALS
September 30, 2013

CHAIRMAN

Lynn Aibejeris

VICE CHAIRMAN

Gennie Malone

SECRETARY

Diane Carlton

COMMISSIONERS

Lee Bennett
Troy Thompson
Shauna Beach
Jim Poppell
Steve Brown

FINANCIAL SECTION



Powell & Jones
Certified Public Accountants

Richard C. Powell, Jr., CPA
Marian Jones Powell, CPA

1359 S.W. Main Blvd.
Lake City, Florida 32025
386 / 755-4200
Fax: 386 / 719-5504
powellandjones@bellsouth.net

Taylor Coastal Water and Sewer District
Perry, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Taylor Coastal Water and Sewer District (the District), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District'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.

Auditor's Responsibility

Our responsibility is to express an opinion 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 auditor's 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 business-type activities of the Taylor Coastal Water and Sewer District, as of September 30, 2013, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Taylor Coastal Water and Sewer District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2014, on our consideration of the Taylor Coastal Water and Sewer District'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 Taylor Coastal Water and Sewer District's internal control over financial reporting and compliance.



POWELL & JONES
Certified Public Accounts
January 17, 2014

TAYLOR COASTAL WATER AND SEWER DISTRICT

Management's Discussion and Analysis

September 30, 2013

The management of the Taylor Coastal Water and Sewer District (the District) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended September 30, 2013.

Basic Financial Statements

Our basic financial statements are prepared using proprietary fund (enterprise fund) accounting principles which is the same basis of accounting as private-sector business enterprises. The District is operated under one enterprise fund. Under this method of accounting, an economic resources measurement focus and the accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. These are followed by notes to the financial statements.

The statement of net position presents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position reports the operating revenues and expenses and nonoperating revenues and expenses of the District for the fiscal year with the difference - the net income or loss - being combined with any capital grants to determine the net change in assets for the fiscal year. That change combined with the net position at the end of the previous year total to the net position at the end of the current fiscal year.

The statement of cash flows reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, noncapital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current fiscal year.

Condensed Financial Information

Condensed financial information from the statements of net position at September 30, 2013 and 2012, and revenues, expenses and changes in net position for the years then ended, follows:

	September 30,	
	2013	2012
Net position		
Current and other assets	\$ 468,448	\$ 412,422
Capital assets, net	5,629,777	5,468,585
Total assets	<u>6,098,225</u>	<u>5,881,007</u>
Current liabilities	80,387	43,411
Long-term liabilities	1,387,641	1,410,139
Total liabilities	<u>1,468,028</u>	<u>1,453,550</u>
Net position:		
Invested in capital assets, net of related debt	4,253,232	4,072,130
Restricted	106,187	97,665
Unrestricted	270,778	257,662
Total net position	<u>\$ 4,630,197</u>	<u>\$ 4,427,457</u>
Change in net position	For the Fiscal Year Ended September 30,	
Operating revenue:	2013	2012
Revenue from water and sewer services	\$ 379,881	\$ 386,508
Total operating revenues	<u>379,881</u>	<u>386,508</u>
Operating expenses:		
Personnel services	142,936	114,202
Operating expenses	131,673	93,760
Total operating expenses, excluding depreciation	<u>274,609</u>	<u>207,962</u>
Depreciation	277,577	274,181
Total operating expenses, including depreciation	<u>552,186</u>	<u>482,143</u>
Operating loss	(172,305)	(95,635)
Net nonoperating revenue (expense)	<u>(60,130)</u>	<u>(56,831)</u>
Loss before capital contributions	(232,435)	(152,466)
Customer grinder pump contributions	20,844	6,964
Land contribution	-	158,080
EPA grant revenue	125,745	22,979
USDA-RD grant revenue	288,586	74,665
Increase in net position	<u>202,740</u>	<u>110,222</u>
Beginning of year net position	<u>4,427,457</u>	<u>4,317,235</u>
End of year net position	<u>\$ 4,630,197</u>	<u>\$ 4,427,457</u>

During the year ended September 30, 2013, net position increased by \$202,740, primarily due to the receipt of capital grants.

Capital Assets and Debt Administration

Capital Assets

At September 30, 2013, the District had \$5.6 million invested in capital assets, consisting primarily of its water supply system and sewer system.

Capital Assets at September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Land	\$ 279,337	\$ 279,337
Construction in progress	2,001,280	1,586,949
Buildings and improvements	5,850,802	5,832,703
Equipment	<u>19,352</u>	<u>17,749</u>
	8,150,771	7,716,738
Accumulated depreciation	<u>(2,520,994)</u>	<u>(2,248,153)</u>
Capital assets, net	<u><u>\$ 5,629,777</u></u>	<u><u>\$ 5,468,585</u></u>

Debt Outstanding

At year-end, the District had \$1,376,545 in revenue bonds outstanding versus \$1,396,445 last year. The decrease of \$19,910 is due to the District making scheduled payments on the revenue bonds.

Financial Contact

The District's financial statements are designed to present users (citizens, taxpayers, customers, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact the District's Office Manager at 18820 Beach Road, Perry, Florida 32348.

BASIC FINANCIAL STATEMENTS

TAYLOR COASTAL WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
September 30, 2013
(With Summarized Financial Information for September 30, 2012)

	2013	2012
ASSETS		
Current Assets		
Cash	\$ 373,986	\$ 325,365
Inventory of supplies	30,459	49,383
Accounts receivable, net	34,694	32,390
Due from other governments	29,126	-
Prepaid expenses	183	5,284
Total current assets	468,448	412,422
Capital Assets		
Land	279,337	279,337
Construction in progress	2,001,280	1,586,949
Buildings	66,241	66,241
Water system	954,579	954,579
Sewer system	4,829,982	4,811,883
Machinery and equipment	19,352	17,749
	8,150,771	7,716,738
Accumulated depreciation	(2,520,994)	(2,248,153)
Total capital assets, net of accumulated depreciation	5,629,777	5,468,585
Total assets	\$ 6,098,225	\$ 5,881,007
LIABILITIES		
Current liabilities		
Accounts payable	\$ 42,372	\$ 6,266
Accrued liabilities	17,537	16,855
Current portion of long-term debt	20,478	20,290
Total current liabilities	80,387	43,411
Long-term Liabilities		
Retirement payable	15,574	17,974
Contract payable	16,000	16,000
2005A Revenue Bonds payable	357,835	363,455
2005B Revenue Bonds payable	606,000	616,000
2011A Revenue Bonds payable	392,232	396,710
Total long-term liabilities	1,387,641	1,410,139
Total liabilities	1,468,028	1,453,550
NET POSITION		
Invested in capital assets, net of related debt	4,253,232	4,072,130
Restricted for debt service	68,187	59,665
Restricted for system expansion	38,000	38,000
Unrestricted	270,778	257,662
Total net position	\$ 4,630,197	\$ 4,427,457

See notes to financial statements.

TAYLOR COASTAL WATER AND SEWER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Fiscal Year Ended September 30, 2013

(With Summarized Financial Information for the Fiscal Year Ended September 30, 2012)

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Water services	\$ 169,926	\$ 164,112
Sewer services	203,619	203,804
Connection fees	3,250	13,000
Penalties	2,020	4,193
Miscellaneous	1,066	1,399
Total operating revenues	<u>379,881</u>	<u>386,508</u>
OPERATING EXPENSES		
Personnel services	142,936	114,202
Operating expenses	131,673	93,760
Depreciation	<u>277,577</u>	<u>274,181</u>
Total operating expenses	<u>552,186</u>	<u>482,143</u>
Operating loss	<u>(172,305)</u>	<u>(95,635)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	1,395	1,841
Interest expense	<u>(61,525)</u>	<u>(58,672)</u>
Total nonoperating revenues (expenses)	<u>(60,130)</u>	<u>(56,831)</u>
Loss before capital contributions	<u>(232,435)</u>	<u>(152,466)</u>
CAPITAL CONTRIBUTIONS		
Grinder pump contributions	20,844	6,964
Land contribution	-	158,080
EPA grant revenue	125,745	22,979
USDA - RD grant revenue	<u>288,586</u>	<u>74,665</u>
Total capital contributions	<u>435,175</u>	<u>262,688</u>
Increase in net position	202,740	110,222
Net position at beginning of year	<u>4,427,457</u>	<u>4,317,235</u>
Net position at end of year	<u>\$ 4,630,197</u>	<u>\$ 4,427,457</u>

See notes to financial statements.

TAYLOR COASTAL WATER AND SEWER DISTRICT

STATEMENT OF CASH FLOWS

For the Fiscal Year Ended September 30, 2013

(With Summarized Financial Information for the Fiscal Year Ended September 30, 2012)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 376,511	\$ 386,459
Miscellaneous receipts	1,066	1,399
Cash payments to suppliers for goods and services	(73,260)	(111,002)
Cash payments for employee services	(142,936)	(114,202)
Net cash provided by operating activities	<u>161,381</u>	<u>162,654</u>
Cash flows from capital and related financing activities:		
Additions to capital assets	(415,525)	(290,089)
Capital grants	385,205	262,688
Principal paid on debt	(22,310)	(14,390)
Interest paid on debt	(61,525)	(58,672)
Net cash used for capital and related financing activities	<u>(114,155)</u>	<u>(100,463)</u>
Cash flows from investing activities:		
Investment proceeds	<u>1,395</u>	<u>13,074</u>
Net cash provided by investing activities	<u>1,395</u>	<u>13,074</u>
Net increase in cash and cash equivalents	48,621	75,265
Cash and cash equivalents, beginning of year	<u>325,365</u>	<u>250,100</u>
Cash and cash equivalents, end of year	<u>\$ 373,986</u>	<u>\$ 325,365</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (172,305)	\$ (95,635)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	277,577	274,181
Changes in assets and liabilities:		
Customer receivables	(2,304)	1,350
Inventories	18,924	(9,239)
Prepaid expenses	5,101	(284)
Accounts payable and accrued expenses	34,388	(7,719)
Net cash provided by operating activities	<u>\$ 161,381</u>	<u>\$ 162,654</u>

TAYLOR COASTAL WATER
AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

NOTE 1. DESCRIPTION OF ENTITY

Description of Operations

The Taylor Coastal Water and Sewer District (the District) is a special district unit of government created by Ordinance 2000-10 on October 2, 2000, by the Board of County Commissioners of Taylor County, Florida. The purpose of the District is to acquire, construct, operate and maintain a water and sewer system to serve unincorporated areas of Taylor County and other customers and users as the District may determine. The initial Commissioners of the District were the governing board of Taylor Coastal Utilities, Inc. a not-for-profit entity located in Taylor County, Florida. The initial water and sewer system was operated and maintained by Taylor Coastal Utilities, Inc. The District is involved in a large sewer project to include areas of unincorporated Taylor County, Florida. On July 3, 2003, the entire existing water system operated and maintained by Taylor Coastal Utilities, Inc. was transferred by bill of sale, warranty deed and assignment of easements to the District for a sum of \$10. The District currently serves approximately 439 water customers, 361 of which also receive sewer service.

Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. 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 government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government 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 government is able to exercise oversight responsibilities. Based upon the application of these criteria, management determined that no potential component units existed which should be included within the reporting entity.

The District is a component unit of Taylor County, Florida. It is legally separate from other Taylor County agencies, but its governing body is appointed by the Taylor County Board of County Commissioners.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation and Accounting

The District's basic financial statements are presented on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net position. Net position (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

b. Cash Equivalents and Investments

The District considers all highly liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents. This includes bank certificates of deposit.

Investments are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year. Restricted investments, which consist primarily of U.S. government securities designated for specific projects and required to be segregated pursuant to debt covenants, and restricted cash, which consists of a money market account, and is presented as restricted cash.

c. Material and Supplies

Materials and supplies inventory consists principally of spare parts that are recorded and expensed when purchased. Year end inventory is recorded at weighted average cost.

d. Capital Assets

The cost of additions to the utility plant and major replacements of retired units of property is capitalized. The District defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The District did not capitalize interest during the current fiscal year. As applicable in a fiscal year, the cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to the construction of the first phase of a sewer which was completed during the current year.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Structures, pumps and other improvements	20 – 30 years
Office furniture, fixture and equipment	7 years

e. Long-Term Debt and Issuance Costs

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues. Losses occurring from advance refundings of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

f. Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

g. Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Invested in capital assets, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other liabilities that are attributable to the acquisition, construction or improvement of those assets. 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - This component of net position consists of net position that does not meet the definition of "restricted" or "invested" in capital assets, net of related debt."

NOTE 3. CASH

a. Cash

Cash is presented on the accompanying statements of net position as of September 30, 2013, as follows:

Cash and cash equivalents	\$ 373,986
Total cash and equivalents	<u>\$ 373,986</u>

b. Deposits

The financial institution in which the District's monies are deposited is certified as a "Qualified Public Depository," as required under the Florida Security for Public Deposits Act. This law requires every qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of an amount to be determined by the State Treasurer. Therefore, the District's total deposits are insured by the Florida Depository Insurance Corporation and the Bureau of Collateral Securities, Division of Treasury, State Department of Insurance. The law requires the State Treasurer to ensure that funds are entirely collateralized throughout the fiscal year.

Section 218.415, *Florida Statutes*, authorizes the District to invest in the Local Government Surplus Funds Trust, direct obligations of the United States Government, obligations unconditionally guaranteed by the United States, time deposits and savings accounts of Florida Qualified Depositories, and Securities and Exchange Commission restricted money market funds with the highest credit quality rating from a nationally recognized rating agency. At year end, the District's invested funds were in a certificate of deposit at the "Qualified Public Depository" described above.

For financial reporting purposes, investments are categorized to give an indication of the level of custodial credit risk assumed by the District at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the District or its agent in the District's name. At year end the District's investments was classified as Category 1.

NOTE 4. CUSTOMER AND OTHER ACCOUNTS RECEIVABLE

Customer and other accounts receivables were as follows:

Utility services accounts	\$ 34,694
Allowance for doubtful accounts	-
Net	<u>\$ 34,694</u>

Based upon collection history, the District has determined an allowance for doubtful accounts is not required for these receivables.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2013, follows:

	Balance Sept. 30, 2012	Increases	Decreases	Balance Sept. 30, 2013
Capital assets, not being depreciated:				
Land	\$ 279,337	\$ -	\$ -	\$ 279,337
Construction in progress	1,586,949	414,331	-	2,001,280
Total capital assets not being depreciated:	<u>1,866,286</u>	<u>414,331</u>	<u>-</u>	<u>2,280,617</u>
Capital assets, being depreciated:				
Water system	954,579	-	-	954,579
Sewer system	4,811,883	18,099	-	4,829,982
District building	66,241	-	-	66,241
Equipment	17,749	6,339	(4,736)	19,352
	<u>5,850,452</u>	<u>24,438</u>	<u>(4,736)</u>	<u>5,870,154</u>
Less: accumulated depreciation	<u>(2,248,153)</u>	<u>(277,577)</u>	<u>4,736</u>	<u>(2,520,994)</u>
Total capital assets being depreciated	<u>3,602,299</u>	<u>(253,139)</u>	<u>-</u>	<u>3,349,160</u>
Total capital assets	<u>\$ 5,468,585</u>	<u>\$ 161,192</u>	<u>\$ -</u>	<u>\$ 5,629,777</u>

Depreciation for the year was \$277,577.

On June 22, 2012, the District was granted approximately twelve acres of land from the Suwannee River Water Management District. The deed of conveyances requires the property to be exclusively used as a wellfield and to house the District's offices, and contains a reverter clause if those uses are not maintained.

The District has in progress a major construction project as of September 30, 2013. The project principally consists of a sewer collection system which was not completed at year end.

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses were as follows:

Contractors and vendors	\$ 32,389
Accrued payroll liabilities	12,849
Accrued interest	4,688
Customer prepayments	9,983
Total	<u>\$ 59,909</u>

NOTE 7. LONG-TERM DEBT

Revenue Bonds - The District has issued bonds where the income derived from the acquired constructed assets is pledged to pay debt service. The following revenue bonds were outstanding at September 30, 2013:

Water and Sewer System Revenue Bonds, Series 2005A - The District issued the 2005A Series Bonds to refinance debt previously owed to USDA Rural Development by the Taylor Coastal Utilities, Inc. Revenues derived from the operation of the water and sewer system are pledged to service this debt. The outstanding balance at September 30, 2013, was \$363,835. The Bond Certificates mature annually from September 1, 2008 through September 1, 2044. The interest rate on the certificates is 4.25%.

Water and Sewer System Revenue Bonds, Series 2005B - The District issued the 2005B Series Bonds to pay off the interim financing notes issued July 18, 2003. Revenues derived from the operation of the water and sewer system are pledged to service this debt. The outstanding balance at September 30, 2013, was \$616,000. The Bond Certificates will mature annually from September 1, 2008 through September 1, 2044. The interest on the certificates is 4.25%.

Water and Sewer System Revenue Bonds, Series 2011A - The District issued the 2011A Series Bonds to refinance debt previously owed to Capital City Bank by the Taylor Coastal Water and Sewer District. Revenues derived from the operation of the water and sewer system are pledged to service this debt. The outstanding balance at September 30, 2013 was \$396,710. The Bond certificates mature annually from September 1, 2011 through September 1, 2050. The interest rate on the certificates is 4.375%.

Reserve Account - A reserve account is required by the two bond issues to accumulate sufficient funds to be used for: (a) repair and replacement of the water and sewer systems due to catastrophe, (b) construction of improvements to increase net revenues, and (c) payment of any principal and interest if the funds of the debt service account are insufficient. A yearly set aside amount of \$5,826 is to be made until a maximum reserve amount of \$58,259 is accumulated for the Revenue Bonds. At September 30, 2013, \$52,143 had been set aside in this reserve.

Revenue bond debt service requirements to maturity, including \$1,212,251 of interest, are as follows:

Fiscal Year Ending September 30	Series 2005A	Series 2005B	Series 2011A	Total
2014	\$ 21,467	\$ 36,180	\$ 21,834	\$ 79,481
2015	21,212	35,755	21,834	78,801
2016	20,957	36,330	21,834	79,121
2017	21,702	35,863	21,834	79,399
2018	21,404	36,395	21,834	79,633
2019-2023	107,303	180,028	109,169	396,500
2024-2028	107,082	180,729	109,169	396,980
2029-2033\	105,818	180,731	109,169	395,718
2034-2038	107,007	181,314	109,169	397,490
2039-2043	106,964	180,498	109,169	396,631
2044-2048	19,719	36,488	109,169	165,376
2048-2050	-	-	43,666	43,666
	<u>660,635</u>	<u>1,120,311</u>	<u>807,850</u>	<u>2,588,796</u>
Interest amount	<u>296,800</u>	<u>504,311</u>	<u>411,140</u>	<u>1,212,251</u>
Total	<u>\$ 363,835</u>	<u>\$ 616,000</u>	<u>\$ 396,710</u>	<u>\$ 1,376,545</u>

A schedule of changes in long-term debt follows:

Series	Balance			Balance September 30, 2013	Due Within One Year
	October 1, 2012	Increase	Decrease		
Series 2005A	\$ 369,455	\$ -	\$ (5,620)	\$ 363,835	\$ 6,000
Series 2005B	626,000	-	(10,000)	616,000	10,000
Series 2011A	<u>401,000</u>	<u>-</u>	<u>(4,290)</u>	<u>396,710</u>	<u>4,478</u>
	<u>\$ 1,396,455</u>	<u>\$ -</u>	<u>\$ (19,910)</u>	<u>\$ 1,376,545</u>	<u>\$ 20,478</u>

NOTE 8. LONG-TERM CONTRACT PAYABLE

On July 5, 2002, Taylor Coastal Utilities, the predecessor entity, entered into a contract with a developer whereby the District would reimburse the developer \$500 per water connection fee as vacant lots were sold. As of September 30, 2013, the District's liabilities to the developer were \$16,000, representing 32 unsold lots with water service.

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the District carries commercial insurance. Insurance against losses are provided for the following types of risk:

- Workers' Compensation and Employer's Liability
- General and Automobile Liability
- Real and Personal Property Damage
- Public Officials' Liability
- Accidental Death and Dismemberment

NOTE 10. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State and Federal governments. Any disallowed claims, include amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

NOTE 11. COMPARATIVE DATA

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, comparative data and related disclosures have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand. Certain elements of the prior year data have been reclassified for comparability purposes.

NOTE 12. PENSION PLAN

Plan Description – The District contributes to the Florida Retirement System (System), a cost-sharing multiple-employer defined benefit plan administered by the State of Florida, Department of Administration, Division of Retirement. The System provides retirement, disability or death benefits to retirees or their designated beneficiaries. Chapter 121, *Florida Statutes*, establishes the authority for benefit provisions. Changes to the law can only occur through an act of the Florida Legislature. The District issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Florida Retirement System, 2639 North Monroe Street, Tallahassee, Florida, or by calling (850) 488-5706.

Funding Policy – The System is employee noncontributory. The District is required to contribute at an actuarially determined rate. The rates at September 30, 2013 were as follows: Regular Employees 6.95%. All plan members, as of July 1, 2011, are required to contribute a designated rate of 3%. The District's contributions to the System for the fiscal year ended September 30, 2013 were \$6,484, equal to the required contributions. The contribution requirements of plan members and the District are established and may be amended by the Florida Legislature.

The System also provides a defined contribution type plan, which is not utilized by any District employees.

The District enrolled in the System effective October 1, 2007. At that time, it was determined that the effective date for participation was January, 2005, due to the District's status as a dependent special district of Taylor County. This determination resulted in a balance due the System of \$27,574 which was paid by the Taylor County Board of County Commissioners. The District has recorded this balance as a long-term liability and has begun repayment to the County effective October, 2008 at \$200 per month. The outstanding balance as of September 30, 2013 is \$15,574.

COMPLIANCE SECTION

TAYLOR COASTAL WATER AND SEWER DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended September 30, 2013

<u>Grantor/Program Title</u>	<u>CFDA #</u>	<u>Contract Number</u>	<u>Award Amount</u>	<u>Reported in Prior Years</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>
FEDERAL AWARDS						
NON MAJOR PROGRAMS						
U.S. Department of Agriculture						
Rural Development						
Water and Waste Disposal						
Grant	10.770	20214	\$ 1,202,980	\$ 297,919	\$ 288,586	\$ 288,586
Loan			401,000	401,000	-	-
			<u>1,603,980</u>	<u>698,919</u>	<u>288,586</u>	<u>288,586</u>
U.S. Department of Environmental Protection						
Southeastern U.S. Regional Targeted Watershed Initiative	66.127	XP-95419411-0	<u>2,466,800</u>	<u>447,278</u>	<u>125,745</u>	<u>125,745</u>
Total federal awards			<u>\$ 4,070,780</u>	<u>\$ 1,146,197</u>	<u>\$ 414,331</u>	<u>\$ 414,331</u>

See Notes to Schedule of Expenditures of Federal Awards.

TAYLOR COASTAL WATER AND SEWER DISTRICT

Notes to Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended September 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and presentation of the Schedule of Expenditures of Federal Awards of the Taylor Coastal Water and Sewer District (the "District") have been designed to conform to generally accepted accounting principles as applicable to governmental units, including the reporting and compliance requirements of the Audits of States, Local Governments, and Non-Profit Organizations and Office of Management and Budget Circular A-133.

A. Reporting Entity

This reporting entity consists of the Taylor Coastal Water and Sewer District. The District includes a Schedule of Expenditures of Federal Awards in the compliance Section for the purpose of additional analysis.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus.

The accrual basis of accounting is followed in the Schedule of Expenditures of Federal Awards. Under the modified accrual basis, revenues are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

INDEPENDENT AUDITOR'S 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 Board of Commissioners
Taylor Coastal Water and Sewer District

We have audited, in accordance with the 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 the business-type activities of Taylor Coastal Water and Sewer District, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise Taylor Coastal Water and Sewer District's basic financial statements, and have issued our report thereon dated January 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Taylor Coastal Water and Sewer District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Taylor Coastal Water and Sewer District's internal control. Accordingly, we do not express an opinion on the effectiveness of Taylor Coastal Water and Sewer District'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 a 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified the following deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting.

Finding 2010-1 Financial Statement Preparation

A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. While your auditor can assist with the preparation of your financial statements and related footnotes, the financial statements are the responsibility of management. A deficiency in internal control exists when the government does not have the


expertise necessary to prevent, detect, and correct misstatements. A deficiency in internal control exists in instances where Taylor Coastal Water and Sewer District is not capable of drafting the financial statements and all required footnote disclosures in accordance with generally accepted accounting principles. Possessing suitable skill, knowledge, or experience to oversee services an auditor provides in assisting with financial statement presentation requires a lower level of technical knowledge than the competence required to prepare the financial statements and disclosures.

Compliance and Other Matters

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

Purpose of this Report

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



POWELL & JONES
Certified Public Accountants
Lake City, Florida
January 17, 2014

MANAGEMENT LETTER REQUIRED BY
CHAPTER 10.550, *RULES OF THE AUDITOR GENERAL*

To the Board of Commissioners
Taylor Coastal Water and
Sewer District

We have audited the basic financial statements of Taylor Coastal Water and Sewer District (District) as of and for the year ended September 30, 2013, and have issued our report thereon dated January 17, 2014

We have issued our 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* dated January 17, 2014. Disclosures in that report, should be considered in conjunction with this management letter.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards* issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida and require that the following be addressed in this letter:

PRIOR YEAR FINDINGS – There were no reportable findings during the prior year.

CURRENT YEAR FINDINGS – There were no reportable findings during the current year.

FINANCIAL COMPLIANCE MATTERS

Annual Local Government Financial Report - The Financial Report filed with the Department of Financial Services pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the accompanying financial statements of the District, for the fiscal year ended September 30, 2013.

Investment of Public Funds - The District complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds during the fiscal year ended September 30, 2013.

Financial Emergency Status - Nothing came to our attention that caused us to believe that the District had met any of the conditions described in Section 218.503(1), *Florida Statutes*, that might result in a financial emergency.

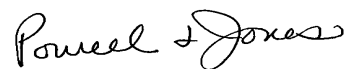
Financial Condition Assessment Procedures – As required by the *Rules of the Auditor General*, (Sections 10.554(1)(i)6.c and 10.556(7), we applied financial condition assessment procedures to the District's financial statements. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information they provided.

We noted no deteriorating financial conditions as defined by Rule 10.544(2)(f).

Our audit did not disclose any further items that would be required to be reported under the *Rules of the Auditor General*, Chapter 10.550.

CONCLUSION

We very much enjoyed the challenge and experiences with our audit of the District. We appreciate the helpful assistance of District staff in completing our audit and also the generally high quality of the District's financial records and internal controls.

A handwritten signature in cursive script that reads "Powell & Jones".

POWELL & JONES
Certified Public Accountants
January 17, 2014

TAYLOR COASTAL WATER & SEWER DISTRICT
18820 BEACH ROAD
PERRY, FL 32348

Phone/Fax: (850) 578-3043

www.tcwsd.org

tcwsd@fairpoint.net

January 23, 2014

Auditor General
David W. Martin, CPA
Claude Denson Pepper Building
111 West Madison Street, Room 401
Tallahassee, FL 32399 -1450

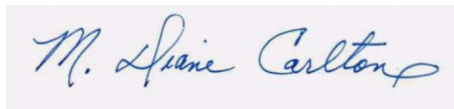
Dear Mr. Martin:

In regard to the Finding 2011 -1 Financial Statement Preparation and in reference to our audit dated January 17, 2014, we continue to operate in the same manner.

We continue to agree with this finding and offer this explanation . We are a very small government and have used our available resources to employ a competent bookkeeper who maintains excellent accounting records and provides accurate monthly financial reports prepared generally on the cash basis. We likewise have confidence in our audit firm to utilize these records and prepare annual financial statements in the required formats and with all associated note disclosures. Both staff and the Board of Commissioners review the annual financial reports and have the opportunity to ask the auditor any questions regarding the report prior to its formal presentation. The report is formally presented by the auditor at a scheduled meeting of the Board of Commissioners.

At this time, we do not believe it would be a justifiable expense to employ another accountant on either a part -time or full -time basis to prepare the annual financial statements. We thus accept this required disclosure finding and will continue to monitor this situation in the future.

Sincerely,



M. Diane Carlton
Taylor Coastal Water and Sewer District
Board Secretary/Office Manager