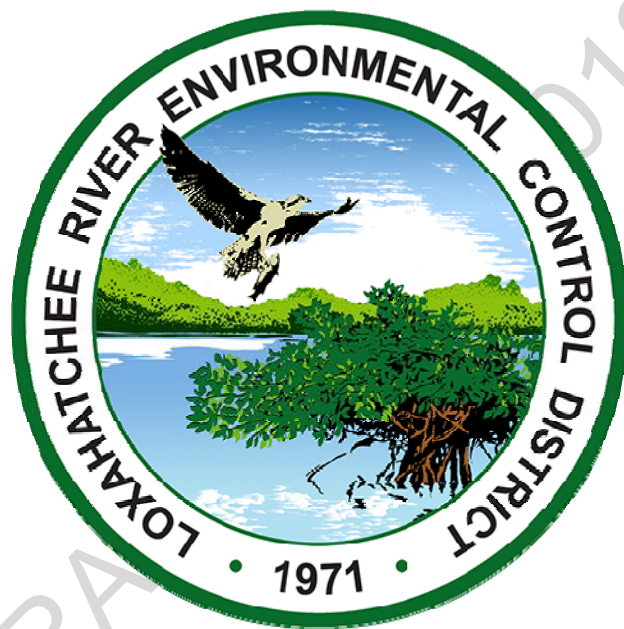


**LOXAHATCHEE RIVER ENVIRONMENTAL
CONTROL DISTRICT**



**FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT THEREON**

SEPTEMBER 30, 2017 AND 2016

LOXAHATCHEE RIVER ENVIRONMENTAL
CONTROL DISTRICT

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SEPTEMBER 30, 2017 AND 2016

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FINANCIAL SECTION

DRAFT 02-08-2018

INDEPENDENT AUDITOR'S REPORT

DRAFT 02-08-2018

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 the Loxahatchee River Environmental Control District, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Loxahatchee River Environmental Control 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Loxahatchee River Environmental Control District, as of September 30, 2017, 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.

Prior Period Financial Statements

The financial statements of the Loxahatchee River Environmental Control District as of September 30, 2016, were audited by other auditors whose report dated February 22, 2017, expressed an unmodified opinion on those statements.

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 4 through 10 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 XX, 2018, on our consideration of the 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 the Loxahatchee River Environmental Control District’s internal control over financial reporting and compliance.

West Palm Beach, Florida
February xx, 2018

DRAFT 02-08-2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

DRAFT 02-08-2018

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, 2017. We encourage readers to consider the information presented in this discussion and analysis in conjunction with the basic financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- ❖ The District's net position increased by \$3,510,318 or 2%.
- ❖ Total revenues (operating and non-operating) for the year ended September 30, 2017, were \$20,402,083. This represents an increase of \$519,593, or 2.6%, when compared with the prior year. The majority of the increase was due to implementing a rate increase of 2% in April 2017.
- ❖ Contributed assets totaled \$1,672,574 and mainly consisted of eight sanitary sewer systems constructed and turned over to the District by individual developers.
- ❖ Total operating expenses, including depreciation and amortization, were \$20,094,222. Excluding depreciation and amortization, this represents an increase of \$332,550, or 2.5% when compared with the prior year.
- ❖ Operating expenses (excluding depreciation and amortization) were \$1,575,264, or 10% less than the budget adopted by the Governing Board. Equipment repairs, utilities and personal services were less than projected and unused contingency contributed to the favorable variance.
- ❖ The components of net position as of September 30, 2017, were as follows:
 - Net investment in capital assets \$115,529,222
 - Unrestricted \$41,618,783

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, 2017. 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.

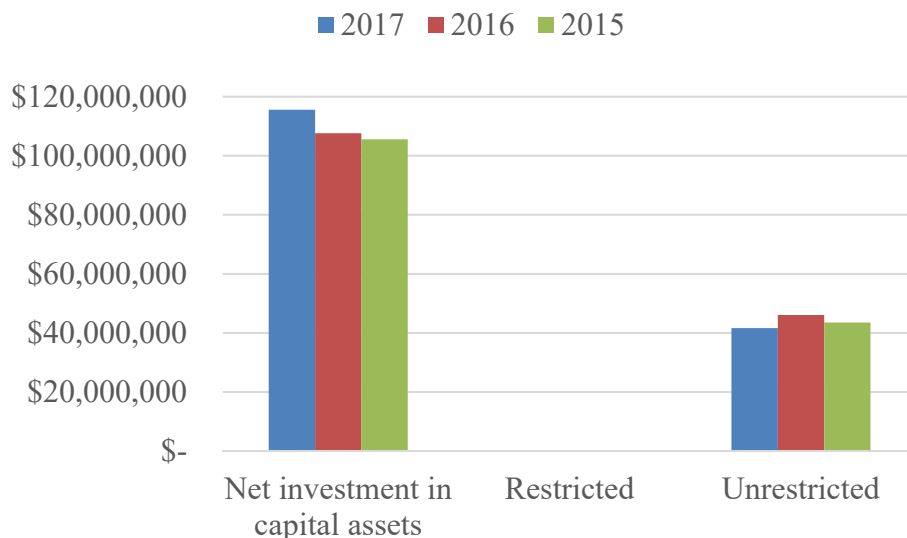
Net Position

We begin our analysis by providing a summary of the District’s statements of net position for the fiscal years ended September 30, 2017, 2016, and 2015.

| Condensed Statement of Net Position | | | | | |
|--|-----------------------|-----------------------|---------------------|-----------------------|---------------------|
| | 2017 | 2016 | % Change | 2015 | % Change |
| Current and other assets | \$ 44,681,986 | \$ 49,492,549 | (10%) | \$ 47,850,594 | 3% |
| Capital assets, net | 117,295,267 | 108,348,576 | 8% | 105,523,262 | 3% |
| Total assets | \$ 161,977,253 | \$ 157,841,125 | 2% | \$ 153,373,856 | 3% |
| Long-term debt | \$ - | \$ - | - | \$ - | - |
| Other liabilities | 4,829,248 | 4,203,438 | 15% | 4,346,934 | (3%) |
| Total liabilities | \$ 4,829,248 | \$ 4,203,438 | 15% | \$ 4,346,934 | (3%) |
| Net position: | | | | | |
| Net investment in capital assets | \$ 115,529,222 | \$ 107,594,559 | 8% | \$ 105,523,262 | 2% |
| Restricted | - | - | - | - | - |
| Unrestricted | 41,618,783 | 46,043,128 | (10%) | 43,503,660 | 6% |
| Total net position | \$ 157,148,005 | \$ 153,637,687 | 2% | \$ 149,026,922 | 3% |

As illustrated in the table above, the District’s assets exceeded liabilities by \$157,148,005, \$153,637,687, and \$149,026,922, at September 30, 2017, 2016, and 2015, respectively. At September 30, 2017, the largest portion of the District’s net position (74%) 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 \$9.0 million in noncurrent special assessments receivable.

The following graph presents the components of the District's net position as of September 30, 2017, 2016, and 2015.



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 \$3,510,318 during the fiscal year ended September 30, 2017. The increase is mainly due to capital contributions (i.e., connection charges for new developments and developer contributed facilities).

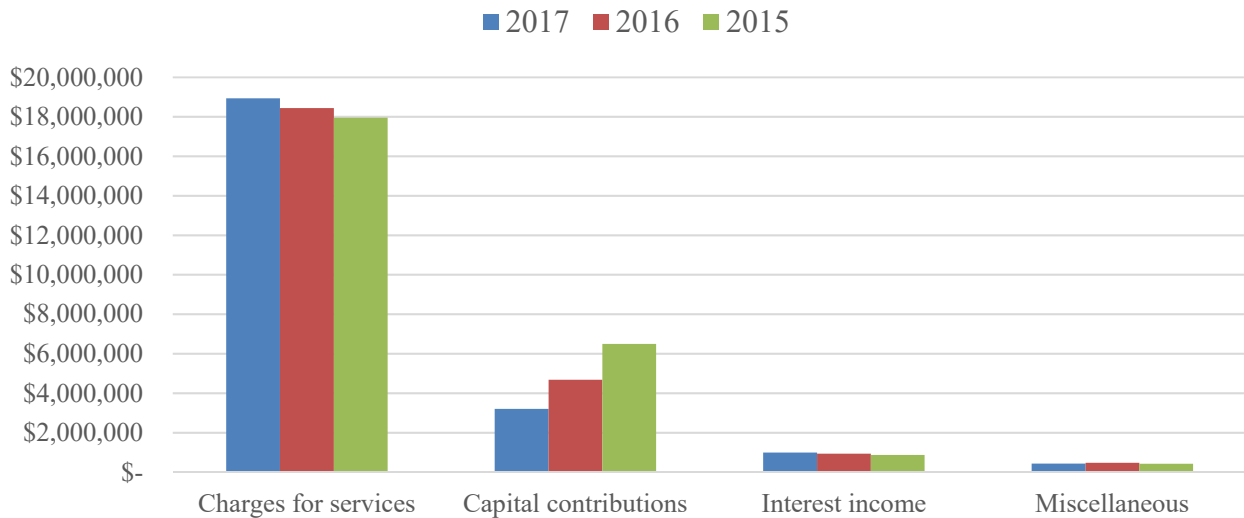
The following analysis highlights the changes in net position for the fiscal years ended September 30, 2017, 2016, and 2015.

Condensed Statements of Revenues, Expenses and Changes in Net Position

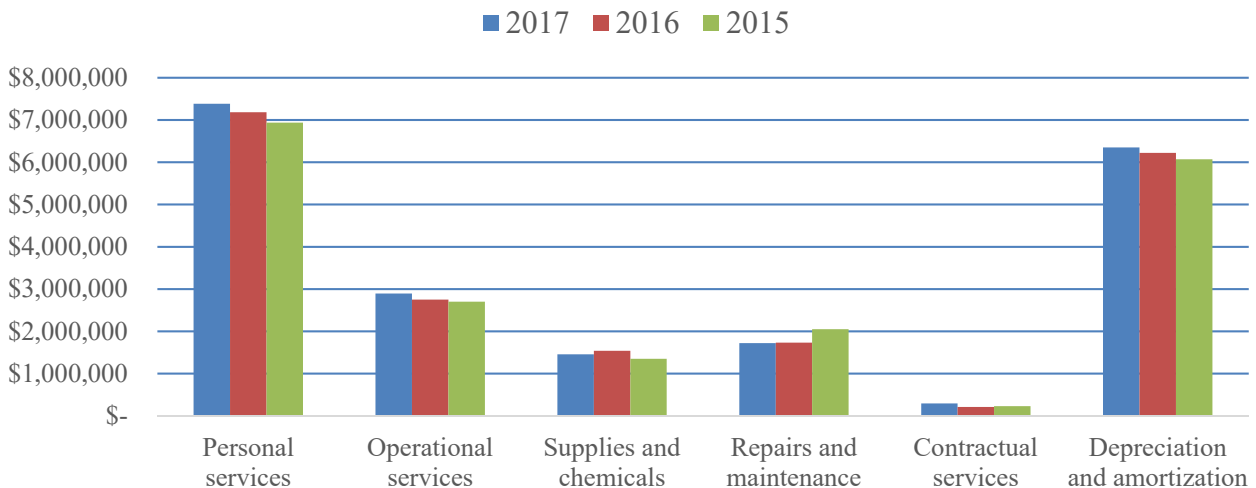
| | 2017 | 2016 | % Change | 2015 | % Change |
|---|-----------------------|-----------------------|---------------|-----------------------|--------------|
| Operating revenues | \$ 19,365,938 | \$ 18,912,577 | 2% | \$ 18,375,889 | 3% |
| Non-operating revenues | 1,036,145 | 969,913 | 7% | 933,956 | 4% |
| Total revenues | 20,402,083 | 19,882,490 | 3% | 19,309,845 | 3% |
| Depreciation and amortization expense | 6,348,091 | 6,221,487 | 2% | 6,067,532 | 3% |
| Operating expense | 13,746,131 | 13,413,581 | 2% | 13,265,175 | 1% |
| Non-operating expense | | 318,769 | (100%) | 618,161 | (48%) |
| Total expenses | 20,094,222 | 19,953,837 | 1% | 19,950,868 | 0% |
| Income (Loss) before capital contributions | 307,861 | (71,347) | (531%) | (641,023) | (89%) |
| Capital contributions | 3,202,457 | 4,682,112 | (32%) | 6,491,032 | (28%) |
| Change in net position | 3,510,318 | 4,610,765 | (24%) | 5,850,009 | (21%) |
| Net position, beginning of year | 153,637,687 | 149,026,922 | 3% | 143,176,913 | 4% |
| Net position, end of year | \$ 157,148,005 | \$ 153,637,687 | 2% | \$ 149,026,922 | 3% |

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, 2017, 2016, and 2015, respectively. In 2015, there was a significant increase in in capital contributions (i.e., development activity) compared to 2017 and 2016. 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 2015.



The following chart presents operating expenses for the fiscal years ended September 30, 2017, 2016, and 2015, respectively. Personal Services increased by 3%; Operational Supplies increased by 5%. Supplies and Chemicals decreased by 5%; Repairs and Maintenance decreased by 1%; and Contractual Services increased by 41%. Contractual Services were up due to the District completing a business assessment review.



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 2017 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, 2017.

| | Budget | Actual | Favorable (Unfavorable) Variance |
|--|---------------|---------------|--|
| Charges for services | \$ 18,887,213 | \$ 18,929,914 | \$ 42,701 |
| Operating expenses less depreciation | \$ 15,321,395 | \$ 13,746,131 | \$1,575,264 |
| Non-operating revenues – interest income | \$ 701,000 | \$ 988,965 | \$ 287,965 |

The favorable variance in Charges for Services was driven by having a 2% rate increase during fiscal year 2017.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of September 30, 2017, in the amount of \$117,295,267 (net of accumulated depreciation) has increased 8% 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 \$15.15 million in capital additions, but the decrease of \$6.1 million due to normal scheduled depreciation kept the capital asset increase to approximately \$8.9 million.

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, 2017, was \$16,670,578. Of this amount, \$9,061,286 was for the deep bed filter/transfer switch; \$5,223,682 was for Jupiter Inlet Colony sewerage; \$978,893 was for Turtle Creek sewerage; \$174,767 was for Whispering Trails sewerage; \$335,115 for the rehabilitation of the sludge/dewatering press control system; and \$234,973 for the Alt A1A bridge force main and river crossing project.
- ❖ Construction of new treatment and disposal features and renewal of existing features completed and booked during fiscal year 2017 totaled \$354,401.
- ❖ Construction of new collection and transmission systems and renewal of existing features completed and recorded in fiscal year 2017 totaled \$1,140,277.
- ❖ Construction of IQ system improvements completed in fiscal year 2017 totaled \$46,062.

Additional information on the District's capital assets, including projects under construction, can be found in Note 4 on pages 25 and 26 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 had no other long-term debt. Additional information on the District's long-term liabilities can be found in Note 7 on pages 28 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

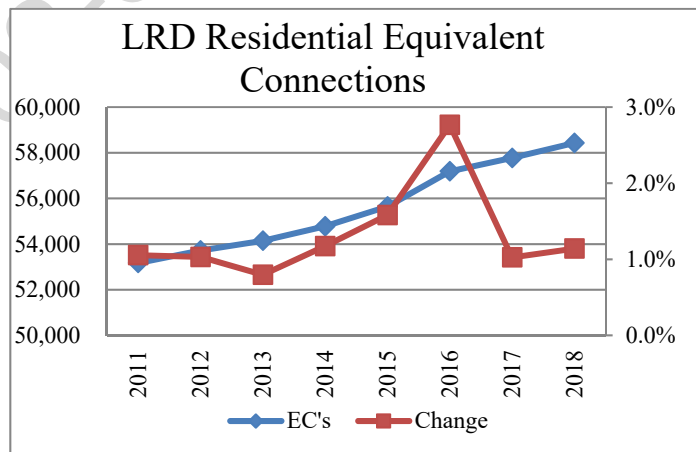
Numerous economic factors, such as increasing operating costs, the need for new or renewed facilities, the pace of growth, cost of financing, etc., are evaluated when determining the District's budget and rates. Charges for services continue to be the District's largest single source of revenue, as wastewater 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.

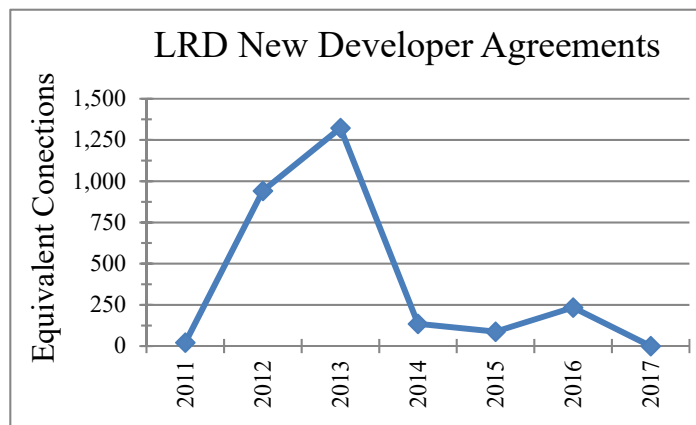
Revenues

In March, 2017, the District approved the revised District Rule 31-10 which included an annual rate increase of 2% from 2017 through 2020 and 3% in 2021 for Quarterly Services Charges, Plan 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, there were no new developer agreements in 2017. 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 in fiscal year 2018. Other ongoing or planned neighborhood sewerage projects include Turtle Creek, Whispering Trails, and Imperial Woods.

Expenses

The District adopted a budget of \$31,320,825, which represents a decrease of \$1,821,570 or 5%, from fiscal year 2017. The vast majority of the budget decrease, \$2,110,000, 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 March 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 2018 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 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.

BASIC FINANCIAL STATEMENTS

DRAFT 02-08-2018

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
Statements of Net Position
September 30, 2017 and 2016

| | 2017 | 2016 |
|--|----------------|----------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents - unrestricted | \$ 16,207,222 | \$ 8,653,078 |
| Cash and cash equivalents - restricted | 104,814 | 138,008 |
| Investments | 8,288,499 | 11,270,667 |
| Receivables | | |
| Accounts | 947,502 | 740,938 |
| Special assessments | 704,697 | 698,812 |
| Accrued interest | 643,189 | 597,430 |
| Due from other governments | 366,673 | 986,219 |
| Inventories | 1,956,491 | 1,708,963 |
| Prepaid expenses | 343,667 | 327,258 |
| Total current assets | 29,562,754 | 25,121,373 |
| Noncurrent assets | | |
| Receivables | | |
| Accounts | 469,668 | 389,600 |
| Accounts - allowance | (108,905) | |
| Special assessments | 9,044,920 | 9,994,682 |
| Investments | 3,730,068 | 11,835,880 |
| Investment in joint venture | 1,983,481 | 2,151,014 |
| Capital assets | | |
| Non-depreciable | 17,525,012 | 6,054,341 |
| Depreciable (net of depreciation) | 99,770,255 | 102,294,235 |
| Total noncurrent assets | 132,414,499 | 132,719,752 |
| Total assets | \$ 161,977,253 | \$ 157,841,125 |

Continued on the following page.

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
Statements of Net Position (Continued)
September 30, 2017 and 2016

| | 2017 | 2016 |
|--|----------------|----------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 535,600 | \$ 979,349 |
| Construction contracts payable | 1,766,045 | 754,017 |
| Accrued liabilities | | |
| Wages and payroll taxes | 178,280 | 153,160 |
| Pension | 20,689 | 132,689 |
| Compensated absences | 55,996 | 58,067 |
| Unearned revenue | 1,335,344 | 1,240,121 |
| Total current liabilities (payable from current assets) | 3,891,954 | 3,317,403 |
| Payable from restricted assets | | |
| Customer deposits | 104,814 | 138,008 |
| Total current liabilities (payable from restricted assets) | 104,814 | 138,008 |
| Total current liabilities | 3,996,768 | 3,455,411 |
| Noncurrent liabilities | | |
| Compensated absences | 832,480 | 748,027 |
| Total noncurrent liabilities | 832,480 | 748,027 |
| Total liabilities | 4,829,248 | 4,203,438 |
| Net Position | | |
| Net investment in capital assets | 115,529,222 | 107,594,559 |
| Unrestricted | 41,618,783 | 46,043,128 |
| Total net position | 157,148,005 | 153,637,687 |
| Total liabilities and net position | \$ 161,977,253 | \$ 157,841,125 |

See notes to the financial statement.

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended September 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| Operating revenues | | |
| Charges for services | \$ 18,929,914 | \$ 18,439,733 |
| Miscellaneous | 436,024 | 472,844 |
| Total operating revenues | <u>19,365,938</u> | <u>18,912,577</u> |
| Operating expenses | | |
| Personal services | 7,382,421 | 7,183,021 |
| Operational | 2,895,600 | 2,751,449 |
| Supplies and chemicals | 1,454,776 | 1,538,706 |
| Repairs and maintenance | 1,719,023 | 1,731,117 |
| Contractual services | 294,311 | 209,288 |
| Depreciation and amortization | 6,348,091 | 6,221,487 |
| Total operating expenses | <u>20,094,222</u> | <u>19,635,068</u> |
| Operating (loss) | <u>(728,284)</u> | <u>(722,491)</u> |
| Nonoperating revenues (expenses) | | |
| Grants | 13,550 | 33,329 |
| Interest income | 988,965 | 936,584 |
| Gain (loss) on disposal of capital assets | 33,630 | (318,769) |
| Total nonoperating revenues (expenses) | <u>1,036,145</u> | <u>651,144</u> |
| Income before capital contributions | 307,861 | (71,347) |
| Capital contributions | 3,202,457 | 4,682,112 |
| Change in net position | 3,510,318 | 4,610,765 |
| Total net position, beginning of year | <u>153,637,687</u> | <u>149,026,922</u> |
| Total net position, end of year | <u>\$ 157,148,005</u> | <u>\$ 153,637,687</u> |

See notes to the financial statement.

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
Statements of Cash Flows
For the Fiscal Years Ended September 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------------|----------------------------|
| Cash flows from operating activities: | | |
| Receipts from customers | \$ 18,718,993 | \$ 18,494,773 |
| Payments to employees | (7,386,919) | (7,318,074) |
| Payments for goods and services | (7,071,396) | (6,290,204) |
| Cash (payments) receipts | <u>1,150,793</u> | <u>(428,041)</u> |
| Net cash provided (used) by operating activities | <u>5,411,471</u> | <u>4,458,454</u> |
| Cash flows from non-capital financing activities: | | |
| Grants | <u>13,550</u> | <u>33,329</u> |
| Net cash provided (used) by non-capital financing activities | <u>13,550</u> | <u>33,329</u> |
| Cash flows from capital and related financing activities: | | |
| Contributed capital | 1,152,725 | 1,442,303 |
| Acquisition and construction of capital assets | (12,577,745) | (7,852,499) |
| Cash received from the sale of capital assets | 61,060 | 38,306 |
| Proceeds from collections of special assessments | <u>1,321,035</u> | <u>1,019,394</u> |
| Net cash provided (used) by capital and related financing activities | <u>(10,042,925)</u> | <u>(5,352,496)</u> |
| Cash flows from investing activities: | | |
| Purchase of investments | | (6,033,139) |
| Proceeds from sales of investments | 11,195,648 | 8,128,274 |
| Interest and dividends on investments | <u>943,206</u> | <u>637,836</u> |
| Net cash provided (used) by investing activities | <u>12,138,854</u> | <u>2,732,971</u> |
| Net increase (decrease) in cash and cash equivalents | 7,520,950 | 1,872,258 |
| Cash and cash equivalents at beginning of year | <u>8,791,086</u> | <u>6,918,828</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 16,312,036</u></u> | <u><u>\$ 8,791,086</u></u> |

Continued on the following page.

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
Statements of Cash Flows (Continued)
For the Fiscal Years Ended September 30, 2017 and 2016

| | 2017 | 2016 |
|---|--------------|--------------|
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating loss | \$ (728,284) | \$ (722,491) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 6,348,091 | 6,221,487 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (177,727) | 59,487 |
| Due from other governments | 619,546 | (725,290) |
| Inventory | (247,528) | (57,821) |
| Prepaid expenses | (16,409) | 6,004 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued liabilities | (448,247) | (142,880) |
| Developer deposits | (33,194) | (4,447) |
| Unearned revenue | 95,223 | (175,595) |
| Net cash provided by operating activities | \$ 5,411,471 | \$ 4,458,454 |
| Noncash investing, capital and financing activities | | |
| Contributions of lift stations, lines and equipment | \$ 1,672,574 | \$ 1,204,420 |
| Book value of assets disposed | 27,430 | 357,076 |
| Book value of construction work-in-process reclassified to inventory and other nominal accounts | | 9,079 |

See notes to the financial statements.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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:

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting (Continued)

- 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.
- 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.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Accounting (Continued)

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.

Reclassifications

Certain accounts in the prior year information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Post Employment Benefits (OPEB)

The District was required to implement Governmental Accounting Standards Board Statement 45 (GASB 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 post employment benefits under GASB 45.

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available. However, the objective of fair value measurement in both cases is the same, that is, to determine the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. The District categorizes investments reported at fair value in accordance with the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost, which should also be considered the fair value of the investment. The investments held by the District consist of non-negotiable certificates of deposit with original maturities ranging from one year to five years.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 acquisition value. 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.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

As of September 30, 2017 and 2016, the District has \$104,814 and \$138,008, 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. An allowance for uncollectible accounts is maintained at a level the District believes is sufficient to cover potential losses. 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.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

At September 30, 2017 and 2016, the carrying amount of cash on hand and on deposit with banks, including interest-bearing deposits, was \$16,312,036 and \$8,791,086, respectively. Investments at September 30, 2017 and 2016, are comprised of non-negotiable certificates of deposits with financial institutions with original maturities greater than three months in the amount of \$12,018,567 and \$23,106,547. 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.

Investments

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

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.

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

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.

NOTE 3 – INVESTMENT IN JOINT VENTURE

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, 2017 and 2016.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 3 – INVESTMENT IN JOINT VENTURE (Continued)

Biosolids Processing and Recycling Facility (Continued)

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 \$496,569 and \$508,391 for the years ended September 30, 2017 and 2016. 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 ensure 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

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 4 – CAPITAL ASSETS

A summary of the District’s property, plant, and equipment at September 30, 2017 and 2016 is as follows:

| | September 30, 2017 | | | Ending Balance |
|---|---------------------------|---------------------|---------------------|-----------------------|
| | Beginning Balance | Increases | Decreases | |
| Capital assets not being depreciated | | | | |
| Land and land rights | \$ 854,434 | \$ | \$ | \$ 854,434 |
| Construction in progress | 5,199,907 | 12,310,287 | (839,616) | 16,670,578 |
| Total capital assets not being depreciated | <u>6,054,341</u> | <u>12,310,287</u> | <u>(839,616)</u> | <u>17,525,012</u> |
| Capital assets being depreciated | | | | |
| Treatment and disposal system | | | | |
| Plant | 59,828,810 | 354,401 | (305,285) | 59,877,926 |
| Lakes | 1,211,079 | | | 1,211,079 |
| Lines | 94,765,600 | 2,161,485 | (10,074) | 96,917,011 |
| Lift stations | 23,892,059 | 697,428 | (44,945) | 24,544,542 |
| Equipment | 7,990,750 | 470,683 | (246,060) | 8,215,373 |
| Total capital assets being depreciated | <u>187,688,298</u> | <u>3,683,997</u> | <u>(606,364)</u> | <u>190,765,931</u> |
| Less accumulated depreciation | <u>(85,394,063)</u> | <u>(6,180,559)</u> | <u>578,946</u> | <u>(90,995,676)</u> |
| Total capital assets being depreciated, net | <u>102,294,235</u> | <u>(2,496,562)</u> | <u>(27,418)</u> | <u>99,770,255</u> |
| Capital assets, net | <u>\$ 108,348,576</u> | <u>\$ 9,813,725</u> | <u>\$ (867,034)</u> | <u>\$ 117,295,267</u> |

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 4 – CAPITAL ASSETS (Continued)

| | September 30, 2016 | | | Ending Balance |
|---|---------------------------|---------------------|-----------------------|-----------------------|
| | Beginning Balance | Increases | Decreases | |
| 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 | <u>3,820,445</u> | <u>6,425,298</u> | <u>(4,191,402)</u> | <u>6,054,341</u> |
| Capital Assets being depreciated | | | | |
| 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 capital assets being depreciated | <u>182,751,304</u> | <u>7,076,396</u> | <u>(2,139,402)</u> | <u>187,688,298</u> |
| Less accumulated depreciation | <u>(81,048,487)</u> | <u>(6,053,955)</u> | <u>1,708,379</u> | <u>(85,394,063)</u> |
| Total capital assets being depreciated, net | <u>101,702,817</u> | <u>1,022,441</u> | <u>(431,023)</u> | <u>102,294,235</u> |
| Capital assets, net | <u>\$ 105,523,262</u> | <u>\$ 7,447,739</u> | <u>\$ (4,622,425)</u> | <u>\$ 108,348,576</u> |

Depreciation expense was \$6,180,559 and \$6,053,955 for the years ended September 30, 2017 and 2016, respectively.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 5 – CONTRACTS PAYABLE

Construction contracts of the District at September 30, 2017 and 2016 are as follows:

| | September 30, 2017 | | | |
|------------------------------------|-----------------------------------|----------------------|----------------------|------------------------|
| | Total Project Authorization | Total Expended | Contracts Payable | Balance to Complete |
| | Deep Bed Filters | \$ 10,081,692 | \$ 7,928,247 | \$ 853,299 |
| Jupiter Inlet Colony | 5,804,724 | 4,857,967 | 576,234 | 370,523 |
| Turtle Creek | 886,014 | 662,710 | 57,928 | 165,376 |
| Lift Station Rehabilitations | 213,205 | 82,164 | 4,173 | 126,868 |
| Riverside Improvement Area | 90,000 | 44,630 | | 45,370 |
| Maplewood Drive FM Extension | 185,380 | 25,969 | | 159,411 |
| Alt A1A Bridge Forcemain Expansion | 971,194 | 33,874 | 58,260 | 879,060 |
| Whispering Trails | 502,677 | 143,660 | 10,254 | 348,763 |
| Sewering Line Lining | 252,095 | | 132,590 | 119,505 |
| Jupiter Farms Elementary | 176,940 | 42,719 | 8,129 | 126,092 |
| Other Construction Contracts | 677,186 | 481,687 | 65,178 | 130,321 |
| Total: | \$ 19,841,107 | \$ 14,303,627 | \$ 1,766,045 | \$ 3,771,435 |

| | September 30, 2016 | | | |
|------------------------------------|-----------------------------------|---------------------|----------------------|------------------------|
| | Total Project Authorization | Total Expended | Contracts Payable | Balance to Complete |
| | Deep Bed Filters | \$ 10,074,198 | \$ 2,848,548 | \$ 483,875 |
| 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 |
| Total: | \$ 18,306,773 | \$ 4,348,622 | \$ 754,017 | \$ 13,204,134 |

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 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.

NOTE 7 – LONG-TERM LIABILITIES

Changes in long-term liabilities for the years ended September 30, 2017 were as follows:

| | September 30, 2017 | | | | |
|-------------------------|-------------------------------|-------------------|-------------------|----------------------------------|---------------------------|
| | Balance October 1, 2016 | Additions | Reductions | Balance September 30, 2017 | Due Within One year |
| Compensated absences | \$ 806,094 | \$ 190,595 | \$ 108,213 | \$ 888,476 | \$ 55,996 |
| | <u>\$ 806,094</u> | <u>\$ 190,595</u> | <u>\$ 108,213</u> | <u>\$ 888,476</u> | <u>\$ 55,996</u> |

Changes in long-term liabilities for the years 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 |
| | <u>\$ 794,018</u> | <u>\$ 84,076</u> | <u>\$ 72,000</u> | <u>\$ 806,094</u> | <u>\$ 58,067</u> |

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 8 – RESTRICTED ASSETS, LIABILITIES AND RESERVES

Restricted assets and liabilities at September 30, 2017 and 2016 consist of customer deposits. Assets restricted for these purposes represent cash and investments totaling \$104,814 and \$138,008 for the years ended September 30, 2017 and 2016, respectively.

The following is a summary of restricted assets, related liabilities, and restricted net position at September 30, 2017 and 2016:

| September 30, 2017 | Restricted Assets | Liabilities Payable from Restricted Assets | Restricted Net Position |
|-----------------------|----------------------|--|----------------------------|
| Customer Deposits | \$ 104,814 | \$ 104,814 | \$ |
| | | | |
| September 30, 2016 | Restricted Assets | Liabilities Payable from Restricted Assets | Restricted Net Position |
| Customer Deposits | \$ 138,008 | \$ 138,008 | \$ |

NOTE 9 – DEFINED CONTRIBUTION 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, 2017 and 2016, employee contributions totaled \$190,856 and \$182,479 and the District’s recognized pension expense was \$777,111 and \$727,828, 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 \$2,432 and \$4,943 for the years ended September 30, 2017 and 2016.

The District had a liability to the Plan at September 30, 2017 and 2016 in the amount of \$20,689 and \$132,689, respectively.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 10 – COMMITMENTS

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 \$13.03 per ton. For the years ended September 30, 2017 and 2016, the District paid \$149,798 and \$145,020, respectively.

Purchase Commitments

The District had outstanding purchase orders totaling approximately \$1,560,685 and \$717,160 for the fiscal years ended September 30, 2017 and 2016, respectively.

NOTE 11 – 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. 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.

COMPLIANCE SECTION

DRAFT 02-03-2018

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 the Loxahatchee River Environmental Control District, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Loxahatchee River Environmental Control District's basic financial statements, and have issued our report thereon dated February XX, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Loxahatchee River Environmental Control District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, 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 the 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.

West Palm Beach, Florida
February XX, 2018

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 the Loxahatchee River Environmental Control District (the “District”), as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated February XX, 2018.

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 Reporting Requirements

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 Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant’s Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated February XX, 2018, 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 financial audit report. There were no findings or recommendations in the prior year that required corrective actions.

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. This information is disclosed in Note 1 to the financial statements. There were no component units included in the District's financial statements.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes, as of and for the year ended September 30, 2017.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the District. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and review of financial information provided by same. Our assessment was done as of the fiscal year end. The results of our procedures did not disclose any matters that are required to be reported.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2017, 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, 2017. 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, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide 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 did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Additional Matters

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

Single Audits

The District expended less than \$750,000 of federal awards and less than \$750,000 of state financial assistance for the year ended September 30, 2017, and was not required to have a federal single audit or a state single audit.

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 Representative, 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.

West Palm Beach, Florida
February xx, 2018

INDEPENDENT ACCOUNTANT'S REPORT
ON COMPLIANCE WITH SECTION 218.415,
FLORIDA STATUTES

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

We have examined the Loxahatchee River Environmental Control District's compliance with Section 218.415, Florida Statutes during the year ended September 30, 2017. Management of the Loxahatchee River Environmental Control District is responsible for the Loxahatchee River Environmental Control District's compliance with the specified requirements. Our responsibility is to express an opinion on the Loxahatchee River Environmental Control District's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Loxahatchee River Environmental Control District complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Loxahatchee River Environmental Control District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risk of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Loxahatchee River Environmental Control District's compliance with the specified requirements.

In our opinion, the Loxahatchee River Environmental Control District complied, in all material respects, with Section 218.415, Florida Statutes for the year ended September 30, 2017.

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, applicable management, and the Governing Board, and is not intended to be and should not be used by anyone other than these specified parties.

West Palm Beach, Florida
February xx, 2018

DRAFT 02-08-2018