

# **LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT**



***ANNUAL FINANCIAL REPORT***  
***SEPTEMBER 30, 2016 and 2015***

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# LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT

## ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2016 and 2015

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## FINANCIAL SECTION

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## **INDEPENDENT AUDITOR'S REPORT**

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## INDEPENDENT AUDITOR'S REPORT

To the Governing Board  
Loxahatchee River Environmental Control District  
Jupiter, Florida

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

We have audited the accompanying financial statements of Loxahatchee River Environmental Control District as of and for the years ended September 30, 2016 and 2015, 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 opinions on these financial statements based on our audits. We conducted our audits 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 financial position of Loxahatchee River Environmental Control District as of September 30, 2016 and 2015, and the changes in financial position, and cash flows thereof for the years 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 on pages 9 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2017, on our consideration of Loxahatchee River Environmental Control 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 Loxahatchee River Environmental Control District's internal control over financial reporting and compliance.



Morrison, Brown, Argiz & Farra, LLC  
Palm Beach, Florida

February 22, 2017

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Loxahatchee River Environmental Control District (the District), we offer the readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented in this discussion and analysis in conjunction with the basic financial statements, which begin on page 20.

### FINANCIAL HIGHLIGHTS

- ❖ The District's net position increased by \$4,610,765 or 3%.
- ❖ Total revenues (operating and non-operating) for the year ended September 30, 2016, were \$19,882,490. This represents an increase of \$572,645, or 3%, when compared with the prior year. The majority of the increase was due to having a full year of a 2.5% rate increase implemented in April 2015 and the addition of new customers.
- ❖ Contributed assets totaled \$1,204,420 and mainly consisted of six sanitary sewer systems constructed and turned over to the District by individual developers and a Neighborhood Sewering grant from the State of Florida.
- ❖ Total operating expenses, including depreciation and amortization, were \$19,635,068. Excluding depreciation and amortization, this represents an increase of \$148,406, or 1% when compared with the prior year.
- ❖ Operating expenses (excluding depreciation and amortization) were \$1,296,333 less than the budget adopted by the Governing Board. Equipment repairs and professional services were less than projected and unused contingency contributed to the favorable variance.
- ❖ The components of net position as of September 30, 2016, were as follows:
  - Net investment in capital assets \$108,348,576
  - Unrestricted \$45,289,111

### OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of two components: 1) proprietary fund financial statements and 2) notes to the financial statements.

#### *Required Financial Statements*

The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets and liabilities. This statement provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, as well as being fiscally accountable and creditworthy. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, non-capital and capital financing, and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the proprietary fund financial statements.

### FINANCIAL ANALYSIS OF THE DISTRICT

Net position may serve over time as a useful indicator of a government's financial position. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help determine the District's financial position at September 30, 2016. The District's net position, the difference between assets and liabilities, is one way to measure the financial health or financial position of the District. Over time, increases and decreases in the District's net position indicate whether the District's financial health is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, and new or changed governmental legislation also impact the fiscal condition.

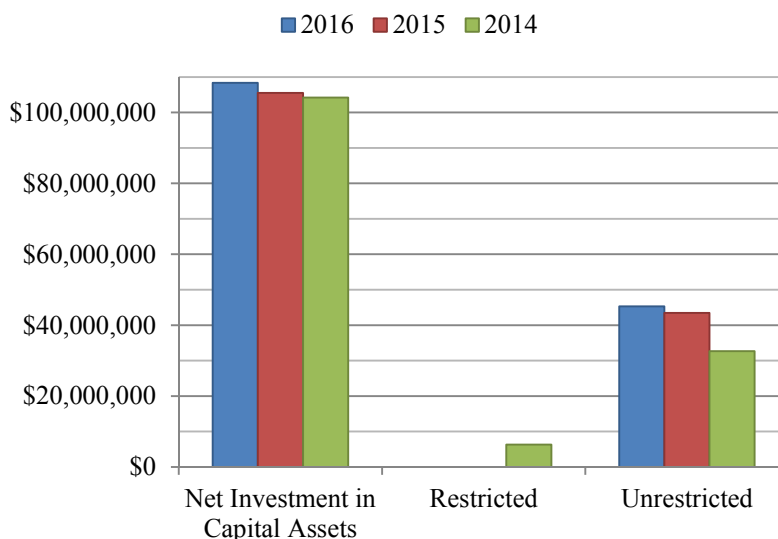
#### Net Position

We begin our analysis by providing a summary of the District's statements of net position for the fiscal years ended September 30, 2016, 2015, and 2014.

Condensed Statement of Net Position					
	2016	2015	% Change	2014	% Change
Current and other assets	\$ 49,492,549	\$ 47,850,594	3%	\$ 43,293,510	11%
Capital assets, net	108,348,576	105,523,262	3%	106,858,339	(1%)
<b>Total assets</b>	<b>\$ 157,841,125</b>	<b>\$ 153,373,856</b>	<b>3%</b>	<b>\$ 150,151,849</b>	<b>2%</b>
Long-term debt	\$ -	\$ -	-	\$ 2,431,798	(100%)
Other liabilities	4,203,438	4,346,934	(3%)	4,543,138	(4%)
<b>Total liabilities</b>	<b>\$ 4,203,438</b>	<b>\$ 4,346,934</b>	<b>(3%)</b>	<b>\$ 6,974,936</b>	<b>(38%)</b>
Net position:					
Net investment in capital assets	\$ 108,348,576	\$ 105,523,262	3%	\$ 104,210,176	1%
Restricted for:					
Renewal and replacement	-	-	-	6,300,000	(100%)
Unrestricted	45,289,111	43,503,660	4%	32,666,737	33%
<b>Total net position</b>	<b>\$ 153,637,687</b>	<b>\$ 149,026,922</b>	<b>3%</b>	<b>\$ 143,176,913</b>	<b>4%</b>

As illustrated in the table above, the District's assets exceeded liabilities by \$153,637,687, \$149,026,922, and \$143,176,913, at September 30, 2016, 2015, and 2014, respectively. At September 30, 2016, the largest portion of the District's net position (71%) reflects its investment in capital assets (land, treatment and disposal systems, collection and transmission systems, equipment and construction in progress). The District uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending. In addition, current and other assets include \$10.0 million in noncurrent special assessments receivable.

The following graph presents the components of the District's net position as of September 30, 2016, 2015, and 2014.



At the end of the current fiscal year, the District is able to report positive balances in all applicable categories of net position. The same held true for the prior two fiscal years.

The District's net position in total increased \$4,610,765 during the fiscal year ended September 30, 2016. The increase is mainly due to capital contributions (i.e., connection charges for new developments and developer contributed facilities).

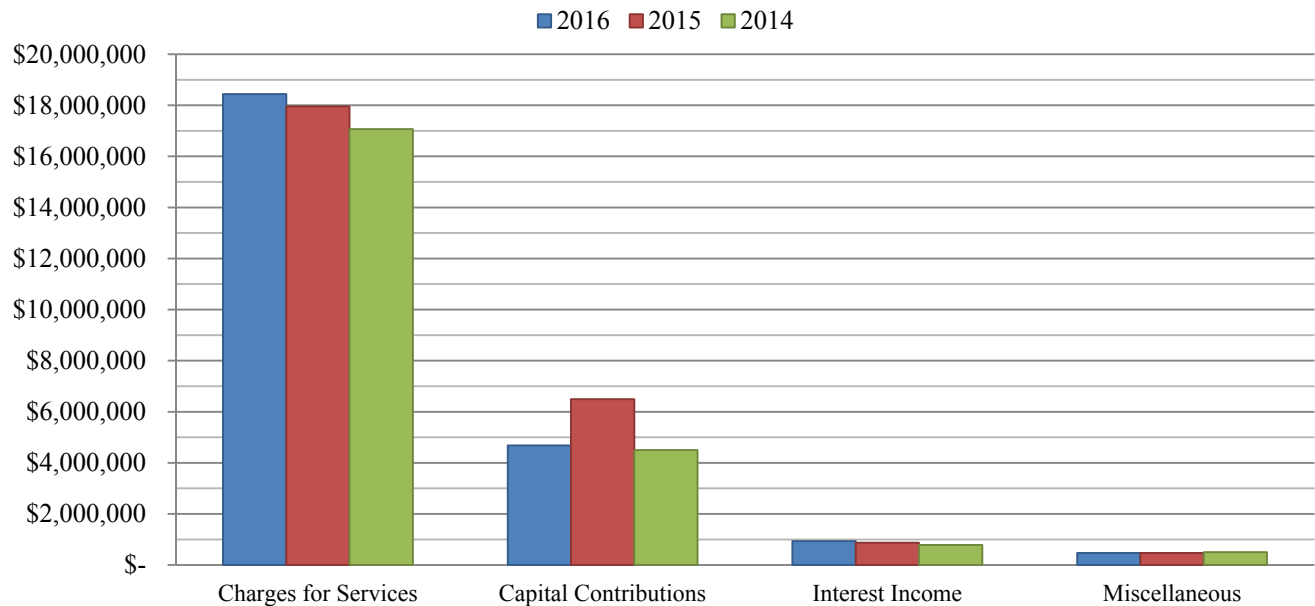
The following analysis highlights the changes in net position for the fiscal years ended September 30, 2016, 2015, and 2014.

#### Condensed Statements of Revenues, Expenses, and Changes in Net Position

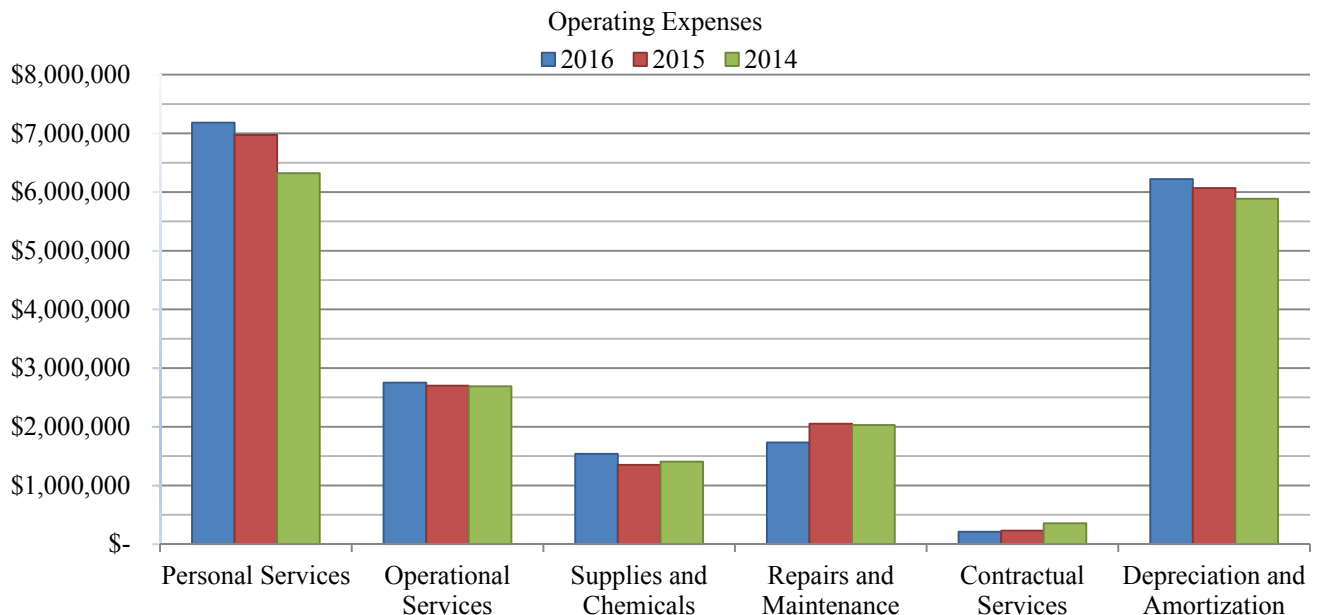
	2016	2015	% Change	2014	% Change
Operating revenues	\$ 18,912,577	\$ 18,375,889	3%	\$ 17,569,309	5%
Non-operating revenues	969,913	933,956	4%	787,188	19%
<b>Total revenues</b>	<b>19,882,490</b>	<b>19,309,845</b>	<b>3%</b>	<b>18,356,497</b>	<b>5%</b>
Depreciation and amortization expense	6,221,487	6,067,532	3%	5,885,015	3%
Operating expense	13,413,581	13,265,175	1%	12,799,221	4%
Non-operating expense	318,769	618,161	(48%)	89,768	589%
<b>Total expenses</b>	<b>19,953,837</b>	<b>19,950,868</b>	<b>0%</b>	<b>18,774,004</b>	<b>6%</b>
<b>Loss before capital contributions</b>	<b>(71,347)</b>	<b>(641,023)</b>	<b>(89%)</b>	<b>(417,507)</b>	<b>54%</b>
Capital contributions	4,682,112	6,491,032	(28%)	4,497,472	44%
<b>Change in net position</b>	<b>4,610,765</b>	<b>5,850,009</b>	<b>(21%)</b>	<b>4,079,965</b>	<b>43%</b>
Net position, beginning of year	149,026,922	143,176,913	4%	139,096,948	3%
<b>Net position, end of year</b>	<b>\$ 153,637,687</b>	<b>\$ 149,026,922</b>	<b>3%</b>	<b>\$ 143,176,913</b>	<b>4%</b>

While the statements of net position show the change in financial position of the District, the statements of revenues, expenses, and changes in net position provide answers as to the nature and source of these changes.

The chart below shows revenues by source for the fiscal years ended September 30, 2016, 2015, and 2014, respectively. In 2015, there was a significant increase in capital contributions (i.e., development activity) compared to 2016 and 2014. This was driven by significant completed neighborhood sewerage projects, including gravity sewers at Eagles Nest. Additionally, charges for services showed a notable increase when compared with 2014.



The following chart presents operating expenses for the fiscal years ended September 30, 2016, 2015, and 2014, respectively. Personal Services increased by 4%; Operational Supplies increased by 2%. Supplies and Chemicals increased by 14%; Repairs and Maintenance decreased by 16%; and Contractual Services decreased by 8%. Supplies and Chemicals were up due to purchasing new chemicals for odor control.





## BUDGETARY HIGHLIGHTS

The District adopts an Operating Budget that is approved by the Governing Board prior to the start of each fiscal year. The budget remains in effect for the entire fiscal year and the Governing Board must approve any revisions that increase total appropriations. Because proprietary fund budgets are not part of the basic financial statements or required supplementary information, the fiscal year 2016 budget is not reported on, nor shown in, the financial statement section of this report. However, the table below presents a comparison between budget and actual as of September 30, 2016.

	Budget	Actual	Favorable (Unfavorable) Variance
Charges for services	\$ 18,568,956	\$ 18,439,733	\$ (129,223)
Operating expenses less depreciation	\$ 14,709,914	\$ 13,413,581	\$1,296,333
Non-operating revenues – interest income	\$ 726,780	\$ 936,584	\$ 209,804

The unfavorable variance in Charges for Services was driven by not having a rate increase during fiscal year 2016.

The favorable variance in operating expenses is primarily due to less equipment repairs, reduced need for professional service charges, and unused contingency.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### *Capital Assets*

The District's investment in capital assets as of September 30, 2016, in the amount of \$108,348,576 (net of accumulated depreciation) has increased 3% over the prior year. This investment in capital assets includes land, treatment and reuse/disposal system, collection and transmission system, equipment, and construction in progress. There were \$9.3 million in capital additions, but the decrease of \$6.1 million due to normal scheduled depreciation and the decrease of \$2.1 million due to disposal of fixed assets (that were replaced) kept the capital assets relatively unchanged.

Major capital asset events during the current year included the following:

- ❖ Construction work in progress as of the close of the fiscal year ended September 30, 2016, was \$5,199,907. Of this amount, \$3,557,503 was for the deep bed filter/transfer switch; \$725,411 was for Jupiter Inlet Colony sewerage; \$101,178 was for Alt. A1A River Crossing force main project; and \$815,875 was for various other neighborhood sewerage projects.
- ❖ Construction of new treatment and disposal features and renewal of existing features completed and booked during fiscal year 2016 totaled \$1,308,815.
- ❖ Construction of new collection and transmission systems and renewal of existing features completed and recorded in fiscal year 2016 totaled \$2,742,733.
- ❖ Construction of IQ system improvements completed in fiscal year 2016 totaled \$137,133.

Additional information on the District's capital assets, including projects under construction, can be found in Note 4 on pages 31 and 32 of this report.

## Long-term Debt

On December 1, 2014, the District prepaid the remaining amount due for the Series 2009 Revenue Bonds in the amount of \$2,613,209. In addition to the outstanding principal balance, payments for accrued interest of \$9,081 and prepayment fees of \$419,797 were made. The District has no other long-term debt. Additional information on the District's long-term liabilities can be found in Note 7 on page 33 of this report.

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

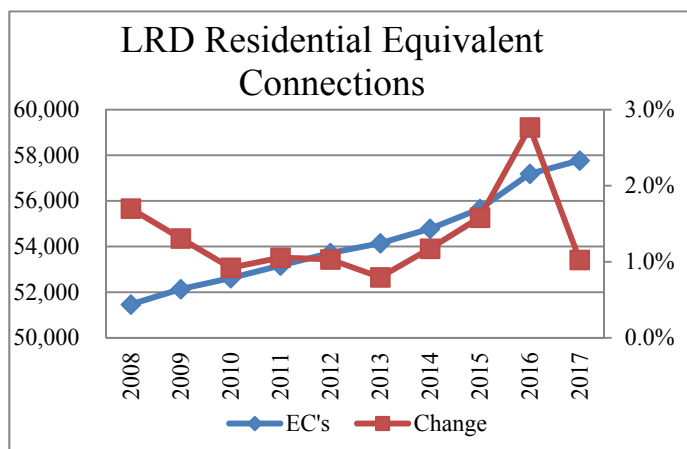
Numerous economic factors, such as increasing operating costs, the need for new or renewed facilities, the pace of growth, cost of financing, etc., are evaluated when determining the District's budget and rates. Charges for services continue to be the District's largest single source of revenue, as wastewater treatment is a public necessity. Revenue typically remains stable as long as the number of equivalent connections does not decline. A continued increase in equivalent connections is projected through build-out, which is expected to occur around 2019.

The following information summarizes the financial conditions anticipated over the next few years and the core assumptions that produced these conditions.

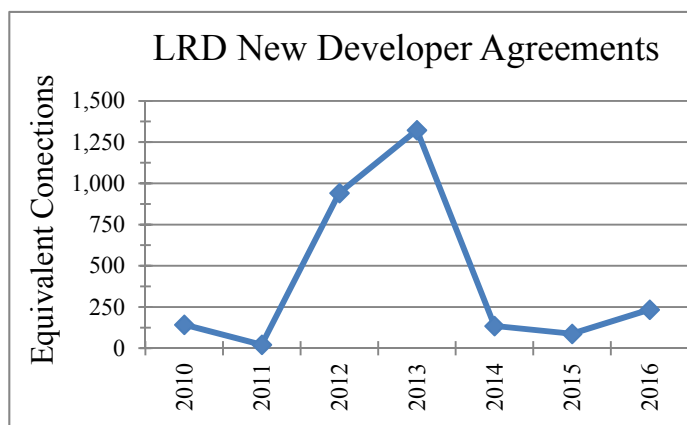
### Revenues

In March, 2016, the District approved the revised District Rule 31-10 which included an annual rate increase of 2% from 2017 through 2020 for Quarterly Services Charges, Plant Connection Charges, Regional Transmission System Line Charges, and Administrative Charges.

Revenue from quarterly service charges to residential and commercial customers is projected to increase at a rate of 1% to 3% for the next several years based on adopted District Rule 31-10 scheduled rate increases and growth within the customer base. The figure on the right shows the change in residential equivalent connections over the last 10 years (based on January billing). Once the remaining developable land is consumed this pattern is anticipated to abruptly decline. However, significant re-development projects (e.g., Love Street, Suni Sands, etc.) could extend this pattern for several additional years.



Revenue from Plant and Line Charges is anticipated to increase at a rate of 1% to 3% for the next five years based on adopted District Rule 31-10 scheduled rate increases and the rate at which new developer agreements are executed (see chart to right). While the rate of increase in new connections is increasing (see chart above), many of these new connections are derived from developer agreements that were executed in 2012 and 2013. In fact, new developer agreements in 2016 only accounted for 234 equivalent connections. Once the remaining developable land is developed or preserved developer agreements are expected to abruptly decline.



Significant neighborhood sewerage projects have been ongoing for over 20 years, so we are starting to experience a decline in assessment revenues. However, gravity sewers are currently being constructed in Jupiter Inlet Colony. Jupiter Inlet Colony is expected to pay the sewer assessment as a lump sum payment of approximately \$4.2 million near the beginning of fiscal year 2018. Other approved neighborhood sewerage projects include Turtle Creek and Whispering Trails.

### ***Expenses***

The District adopted a budget of \$33,142,395, which represents an increase of \$5,659,981 or 20%, from fiscal year 2016. The vast majority of the budget increase, \$5,048,500, is related to capital improvements.

The District's capital improvements will be funded primarily through existing cash reserves, grants, and rate revenue. No additional debt is expected to be issued. Approved capital improvements include:

- ❖ Neighborhood sewerage programs, including the construction of the Jupiter Inlet Colony Neighborhood Rehabilitation project which began in April, 2016 and is expected to be completed in February 2018. This project will rehabilitate the potable water system and stormwater system, and install new sanitary sewers in the community at a cost of approximately \$9.3 million. Other fiscal year 2017 neighborhood sewerage projects include Turtle Creek and Whispering Trails. The District will continue to pay 10% of associated neighborhood sewerage costs.
- ❖ Replacement of our traveling bridge filters with deep bed sand filters. The District entered into a \$1.6M contract with Hazen & Sawyer for design and engineering services and an \$8.5M contract with Kirlin Florida LLC for the construction of the deep bed filters. Construction on the project started in January, 2016 and is expected to be completed in early 2018. The project will include an important upgrade to electrical connectivity between our emergency generators, which will increase our resiliency during power outages.
- ❖ Construction of a new force main on Alternate A-1-A bridge.
- ❖ Construction of a new force main to connect Jupiter Farms Elementary School.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGER**

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District at 2500 Jupiter Park Drive, Jupiter, Florida 33458.



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## **BASIC FINANCIAL STATEMENTS**

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**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT***Statements of Net Position**September 30, 2016 and 2015*

	2016	2015
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 8,791,086	\$ 6,918,828
Investments - unrestricted	11,132,659	5,965,474
Investments - restricted	138,008	142,455
Receivables:		
Accounts	740,938	750,357
Special assessments	698,812	693,893
Accrued interest	597,430	577,422
Due from other governments	986,219	260,929
Inventories	1,708,963	1,651,142
Prepaid expenses	327,258	333,262
<b>Total current assets</b>	<b>25,121,373</b>	<b>17,293,762</b>
<b>Noncurrent assets</b>		
Receivables:		
Accounts	389,600	439,668
Special assessments	9,994,682	8,983,605
Investments	11,835,880	18,815,013
Investment in joint venture	2,151,014	2,318,546
Capital assets:		
Non-depreciable	6,054,341	3,820,445
Depreciable (net of depreciation)	102,294,235	101,702,817
<b>Total noncurrent assets</b>	<b>132,719,752</b>	<b>136,080,094</b>
<b>Total assets</b>	<b>\$ 157,841,125</b>	<b>\$ 153,373,856</b>

*Continued on the following page.*



**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT***Statements of Net Position (Continued)**September 30, 2016 and 2015*

	2016	2015
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 979,349	\$ 987,176
Construction contracts payable	754,017	574,591
Accrued liabilities:		
Wages and payroll taxes	153,160	274,060
Pension	132,689	158,918
Compensated absences	58,067	75,950
Unearned revenue	1,240,121	1,415,716
<b>Total current liabilities (payable from current assets)</b>	<b>3,317,403</b>	<b>3,486,411</b>
<b>Current liabilities payable from restricted assets</b>		
Customer deposits	138,008	142,455
<b>Total current liabilities (payable from restricted assets)</b>	<b>138,008</b>	<b>142,455</b>
<b>Total current liabilities</b>	<b>3,455,411</b>	<b>3,628,866</b>
<b>Noncurrent liabilities</b>		
Compensated absences	748,027	718,068
<b>Total noncurrent liabilities</b>	<b>748,027</b>	<b>718,068</b>
<b>Total liabilities</b>	<b>\$ 4,203,438</b>	<b>\$ 4,346,934</b>
<b>Net position</b>		
Net investment in capital assets	\$ 108,348,576	\$ 105,523,262
Unrestricted	45,289,111	43,503,660
<b>Total net position</b>	<b>\$ 153,637,687</b>	<b>\$ 149,026,922</b>

*See notes to basic financial statements.*

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT***Statements of Revenues, Expenses, and Changes in Net Position**Years Ended September 30, 2016 and 2015*

	2016	2015
<b>Operating revenues</b>		
Charges for services	\$ 18,439,733	\$ 17,955,155
Miscellaneous	472,844	420,734
<b>Total operating revenues</b>	<b>18,912,577</b>	<b>18,375,889</b>
<b>Operating expenses</b>		
Personal services	7,183,021	6,933,959
Operational	2,751,449	2,700,888
Supplies and chemicals	1,538,706	1,350,463
Repairs and maintenance	1,731,117	2,051,192
Contractual services	209,288	228,673
Depreciation and amortization	6,221,487	6,067,532
<b>Total operating expenses</b>	<b>19,635,068</b>	<b>19,332,707</b>
Operating loss	(722,491)	(956,818)
<b>Nonoperating revenues (expenses)</b>		
Grants	33,329	62,060
Interest income	936,584	871,896
Loss on extinguishment of debt	-	(419,797)
Loss on disposal of capital assets	(318,769)	(198,364)
<b>Total nonoperating revenues (expenses)</b>	<b>651,144</b>	<b>315,795</b>
Loss before capital contributions	(71,347)	(641,023)
Capital contributions	4,682,112	6,491,032
Change in net position	4,610,765	5,850,009
Net position, beginning of year	149,026,922	143,176,913
<b>Net position, end of year</b>	<b>\$ 153,637,687</b>	<b>\$ 149,026,922</b>

*See notes to basic financial statements.*

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT***Statements of Cash Flows**Years Ended September 30, 2016 and 2015*

	2016	2015
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 18,494,773	\$ 18,546,095
Payments to employees	(7,318,074)	(6,811,797)
Payments for goods and services	(6,290,204)	(6,455,312)
Cash (payments) receipts	(428,041)	93,187
<b>Net cash provided by operating activities</b>	<b>4,458,454</b>	<b>5,372,173</b>
<b>Cash flows from non-capital financing activities:</b>		
Grants	33,329	62,060
<b>Net cash provided by non-capital financing activities</b>	<b>33,329</b>	<b>62,060</b>
<b>Cash flows from capital and related financing activities:</b>		
Contributed capital	1,442,303	2,734,500
Acquisition and construction of capital assets	(7,852,499)	(3,602,014)
Cash received from the sale of capital assets	38,306	29,261
Principal paid on bonds payable	-	(2,648,163)
Proceeds from collections of special assessments	1,019,394	1,542,057
Interest paid on bonds payable	-	(9,531)
Prepayment fee paid on bonds payable	-	(439,650)
<b>Net cash used in capital and related financing activities</b>	<b>(5,352,496)</b>	<b>(2,393,540)</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(6,033,139)	(14,127,197)
Proceeds from sales of investments	8,128,274	11,706,190
Interest on investments	637,836	632,779
<b>Net cash provided by/(used in) investing activities</b>	<b>2,732,971</b>	<b>(1,788,228)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,872,258</b>	<b>1,252,465</b>
Cash and cash equivalents at beginning of year	6,918,828	5,666,363
<b>Cash and cash equivalents at end of year</b>	<b>\$ 8,791,086</b>	<b>\$ 6,918,828</b>

*Continued on the following page.*

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT***Statements of Cash Flows (Continued)**Years Ended September 30, 2016 and 2015*

	2016	2015
<b>Reconciliation of operating loss to</b>		
<b>net cash provided by operating activities:</b>		
Operating loss	\$ (722,491)	\$ (956,818)
Adjustments to reconcile operating loss to		
net cash provided by operating activities:		
Depreciation and amortization	6,221,487	6,067,532
(Increase) decrease in assets:		
Accounts receivable	59,487	708,092
Due from other governments	(725,290)	(184,334)
Inventories	(57,821)	(353,358)
Prepaid expenses	6,004	46,521
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(142,880)	304,903
Customer deposits	(4,447)	(117,152)
Unearned revenue	(175,595)	(143,213)
<b>Net cash provided by operating activities</b>	<b>\$ 4,458,454</b>	<b>\$ 5,372,173</b>
<b>Noncash investing, capital and financing activities:</b>		
Contributions of lift stations, lines and equipment	\$ 1,204,420	\$ 1,185,527
Book value of assets disposed	357,076	227,625
Book value of construction work-in-process reclassified to		
inventory and other nominal accounts	9,079	120,453

*See notes to basic financial statements.*

## LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT

### *Notes to Financial Statements*

*September 30, 2016 and 2015*

#### **1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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Loxahatchee River Environmental Control District (the District) was created by Chapter 71-822, Special Acts of Florida, 1971, as amended, and codified pursuant to Chapter 2002-358, Laws of Florida, as a separate local agency of government to provide for the management of sewage, storm drainage, and water supply in portions of Palm Beach and Martin Counties generally defined as the Loxahatchee River Basin. The District is governed by an elected five-member board. The following is a summary of the more significant accounting principles and policies used in the preparation of these financial statements.

##### **Reporting Entity**

As required by generally accepted accounting principles, these financial statements present the government and its component units. Component units are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the District's financial statements to be misleading or incomplete. The primary government is considered financially accountable if it appoints a voting majority of an organization's governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization's governing board. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board (GASB), management has included Friends of the Loxahatchee River, Inc. (Friends) in the District's reporting entity. Friends, a nonprofit corporation legally separate from the District, is governed by a seven member board which includes the Governing Board members that govern the District. For this reason, the financial activity of Friends is reported as if it were part of the primary government as a blended component unit. Friends issues publicly available financial statements that can be obtained by contacting the District.

##### **Basis of Presentation and Accounting**

On October 1, 2002, the District adopted the provisions of Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net position, a statement of revenues, expenses, and changes in net position and a statement of cash flows. It requires the classification of net position into three components – net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

- ❖ Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- ❖ Restricted net position – This component of net position consists of constraints placed on net position use through external 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.

## **1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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- ❖ Unrestricted net position – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District’s financial statements are presented on the full accrual basis. All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are: (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the District’s wastewater treatment enterprise fund are charges for the operation of the plant facilities. Operating expenses for the enterprise fund include the cost of the operation of the plant facilities, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 Statement of Net Position.

### **Budgetary Accounting**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- ❖ The District’s Executive Director submits a proposed operating budget to the Governing Board for the fiscal year commencing the following October 1.
- ❖ Public meetings and a public hearing are conducted to obtain comments.
- ❖ Formal budget integration is employed as a management control device during the year. The accounting principles applied for the purpose of developing data on a budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles in that the District does not provide for depreciation expense in its budget.
- ❖ The Governing Board approves the budget appropriations. Any revisions that increase the total appropriations must be approved by the Governing Board.
- ❖ Unused appropriations for budgeted funds lapse at the end of the fiscal year.

### **Other Postemployment Benefits (OPEB)**

The District was required to implement Governmental Accounting Standards Board Statement No. 45 (“Statement 45”), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the fiscal year ending September 30, 2010. The District has determined that they do not provide any benefits that qualify as other postemployment benefits under Statement 45.

## **1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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### **Estimates**

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. These estimates include assessing the collectability of accounts receivable, the use and recoverability of inventory, and useful lives and impairment of tangible assets. Accordingly, actual results could differ from those estimates.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

### **Investments**

Investments are stated at cost, which approximates market value. The investments held by the District consist of certificates of deposit with original maturities ranging from one year to five years.

### **Inventory and Prepaid Items**

Inventories are valued at the lower of cost (as determined by the first-in/first-out method) or market value.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments on the statement of net position.

### **Capital Assets**

Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at the engineers' estimated fair market value or cost to construct at the date of the contribution. All assets greater than \$5,000 are capitalized. Expenditures for maintenance and repairs are expensed as incurred, while expenditures for renewals and improvements are capitalized. Construction costs of new collection and transmission facilities that are reimbursed by users or financed by developers and property owners are capitalized and recorded as revenues.

Net interest cost is capitalized on capital projects during the construction period.

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

Lakes and retention ponds	50-100 years
Buildings	10-40 years
Improvements other than buildings	20-60 years
Equipment	3-10 years

### **Accumulated Compensated Absences**

It is the District's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick leave, which will be paid upon separation from the District's service. The District uses the vesting method in accruing vacation and sick leave as the benefits are earned by the employee if it is probable that the employee will be compensated for the benefits through payments conditioned on termination or retirement.

## **1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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### **Restricted Assets**

As of September 30, 2016 and 2015, the District has \$138,008 and \$142,455, respectively of cash and investments restricted for customer deposits.

### **Special Assessments**

The District levies special assessments against benefited property owners for design, construction and other expenses necessary to complete wastewater and sewerage system improvements constructed in their assessment area. The property owners have an option to pay the assessment in full at the time of connection or have installment payments added to their real estate taxes over a period of 20 years with rates ranging from 5.75% to 6.875%.

### **Unearned Revenues**

Unearned revenues primarily represent capital connection and inspection fees and service payments that are paid in advance by customers. These fees will be recognized as income in subsequent years as the services are performed.

### **Capital Contributions**

Capital contributions are recognized in the statement of revenues, expenses, and changes in net position when earned and include capital grants or contributions from developers, customers, or other governmental agencies.

### **Allowance for Doubtful Accounts**

The District's enabling legislation gives the District the authority to place liens on properties in the event that fees or charges are not paid when due. Consequently, an allowance for uncollectible accounts is not maintained because the District believes all amounts will ultimately be collected. A portion of the accounts receivable is classified as a noncurrent asset. These represent accounts that currently have liens or are anticipated to have liens placed on them in the future.

## **2) DEPOSITS AND INVESTMENTS**

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At September 30, 2016 and 2015, the carrying amount of cash on hand and on deposit with banks, including interest-bearing deposits, was \$8,791,086 and \$6,918,828, respectively. Investments at September 30, 2016 and 2015, are comprised of certificates of deposits with financial institutions with original maturities greater than three months in the amount of \$23,106,547 and \$24,922,942. All deposits and investments are insured by federal deposit insurance or collateralized pursuant to Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*.

In addition to insurance provided by the Federal Depository Insurance Corporation, deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, the State Treasurer requires all Florida qualified depositories to deposit with the Treasurer or banking institution eligible collateral. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

The investment of surplus public funds is governed by an investment policy approved by the Governing Board. The policy limits investments to the following securities:



## **2) DEPOSITS AND INVESTMENTS (Continued)**

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1. State Board of Administration Florida Prime Fund
2. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency
3. Savings accounts in state-certified qualified public depositories
4. Certificates of deposit in state-certified qualified public depositories
5. Direct obligations of the U.S. Treasury or any other government agencies
6. Repurchase agreements

The Florida Prime Fund is administered by the State Board of Administration and is governed by Chapter 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Florida Prime. Florida Prime currently meets all of the necessary criteria to measure all of the investments in Florida Prime at amortized cost, which should also be considered the fair value of the investment.

### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Cash equivalents have a weighted average maturity of less than one year, resulting in minimal interest rate risk. The District's investment policy does not specifically limit the maturity of investments.

### **Credit Risk**

Credit risk is the risk that an issuer will not fulfill its obligations. The District's investment policy addresses credit risk by limiting allowable investments to the Local Government Surplus Funds Trust Fund, deposits with a financial institution meeting the requirements of a Florida qualified public depository, securities guaranteed by the U.S. government, or investments that are otherwise fully collateralized or secured. The security rating by a Nationally Recognized Statistical Rating Organization (NRSRO) is also an indication of credit risk.

### **Custodial Credit Risk**

Custodial credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits its investments to high quality investments to control custodial credit risk.

## **3) INVESTMENT IN JOINT VENTURE**

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### **Biosolids Processing and Recycling Facility**

On June 7, 2005, the District entered into an interlocal agreement (Agreement) with the Solid Waste Authority (SWA) to fund a portion of the cost to design, build, and operate a Biosolids Processing and Recycling Facility (BPF). There have been three amendments to the original agreement. The first amendment dated June 15, 2006 adjusted the original capital costs of the BPF, and the second amendment dated June 21, 2012 set forth the total net capital costs for the BPF. On July 18, 2013, the District sold 1.54% of its share of the original capacity to another government agency, thereby reducing the District's share of the total capacity to 8.96%. Proceeds from the sale were \$448,282, which reduced the District's original capital cost to \$3,311,772. Additional capital costs were incurred in the fiscal year ended September 30, 2014 in the amount of \$68,944, increasing its portion of the capital cost to \$3,380,716. There were no capital costs incurred during the fiscal years ended September 30, 2015 and 2016.

### 3) INVESTMENT IN JOINT VENTURE (Continued)

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The BPF processes certain wastewater treatment residuals (biosolids) which is necessary to comply with increasingly stringent environmental regulations that have significantly decreased the number of land application sites available. Prior to August 2009, bulk land application was the primary method of disposing of the biosolids.

The Agreement is for a period of 20 years beginning with the August 1, 2009 operations commencement. Upon the conclusion of the term of the agreement, the BPF will remain the property of SWA with each participating entity owning its share of the BPF, in perpetuity, for the life of the plant. Under accounting principles generally accepted in the United States of America, the District is required to account for this arrangement as a joint venture. Therefore, an asset is reported on the District's financial statements under the caption "Investment in joint venture."

Since the BPF agreement does not state that the participants are to share in the profits and losses of the joint venture, the investment in joint venture account will not be adjusted to reflect the joint venture's results of operations. Rather the investment in joint venture will be amortized using the straight-line method over the 20-year life of the agreement. The District's total operating costs were \$508,391 and \$520,197 for the years ended September 30, 2016 and 2015.

The District's pro rata share of the construction costs is shown as an asset – investment in joint venture – on the statements of net position.

The SWA is responsible for the design, construction, operation, and maintenance of the BPF. On April 12, 2005, the SWA approved a contract with a private company, NEFCO, to design/build/operate the BPF. The District, along with the other participating entities, are in turn responsible for delivering wastewater biosolids to the BPF and for paying their pro rata share of the capital and net operating costs. This provision helps to insure that the BPF venture does not accumulate assets that may result in a financial benefit to the District or cause the District to experience fiscal stress from the BPF.

No separate financial statements are prepared for the BPF, which is reported as part of the SWA operations. Financial statements for the SWA may be obtained at the following address:

Solid Waste Authority  
7501 North Jog Road  
West Palm Beach, Florida 33412

#### 4) CAPITAL ASSETS

A summary of the District's property, plant, and equipment at September 30, 2016 and 2015 is as follows:

	September 30, 2016			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and land rights	\$ 854,434	\$ -	\$ -	\$ 854,434
Construction in progress	2,966,011	6,425,298	(4,191,402)	5,199,907
Total capital assets not being depreciated	3,820,445	6,425,298	(4,191,402)	6,054,341
Depreciable capital assets:				
Treatment and disposal system				
Plant	59,422,993	1,308,815	(902,998)	59,828,810
Lakes	1,211,079	-	-	1,211,079
Lines	91,046,213	3,875,715	(156,328)	94,765,600
Lift stations	23,231,424	1,010,890	(350,255)	23,892,059
Equipment	7,839,595	880,976	(729,821)	7,990,750
Total depreciable capital assets	182,751,304	7,076,396	(2,139,402)	187,688,298
Less accumulated depreciation	(81,048,487)	(6,053,955)	1,708,379	(85,394,063)
Depreciable capital assets, net of accumulated depreciation	101,702,817	1,022,441	(431,023)	102,294,235
<b>Total capital assets</b>	<b>\$ 105,523,262</b>	<b>\$ 7,447,739</b>	<b>\$ (4,622,425)</b>	<b>\$ 108,348,576</b>

	September 30, 2015			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and land rights	\$ 854,434	\$ -	\$ -	\$ 854,434
Construction in progress	1,494,374	2,926,637	(1,455,000)	2,966,011
Total capital assets not being depreciated	2,348,808	2,926,637	(1,455,000)	3,820,445
Depreciable capital assets:31				
Treatment and disposal system				
Plant	59,572,574	317,380	(466,961)	59,422,993
Lakes	1,211,079	-	-	1,211,079
Lines	89,524,724	1,619,765	(98,276)	91,046,213
Lift stations	22,726,568	770,748	(265,892)	23,231,424
Equipment	7,398,623	613,018	(172,046)	7,839,595
Total depreciable capital assets	180,433,568	3,320,911	(1,003,175)	182,751,304
Less accumulated depreciation	(75,924,037)	(5,900,000)	775,550	(81,048,487)
Depreciable capital assets, net of accumulated depreciation	104,509,531	(2,579,089)	(227,625)	101,702,817
<b>Total capital assets</b>	<b>\$ 106,858,339</b>	<b>\$ 347,548</b>	<b>\$ (1,682,625)</b>	<b>\$ 105,523,262</b>

#### 4) CAPITAL ASSETS (Continued)

Depreciation expense was \$6,053,955 and \$5,900,000 for the years ended September 30, 2016 and 2015, respectively.

#### 5) CONTRACTS PAYABLE

Construction contracts of the District at September 30, 2016 and 2015 are as follows:

	September 30, 2016			
	Total Project Authorization	Total Expended	Contracts Payable	Balance to Complete
Deep Bed Filters	\$ 10,074,198	\$ 2,848,548	\$ 483,875	\$ 6,741,775
Jupiter Inlet Colony	5,804,724	512,959	52,546	5,239,219
Turtle Creek	751,042	74,028	8,166	668,848
Lift Station Rehabilitations	471,005	257,800	890	212,315
Riverside Improvement Area	348,565	303,195	-	45,370
Maplewood Drive FM Extension	185,380	25,969	158,645	766
Alt A1A Bridge Forcemain Expansion	125,429	25,417	3,166	96,846
Other construction contracts	546,430	300,706	46,729	198,995
<b>Total</b>	<b>\$ 18,306,773</b>	<b>\$ 4,348,622</b>	<b>\$ 754,017</b>	<b>\$ 13,204,134</b>

	September 30, 2015			
	Total Project Authorization	Total Expended	Contracts Payable	Balance to Complete
Deep Bed Filters	\$ 1,469,698	\$ 619,586	\$ 24,002	\$ 826,110
Jupiter Inlet Colony	697,484	354,959	663	341,862
Little/River Oaks	1,828,546	273,732	145,509	1,409,305
Lift Station Rehabilitations	521,392	269,057	120,428	131,907
Riverside Improvement Area	350,000	-	233,565	116,435
Center Street Rehabilitation	155,525	49,321	24,625	81,579
Other construction contracts	222,759	133,468	25,799	63,492
<b>Total</b>	<b>\$ 5,245,404</b>	<b>\$ 1,700,123</b>	<b>\$ 574,591</b>	<b>\$ 2,970,690</b>

#### 6) INTERLOCAL AGREEMENT

The District entered into an Interlocal Agreement for Joint Participation and Project Funding of the Jupiter Inlet Colony Neighborhood Rehabilitation in April 2014. In general, the Interlocal Agreement provides for the installation of a new sanitary sewer system by the District, the replacement of pipes, and related appurtenances, comprising a potable water system by the Village of Tequesta, and certain stormwater drainage and other improvements by the Town of Jupiter Inlet Colony. A single Engineering Services Contract was executed with ARCADIS U.S., Inc. in the amount of \$941,353. Construction and engineering contracts were executed with Giannetti Contracting Corporation in the amount of \$9,351,000. The District's share of the total project authorization is \$5,804,724. Approximately 90% of the District's cost to complete the sanitary sewer system is expected to be recovered by a special assessment on the affected property owners.

## 7) LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended September 30, 2016 were as follows:

	September 30, 2016				
	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Compensated absences	\$ 794,018	\$ 84,076	\$ 72,000	\$ 806,094	\$ 58,067
	<b>\$ 794,018</b>	<b>\$ 84,076</b>	<b>\$ 72,000</b>	<b>\$ 806,094</b>	<b>\$ 58,067</b>

Changes in long-term liabilities for the year ended September 30, 2015 were as follows:

	September 30, 2015				
	Balance October 1, 2014	Additions	Reductions	Balance September 30, 2015	Due Within One Year
Bonds payable	\$ 2,648,163	\$ -	\$ 2,648,163	\$ -	\$ -
Compensated absences	734,538	85,951	26,471	794,018	75,950
	<b>\$ 3,382,701</b>	<b>\$ 85,951</b>	<b>\$ 2,674,634</b>	<b>\$ 794,018</b>	<b>\$ 75,950</b>

## 8) RESTRICTED ASSETS, LIABILITIES AND RESTRICTED NET POSITION

Restricted assets and liabilities at September 30, 2016 and 2015 consist of customer deposits. Assets restricted for these purposes represent cash and investments totaling \$138,008 and \$142,455 for the years ended September 30, 2016 and 2015, respectively.

The following is a summary of restricted assets, related liabilities, and restricted net position at September 30, 2016 and 2015:

September 30, 2016	Restricted Assets	Liabilities Payable from Restricted Assets	Restricted Net Position
Customer deposits	\$ 138,008	\$ 138,008	\$ -

September 30, 2015	Restricted Assets	Liabilities Payable from Restricted Assets	Restricted Net Position
Customer deposits	\$ 142,455	\$ 142,455	\$ -

## 9) PENSION PLAN

The District contributes to the Loxahatchee River Environmental Control District Money Purchase Plan and Trust, a defined contribution pension plan, for its full-time employees. The Plan is administered by an Administrative Committee that reports to the Governing Board. Benefit terms, including contribution requirements, for the Plan are established and may be amended by the Governing Board. The District is required to contribute 12% of annual salary to individual employee accounts for each participating employee. Employees contribute 4% of their eligible compensation. For the years ended September 30, 2016 and 2015, employee

## **9) PENSION PLAN (Continued)**

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contributions totaled \$182,479 and \$176,134 and the District's recognized pension expense was \$727,828 and \$703,743, respectively.

Employees are required to participate in the District's mandatory plan after attainment of 18 years of age and completion of one year of continuous service. Employees are fully vested after two years of plan participation. Nonvested contributions are forfeited upon termination of employment and such forfeitures are used to reduce employer contributions. There were forfeitures in the amount of \$4,943 and \$6,521 for the years ended September 30, 2016 and 2015.

The District had a liability to the Plan at September 30, 2016 and 2015 in the amount of \$132,689 and \$158,918, respectively.

## **10) COMMITMENTS**

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### **Service Agreement**

The District entered into an agreement with H&H Liquid Sludge Disposal for the hauling and disposal of wastewater sludge to the SWA Pelletization Facility. The contract provides for a fixed rate of \$12.90 per ton. For the years ended September 30, 2016 and 2015, the District paid \$145,020 and \$124,018, respectively.

### **Purchase Commitments**

The District had outstanding purchase orders totaling approximately \$717,160 and \$108,777 for the fiscal years ended September 30, 2016 and 2015, respectively.

## **11) RISK MANAGEMENT**

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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. Specifically, the District purchases commercial insurance for property, medical benefits, worker's compensation, general liability, automobile liability, errors and omissions, and directors and officers liability. The District is also covered by Florida Statutes under the Doctrine of Sovereign Immunity, which effectively limits the amount of liability of government agencies to individual claims of \$200,000/\$300,000 for all claims relating to the same accident. There were no changes in insurance coverage from the prior year and there were no settlements that exceeded insurance coverage in the last three years.

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## COMPLIANCE SECTION

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**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 Governing Board  
Loxahatchee River Environmental Control District  
Jupiter, Florida

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 Loxahatchee River Environmental Control District, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Loxahatchee River Environmental Control District's basic financial statements, and have issued our report thereon dated February 22, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Loxahatchee River Environmental Control 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Loxahatchee River Environmental Control District's internal control. Accordingly, we do not express an opinion on the effectiveness of Loxahatchee River Environmental Control 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, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Loxahatchee River Environmental Control 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.



Morrison, Brown, Argiz & Farra, LLC  
Palm Beach, Florida

February 22, 2017

**INDEPENDENT ACCOUNTANT'S REPORT ON AN EXAMINATION CONDUCTED IN  
ACCORDANCE WITH AICPA PROFESSIONAL STANDARDS, SECTION 601, REGARDING  
COMPLIANCE REQUIREMENTS IN ACCORDANCE WITH CHAPTER 10.550, RULES OF  
THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

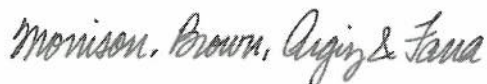
To the Governing Board  
Loxahatchee River Environmental Control District  
Jupiter, Florida

We have examined Loxahatchee River Environmental Control District's compliance with the requirements of Section 218.415, Florida Statutes during the year ended September 30, 2016. Management is responsible for Loxahatchee River Environmental Control District's compliance with those requirements. Our responsibility is to express an opinion on Loxahatchee River Environmental Control 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 Loxahatchee River Environmental Control 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 Loxahatchee River Environmental Control District's compliance with specified requirements.

In our opinion, Loxahatchee River Environmental Control 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 Legislative Auditing committee, members of the Florida Senate and Florida House of Representatives, the Florida Auditor General, the Governing Board, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.



Morrison, Brown, Argiz & Farra, LLC  
Palm Beach, Florida

February 22, 2017

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**MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES  
OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA**

To the Governing Board  
Loxahatchee River Environmental Control District  
Jupiter, Florida

**Report on the Financial Statements**

We have audited the financial statements of Loxahatchee River Environmental Control District, as of and for the fiscal year ended September 30, 2016, and have issued our report thereon dated February 22, 2017.

**Auditor's Responsibility**

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

**Other Reports**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and the Independent Accountant's Report on an Examination Conducted in Accordance with *AICPA Professional Standards*, Section 601, Regarding Compliance Requirements in Accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated February 22, 2017 should be considered in conjunction with this management letter.

**Prior Audit Findings**

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding annual financial audit report.

**Official Title and Legal Authority**

**Section** 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. Information regarding the specific legal authority for Loxahatchee River Environmental Control District is disclosed in Note 1 to the Financial Statements.

## **Financial Condition**

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

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

## **Annual Financial Report**

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for Loxahatchee River Environmental Control District for the fiscal year ended September 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

## **Special District Component Units**

Section 10.554(1)(i)5.d, Rules of the Auditor General, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we determined that Loxahatchee River Environmental Control District is not a component unit of a county, municipality, or special district and was not required to provide financial information necessary for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

## **Other Matters**

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

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

## **Purpose of this Letter**

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



Morrison, Brown, Argiz & Farra, LLC  
Palm Beach, Florida

February 22, 2017