LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2013 AND 2012

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT

ANNUAL FINANCIAL REPORT

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TABLE OF CONTENTS

FINANCIAL SECTION

REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

r2 Rampell & Rampell, P.A.
certified public accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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 year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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.

223 Sunset Avenue ♦ Suite 200 ♦ Palm Beach, Florida 33480 ♦ TEL (561) 655-5855 ♦ FAX (561) 655-7688

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Loxahatchee River Environmental Control District as of September 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Loxahatchee River Environmental Control District as of September 30, 2012, were audited by other auditors whose report dated March 19, 2013 expressed an unqualified opinion on those statements.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America required that the management's discussion and analysis on pages 9 through 17 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 12, 2014, 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.

Rampell + Rampell, P.A.

Rampell & Rampell, P.A.
Palm Beach, Florida

February 12, 2014

MANAGEMENT’S DISCUSSION AND ANALYSIS

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 Loxahatchee River Environmental Control District for the fiscal year ended September 30, 2013. We encourage readers to consider the information presented in this discussion and analysis in conjunction with the District's basic financial statements, which begin on page 22.

FINANCIAL HIGHLIGHTS

- The District's net position increased by $2,845,281, or 2%.
- Total revenues (operating and non-operating) for the year ended September 30, 2013, were $17,536,121. This represents an increase of $1,041,730, or 6%, when compared with the prior year. The majority of the increase was due to a 2.5% rate increase implemented in April 2013 and the addition of new customers.
- Contributed assets totaled $1,045,321 and mainly consisted of seven sanitary sewer facilities, including one lift station, constructed and turned over to the District by individual developers and one sanitary sewer facility from Palm Beach County.
- Total operating expenses, including depreciation and amortization, were $18,085,775. Excluding depreciation and amortization, this represents an increase of $963,523; or 9% when compared with the prior year.
- Operating expenses (excluding depreciation and amortization) were $765,279 less than the budget adopted by the Governing Board. Lower health insurance costs, anticipated repair projects that were not completed, and unused contingency contributed to the favorable variance.
- The components of net position as of September 30, 2013, were as follows:
    - Net investment in capital assets $102,544,712
    - Restricted $6,578,024 ($6,300,000 for renewal and replacement and $278,024 for debt service)
    - Unrestricted $29,974,212

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Loxahatchee River Environmental Control District's basic financial statements. The District's 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 credit worthy. 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. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing 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, 2013. 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 District's 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, 2013, 2012, and 2011.

Condensed Statement of Net Position

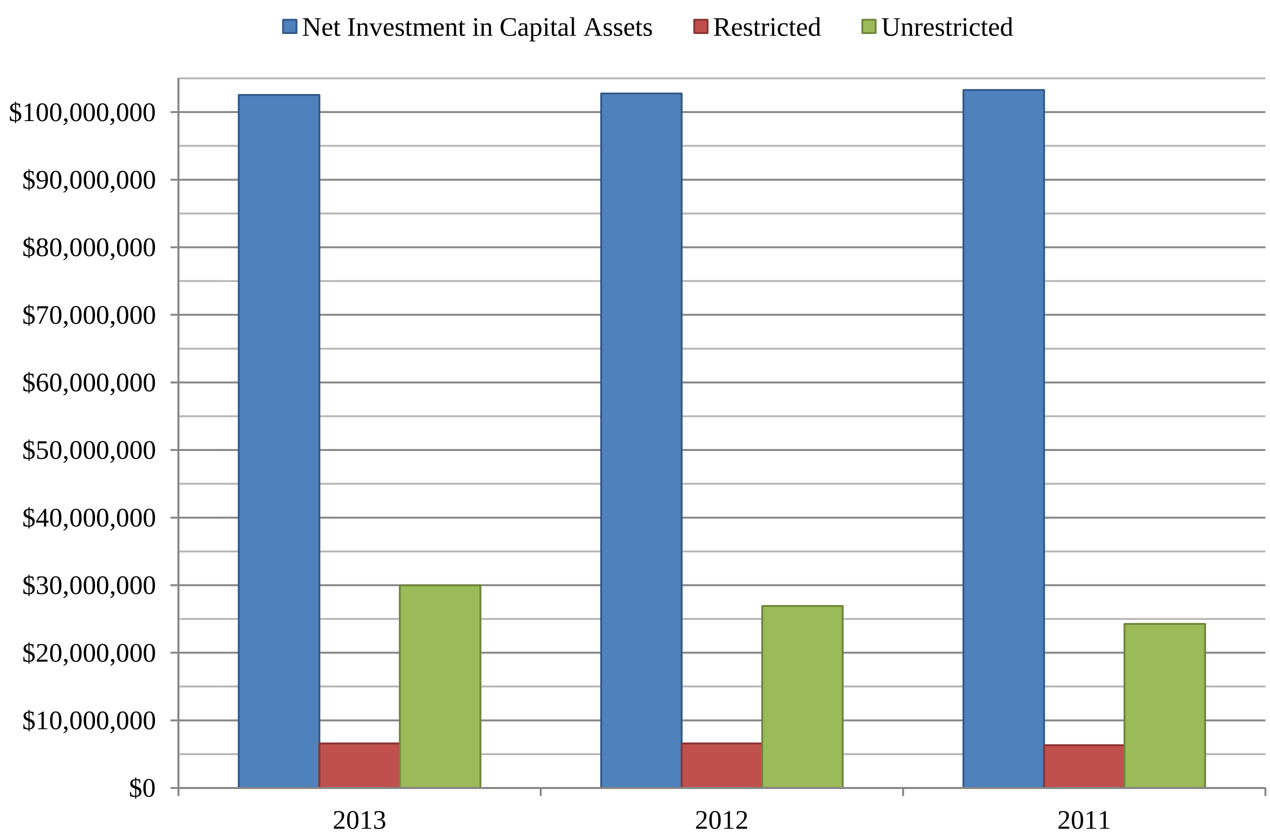
	2013	2012	% Change	2011	% Change
Current and other assets	$ 41,026,056	$ 37,240,690	10%	$ 34,639,065	8%
Capital assets, net	106,855,062	108,720,955	(2%)	110,848,034	(2%)
Total assets	**$ 147,881,118**	**$ 145,961,645**	**1%**	**$ 145,487,099**	**0%**
Long-term debt	$ 3,570,742	$ 4,310,350	(17%)	$ 5,968,321	(28%)
Other liabilities	5,213,428	5,399,628	(3%)	5,661,201	(-5%)
Total liabilities	**8,784,170**	**9,709,978**	**(10%)**	**11,629,522**	**(17%)**
Net position:					
Net investment in capital assets	102,544,712	102,752,953	0%	103,274,062	(1%)
Restricted for:					
Renewal and replacement	6,300,000	6,300,000	0%	6,050,000	4%
Debt service	278,024	276,823	0%	275,676	0%
Unrestricted	29,974,212	26,921,891	11%	24,257,839	11%
Total net position	**139,096,948**	**136,251,667**	**2%**	**133,857,577**	**2%**

As illustrated in the table above, the District's assets exceeded liabilities by $139,096,948, $136,251,667, and $133,857,577 at September 30, 2013, 2012 and 2011, respectively. At September 30, 2013, 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), less any related debt used to acquire those assets that is still outstanding. The District uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to pay these liabilities.

At this time, the $8.5 million in noncurrent special assessments receivable is more than sufficient to repay the $3.5 million in noncurrent bonds payable.

An additional portion of the District's net position (5%) represents resources that are subject to restrictions on how they may be used. Specifically, for fiscal year 2013, the District had reserved cash in the amount of $6.3 million for renewal and replacement and $278,024 for debt service.

The following graph presents the components of the District's net position as of September 30, 2013, 2012 and 2011.



At the end of the current fiscal year, the District is able to report positive balances in all three categories of net position. The same held true for the prior two fiscal years. The District's net position increased $2,845,281 during the fiscal year ended September 30, 2013. The increase is mainly due to capital contributions (i.e., connection charges for new developments and developer contributed facilities).

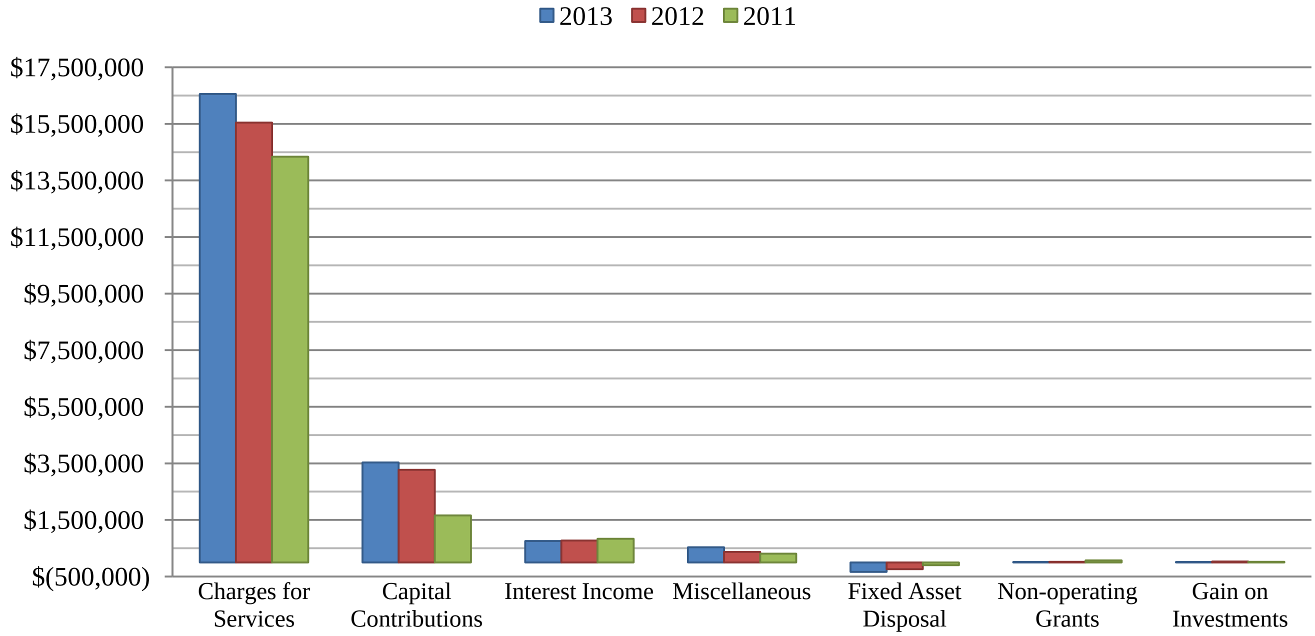
The following analysis highlights the changes in net position for the fiscal years ended September 30, 2013, 2012 and 2011.

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

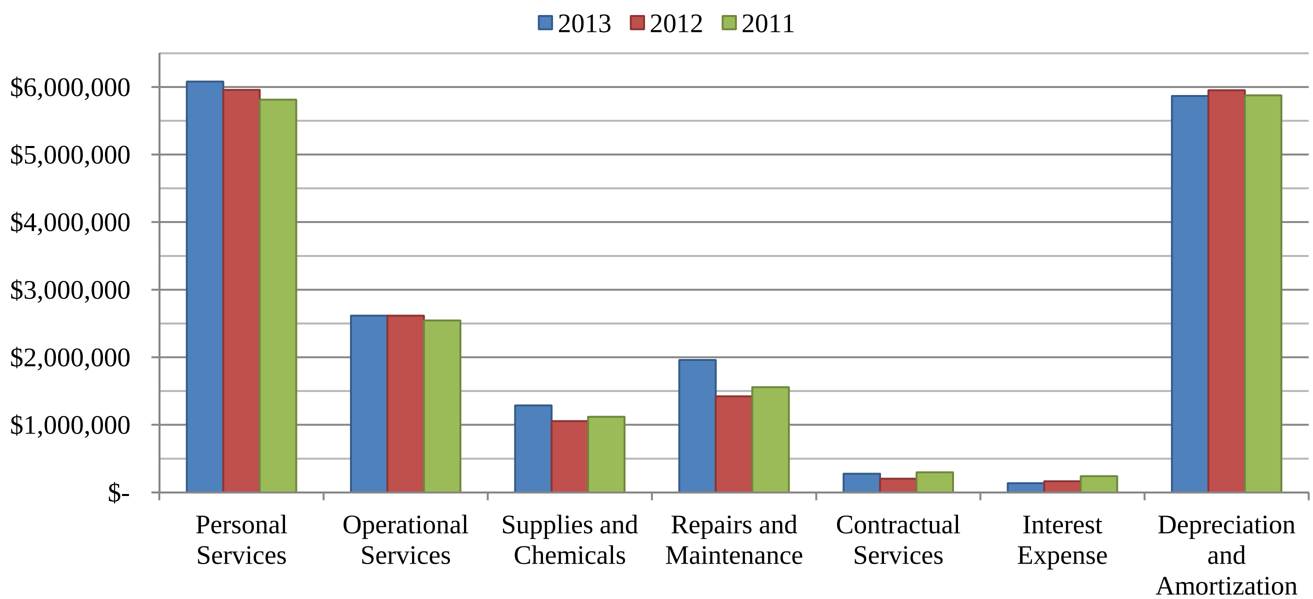
	2013	2012	% Change	2011	% Change
Operating revenues	$ 17,093,166	$ 15,916,562	7%	$ 14,643,315	9%
Non-operating revenues	442,955	577,829	(23%)	821,866	(30%)
Total revenues	**17,536,121**	**16,494,391**	**6%**	**15,465,181**	**7%**
Depreciation and amortization expense	$ 5,867,335	$ 5,953,184	(1%)	$ 5,876,477	1%
Operating expense	12,218,440	11,254,917	9%	11,328,097	(1%)
Non-operating expense	137,397	165,250	(17%)	239,883	(31%)
Total expenses	**18,223,172**	**17,373,351**	**5%**	**17,444,457**	**0%**
Loss before capital contributions	**(687,051)**	**(878,960)**	**(22%)**	**(1,979,276)**	**(56%)**
Capital contributions	3,532,332	3,273,050	8%	1,657,423	97%
Change in net position	**2,845,281**	**2,394,090**	**18%**	**(321,853)**	**844%**
Net position, beginning of year	136,251,667	133,857,577	2%	134,179,430	0%
Net position, end of year	**$ 139,096,948**	**$ 136,251,667**	**2%**	**$ 133,857,577**	**2%**

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 on the following page shows revenues by source for the fiscal years ended September 30, 2013, 2012 and 2011, respectively. The largest change that occurred between 2013 and 2012 was an increase in charges for services, due largely to a 2.5% rate increase and an increase in number of customers served. Interest income continues to decline. Capital contributions showed a modest positive increase when compared with 2012.



The following graph presents expenses (operating and non-operating) for the fiscal years ended September 30, 2013, 2012 and 2011, respectively. Repairs and Maintenance increased by 38%; Contractual Services increased by 36%; Supplies and Chemicals increased by 22%; Personal Services increased by 2%; and Operational Services were relatively unchanged. The increase in Repairs and Maintenance is being driven by a renewed focus on preventative maintenance and accounting procedures shifting costs to expense accounts from Renewal & Replacement accounts. Contractual Services were up largely due to additional litigation and non-litigation legal fees. The majority of the increase in Supplies and Chemicals is related to odor control being added to an additional lift station and a change in processing to stronger chemicals.



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 2013 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, 2013.

	Budget	Actual	Favorable (Unfavorable) Variance
Operating revenues	$ 16,191,900	$ 16,558,320	$ 366,420
Operating expenses less depreciation	$ 12,983,719	$ 12,218,440	$ 765,279
Non-operating revenues – interest income	$ 876,100	$ 757,045	$ (119,055)

The favorable variance in operating revenues relates to greater than anticipated regional sewer service revenue as a result of a 2.5% rate increase and an increase in customers.

The majority of the favorable variance in operating expenses is related to several factors including conservative budgeting, decreased engineering support services and other contractual services, and decreased health insurance costs.

Maturing certificates of deposit and lower than anticipated interest rates contributed to the unfavorable variance in non-operating revenues – interest income.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of September 30, 2013, amounts to $106,855,062 (net of accumulated depreciation), a 2% decrease from the prior year. This investment in capital assets includes land, treatment and reuse/disposal system, collection and transmission system, equipment, and construction in progress. Although there were $3.1 million in capital additions, the decrease of $5.9 million due to normal scheduled depreciation and the decrease of $1.4 million due to disposal of fixed assets (that were replaced) drove the net decrease in capital assets.

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, 2013, was $1,776,268. Of this amount, $650,267 was for the construction of sewer facilities for Eagles Nest, $508,034 was for the Roebuck Road force main, and $253,267 was for the biosolids building.
- Construction of new treatment and disposal features and renewal of existing features were completed during fiscal year 2013 at a cost of $28,593.
- Construction of new collection and transmission systems and renewal of existing features were completed in fiscal year 2013 at a cost of $940,042.
- Construction of IQ system improvements were completed in fiscal year 2013 at a cost of $273,748.

Additional information on the District's capital assets, including projects under construction can be found in Note 4 on pages 34 through 35 of this report.

Long-term Debt

The District has four Utility System Revenue Bonds, $2,400,000 Series 1997B, $2,600,000 Series 1997C, $3,600,000 Series 2009, and $3,693,245 Series 2010. The principal and interest due on each of the bonds at September 30, 2013, as well as the current portion to be paid by September 30, 2014, are shown below.

Revenue Bonds	Matures	Principal	Interest	Total
Series 1997B	2017	$ 611,772	$ 58,361	$ 670,133
Series 1997C	2017	652,035	50,382	702,417
Series 2009	2024	2,855,025	769,533	3,624,558
Series 2010	2013	191,518	568	192,086
Total		4,310,350	878,844	5,189,194
Less current portion		(739,608)	(176,183)	(915,791)
Long-term debt as of 9/30/13		**$ 3,570,742**	**$ 702,661**	**$ 4,273,403**

The District's long-term debt of $3,570,742 represents a decrease of $739,608 from the prior year. Additional information on the District's long-term debt can be found in Note 6 on pages 36 through 37 of this report.

On December 13, 2013, the District prepaid the remaining amounts due for the Series 1997B and Series 1997C Revenue Bonds in the amount of $571,466 and $608,422, respectively.

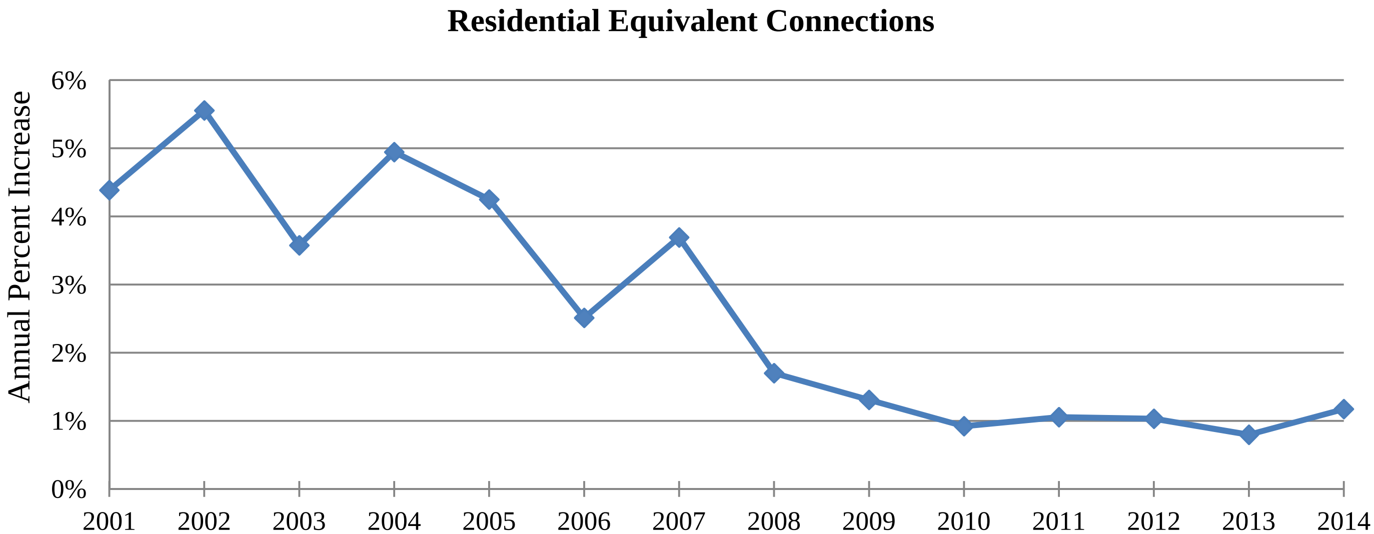
ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

Twice each year, the District analyzes its fiscal situation and develops official planning documents. The first process is an annual budget that is formulated over the summer and adopted prior to October 1st. As with all governments, the budget provides line item allocations for anticipated expenditures in the coming year and makes comparisons with projected revenues. The second process employed by the District occurs early each calendar year and consists of an analysis that looks further into the future, usually seven to eight years, and projects expenditures and revenues associated with operational and capital programs. Numerous economic growth factors such as increasing operating costs, the need for new or renewed facilities, the pace of growth, cost of financing, etc. are evaluated and incorporated into a computer model that was specifically developed by and for the utility. The resulting information then helps the Governing Board and staff to make decisions on the long-term financial health of the organization and the need to adjust revenues from rates, fees and charges. The District has used this management tool for over twenty years and finds it to be very effective.

Key to both the annual budget process and the long-term analysis are the economic factors and assumptions under which they are developed. The following information summarizes the financial conditions anticipated over the next few years.

Revenue

Quarterly Service Charges – Revenue from quarterly service charges to residential and commercial customers is projected to increase at a rate of 3% to 6% for the next several years based on adopted District Rule 31-10 scheduled rate increases and system growth. From January 2009 through January 2014 new residential equivalent connections have averaged an annual increase of about 1% per year (see chart below), while commercial equivalent connections have increased by 0.7% per year over the same period. Looking forward, staff projected equivalent connections will continue to increase by an average of 1% per year.



Miscellaneous Revenue – Miscellaneous Revenue includes administrative and engineering fees, estoppel fees, intergovernmental grants, cell phone tower lease, and other miscellaneous revenues. Fees are fixed by District Rule 31-10. Grant revenues are expected to increase based on a legislative response to the public outcry regarding degraded water quality in local rivers and estuaries.

Irrigation Quality (IQ) Fees – IQ Fees have reached a stable level pending the availability of additional product. Fee increases, adjusted by the Engineering News Record and the Construction Cost Index, are scheduled for implementation in accordance with District Rule 31-10.

Plant Charges – Plant Charges are scheduled to increase at a rate of 3% to 5% for the next several years. The current level of growth (i.e., new developer agreements) has begun to increase following a multi-year slowdown in development. We expect growth to continue at a moderate level for the next several years.

Line Charges – Line Charges are projected to increase at a rate of 3% to 5% for the next several years. The increase in new developer agreement submittals is projected to remain concordant with rates observed in 2013 for the next two to three years.

Assessments – Assessments are anticipated to increase at a rate related to the rate of neighborhood sewering. The District will continue to pay 10% of associated neighborhood sewering costs.

Interest – A 1% return is projected through 2014 with rates increasing to 2% in 2017 and beyond. The principal amount available for investment has grown from $15.8 million in 2008 to $25.7 million in 2013. Annual cash flow is projected to be negative over the next two years as on-going and scheduled capital and renewal and replacement programs are funded with available cash (e.g., construction of new deep bed filters to replace our degraded traveling bridge filters; continued rehabilitation of our Biosolids building; continued neighborhood sewering; etc). We do not anticipate taking on additional debt to support projected capital and renewal and replacement projects.

Expenses

Administration/Engineering/Operations – Annual increases of 3.5 to 4.5% are projected based on system growth and increasing costs through the year 2020. As auditing opinions have changed, an increasing proportion of renewal and replacement (i.e., repairs) costs is being funded by Operations expense accounts rather than renewal and replacement accounts.

Loan Payment – In 2013, the Series 2010 bond debt and both 1997 bonds were retired, reducing our annual bond payments by approximately $1.5 million per year. The remaining bond, 2009 Bond E, matures August 2024 and has a remaining principal balance of $2,855,025 at 4.53% fixed interest rate.

Capital Improvement/Collection and Transmission Lines – Neighborhood sewering programs will continue at a pace of approximately $1 million per year in future years with the District continuing to pay 10% of associated neighborhood sewering costs. Improvements to the regional force main system connectivity (i.e., Roebuck Rd FM, Island Way FM) should be completed in 2016.

Capital Improvement/Treatment and Disposal – Capital projects are projected to cost an average of $879,000 per year through 2020. New operational controls have been implemented to limit odor issues (and associated complaints) from our biosolids processing area, and it is no longer necessary to construct new odor control facilities. Notable capital improvements anticipated over the next 6 years include: purchase of an additional sludge press; improved resiliency during severe storms (additional electrical connectivity and switch gear); and improvements to address anticipated regulatory changes (e.g., nutrient removal, disinfection).

Renewal and Replacement – Planned R&R projects are projected to cost an average of $1.8 million per year through 2020. These projects include: biosolids processing area, construction of deep bed filters to replace failing traveling bridge filters, rehabilitation of clarifier #3, lift station rehabs, etc. As ongoing efforts to improve regional force main connectivity (i.e., Roebuck Rd FM, Island Way FM) are completed, staff will refocus on condition assessment and renewal and replacement of existing collection and transmission system features, with approximately $1.2 million budgeted over the next five years.

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.

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT

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BASIC FINANCIAL STATEMENTS

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT

• 1971 •

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT

Statements of Net Position

September 30, 2013 and 2012

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	**$ 5,041,325**	$ 3,065,439
Investments - unrestricted	**4,285,616**	4,155,593
Investments - restricted	**6,969,782**	6,904,139
Receivables:		
Accounts	**746,986**	623,287
Special assessments	**556,462**	523,579
Accrued interest	**623,224**	663,149
Due from other governments	**36,926**	102,627
Inventories	**1,235,733**	1,045,969
Prepaid expenses	**357,758**	328,393
Total current assets	**19,853,812**	17,412,175
Noncurrent assets		
Receivables:		
Accounts	**490,401**	445,226
Special assessments	**8,508,346**	8,930,269
Investments	**9,593,427**	7,233,714
Investment in joint venture	**2,580,070**	3,219,306
Capital assets:		
Non-depreciable	**2,630,702**	1,580,140
Depreciable (net of depreciation)	**104,224,360**	107,140,815
Total noncurrent assets	**128,027,306**	128,549,470
Total assets	**$ 147,881,118**	$ 145,961,645

Continued on the following page.

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT

Statements of Net Position (Continued)

September 30, 2013 and 2012

	2013	2012
Liabilities		
Current liabilities		
Accounts payable	$ 518,792	$ 462,271
Construction contracts payable	520,283	274,934
Bonds payable (current)	461,584	1,380,829
Accrued liabilities:		
Accrued interest	10,296	12,786
Wages and payroll taxes	192,910	183,679
Pension	129,557	101,891
Compensated absences	67,564	41,913
Unearned revenue	2,028,441	1,717,480
Total current liabilities (payable from current assets)	3,929,427	4,175,783
Current liabilities payable from restricted assets		
Accrued interest	4,656	5,857
Bonds payable (current)	278,024	276,823
Customer deposits	387,102	321,459
Total current liabilities (payable from restricted assets)	669,782	604,139
Total current liabilities	4,599,209	4,779,922
Noncurrent liabilities		
Compensated absences	614,219	619,706
Bonds payable	3,570,742	4,310,350
Total noncurrent liabilities	4,184,961	4,930,056
Total liabilities	$ 8,784,170	$ 9,709,978
Net position		
Net investment in capital assets	102,544,712	102,752,953
Restricted for:		
Renewal and replacement	6,300,000	6,300,000
Debt service	278,024	276,823
Unrestricted	29,974,212	26,921,891
Total net position	139,096,948	136,251,667

See notes to basic financial statements.

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues		
Charges for services	**$ 16,558,320**	$ 15,544,204
Miscellaneous	**534,846**	372,358
Total operating revenues	**17,093,166**	15,916,562
Operating expenses		
Personal services	**6,079,828**	5,957,973
Operational	**2,615,615**	2,615,226
Supplies and chemicals	**1,287,386**	1,055,884
Repairs and maintenance	**1,959,972**	1,423,087
Contractual services	**275,639**	202,747
Depreciation and amortization	**5,867,335**	5,953,184
Total operating expenses	**18,085,775**	17,208,101
Operating loss	**(992,609)**	(1,291,539)
Nonoperating revenues (expenses)		
Grants	**11,336**	19,041
Interest income	**757,045**	770,137
Interest expense	**(137,397)**	(165,250)
Net gain on fair value of investments	**13,594**	29,737
Loss on disposal of capital assets	**(339,020)**	(241,086)
Total nonoperating revenues (expenses)	**305,558**	412,579
Loss before capital contributions	**(687,051)**	(878,960)
Capital contributions	**3,532,332**	3,273,050
Change in net position	**2,845,281**	2,394,090
Net position, beginning of year	**136,251,667**	133,857,577
Net position, end of year	**$ 139,096,948**	$ 136,251,667

See notes to basic financial statements.

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT

Statements of Cash Flows

Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from customers	**$ 16,455,089**	$ 15,635,353
Payments to employees	**(6,022,766)**	(5,871,365)
Payments for goods and services	**(6,301,221)**	(5,509,139)
Other receipts (miscellaneous and government payments)	**911,508**	425,623
Net cash provided by operating activities	**5,042,610**	4,680,472
Cash flows from non-capital financing activities:		
Grants	**11,336**	19,041
Net cash provided by non-capital financing activites	**11,336**	19,041
Cash flows from capital and related financing activities:		
Contributed capital	**2,209,493**	2,045,357
Acquisition and construction of capital assets	**(3,837,784)**	(3,327,626)
Cash received from the sale of capital assets	**26,728**	82,999
Principal paid on bonds and notes payable	**(1,657,652)**	(1,605,970)
Proceeds from collections of special assessments	**666,558**	704,612
Interest paid on bonds and notes payable	**(218,591)**	(270,275)
Net cash used in capital and related financing activities	**(2,811,248)**	(2,370,903)
Cash flows from investing activities:		
Purchase of investments	**(12,101,968)**	(14,095,159)
Proceeds from sales of investments	**11,038,186**	11,687,531
Interest and dividends on investments	**796,970**	806,858
Net cash used in investing activities	**(266,812)**	(1,600,770)
Net increase in cash and cash equivalents	**1,975,886**	727,840
Cash and cash equivalents at beginning of year	**3,065,439**	2,337,599
Cash and cash equivalents at end of year	**$ 5,041,325**	$ 3,065,439

Continued on the following page.

LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT

Statements of Cash Flows (Continued)

Years Ended September 30, 2013 and 2012

		2013		2012
Reconciliation of operating loss to				
net cash provided by operating activities:				
Operating loss	**$**	**(992,609)**	$	(1,291,539)
Adjustments to reconcile operating loss to				
net cash provided by operating activities:				
Depreciation and amortization		**5,867,335**		5,953,184
(Increase) decrease in assets:				
Accounts receivable		**(168,874)**		28,430
Due from other governments		**65,701**		1,170
Inventory		**(189,764)**		(284,868)
Prepaid expenses		**(29,365)**		26,126
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses		**113,582**		133,155
Customer deposits		**65,643**		62,719
Unearned revenue		**310,961**		52,095
Net cash provided by operating activities	**$**	**5,042,610**	$	4,680,472
Noncash investing, capital and financing activities:				
Contributions of lift stations, lines and equipment	**$**	**1,045,321**	$	1,088,320
Book value of assets disposed		**386,120**		324,085

See notes to basic financial statements.

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 activities 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.
- 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 in accordance with accounting principles generally accepted in the United States. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in the District's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The District elected to follow all pre-November 30, 1989 FASB pronouncements, which are now codified in GASB Statement No. 62.

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.

New Accounting Pronouncements

The District implemented the following GASB Statements during the fiscal year ended September 30, 2013:

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement codifies all sources of GAAP for state and local governments so that the authoritative accounting and financial reporting literature will be together in a single source, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. The District elected to include all pre-November 30, 1989 FASB pronouncements, which are now codified in GASB Statement No. 62.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* This provides financial reporting guidance for deferred outflows and inflows of resources, and identifies *net position* as the residual of all other elements presented in a statement of financial position. This Statement re-defines certain assets and liabilities as deferred outflows/inflows of resources and requires the financial statement line items "Investment in capital assets, net of related debt" and "Net Assets" to be re-titled as "Net investment in capital assets" and "Net Position," respectively.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement provides additional guidance for the accounting and financial reporting for deferred outflows/inflows of resources and certain items that were previously reported as assets or liabilities.

The implementation of these GASB Statements had no effect on the beginning net position of the District at October 1, 2012.

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 hearings 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 Post Employment 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 post employment benefits under Statement 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 considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash balances are invested to the extent available in the State Treasurer's Investment Pool and money market funds.

Funds invested in the Local Government Surplus Funds Trust Fund or State Treasurer's Investment Pool are reported at fair value. The Fund, administered by the Florida State Board of Administration is a "2a-7 like" pool, and thus, these investments are valued using the pooled share price.

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. 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 in accordance with Statements of Financial Accounting Standards Nos. 34 and 62.

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)

Restricted Assets

As of September 30, 2013 and 2012, the District has $6,582,680 of cash and investments restricted for renewal and replacement and debt service. Other than the liabilities designated to be paid from restricted assets, it is the District's policy to spend restricted funds only when unrestricted amounts are insufficient or unavailable.

Contributions

Contributions are recognized in the statement of revenues, expenses and changes in net position when earned. Contributions 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.

Reclassifications

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

2) DEPOSITS AND INVESTMENTS

Deposits

At September 30, 2013 and 2012, the carrying amount of the District's cash on deposit in its bank account was $25,816,221 and $21,232,589 and the related bank balance was $26,295,793 and $21,466,621, respectively. In addition, the District had cash on hand of $10,850 at the end of each fiscal year, resulting in a total cash carrying amount of $25,827,071 and $21,243,432 in 2013 and 2012 respectively. At September 30, 2013 and 2012, the District's deposits included a money market account in the amount of $1,511,376 and $0, and certificates of deposit in the amount of $19,274,370 and $18,178,000 with an original maturity greater than three months. The certificates of deposit are reported as investments in the statement of net position. All deposits are insured by federal deposit insurance or collateralized pursuant to Chapter 280, Florida Statutes.

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, *Florida Security for Public Deposits Act*, 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 Governing Board.

The policy limits investments to the following securities:

1. State Board of Administration Local Government Surplus Trust 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 State Board of Administration is part of the Local Governments Surplus Funds Trust Fund 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 Local Governments Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration. The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the Governing Board has adopted operating procedures consistent with the requirements for a 2a-7 fund.

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. Due to the nature of the securities in the LGIP Fund B, interest rate risk information (i.e. specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life is available, and in this calculation, the time at which an expected principal amount is to be received is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the calculation are not discounted to present value. The weighted average life of Fund B at September 30, 2013 and 2012 was estimated at 4.04 years and 4.08 years, respectively. However, because Fund B consists of restructured and defaulted securities, there is considerable uncertainty regarding the weighted average life.

The weighted average number of days to maturity of the Florida Prime Fund at September 30, 2013 and 2012 was 44 days and 39 days, respectively.

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 Florida Prime 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. The Florida Prime Fund was rated AAAm by Standard and Poor's Rating Services at September 30, 2013 and 2012. The LGIP Fund B is not rated.

On November 29, 2007, the Board of Trustees of the State Board of Administration (SBA) closed the Local Government Investment Pool (LGIP) to all redemptions by participants due to substantial withdrawals from the LGIP over the two preceding weeks that severely reduced the overall liquidity to the LGIP. The withdrawals were in response to published press reports concerning the exposure of the LGIP investments to potential losses from sub-prime mortgage investments.

2) DEPOSITS AND INVESTMENTS (Continued)

The restructuring divided the LGIP into two separate pools, the LGIP and Fund B representing approximately 86% and 14%, respectively, of the original LGIP assets. The LGIP was designated as the ongoing fund consisting of only short-term, money market assets of the highest quality. On December 6, 2007, the LGIP re-opened to accept new deposits from participants and allow restricted withdrawals. Fund B retained all securities from the original LGIP that had defaulted, are in default or have extended payment terms or potentially elevated credit risk. Fund B is closed to deposits and withdrawals and is generally expected to hold all assets to their ultimate maturity and to distribute funds to participants as they become available. Accordingly, the Fund B investment is illiquid and is recorded at fair value based on the net asset value of the Fund B assets reported by the SBA. At September 30, 2013 and 2012, Fund B investments had a net asset value of $63,079 and $115,446 respectively, which is approximately 113% and 95% of amortized cost and is not available for withdrawal.

The ultimate realizable value of the LGIP Fund B investment cannot be determined at this time; however it is the opinion of management that the amount of loss, if any, will not adversely affect the services provided by the District. Additional information on the current status of Fund B may be obtained from the SBA.

Custodial Credit Risk

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 credit risk. As of September 30, 2013, Florida PRIME was rated "AAA(m)" by Standard & Poor's Ratings Services. Fund B is not rated by any nationally recognized rating agency.

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 in turn reduced the District's original capital cost to $3,311,772.

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 twenty-year life of the agreement. The District's total operating costs were $535,090 and $497,158 for the years ended September 30, 2013 and 2012.

3) INVESTMENT IN JOINT VENTURE (Continued)

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, 2013 and 2012 is as follows:

	September 30, 2013			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and land rights	$ 854,434	$ -	$ -	$ 854,434
Construction in progress	725,706	2,393,244	(1,342,682)	1,776,268
Total capital assets not being depreciated	1,580,140	2,393,244	(1,342,682)	2,630,702
Depreciable capital assets:				
Treatment and disposal system:				
Plant	59,586,364	180,564	(490,318)	59,276,610
Lakes	1,211,079	-	-	1,211,079
Lines	84,577,578	1,670,302	(460,495)	85,787,385
Lift stations	21,067,827	912,566	(220,259)	21,760,134
Equipment	6,909,435	382,613	(260,406)	7,031,642
Total depreciable capital assets	173,352,283	3,146,045	(1,431,478)	175,066,850
Less accumulated depreciation	$ (66,211,468)	$ (5,676,382)	$ 1,045,360	$ (70,842,490)
Depreciable assets, net of accumulated depreciation	107,140,815	(2,530,337)	(386,118)	104,224,360
Total capital assets	**$ 108,720,955**	**$ (137,093)**	**$ (1,728,800)**	**$ 106,855,062**

4) CAPITAL ASSETS (Continued)

	September 30, 2012			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and land rights	$ 854,434	$ -	$ -	$ 854,434
Construction in progress	1,908,506	1,844,375	(3,027,175)	725,706
Total capital assets not being depreciated	2,762,940	1,844,375	(3,027,175)	1,580,140
Depreciable capital assets:				
Treatment and disposal system				
Plant	59,187,589	581,154	(182,379)	59,586,364
Lakes	1,211,079	-	-	1,211,079
Lines	82,611,176	2,483,691	(517,289)	84,577,578
Lift stations	19,763,350	1,821,956	(517,479)	21,067,827
Equipment	6,735,057	383,343	(208,965)	6,909,435
Total depreciable capital assets	169,508,251	5,270,144	(1,426,112)	173,352,283
Less accumulated depreciation	(61,423,157)	(5,763,987)	975,676	(66,211,468)
Depreciable assets, net of accumulated depreciation	108,085,094	(493,843)	(450,436)	107,140,815
Total capital assets	**$ 110,848,034**	**$ 1,350,532**	**$ (3,477,611)**	**$ 108,720,955**

The total interest expense incurred by the District for the fiscal year ended September 30, 2013 was $214,900; of this amount, $77,503 was included as part of the cost of construction in progress. The total interest expense incurred by the District for the fiscal year ended September 30, 2012 was $265,093; of this amount $99,843 was capitalized interest.

Depreciation expense was $5,676,382 and $5,762,230 for the years ended September 30, 2013 and 2012, respectively.

5) CONTRACTS PAYABLE

Construction contracts of the District at September 30, 2013 and 2012 are as follows:

	September 30, 2013			
	Total Project Authorization	Total Expended	Contracts Payable	Balance to Complete
Eagles Nest	$ 2,191,414	$ 476,698	$ 96,760	$ 1,617,956
Sludge Building Task 6	229,276	147,146	-	82,130
Roebuck Road	745,570	440,500	39,854	265,216
Toney Penna	178,603	17,634	160,541	428
Lift Station Rehabilitations	249,082	124,439	124,643	-
Central Boulevard Upgrade	642,958	618,580	24,378	-
Other construction contracts	236,121	67,846	74,107	94,168
Total	**$ 4,473,024**	**$ 1,892,843**	**$ 520,283**	**$ 2,059,898**

5) CONTRACTS PAYABLE (Continued)

	September 30, 2012			
	Total Project Authorization	Total Expended	Contracts Payable	Balance to Complete
Wildpine Lab	$ 572,748	$ 515,765	$ 54,064	$ 2,919
Eagles Nest	278,240	113,822	13,297	151,121
Sludge Building Task 6	229,276	135,427	1,072	92,777
Roebuck Road	146,690	78,339	19,347	49,004
Other construction contracts	310,679	113,368	187,154	10,157
Total	**$ 1,537,633**	**$ 956,721**	**$ 274,934**	**$ 305,978**

6) BONDS PAYABLE

Bonds and notes payable at September 30, 2013 and 2012 are as follows:

	September 30, 2013	September 30, 2012
Series 1997B $2,400,000 Series 1997B Bonds were issued to pay the cost of certain improvements to the Utility System. Due in quarterly installments of $48,719, each March 1, June 1, September 1, and December 1, commencing June 1, 1997 through March 1, 2017; interest rate is 5.18%. Effective September 19, 2003, the interest rate was reduced to 4.89% thereby reducing the quarterly installments to $47,868.	$ 611,772	$ 768,057
Series 1997C $2,600,000 Series 1997C Bonds due in quarterly installments of $50,833, each March 1, June 1, September 1 and December 1, commencing December 1, 1999 through March 1, 2017; interest rate is 4.19%. Effective September 19, 2003, the interest rate was reduced to 3.98% thereby reducing the quarterly installments to $50,172.	$ 652,035	$ 822,117
Series 2009 $3,600,000 Series 2009 Bonds were issued to pay the cost of improvements to the Utility System. Due in equal monthly installments of $27,628, commencing on September 1, 2009 through August 1, 2024; interest rate is 4.53%.	2,855,025	3,052,931
Series 2010 $3,693,245 Series 2010 Bonds were issued to pay the cost of improvements to the Utility System. Due in equal monthly installments of $96,045, commencing on August 1, 2010 through November 1, 2013; interest rate is 2.38%.	191,518	1,324,897
Total	4,310,350	5,968,002
Less current portion	(739,608)	(1,657,652)
Long-term portion	**$ 3,570,742**	**$ 4,310,350**

6) BONDS PAYABLE (Continued)

Annual debt service requirements at September 30, 2013 to maturity are as follows:

Year Ending September 30,	Principal	Interest	Total Debt Service
2014	$ 739,608	$ 176,183	$ 915,791
2015	573,138	150,566	723,704
2016	598,905	124,798	723,703
2017	429,402	98,198	527,600
2018	246,782	84,758	331,540
2019 - 2023	1,420,352	237,348	1,657,700
2024	302,163	6,993	309,156
Total	**$ 4,310,350**	**$ 878,844**	**$ 5,189,194**

Provisions of Bond Resolution

A. The District covenants to fix, establish and maintain rates, fees rentals or other charges to provide:

- Gross revenues, including investment earnings of the various funds and accounts created by the bond resolution, to pay all operating expenses (excluding depreciation and amortization), and;
- At least one hundred ten percent (110%) of the annual debt service requirement for the bonds, and;
- Together with capital charges, at least one hundred twenty-five percent (125%) of the annual debt service requirement for the bonds, and;
- For all other payments required by the resolution.

B. Limitations on amounts accumulated in the various funds are as follows:

- Debt Service Reserve Account – The Resolution provides for the funding of this account in amounts equal to $120,000 and $130,000 for the 1997B and 1997C Bonds, respectively.
- Repairs and Replacement Fund – $250,000, or higher amount as certified necessary by the District's engineer.
- At September 30, 2013 and 2012, the District was in compliance with the bond covenants.

Repayment of Debt

On December 13, 2013, the District prepaid the remaining amounts due for the Series 1997B and Series 1997C Revenue Bonds in the amount of $571,466 and $608,422 respectively.

7) LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended September 30, 2013 were as follows:

	September 30, 2013				
	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Due Within One Year
Bonds payable	$ 5,968,002	$ -	$ 1,657,652	$ 4,310,350	$ 739,608
Compensated absences	661,619	75,597	55,433	681,783	67,564
	$ 6,629,621	**$ 75,597**	**$ 1,713,085**	**$ 4,992,133**	**$ 807,172**

7) LONG-TERM LIABILITIES (Continued)

Changes in long-term liabilities for the year ended September 30, 2012 were as follows:

	September 30, 2012				
	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012	Due Within One Year
Bonds payable	$ 7,573,972	$ -	$ 1,605,970	$ 5,968,002	$ 1,657,652
Compensated absences	606,245	55,374	-	661,619	41,913
	$ 8,180,217	**$ 55,374**	**$ 1,605,970**	**$ 6,629,621**	**$ 1,699,565**

8) DEFEASED DEBT

In a prior year, the District defeased a bond issue by creating an irrevocable trust fund. New debt was issued and the proceeds were used to purchase U.S. government securities that were placed in trust funds. The investments and fixed earnings from the investments are sufficient to fully service the refunded debt until the debt is called. Consequently, the debt is considered defeased and was removed as a liability. At September 30, 2013 and 2012, the amount of defeased debt outstanding, but removed from the financial statements, is $975,000 and $1,880,000, respectively.

9) RESTRICTED ASSETS, LIABILITIES AND RESTRICTED NET POSITION

Restricted assets and liabilities at September 30, 2013 and 2012 represent bond proceeds restricted for debt service, and renewal and replacements under the terms of the outstanding utility system revenue bonds, as well as customer deposits. Assets restricted for these purposes represent cash and investments totaling $6,969,782 and $6,904,139 for the years ended September 30, 2013 and 2012, respectively. Liabilities payable from restricted assets represent the current portion of long-term debt and customer deposits.

The following is a summary of restricted assets, related liabilities, and restricted net position at September 30, 2013 and 2012:

September 30, 2013	Restricted Assets	Liabilities Payable from Restricted Assets	Restricted Net Position
Renewal and replacement	$ 6,300,000	$ -	$ 6,300,000
Debt service	282,680	4,656	278,024
Customer deposits	387,102	387,102	-
	$ 6,969,782	$ 391,758	$ 6,578,024

September 30, 2012	Restricted Assets	Liabilities Payable from Restricted Assets	Restricted Net Position
Renewal and replacement	$ 6,300,000	$ -	$ 6,300,000
Debt service	282,680	5,857	276,823
Customer deposits	321,459	321,459	-
	$ 6,904,139	$ 327,316	$ 6,576,823

10) DEFINED CONTRIBUTION PLAN

The Loxahatchee River Environmental Control District Money Purchase Plan and Trust is a defined contribution plan established and administered by the District to provide benefits at retirement to the employees of the District. The Plan may be amended with approval of the Plan Trustee.

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. Employees contribute 4% of their eligible compensation while the District contributes an amount equal to 12% of the eligible employee's total compensation. Plan details and contribution requirements are established in the published and IRS approved plan.

The District's total payroll for the years ended September 30, 2013 and 2012 was $4,272,243 and $4,160,050, respectively. The contributions were calculated using the base salary amounts of $4,264,800 and $3,902,575 for the years ended September 30, 2013 and 2012, respectively, and the required contributions of $682,368 and $624,412, respectively, were deposited with the trustee for the plan.

11) COMMITMENTS

Service Agreement

On October 1, 2013 the District entered into a new agreement with H&H Liquid Sludge Disposal for a two year commitment 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, 2013 and 2012, the District paid $143,868 and $148,825, respectively.

Construction Commitments

The District had outstanding purchase orders totaling approximately $49,700 and $700,580 for the fiscal years ended September 30, 2013 and 2012, respectively.

12) 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.

13) NEW ACCOUNTING STANDARDS

Below is a brief description and effective date of new accounting standards that could have an impact on the District's financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements Nos. 10 and 62*. GASB 66 improves accounting and financial reporting for a governmental reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA*

13) NEW ACCOUNTING STANDARDS (Continued)

Pronouncements. This statement is effective for the fiscal year ending September 30, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. GASB 67 improves financial reporting by state and local governmental pension plans primarily through enhanced note disclosures and schedules of required supplementary information. This statement is effective for the fiscal year ending September 30, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*. GASB 68 improves financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for the fiscal year ending September 30, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

COMPLIANCE SECTION

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

To the 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, 2013, 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 12, 2014.

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 preceding paragraph and was not designed to identify all the deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (Finding 2013-01).

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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*.

Loxahatchee River Environmental Control District's Response to Findings

Loxahatchee River Environmental Control District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Loxahatchee River Environmental Control District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rampell + Rampell, P.A.

Rampell & Rampell, P.A.
Palm Beach, Florida

February 12, 2014

r2 Rampell & Rampell, P.A.
certified public accountants

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

We have audited the financial statements of Loxahatchee River Environmental Control District, as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated February 12, 2014.

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 Florida Auditor General. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in this report, which is dated February 12, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports:

- 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. No recommendations were made in the preceding annual financial audit report.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. Our recommendations are found in the accompanying schedule of findings and responses. (Finding 2013-02)
- Section 10.554(1)(i)4., 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.

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- Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The District has made these disclosures in the notes to the financial statements.
- Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity 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.
- Section 10.554(1)(i)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for Loxahatchee River Environmental Control District for the fiscal year ended September 30, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Section 10.554(1)(i)6.c. and 10.557(7), 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.

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

Rampell + Rampell, P.A.

Rampell & Rampell, P.A.
Palm Beach, Florida

February 12, 2014

FINDING 2013-01
CONTROLS OVER PAYROLL

Criteria

Specific policies and procedures are needed to ensure an effective internal control environment and an effective accounting system.

Condition

Our audit procedures included gaining an understanding of and testing the payroll transaction cycle. The results of our tests indicated the following:

1. Employees (other than part time employees) do not complete time cards. The only documentation required to be submitted to the Accounting Department prior to processing payroll is an Overtime and Leave form which is completed by the employee and approved by the Department Director.
2. The District has established detailed procedures for each step of the payroll transaction cycle. The duties of the Director of Administrative Services, the Accountant II and the Accountant I are interchangeable. There is no preference over who processes payroll, it is simply decided based upon the staff members' availability. However, the individual who is responsible for reviewing the leave book, overtime sheets, payroll worksheets, and any other necessary documentation is performed by either the Director of Administrative Services or the Accountant II. We noted that there was no evidence (observable documentation of the preparer, reviewer and approver) to support the processes established by the District.
3. The Master Payroll File is accessible by the same individuals who prepare and process payroll.
4. The Director of Administrative Services has access to all phases of the payroll transaction cycle and is an authorized check signer.

Effect

The conditions identified above increase the risk that errors or fraud could occur and go undetected.

Recommendation

Time cards should be the source document that supports the District's labor expenses. All employees should be required to complete and sign a time card, and each time card should be reviewed and approved by a Department Director. Department Directors are generally knowledgeable about their employees' attendance, hours and work assignments during the pay period. Their review would be evidence of the fact that employees have recorded time only when it had actually been worked and that the allocation of time by category is appropriate and reasonable. The Department Director should be responsible for obtaining the time cards from employees and submitting them in a timely manner to the Accounting Department.

The District should formally document the review and approval processes with regard to each phase of the payroll cycle, beginning with the completion of time cards and ending with the Online Treasury Management services provided by the financial institution.

An edit report should be printed on a periodic basis that details changes made to the payroll master file. This report should be forwarded directly to the Executive Director for his review.

Management Response

Management intends to fully comply with the recommendations outlined above. It is our intent to implement a daily time sheet in which each employee will verify, by signature, that they worked their scheduled shift. Employees that do not work their scheduled shift will be required to complete a District Overtime Authorization Sheet and/or a District Leave Authorization Sheet, which are existing standard practice to document when an employee works overtime, uses sick leave, vacation leave, etc. These daily time sheets will be collected, reviewed, and approved by Supervisors and Department Directors, and submitted to the Accounting Department for processing.

Management will clearly define the review and approval processes associated with payroll.

The Executive Director will periodically (e.g., quarterly, biannually) review changes in the payroll master file. Management will work with Accounting and/or IT staff to create a database report function that will automatically generate this report on a periodic basis, and forward this report for review by the Executive Director.

FINDING 2013-02
DOCUMENTING SIGNIFICANT ACCOUNTING PROCESSES

Criteria

Specific policies and procedures are needed to ensure an effective internal control environment and an effective accounting system.

Condition

The District's accounting policies and procedures are not captured in one manual. There are multiple individual documents that address the transaction cycles. It was difficult to organize the volume of information received and to identify the most recent version of certain policies.

Effect

The absence of a complete accounting policies and procedures manual may not provide assurance that controls are adequate and functioning as designed.

Recommendation

We recommend that the District assemble an accounting policies and procedures manual that is complete, up-to-date, and available. The documentation of each process should involve: 1) identifying and gaining an understanding of the events or transactions that trigger performance of the process; 2) documenting the automated or manual procedures used in performing the process; 3) assigning responsibility to the person(s) or position(s) responsible for performing the procedures; 4) identifying the source documents used or generated; 5) setting forth the procedures for approval and review and correction of any errors detected, and 6) describing the financial entries or reports that summarize the results of the process.

Documentation may include policy manuals, process models, flowcharts, job descriptions, documents, and forms, and can be in any media format.

It is also important that the completed manual be disseminated widely enough to be easily available to all of the employees who will need it.

Management Response

Management will review the current accounting policies and procedures for each of the District's major transaction cycles. We will develop a comprehensive policies and procedures manual that will provide formal, systematic documentation of the transaction cycles, and all employees involved with performing accounting functions will be adequately trained. We also recognize that over time, there may be changes within the organization that impact controls, and consequently, the manual will be reviewed on an annual basis to ensure that existing controls are adequate and functioning as intended.