

**TAYLOR COASTAL WATER
AND SEWER DISTRICT**

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2016

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AND SEWER DISTRICT**

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INTRODUCTORY SECTION

**TAYLOR COASTAL WATER
AND SEWER DISTRICT**

LIST OF PRINCIPAL OFFICIALS

September 30, 2016

CHAIRMAN

Lynn Aibejeris

VICE CHAIRMAN

Gennie Malone

SECRETARY

Diane Carlton

COMMISSIONERS

**Nancy Geohagan
Benjye Tuten
Steve Brown**

DISTRICT ATTORNEY

Mike Smith

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
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, 2016, 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, 2016, 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 and pension schedules listed in the table of content 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 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 March 17, 2017, 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.

Report on Summarized Comparative Information

We have previously audited Taylor Coastal Water and Sewer District's 2015 financial statements, and our report dated January 4, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

POWELL & JONES
Certified Public Accounts
March 17, 2017

TAYLOR COASTAL WATER AND SEWER DISTRICT

Management's Discussion and Analysis

September 30, 2016

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, 2016.

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, 2016 and 2015, and revenues, expenses and changes in net position for the years then ended, follows:

**Statement of Net Position
September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 665,842	\$ 681,800
Capital assets, net	4,957,103	5,282,052
Total assets	<u>5,622,945</u>	<u>5,963,852</u>
Current liabilities	99,424	108,936
Long-term liabilities	1,366,623	1,390,979
Total liabilities	<u>1,466,047</u>	<u>1,499,915</u>
Net position:		
Invested in capital assets, net of related debt	3,643,928	3,946,629
Restricted	166,082	133,899
Unrestricted	346,793	383,409
Total net position	<u>\$ 4,156,803</u>	<u>\$ 4,463,937</u>

**Changes in Net Position
For the Fiscal Year Ended September 30, 2016 and 2015**

Change in net position	<u>2016</u>	<u>2015</u>
Operating revenue:		
Revenue from water and sewer services	\$ 460,224	\$ 446,993
Total operating revenues	<u>460,224</u>	<u>446,993</u>
Operating expenses:		
Personnel services	151,607	135,891
Operating expenses	362,118	155,207
Total operating expenses, excluding depreciation	<u>513,725</u>	<u>291,098</u>
Depreciation	339,949	290,568
Total operating expenses, including depreciation	<u>853,674</u>	<u>581,666</u>
Operating loss	(393,450)	(134,673)
Net nonoperating revenue (expense)	(55,121)	(56,156)
Loss before capital contributions	(448,571)	(190,829)
Customer grinder pump contributions	141,437	116,038
EPA grant revenue	-	7,808
Change in net position	<u>(307,134)</u>	<u>(66,983)</u>
Beginning of year net position	4,463,937	4,591,566
Prior period adjustment	-	(60,646)
End of year net position	<u>\$ 4,156,803</u>	<u>\$ 4,463,937</u>

During the year ended September 30, 2016, net position decreased by \$307,134, primarily due to increase in expenses and depreciation.

Capital Assets and Debt Administration

Capital Assets

At September 30, 2016, the District had \$4.9 million invested in capital assets, consisting primarily of its water supply system and sewer system.

Capital Assets at September 30, 2016 and 2015

	2016	2015
Land	\$ 279,337	\$ 279,337
Construction in progress	5,680	5,680
Buildings and improvements	7,968,822	7,953,822
Equipment	138,027	138,027
	<u>8,391,866</u>	<u>8,376,866</u>
Accumulated depreciation	(3,434,763)	(3,094,814)
Capital assets, net	<u>\$ 4,957,103</u>	<u>\$ 5,282,052</u>

Debt Outstanding

At year-end, the District had \$1,313,175 in revenue bonds outstanding versus \$1,335,423 last year. The decrease of \$22,248 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, 2016
(With Summarized Financial Information for September 30, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash	\$ 512,687	\$ 488,915
Inventory of supplies	44,754	89,535
Accounts receivable, net	44,914	41,803
Prepaid expenses	6,305	5,865
Total current assets	<u>608,660</u>	<u>626,118</u>
Capital Assets		
Land	279,337	279,337
Construction in progress	5,680	5,680
Buildings and improvements	74,641	74,641
Water system	931,499	931,499
Sewer system	6,962,682	6,947,682
Machinery and equipment	138,027	138,027
	<u>8,391,866</u>	<u>8,376,866</u>
Accumulated depreciation	<u>(3,434,763)</u>	<u>(3,094,814)</u>
Total capital assets, net of accumulated depreciation	<u>4,957,103</u>	<u>5,282,052</u>
Total assets	<u>5,565,763</u>	<u>5,908,170</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>57,182</u>	<u>55,682</u>
LIABILITIES		
Current liabilities		
Accounts payable	14,368	28,173
Accrued liabilities	14,032	13,767
Accrued interest payable	4,318	4,391
Deferred revenue	18,343	17,261
Current portion of long-term debt	23,092	20,684
Total current liabilities	<u>74,153</u>	<u>84,276</u>
Long-term Liabilities		
Retirement payable	8,374	10,774
Contract payable	17,000	16,000
Pension liability	51,166	49,466
2005A Revenue Bonds payable	338,495	345,855
2005B Revenue Bonds payable	574,000	586,000
2011A Revenue Bonds payable	377,588	382,884
Total long-term liabilities	<u>1,366,623</u>	<u>1,390,979</u>
Total liabilities	<u>1,440,776</u>	<u>1,475,255</u>
DEFERRED INFLOWS OF RESOURCES	<u>25,271</u>	<u>24,660</u>
NET POSITION		
Invested in capital assets, net of related debt	3,643,928	3,946,629
Restricted for debt service	76,046	68,018
Restricted for system expansion	90,036	65,881
Unrestricted	346,793	383,409
Total net position	<u>\$ 4,156,803</u>	<u>\$ 4,463,937</u>

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, 2016
(With Summarized Financial Information for the Fiscal Year Ended September 30, 2015)

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Water services	\$ 178,704	\$ 172,946
Sewer services	265,404	252,703
Connection fees	11,850	10,500
Penalties	2,511	3,937
Miscellaneous	1,755	6,907
Total operating revenues	<u>460,224</u>	<u>446,993</u>
OPERATING EXPENSES		
Personnel services	151,607	135,891
Operating expenses	362,118	155,207
Depreciation	339,949	290,568
Total operating expenses	<u>853,674</u>	<u>581,666</u>
Operating loss	<u>(393,450)</u>	<u>(134,673)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	2,203	1,905
Interest expense	(57,324)	(58,061)
Total nonoperating revenues (expenses)	<u>(55,121)</u>	<u>(56,156)</u>
Loss before capital contributions	<u>(448,571)</u>	<u>(190,829)</u>
CAPITAL CONTRIBUTIONS		
Grinder pump contributions	141,437	116,038
EPA grant revenue	-	7,808
Total capital contributions	<u>141,437</u>	<u>123,846</u>
Change in net position	(307,134)	(66,983)
Net position at beginning of year	4,463,937	4,591,566
Prior period adjustment	-	(60,646)
Net position at end of year	<u>\$ 4,156,803</u>	<u>\$ 4,463,937</u>

TAYLOR COASTAL WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS

For the Fiscal Year Ended September 30, 2016

(With Summarized Financial Information for the Fiscal Year Ended September 30, 2015)

	2016	2015
Cash flows from operating activities:		
Cash received from customers	\$ 460,801	\$ 437,400
Cash payments to suppliers for goods and services	(334,940)	(110,887)
Cash payments for employee services	(151,607)	(177,130)
Net cash provided by (used for) operating activities	(25,746)	149,383
Cash flows from capital and related financing activities:		
Additions to capital assets	126,437	7,511
Capital grants	-	7,808
Principal paid on debt	(21,878)	(23,184)
Interest paid on debt	(57,243)	(58,129)
Net cash used for capital and related financing activities	47,316	(65,994)
Cash flows from investing activities:		
Investment proceeds	2,203	1,901
Net cash provided by investing activities	2,203	1,901
Net increase in cash and cash equivalents	23,773	85,290
Cash and cash equivalents, beginning of year	488,915	403,625
Cash and cash equivalents, end of year	\$ 512,688	\$ 488,915
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	\$ (393,450)	\$ (134,673)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation	339,949	290,568
(Increase) decrease in current assets:		
Customer receivables	(4,866)	(7,866)
Inventories	44,781	26,818
Deferred outflows	(1,500)	(55,682)
Prepaid expenses	(440)	(267)
Increase (decrease) in current liabilities:		
Accounts payable	(13,805)	17,770
Deferred inflows	611	24,660
Pension liability	1,700	(11,180)
Deferred revenue	1,082	(1,728)
Accrued liabilities	192	963
Net cash provided by (used for) operating activities	\$ (25,746)	\$ 149,383

**TAYLOR COASTAL WATER
AND SEWER DISTRICT**

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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 483 water customers, 304 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, 2016, as follows:

Cash and cash equivalents	\$ 512,687
Total cash and equivalents	<u>\$ 512,687</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	\$ 44,914
Allowance for doubtful accounts	-
Net	<u>\$ 44,914</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, 2016, follows:

	Balance Sept. 30, 2015	Reclassification Increases	Reclassification Decreases	Balance Sept. 30, 2016
Capital assets, not being depreciated:				
Land	\$ 279,337	\$ -	\$ -	\$ 279,337
Construction in progress	5,680	-	-	5,680
Total capital assets not being depreciated:	<u>285,017</u>	-	-	<u>285,017</u>
Capital assets, being depreciated:				
Water system	931,499	-	-	931,499
Sewer system	6,947,682	15,000	-	6,962,682
District building	74,641	-	-	74,641
Equipment	138,027	-	-	138,027
	<u>8,091,849</u>	<u>15,000</u>	-	<u>8,106,849</u>
Less: accumulated depreciation	<u>(3,094,814)</u>	<u>(339,949)</u>	-	<u>(3,434,763)</u>
Total capital assets being depreciated	<u>4,997,035</u>	<u>(324,949)</u>	-	<u>4,672,086</u>
Total capital assets	<u>\$ 5,282,052</u>	<u>\$ (324,949)</u>	<u>\$ -</u>	<u>\$ 4,957,103</u>

Depreciation for the year was \$339,949.

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.

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses were as follows:

Contractors and vendors	\$ 14,368
Accrued payroll liabilities	14,032
Accrued interest	4,318
Total	<u>\$ 32,718</u>

NOTE 7. DEFERRED REVENUE

The District records deferred revenues in its statement of net position. Deferred revenues arise when resources are received by the District before it has fully earned them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, or when the District has fully earned the revenue, the liability for deferred revenue is removed from the statement of net position and the revenue is recognized. As of September 30, 2016 the District had deferred revenue as follows:

Customer prepayments	\$ 18,343
	<u>\$ 18,343</u>

NOTE 8. 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, 2016:

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, 2016, was \$345,495. 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, 2016, was \$585,000. 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, 2016 was \$382,680. 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 \$58,159 is accumulated for the Revenue Bonds. At September 30, 2016, \$76,046 had been set aside in this reserve.

Revenue bond debt service requirements to maturity, including \$1,038,170 of interest, are as follows:

Fiscal Year Ending September 30	Series 2005A	Series 2005B	Series 2011A	Total
2017	\$ 21,702	\$ 35,863	\$ 21,834	\$ 79,399
2018	21,404	36,395	21,834	79,633
2019	21,107	35,885	21,834	78,826
2020	21,809	36,375	21,834	80,018
2021-2025	106,818	180,291	109,169	396,278
2026-2030	106,832	180,589	109,169	396,590
2031-2035	106,676	180,976	109,169	396,821
2036-2040	106,589	180,476	109,169	396,234
2041-2045	84,013	145,196	109,169	338,378
2046-2050	-	-	109,168	109,168
	<u>596,950</u>	<u>1,012,046</u>	<u>742,349</u>	<u>2,351,345</u>
Interest amount	(251,455)	(427,046)	(359,669)	(1,038,170)
Total	<u>\$ 345,495</u>	<u>\$ 585,000</u>	<u>\$ 382,680</u>	<u>\$ 1,313,175</u>

A schedule of changes in long-term debt follows:

Series	Balance	Increase	Decrease	Balance	Due Within One Year
	October 1, 2015			September 30, 2016	
Series 2005A	\$ 351,865	\$ -	\$ (6,370)	\$ 345,495	\$ 7,000
Series 2005B	596,000	-	(11,000)	585,000	11,000
Series 2011A	387,558	-	(4,878)	382,680	5,092
	<u>\$ 1,335,423</u>	<u>\$ -</u>	<u>\$ (22,248)</u>	<u>\$ 1,313,175</u>	<u>\$ 23,092</u>

NOTE 9. 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, 2016, the District's liabilities to the developer were \$17,000, representing 34 unsold lots with water service.

NOTE 10. 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

NOTE 11. 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 12. 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 13. 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, 2016 were as follows: Regular Employees 7.52%. 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, 2016 were \$9,773 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, 2016 is \$8,374.

NOTE 14. NET PENSION LIABILITY OF EMPLOYERS

A. Net Pension Liability

The components of the collective net pension liability of the participating employers for each defined benefit plan for the measurement date of June 30, 2016, the latest available information, are shown below (in thousands):

	FRS	HIS
Total Pension Liability (A)	\$ 167,030,999	\$11,768,445
Plan Fiduciary Net Position (B)	(141,780,921)	(113,859)
Net Pension Liability (A-B)	<u>\$ 25,250,078</u>	<u>\$11,654,586</u>

Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability	84.88%	0.97%
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The total pension liability for the FRS was determined by the plan's actuary and reported in the plan's valuation dated July 1, 2016. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements. Update procedures were not used.

The HIS actuarial valuation was prepared as of July 1, 2016. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements. Update procedures were not used.

Taylor Coastal Water and Sewer District's portion of the total net pension liability for FRS and HIS are as follows:

	Percent Share of Net Pension Liability	Amount
FRS	0.025200200%	\$ 14,893
HIS	0.036423900%	36,273
Total	<u>0.061624100%</u>	<u>\$ 51,166</u>

It is assumed that this amount will not be materially different from 2016.

B. Basis for Allocation

The employer's proportionate share reported in the pension allocation schedules was calculated using accrued retirement contributions related to the reporting periods included in the system's fiscal years ending June 30, 2013, 2014, 2015 and 2016, respectively for employers that were members of the FRS and HIS during those fiscal years. For fiscal years 2015 and 2016, in addition to contributions from employers, the required accrued contributions for the division (paid on behalf of the division's employees who administer the plans) were allocated to each employer on a proportional basis. The division administers the plans, and therefore, cannot allocate a portion of the liability to itself. Although GASB 68 encourages the use of the employers' projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is acceptable. The aggregate employer contribution amounts for each fiscal year agree to the employer contribution amounts reported in the system's CAFR for that fiscal year.

The proportion calculated based on contributions for each of the fiscal years presented in the pension allocation schedules was applied to the net pension liability and other pension amounts applicable to that fiscal year to determine each employer's proportionate share of the

liability, deferred outflows of resources, deferred inflows of resources and associated pension expense.

For the purposes of the pension allocation schedules, pension amounts are allocated to reporting employers. The pension amounts of participating employers whose payrolls are reported and contributions are remitted by another entity are included in the reporting employer's amounts and will be allocated to the participating employer by the reporting employer.

C. Actuarial Methods and Assumptions

Actuarial assumptions for both cost-sharing defined benefit plans are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The FRS Pension Plan has a valuation performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS Pension Plan was completed in 2014 for the period July 1, 2008, through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for this program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study for the FRS Pension Plan.

The total pension liability for each cost-sharing defined benefit plan was determined using the individual entry age actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth, including inflation, for both plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 7.60%. The 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 calculating the total pension liability is equal to the long-term expected rate of return. Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 2.85% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables (refer to the valuation reports for more information – See Additional Financial and Actuarial Information).

The following changes in actuarial assumptions occurred in 2016:

- FRS: The long-term expected rate of return decreased from 7.65% to 7.60%, and the active member mortality assumption was updated.
- HIS: The municipal rate used to determine total pension liability decreased from 3.80% to 2.85%.

D. Sensitivity Analysis

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the collective net pension liability of the participating employers if the discount rate was 1.00% higher or 1.00% lower than the current discount rate at September 30, 2016.

FRS Net Pension Liability			HIS Net Pension Liability		
Current			Current		
1% Decrease	Discount Rate	1% Increase	1% Decrease	Discount Rate	1% Increase
6.60%	7.60%	8.60%	1.85%	2.85%	3.85%
\$46,487,103,997	\$25,250,078,485	\$7,573,059,453	\$13,370,457,697	\$11,654,585,746	\$10,230,505,691

PENSION EXPENSE AND DEFERRED OUTFLOWS / (INFLOWS) OF RESOURCES

In accordance with GASB 68, paragraphs 54 and 71, changes in the net pension liability are recognized in pension expense in the current measurement period, except as indicated below. For each of the following, a portion is recognized in pension expense in the current reporting period, and the balance is amortized as deferred outflows or deferred inflows of resources using a systematic and rational method over a closed period, as defined below:

- Differences between expected and actual experience with regard to economic and demographic factors - amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Changes of assumptions or other inputs - amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Differences between expected and actual earnings on pension plan investments - amortized over five years.
- Employer contributions to the pension plans from employers are not included in collective pension expense; however, employee contributions are used to reduce pension expense.

Taylor Coastal Water and Sewer District's deferred inflows and outflows of resources for FRS and HIS are as follows:

	Outflows	Inflows
FRS	\$ 19,870	\$ 25,528
HIS	37,312	(257)
Total	<u>\$ 57,182</u>	<u>\$ 25,271</u>

The amount of pension expense recognized for Taylor Coastal Water and Sewer District is \$48,813.

Contributions to the pension plans from employers are not included in pension expense.

The average expected remaining service life of all employees provided with pensions through the pension plans at June 30, 2016, was 6.4 years for FRS and 7.2 years for HIS. The components of collective pension expense reported in the pension allocation schedules for the fiscal year ended June 30, 2016, are presented below for each plan.

Florida Retirement System

	Recognized in Expense Reporting Period Ending June 30, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Service cost	\$ 2,132,905,650	\$ -	\$ -	\$ 2,132,905,650
Interest cost	12,109,113,805	-	-	12,109,113,805
Effect of plan changes	32,310,000	-	-	32,310,000
Effect of economic/demographic gains or losses (difference between expected and actual expense)	339,193,826	1,933,340,218	(235,095,289)	2,037,438,755
Effect of assumptions changes or inputs	360,414,073	1,527,554,171	-	1,887,968,244
Member contributions	(710,716,815)	-	-	(710,716,815)
Projected investment earnings	(11,075,395,463)	-	-	(11,075,395,463)
Changes in proportion and differences between contributions and proportionate share of contributions	-	1,167,491,096	(1,167,491,096)	-
Net difference between projected and actual investment earnings	643,769,480	6,526,837,479	-	7,170,606,959
Administrative expenses	18,507,240	-	-	18,507,240
Total	\$ 3,850,101,796	\$ 11,155,222,964	\$ (1,402,586,385)	\$ 13,602,738,375

Health Insurance Subsidy (HIS)

	Recognized in Expense Fiscal Year Ending 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Service cost	\$ 256,710,220	\$ -	\$ -
Interest cost	390,757,053	-	-
Effect of plan changes	-	-	-
Effect of economic/demographic gains, or losses (difference between expected and actual experience)	(4,281,429)	-	(26,554,860)
Effect of assumptions changes or inputs	325,908,378	1,828,900,798	-
Member contributions	-	-	-
Projected investment earnings	(3,106,220)	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	330,155,976	(330,155,976)
Net difference between projected and actual investment earnings	2,168,899	5,892,810	-
Administrative expenses	187,571	-	-
Total	\$ 968,344,472	\$ 2,164,949,584	\$ (356,710,836)

Deferred outflows of resources related to employer contributions paid subsequent to the measurement date and prior to the employer's fiscal year end will be recognized as a reduction of the net pension liability in the subsequent reporting period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense will be recognized as follows:

<u>Fiscal Year Ending</u>	<u>FRS Expense</u>	<u>HIS Expense</u>
2017	\$ 1,343,377,378	\$ 323,795,848
2018	1,343,377,379	323,795,850
2019	3,887,943,797	322,673,756
2020	2,660,878,607	322,135,152
2021	391,380,711	278,695,493
Thereafter	125,678,707	237,152,649

ADDITIONAL FINANCIAL AND ACTUARIAL INFORMATION

Additional audited financial information supporting the Schedules of Employer Allocations and the Schedules of Pension Amounts by Employer, is located in the Florida Retirement System Pension Plan and Other State-Administered Systems CAFR for the fiscal year ended June 30, 2016. The state of Florida CAFR is available on line at <http://www.myfloridacfo.com/Division/AA/Reports/default.htm>.

The system's CAFR and the actuarial valuation reports as referenced herein, are available online at: http://www.dms.myflorida.com/workforce_operations/retirement/publications/annual_reports.

The system's CAFR and actuarial reports may also be obtained by contacting the Division of Retirement at:

Department of Management Services Division of Retirement
 Research and Education Section
 P. O. Box 9000
 Tallahassee, FL 32315-9000
 850-488-5706 or toll free at 877-377-1737

COMPLIANCE SECTION

TAYLOR COASTAL WATER AND SEWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended September 30, 2016

<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 Environmental Protection						
Southeastern U.S. Regional Targeted Watershed Initiative	66.127	XP-95419411-0	2,466,800	590,262	-	-
Total federal awards			<u>\$ 2,466,800</u>	<u>\$ 590,262</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to the 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, 2016

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 *Uniform Guidance*.

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.

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Taylor Coastal Water & Sewer District's Proportionate Share of
Net Pension Liability
Health Insurance Subsidy Program
Last 10 Fiscal Years**

	<u>2016</u>	<u>2015</u>
Taylor Coastal Water & Sewer District's proportion of the net pension liability	0.000364239	0.000375048
Taylor Coastal Water & Sewer District's proportionate share of the net pension liability	\$ 36,273	\$ 35,068
Taylor Coastal Water & Sewer District's covered-employee payroll	\$ 151,607	\$ 135,891
Taylor Coastal Water & Sewer District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	23.93%	25.81%
Plan fiduciary net position as a percentage of the total pension liability	0.99%	0.99%

The amounts presented for each fiscal year were determined as of September 30

Note 13: GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, governments should present information for only those years for which information is available. Information is available for fiscal years 2015 and 2016 and is presented in the table above.

Note 14: The Plan's fiduciary net position as a percentage of the total pension liability is published in Note 4 of the Florida Retirement System Comprehensive Annual Financial Report.

There are several factors that have the potential to significantly affect trends in the amounts reported in these schedules. These are disclosed in detail in Note 4 of Notes to Financial Statements.

**Schedule of Taylor Coastal Water & Sewer District's Proportionate Share of
Net Pension Liability
Florida Retirement System
Last 10 Fiscal Years**

	<u>2016</u>	<u>2015</u>
Taylor Coastal Water & Sewer District's proportion of the net pension liability	0.000252002	0.00235983
Taylor Coastal Water & Sewer District's proportionate share of the net pension liability	\$ 14,893	\$ 14,398
Taylor Coastal Water & Sewer District's covered-employee payroll	\$ 151,607	\$ 135,891
Taylor Coastal Water & Sewer District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	9.82%	10.60%
Plan fiduciary net position as a percentage of the total pension liability	96%	96%

The amounts presented for each fiscal year were determined as of September 30.

Note 13: GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, governments should present information for only those years for which information is available. Information is available for fiscal years 2015 and 2016 and is presented in the table above.

Note 14: The Plan's fiduciary net position as a percentage of the total pension liability is published in Note 4 of the Florida Retirement System Comprehensive Annual Financial Report.

There are several factors that have the potential to significantly affect trends in the amounts reported in these schedules. These are disclosed in detail in Note 4 of Notes to Financial Statements.

**Schedule of Taylor Coastal Water & Sewer District's Contributions
Florida Retirement System
Last 10 Fiscal Years**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 9,773	\$ 8,711
Contributions in relation to the contractually required contribution	<u>(9,773)</u>	<u>(8,711)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Taylor Coastal Water & Sewer District's covered-employee payroll	\$ 151,607	\$ 135,891
Contributions as a percentage of covered-employee payroll	6.45%	6.41%

The amounts presented for each fiscal year were determined as of September 30.

Note 13 GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, governments should present information for only those years for which information is available. Information is available for fiscal years 2015 and 2016 and is presented in the table above.

Note 14: There are several factors that have the potential to significantly affect trends in the amounts reported in these schedules. These are disclosed in detail in Note 4 of Notes to Financial Statements.

**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, 2016, 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 March 17, 2017.

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 (Excess of third consecutive year)
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.

MANAGEMENT'S RESPONSE

We agree with this finding. 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.

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
March 17, 2017

**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, 2016, and have issued our report thereon dated March 17, 2017

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 March 17, 2017. 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, 2016.

Financial Emergency Status – We determined that the District did not meet 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)7.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.

POWELL & JONES
Certified Public Accountants
March 17, 2017

INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Commissioners
Taylor Coastal Water and
Sewer District

We have examined Taylor Coastal Water and Sewer District's compliance with Section 218.415, *Florida Statutes*, regarding the investment of public funds during the year ended September 30, 2016. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.

This report is intended solely for the information and use of the District and the Auditor General, State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

POWELL & JONES
Certified Public Accountants
March 17, 2017