FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

PEACE RIVER/MANASOTA REGIONAL
WATER SUPPLY AUTHORITY
SARASOTA, FLORIDA

SEPTEMBER 30, 2014

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

PEACE RIVER/MANASOTA REGIONAL
WATER SUPPLY AUTHORITY
SARASOTA, FLORIDA

SEPTEMBER 30, 2014

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Purvis Gray & Company

INDEPENDENT AUDITORS' REPORT

Board of Directors
Peace River/Manasota Regional
Water Supply Authority
Sarasota, Florida

Report on the Financial Statements
We have audited the accompanying financial statements of Peace River/Manasota Regional Water Supply Authority (the Authority), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority'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.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2014, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants
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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
Peace River/Manasota Regional
Water Supply Authority
Sarasota, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Chapter 10.550, *Rules of the Auditor General*, and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2015, on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

Purvis, Gray and Company, LLP

January 23, 2015
Sarasota, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2014
PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY

As management of Peace River/Manasota Regional Water Supply Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2014. Readers should consider the information presented here in conjunction with the rest of the basic financial statements.

Financial Highlights

- The assets (and deferred outflows of resources) of the Authority exceeded its liabilities at the close of the most recent fiscal year by $148,140,910 (*net position*). Of this amount, $8,109,723 (*unrestricted net position*) may be used to meet the Authority's ongoing obligations to members and creditors.

- The Authority's total net position decreased by $8,405,813 during the year. (In addition, beginning net position was reduced by $1,353,520 to comply with *Governmental Accounting Standards Board* Statement No. 65). Capital grants were $1,000,000. Capital refunds were $2,081,569. The loss before capital contributions was $7,324,244. This compares to a loss before capital contributions in the prior year of $5,913,857.

Overview of the Financial Statements

This section of the Peace River/Manasota Regional Water Supply Authority (the Authority) annual financial report presents a discussion and analysis of the financial position of the Authority as of September 30, 2014 and 2013, as well as an overview of the financial activities during the fiscal year ended September 30, 2014, with 2013 fiscal year data presented for comparative purposes. This discussion should be read in conjunction with the financial statements and related notes. Responsibility for the completeness and fairness of this information rests with the Authority's management.

This annual report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, as amended. The Authority is considered a single purpose entity engaged only in business-type activities, and is required to present only fund financial statements. The fund financial statements are enterprise fund statements and consist of the following:

a) Statement of net position
b) Statement of revenues, expenses, and changes in fund net position
c) Statement of cash flows

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

Statement of Net Position

Shown below is a comparative statement of net position presented in summary form for 2014 and 2013. This statement shows the assets (current and noncurrent), deferred outflows, liabilities (current and noncurrent) and net position (assets minus liabilities) as of the end of the fiscal year. The 2013 amounts have been restated to reflect the retroactive application of changes required by Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). Those changes included: (a) the reclassification of unamortized bond refunding losses from liabilities to deferred outflows; and (b) the retroactive expensing of certain unamortized bond issuance.

The statement is prepared using the accrual basis of accounting, the same basis of accounting used in the fund financial statements, where revenues are recognized when the service is provided and expenses are recognized when goods are received or services are performed, regardless of when cash is exchanged. The purpose of the statement of net position is to present to the reader of the financial statements with fiscal snapshots of the Authority at September 30, 2014 and 2013. Following is the summarized statement of net position for 2014 and 2013:

Net Position

	Business-type Activities	
	2014	**2013 (Restated)**
Current assets	$ 11,825,038	$ 11,113,047
Noncurrent assets	303,134,103	311,175,074
Total assets	314,959,141	322,288,121
Deferred outflows	1,023,692	1,154,291
Current liabilities	8,476,578	5,106,757
Noncurrent liabilities	159,365,345	161,788,932
Total liabilities	167,841,923	166,895,689
Net position		
Net investment in capital assets	120,279,428	121,846,585
Restricted	19,751,759	26,529,101
Unrestricted	8,109,723	8,171,037
Total net position	**$ 148,140,910**	**$ 156,546,723**

Over time, the changes in net position provide an indication of the overall financial condition of the Authority. At September 30, 2014, net position was $148,140,910, and for the year, there was a decrease in net position of $8,405,813. A substantial portion of the Authority's net position at September 30, 2014, (81.2%) reflects its net investment in capital assets. This net position is not available for future spending. Although the Authority's investment in its capital assets is 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 used to liquidate these liabilities. An additional portion of the Authority's net position (13.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position ($8.1 million) is unrestricted.

Statement of Revenues, Expenses and Changes in Fund Net Position

Following is a summarized statement of changes in net position for 2014 and 2013. This statement is similar to the statement of revenues, expenses, and changes in fund net position in the fund financial statements, and prepared using the same accrual basis of accounting. This statement shows the revenues and expenses of the Authority for the year, in summarized form:

Changes in Net Position

	Business-type Activities	
	2014	**2013 (Restated)**
Revenues:		
Program revenues:		
Charges for services	$ 29,135,301	$ 28,065,437
Operating grants and contributions	2,261,944	2,224,671
Capital grants and contributions (net)	(1,081,569)	1,176,439
General revenues:		
Other	73,799	134,485
Total revenues	**30,389,475**	**31,601,032**
Expenses:		
Water Supply and Delivery	(38,795,288)	(36,263,664)
Change in net position	(8,405,813)	(4,662,632)
Net position – beginning of year:		
As originally reported	157,900,243	162,637,661
Adjustment – GASB 65	(1,353,520)	(1,428,306)
As Adjusted	156,546,723	161,209,355
Net position – end of year	**$ 148,140,910**	**$ 156,546,723**

Charges for services increased by 3.8% from 2013 to 2014, as budgeted. Capital Grants (net) in 2014 included a capital refund of $2,081,569 to customers for project savings. Expenses increased $2,531,624 or 7.0% from 2013 to 2014. The biggest changes were:

a) 2014 included a refund to customers of $1,243,187 for prior year amounts collected to satisfy projected debt coverage ratios
b) 2014 included a tax settlement payment of $224,975 related to the Authority's 2010B bonds
c) Costs of sales and services increased by $742,394 from 2013 to 2014; increases in personnel costs and major maintenance items offsetting reductions in chemical costs
d) Studies and master plan costs increased by $208,154 from 2013 to 2014
e) Administration costs decreased by $21,720 from 2013 to 2014
f) Depreciation expense increased by $222,842 from 2013 to 2014
g) Interest expense decreased by $88,208 from 2013 to 2014

Capital Assets

The Authority's investment in capital assets as of September 30, 2014, totals $280,216,073 (net of accumulated depreciation). This investment in capital assets includes land and easements, structures, leasehold improvements, furniture and equipment, and construction in progress.

Capital Assets (Net of Depreciation)

	Business-type Activities	
	2014	**2013**
Land and easements	$ 2,584,259	$ 2,584,259
Buildings and improvements, water treatment plant, supply, and transmission systems	267,771,397	278,001,778
Leasehold improvements, furniture, and equipment	1,952,661	2,145,696
Construction in progress	7,907,756	1,207,151
Total	**$ 280,216,073**	**$ 283,938,884**

The book value of capital assets decreased by $3.7 million during 2014. Additions were $8.0 million and depreciation was $11.7 million. Additions during 2014 included the following:

- Training Center/Laboratory Building - $158,111 ($421,477 to-date)
- 1991 Facility Rebuild - $6,542,494 ($7,486,279 to-date)
- Charlotte County Phase I-A Meter Installation - $175,458
- Other plant and infrastructure improvements - $1,000,229
- Vehicles, machinery, and equipment - $88,269

Construction commitments totaling $7.4 million are outstanding at September 30, 2014. Additional information on the Authority's capital assets can be found in Note 3 of this report.

Long-term Debt

The Authority's bonded debt outstanding as of September 30, 2014, totaled $158,955,000. These bonds are secured by the Net Revenues pledged in the Master Water Supply Contract.

Peace River/Manasota Regional Water Supply Authority
Revenue Bonds

Business-type Activities	**2014**	**2013**
Revenue bonds	**$ 158,955,000**	**$ 161,095,000**

Long-term debt decreased by $2,140,000 during the year, the amount of scheduled principal payments. There was no new debt issued in 2014. Additional information on the Authority's long-term debt can be found in Note 5 of this report.

Economic Factors and Next Year's Budgets and Rates

The Authority currently owns and operates 65 miles of large diameter regional drinking water transmission mains, a 48 MGD surface water treatment facility on the Peace River, and storage facilities having over 12.5 billion gallons of capacity to support Customer drinking water needs. Fiscal Year 2014 water deliveries to Customers averaged about 25.3 MGD.

The Authority is currently rebuilding the original water treatment facility acquired by the Authority in 1991 (the 1991 Facilities). Design work for this effort was initiated in FY 2013, the Authority Board awarded the construction contract for the rebuild effort in December 2013, and work is scheduled to be completed in the spring of 2015. Total project cost is estimated at $12.82 million. The 1991 Facilities represent 12 MGD in water treatment capacity. They were constructed in the late 1970s, and although well maintained throughout the years, these 35-year old facilities now require a major reconstruction effort to extend their useful lifespan. As part of the 1991 rebuild effort, improvements will be implemented that will support a 3 MGD increase in treatment capacity in the 1991 facilities, taking them from the current 12 MGD to 15 MGD.

In fiscal 2014, the Authority awarded a contract for construction of a new Training Center/Laboratory building at the Peace River Water Treatment Facility. The construction contract ($2.05 million) for the new facility was awarded in June 2014, and construction notice-to-proceed was issued in September 2014. Work is ongoing with projected completion in the fall of 2015.

In the fall of 2013, the Authority began an update of its Regional Water Supply Master Plan. The effort continued through FY 2014 and is scheduled to be completed in early CY 2015. The update will include refined 20-year water demand projections, review and re-assessment of regional pipeline expansion plans, update of future water supply source project inventory, and identification of threats to existing supplies, and appropriate supply protection measures. The work will also include refinement of best management practices for the existing regional system to provide optimal quality and service to Authority Customers.

The Authority will continue efforts to charge the Aquifer Storage and Recovery System (ASR System) to its full capacity of 6.0 billion gallons. Current projections show this 6.0 billion gallon capacity milestone could be reached by late FY 2015. ASR involves full treatment (to drinking water standards) and storage of water in excess of the supply delivered immediately to Customers. These ASR supplies are then withdrawn as-needed to help meet water demand during prolonged dry periods.

Conceptual design efforts were undertaken in FY 2014 for the Phase I Regional Interconnect. This project would construct a six-mile pipeline from the end of the existing DeSoto Regional Transmission main in DeSoto County to the City of Punta Gorda Shell Creek Water Treatment Facility in Charlotte County. Estimated total cost of the project is $14 Million. Discussions are ongoing between the City of Punta Gorda, Charlotte County, and the Authority on development of an Agreement for construction of this transmission main to support the City's water quality goals utilizing excess regional water supply capacity. Pending completion of an Agreement, final design work could be initiated in late FY 2015.

Economic Factors and Next Year's Budgets and Rates ***(Concluded)***

Revenues and expenses for fiscal year 2014 increased as noted in the statement of revenues and expenses above. Additional cost increases are due in large part to costs for treating additional water for storage in the aquifer storage and recovery wells (ASR). The region experienced above normal rainfall during the year, allowing additional recharge of the ASR system.

Near-term focus for the Authority includes completion of the 1991 Rebuild Project and the Training Center/Laboratory Facility, completing the update of the Regional Water Supply Master Plan, investigating partnership with the City of Punta Gorda on a new regional pipeline to support the City, and best management of the existing regional system to serve Authority Customers. In the long-term, the Authority's focus remains on continuing development of a robust, environmentally sustainable, economical, and well maintained water supply system serving the region. This will require expanding the regional water transmission system to interconnect additional water supplies and demand centers, and development or acquisition of new supplies needed to meet Customer demands now and in the future.

Requests for Information

This financial report is designed to provide a general overview of the Peace River/Manasota Regional Water Supply Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Authority at, 9415 Town Center Parkway, Lakewood Ranch, Florida 34202.

FINANCIAL STATEMENTS

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014
SARASOTA, FLORIDA

Assets	
Current Assets:	
Cash	$ 1,194,804
State Investment Pool	4,770,612
Accounts Receivable	4,077,811
Grant Funds Receivable	1,062,036
Inventory	701,837
Prepaid Expenses	17,938
Total Current Assets	11,825,038
Noncurrent Assets:	
Restricted:	
Cash and Cash Equivalents	150,709
State Investment Pool	22,127,313
Total Restricted Assets	22,278,022
Prepaid Bond Insurance	640,008
Capital Assets:	
Land and Easements	2,584,259
Buildings and Improvement, Water Treatment Plant, Supply, and Transmission Systems	352,213,951
Leasehold Improvements, Furniture, and Equipment	5,045,800
Construction in Progress	7,907,756
(Less Accumulated Depreciation)	(87,535,693)
Total Capital Assets, Net	280,216,073
Total Noncurrent Assets	303,134,103
Total Assets	314,959,141
Deferred Outflows of Resources	
Deferred Charge on Refunding	1,023,692
Liabilities	
Current Liabilities:	
Accounts Payable	2,130,088
Contracts Payable	2,928,708
Retainage Payable	597,555
Accrued Expenses	585,227
Current Portion - Revenue Bonds Payable	2,235,000
Total Current Liabilities	8,476,578
Noncurrent Liabilities:	
Revenue Bonds Payable	159,365,345
Total Noncurrent Liabilities	159,365,345
Total Liabilities	167,841,923
Net Position	
Net Investment in Capital Assets	120,279,428
Restricted	19,751,759
Unrestricted	8,109,723
Total Net Position	$ 148,140,910

See accompanying notes.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2014
SARASOTA, FLORIDA

Operating Revenues	
Member Dues	$ 277,600
Water Sales	29,135,301
Special Assessment	50,000
Renewal and Replacement	1,200,000
Other	19,137
Total Operating Revenues	30,682,038
Operating Expenses	
Cost of Sales and Services	13,819,834
Studies and Master Plan	316,460
Administration	489,972
Depreciation	11,687,372
Total Operating Expenses	26,313,638
Operating Income	4,368,400
Nonoperating Revenues (Expenses)	
Grants - Studies and Master Plans	158,201
Investment Earnings	54,662
Oversize Facility Payments	(1,971,557)
County Payments	(750,000)
Other Customer Payments	(1,243,187)
Interest Expense	(8,291,931)
Federal Direct Payments	576,143
Taxes	(224,975)
Total Nonoperating Revenues (Expenses)	(11,692,644)
(Loss) Before Capital Contributions	(7,324,244)
Capital Contributions	
Capital Grants	1,000,000
Capital Refunds - Customers	(2,081,569)
Total Capital Contributions	(1,081,569)
Change in Net Position	(8,405,813)
Total Net Position, Beginning of Year:	
As Originally Reported	157,900,243
Adjustment (Note 11)	(1,353,520)
As Adjusted	156,546,723
Total Net Position, End of Year	$ 148,140,910

See accompanying notes.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2014
SARASOTA, FLORIDA

Cash Flows from Operating Activities		
Receipts from Customers and Users	$	30,250,137
Grants - Studies and Master Plans		159,105
Payments to Suppliers		(12,317,050)
County Payments		(750,000)
Other Customer Payments		(1,243,187)
Payment to Employees		(2,345,802)
Other Income		19,137
Net Cash Provided by Operating Activities		13,772,340
Cash Flows from Capital and Related Financing Activities		
Acquisition and Construction of Capital Assets		(4,463,045)
Principal Payments on Long-term Debt		(2,140,000)
Oversize Facility Payment		(1,971,557)
Capital Refunds - Customers		(2,081,569)
Interest Payments on Long-term Debt		(8,307,585)
Federal Direct Payments		576,143
Taxes		(224,975)
Net Cash (Used in) Capital and Related Financing Activities		(18,612,588)
Cash Flows from Investing Activities		
Earnings Received		54,662
Net Cash Provided by Investing Activities		54,662
Net (Decrease) in Cash and Cash Equivalents		(4,785,586)
Cash and Cash Equivalents, Beginning of Year		33,029,024
Cash and Cash Equivalents, End of Year	$	28,243,438
Composition of Cash and Cash Equivalents, End of Year		
Cash	$	1,194,804
State Investment Pool		4,770,612
Cash and Cash Equivalents, Restricted		150,709
State Investment Pool, Restricted		22,127,313
Total Composition of Cash and Cash Equivalents, End of Year	$	28,243,438
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	$	4,368,400
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense		11,687,372
Grants - Studies and Master Plans		159,105
County Payments		(750,000)
Other Customer Payments		(1,243,187)
(Increase) Decrease in Assets:		
Accounts Receivable		(412,764)
Inventory		179,859
Prepaid Expenses		10,250
Increase (Decrease) in Liabilities:		
Accounts Payable		(305,115)
Accrued Expenses		78,420
Net Cash Provided by Operating Activities	$	13,772,340

See accompanying notes.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

Peace River/Manasota Regional Water Supply Authority (the Authority) was established on February 26, 1982, by an interlocal agreement between the counties of Charlotte, DeSoto, Manatee, and Sarasota. The agreement was amended on February 1, 1984, May 21, 1991, and October 5, 2005.

The Authority was created and operates pursuant to the provisions of Chapter 373.713 and 163.01, Florida Statutes. The purpose of the Authority is to operate and maintain the Peace River Regional Water Treatment Facility and to ensure future water supply through the development of new surface water resources for member Counties and municipal purposes.

The Authority follows the provisions of Governmental Accounting Standards Board (GASB) Statement Numbers 14 and 61, regarding the financial reporting entity and component units. Based on the criteria established in those standards, the Authority is a primary government with no component units.

Basis of Presentation

These financial statements are prepared in accordance with U.S. generally accepted accounting principles for governmental entities, as determined by the GASB. Under these standards, the Authority is a single purpose entity engaged in only business-type activities. The following comprise the basic financial statements of the Authority:

- Proprietary (Enterprise) Fund Financial Statements:
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Fund Net Position
  - Statement of Cash Flows
- Notes to Financial Statements

Governmental reporting includes a requirement for a management’s discussion and analysis of the basic financial statements, and 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**—consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets (less any unspent debt proceeds).

- **Restricted Net Position**—consists of those assets that have external constraints placed upon their uses, which are imposed by donors, creditors (such as through debt covenants), or through laws, regulations, constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets.

- **Unrestricted Net Position**—consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Note 1 - <u>Summary of Significant Accounting Policies</u> *(Continued)*

Basis of Presentation *(Concluded)*
The statement of net position is presented in a classified format to distinguish between current and long-term assets and liabilities. The statement of revenues, expenses, and changes in fund net position is presented by major revenue source. The statement of cash flows is presented using the direct method.

Measurement Focus/Basis of Accounting
These proprietary fund financial statements are reported using the *economic resources measurement focus* and *the accrual basis of accounting*. Revenues are recorded when earned and measurable and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Cost-reimbursable grants and contributions are recorded in the period in which the related expenditures are incurred.

The Authority reports the following fund type:

- **Proprietary Fund Type - Enterprise Fund**—A single Enterprise Fund is used to account for all of the operations of the Authority. Enterprise funds may generally be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required to be used for activities: (a) that are financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity; (b) if laws and regulations require that the activity's costs of providing services, including capital costs, be recovered with fees and charges, rather than with taxes or similar revenues; or (c) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for water sales and services, member dues, and other assessments related to operations of the Authority. Operating expenses include the cost of sales and services, studies and master plans, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 - Summary of Significant Accounting Policies *(Continued)*

Budgets

The Authority follows these procedures in establishing its annual budget:

- The Executive Director submits to the Authority a tentative operating budget no later than May 15 for the fiscal year commencing the following October. The budget contains proposed expenditures and the means of financing them.
- After review, the Authority adopts the final budget during a public hearing, no later than August 15 for the ensuing fiscal year.
- The annual budget is adopted on a basis consistent with generally accepted accounting principles, except that debt principal and capital expenditures are budgeted in the year paid/incurred, and depreciation and amortization are not budgeted. In addition, the budget may include certain transfers between restricted and unrestricted accounts.

Funding Sources

Funding is provided by capital and operating grants, from voluntary dues from the member Counties, and from irrevocable commitments from customers to pay for water sales.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority generally considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The Authority's definition of cash equivalents includes investments with the Local Government Surplus Trust Fund administered by the State Board of Administration (Florida PRIME).

Receivables

Accounts and grant funds receivable are reported at their gross value, and where appropriate are reduced by the estimated portion that is expected to be uncollectible. There are no estimated uncollectible amounts at September 30, 2014.

Inventory

Inventory of chemicals and supplies is stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Bond Issue Costs/Prepaid Bond Insurance

The Authority adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65) in 2014, as required. Under GASB 65, bond issuance costs (expect for any prepaid bond insurance) are recorded as expenses in the period incurred. Prepaid bond insurance is recorded as an asset and amortized over the debt term. Prior to GASB 65, all bond issuance costs were recorded assets and amortized over the debt term. In 2014, in compliance with the requirements of GASB 65, unamortized bond issuance costs (expect for any prepaid bond insurance) were reclassified to net position as of the beginning of the year (see Note 11).

Prepaid bond insurance related to the issuance of the Authority's 2005A&B Bonds totaled $941,212, and is being amortized over the debt term using the effective interest method. At September 30, 2014, accumulated amortization was $301,204. Amortization of $42,334 was charged to interest expense in 2014.

Note 1 - Summary of Significant Accounting Policies *(Continued)*

Deferred Outflows and Inflows of Resources
In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Unamortized Refunding Loss
In the case of an advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is termed a refunding loss. Under GASB 65, refunding losses are recorded as deferred outflows in the statement of net position. Prior to GASB 65, refunding losses were recorded as contra-liabilities, offsetting the principal balance. Under either method, refunding losses are amortized over the remaining term of the refunded debt or the term of the new *refunding* debt, whichever is shorter.

Refunding losses related to the issuance of the Authority's 2005A&B Bonds totaled $2,095,191, and are being amortized over the debt term using the effective interest method. At September 30, 2014, accumulated amortization was $1,071,499. Amortization of $130,599 was charged to interest expense in 2014.

Capital Assets
Assets with an estimated useful life of longer than one year are capitalized if greater than $1,000 (machinery, equipment, and leasehold improvements), $5,000 (buildings, building improvements, and infrastructure), or $25,000 (renewal and replacement projects). Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal repair and maintenance that do not add to the value of the asset or extend the useful life of the asset are expensed as incurred.

Capital assets are depreciated on a straight-line basis over the estimated lives of the related assets, as follows:

■ Buildings and Improvements, Water Treatment Plant, Supply, and Transmission Systems	10-40 Years
■ Leasehold Improvements, Furniture, and Equipment Years	5-20
■ Vehicles	7 Years
■ Computers and Software	3 Years

Bond Discounts and Premiums
Bond discounts and premiums are deferred and amortized over the life of the bonds using the effective interest method, or the straight-line method if the difference is not considered material to the financial statements. Bonds payable are reported net of discounts and premiums.

Note 1 - Summary of Significant Accounting Policies *(Concluded)*

Compensated Absences

The Authority accrues vacation and sick pay benefits and the related costs in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. Employees are paid for accrued vacation time upon separation, and there are limits on the maximum amount of vacation hours that may be carried over from one calendar year to the next. Employees in good standing, with ten or more years of continuous and creditable service at separation, are entitled to one-half of accrued sick leave up to a maximum of 520 hours.

Note 2 - Deposits and Investments

Deposits

The Authority's policy allows deposits to be held in demand deposits, savings accounts, certificates of deposit, and money market accounts. At September 30, 2014, the Authority maintained deposits in demand deposit accounts. Deposits whose values exceeded the limits of federal depository insurance were entirely insured or collateralized pursuant to Chapter 280 of the Florida Statutes.

At September 30, 2014, the carrying amount of the Authority's deposits was $1,345,513 and the bank balance was $3,156,191.

Investments

The Authority's investments at September 30, 2014, consisted of the following local government investment pools:

Investment Pool	Fair Value
SBA Florida PRIME	$ 22,876,517
Florida Local Government Investment Trust	4,021,408
Total	$ 26,897,925

Florida PRIME is administered by the Florida State Board of Administration (SBA) and managed by professional money managers. Florida PRIME invests exclusively in short-term, high-quality fixed income securities rated in the highest short-term rating category by one or more nationally recognized statistical rating agencies, or securities of comparable quality. The Florida Local Government Investment Trust (the Investment Trust) is one of two local government investment pools developed through the joint efforts of the Florida Court Clerks and Comptrollers and the Florida Association of Counties. It is a professionally managed, short-term bond fund. The Authority's investments in these pools are through shares owned in the funds and not the underlying investments.

Florida PRIME and the Investment Trust are considered "2a-7 like" pools. The account balances approximate fair value, and balances are available for immediate withdrawal. The weighted average maturities of Florida PRIME and the Investment Trust at September 30, 2014, are 39 days and 1.54 years, respectively. Florida PRIME has a Standard & Poor's rating of AAAm. The Investment Trust is rated AAAf for credit quality and S1 for bond fund volatility by Standard & Poor's. Neither fund was exposed to foreign currency risk during the year.

Note 2 - Deposits and Investments *(Continued)*

Authorized Investments

The Authority has adopted an investment policy consistent with Florida Statutes 218.415, which authorizes the following investments:

a. Local Government Surplus Funds Trust Fund, the State of Florida Investment Pool administered by the State Board of Administration (F.S. 218.405).

b. United States Government Securities, which are negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States Government.

c. Securities of United States Government Agencies that issue bonds, debentures, notes, callables, or other evidence of indebtedness issued or guaranteed by United States agencies, provided such obligations are backed by the full faith and credit of the United States Government (include FHA, FFB, and GNMA).

d. Securities of Federal Instruments (United States Government sponsored agencies) that issue bonds, debentures, notes, callables, or other evidence of indebtedness issued or guaranteed by United States Government agencies which are not full faith and credit agencies are limited to the FFCB, FHLB, FNMA, FHLMC, and SLMA.

e. Nonnegotiable interest-bearing time certificates of deposit or savings accounts in banks organized under the laws of the United States, doing business and situated in the State of Florida, provided that, any such deposits are secured by the *Florida Security for Public Deposits Act*, Chapter 280, *Florida Statutes*.

f. Repurchase Agreements (for purchase and subsequent sale) for any of the investments authorized above in Items b. and c.

g. State and/or local government taxable and tax-exempt debt, general obligation and/or revenue bonds rated at least "Aa" by Moody's and "AA" by Standard & Poor's for long-term debt, or rated at least "MIG-2" by Moody's and "SP-2" by Standard & Poor's for short-term debt. Banker's Acceptances issued by a domestic bank, or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System which have an unsecured, uninsured and unguaranteed obligation rating of at least "Prime-1" and "A" by Moody's Investors Service and "A-1" and "A" by Standard & Poor's and ranked in the top fifty (50) United States banks in terms of total assets by the American Banker's yearly report.

h. Commercial paper rated, at the time of purchase, must have the minimum rating listed of two of the following three nationally recognized rating agencies; "Prime-1" by Moody's, "A-1" by Standard & Poor's (prime commercial paper), and "F-1" by Fitch.

i. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolio consists only of domestic securities that are rated "AAm" or "AAm-G" or better by Standard & Poor's or the equivalent by another rating agency.

j. Intergovernmental Investment Pools that are authorized pursuant to the *Florida lnterlocal Cooperation Act*, as provided in Section 163.01, Florida Statutes.

Note 2 - Deposits and Investments *(Concluded)*

Authorized Investments *(Concluded)*
In addition, the investment policy states that the Authority will not directly invest any funds in derivative investment products. This includes, but is not limited to, collateralized mortgage obligations (CMO), interest-only (IO) and principal-only (PO) forwards, futures, currency and interest rate swaps, options floaters/inverse floaters, and caps/floors/collars.

Risk Disclosures
The Authority's investment policy limits credit and custodial risk by limiting the amount of investments, which are not direct U.S. Government Obligations or in the Local Government Surplus Trust Fund, and having a qualification process for broker/dealers. In addition, the policy requires independent third-party custodians, when applicable.

Interest rate risk is controlled by limiting the maximum length of obligations purchased. Unless matched up to a specific cash flow, the Authority will not directly invest in securities maturing more than two years from the date of purchase.

Note 3 - Capital Assets

Capital asset activity for the year ended September 30, 2014, was as follows:

	Beginning Balance	Increases	(Decreases)	Transfers	Ending Balance
Business-type Activities					
Capital Assets Not Being Depreciated:					
Land and Easements	$ 2,584,259	$ 0	$ 0	$ 0	$ 2,584,259
Construction in Progress	1,207,151	6,876,063	0	(175,458)	7,907,756
Total Capital Assets Not Being Depreciated	3,791,410	6,876,063	0	(175,458)	10,492,015
Capital Assets Being Depreciated:					
Buildings and Improvements, Water Treatment Plant, Supply and Transmission Systems	351,038,264	1,000,229	0	175,458	352,213,951
Leasehold Improvements, Furniture, and Equipment	4,957,531	88,269	0	0	5,045,800
Total Capital Assets Being Depreciated	355,995,795	1,088,498	0	175,458	357,259,751
Less Accumulated Depreciation:					
Buildings and Improvements, Water Treatment Plant, Supply, and Transmission Systems	(73,036,486)	(11,406,068)	0	0	(84,442,554)
Leasehold Improvements, Furniture, and Equipment	(2,811,835)	(281,304)	0	0	(3,093,139)
Total Accumulated Depreciation	(75,848,321)	(11,687,372)	0	0	(87,535,693)
Total Capital Assets Being Depreciated, Net	280,147,474	(10,598,874)	0	175,458	269,724,058
Total Business-type Activities Capital Assets, Net	$ 283,938,884	$ (3,722,811)	$ 0	$ 0	$ 280,216,073

Depreciation expense in the amount of $11,687,372 was reported as a separate line item in the statement of revenues, expenses, and changes in net position.

Construction Commitments

The following is a summary of major construction contract commitments remaining at fiscal year end:

Project	Contract Amount	Completed To-date	Balance Committed
Training Center/Laboratory Building			
AECOM Technical Services, Inc.	$ 189,639	$ 36,410	$ 153,229
Magnum Builders	2,049,042	76,395	1,972,647
1991 Facility Rebuild			
Black & Veatch	895,148	630,560	264,588
RTD Construction, Inc.	10,928,760	5,899,154	5,029,606
	$ 14,062,589	$ 6,642,519	$ 7,420,070

Note 4 - Receivables

Accounts receivable at September 30, 2014, consists primarily of amounts due from customers for water sales, in the amount of $4,077,811.

Grant funds receivable as of year-end include amounts due from Southwest Florida Water Management District (SWFWMD) in the amount of $62,036 for operating grants and $1,000,000 for capital grants.

All amounts are considered collectible. There is no allowance for uncollectible accounts.

Note 5 - Long-term Debt

Long-term debt activity for the year ended September 30, 2014, was as follows:

	Beginning Balance (Restated*)	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
Bonds Payable:					
Series 2005A Revenue Bonds	$ 89,175,000	$ 0	$ (760,000)	$ 88,415,000	$ 790,000
Series 2005B Refunding Bonds	29,225,000	0	(1,380,000)	27,845,000	1,445,000
Series 2010A Revenue Bonds	13,140,000	0	0	13,140,000	0
Series 2010B Revenue Bonds	29,555,000	0	0	29,555,000	0
Bond-Related Amounts:					
Unamortized Premiums	3,125,932	0	(200,753)	2,925,179	0
Unamortized Discounts	(292,000)	12,166	0	(279,834)	0
Total Bonds Payable	$ 163,928,932	$ 12,166	$ (2,340,753)	$ 161,600,345	$ 2,235,000

* The beginning balance above has been restated to comply with GASB 65. Unamortized bond refunding losses totaling $1,154,291 have been reclassified as deferred outflows.

The 2005A and B Bonds

On December 29, 2005, the Authority issued $93,045,000 Utility Systems Revenue Bonds, Series 2005A (the 2005A Bonds), and $38,380,000 Utility System Refunding Revenue Bonds, Series 2005B (the 2005B Bonds).

The proceeds of the 2005A Bonds were used to expand the Authority's water capacity and transmission system, current-refund a $9,000,000 note payable, pay the oversized facility payment to Charlotte County ($3.3 million), fund a debt service reserve account through the purchase of a Reserve Account Insurance Policy, and pay costs of issuance including the Bond Insurance Policy premium.

The 2005A Bonds were issued at a premium of $3,078,445, as both serial and term bonds, with stated interest rates ranging from 3.20% to 5.00%. The unamortized premium at September 30, 2014 is $2,293,311. Principal payments are due each October 1, and interest is due semi-annually on October 1 and April 1. The final maturity is October 1, 2035. The 2005A Bonds may be redeemed in whole or in part at any time on or after October 1, 2015, without penalty.

Note 5 - Long-term Debt *(Continued)*

The 2005A and B Bonds *(Concluded)*
The net proceeds of the 2005B Bonds were issued to advance-refund $38,165,000 (the remaining balance) of the 1998A Revenue Bonds (the 1998A Bonds). In this transaction, the 1998A Bonds were considered defeased in-substance, and their balances were removed from these financial statements. The refunded debt was paid off in full on October 1, 2008; there are no amounts outstanding at September 30, 2014.

The 2005B Bonds were issued at a premium of $1,293,245, as both serial and term bonds, with stated interest rates ranging from 3.21% to 5.00%. The unamortized premium at September 30, 2014, is $631,868. Principal payments are due each October 1, and interest is due semi-annually on October 1 and April 1. The final maturity is October 1, 2028. The 2005B Bonds may be redeemed in whole or in part at any time on or after October 1, 2015, without penalty.

The 2010A and B Bonds
On November 2, 2010, the Authority issued $13,140,000 Utility System Revenue Bonds, Series 2010A (the 2010A Bonds), and $29,555,000 Utility System Revenue Bonds Series 2010B (the 2010B Bonds).

The 2010A Bonds were issued to provide funds, together with other legally available monies of the Authority, for the principal purpose of refinancing the Authority's outstanding $30,000,000 Utility System Revenue Bond Anticipation Note (the 2010 Note). The 2010 Note had been issued by the Authority on January 20, 2010, and had refunded prior interim financing in the same principal amount from 2008.

The 2010A Bonds were issued at a discount of $328,500, as term bonds maturing on October 1, 2037, but subject to mandatory redemption in specified lots beginning on October 1, 2036. The stated interest rate on the term bonds is 4.50%. The unamortized discount at September 30, 2014, is $279,834, as shown above. No principal payments are due until October 1, 2036, but interest is due semi-annually each October 1 and April 1. The final maturity is October 1, 2037. Early redemption is not permitted.

The proceeds of the 2010B Bonds were issued to provide funds for financing a portion of the costs of certain capital improvements including Phases 2 and 3A of the Regional Integrated Loop System (RILS) project, fund capitalized interest, and pay issuance costs. A portion of the 2010B Bonds are designated by the Authority as Build America Bonds, authorized by the *American Recovery and Reinvestment Act of 2009*. As such, the Authority expects to receive Federal Direct Payments from the U.S. Treasury in an amount equal to approximately 30% of each interest payment on the 2010B Bonds.

The 2010B Bonds were issued without premium or discount, as term bonds maturing on October 1, 2040, but subject to mandatory redemption in specified lots beginning on October 1, 2037. The stated interest rate on the term bonds is 6.402%. No principal payments are due until October 1, 2037, but interest is due semi-annually each October 1 and April 1. The final maturity is October 1, 2040. Early redemption is not permitted.

Note 5 - Long-term Debt *(Concluded)*

Other Provisions

Principal and interest on the above bonds are payable from and secured by a lien upon and pledge of the Net Revenues (see below) plus the balances in certain funds and accounts as defined in the bond resolutions. The lien and pledge on each series of bonds is on parity with the others.

Bond covenants require the Authority to set rates so as always to provide, in each fiscal year, Net Revenues equal to: (1) at least 115% of the Annual Debt Service becoming due in such fiscal year; and (2) at least 100% of any required County Payments, as defined in the bond resolutions. Net Revenues are defined in the bond resolutions as Gross Revenues less Operating and Maintenance Costs. Gross Revenues are operating revenues (excluding member dues) plus investment earnings, Federal Direct Payments, and certain transfers from the Rate Stabilization Account. Operating and Maintenance Costs are operating expenses excluding depreciation, studies and master plans. Following are the required disclosures for 2014:

Pledge Revenue	Revenue Pledged Through	Total Principal and Interest Outstanding	Current Year Principal and Interest Paid	Current Year Net Revenue	Percentage of Net Revenues to Principal and Interest Paid
Net Revenues	10/01/40	$ 297,815,940	$ 10,447,586	$ 16,954,268	162.3%

The following is a schedule of future gross debt service requirements (excluding federal direct payments):

Year Ending September 30	Principal	Interest	Total
2015	$ 2,235,000	$ 8,215,084	$ 10,450,084
2016	2,325,000	8,125,683	10,450,683
2017	2,435,000	8,016,859	10,451,859
2018	2,545,000	7,902,635	10,447,635
2019	2,665,000	7,782,504	10,447,504
2020-2024	21,510,000	36,653,905	58,163,905
2025-2029	32,105,000	29,999,555	62,104,555
2030-2034	40,975,000	21,129,555	62,104,555
2035-2039	42,900,000	10,442,335	53,342,335
2040-2041	9,260,000	592,825	9,852,825
Total	$ 158,955,000	$ 138,860,940	$ 297,815,940

Total interest costs on the above bonds incurred during 2014 were $8,307,585, and federal direct payments on the 2010B Bonds were $576,143. No interest costs were capitalized in 2014.

Note 6 - Restricted Assets and Restricted Net Position

Restricted assets represent moneys that have been set aside as a result of bond covenants or contractual agreements. Interest earnings are added to the balances and authorized expenditures are deducted.

Note 6 - Restricted Assets and Restricted Net Position *(Concluded)*

Net position is restricted when restricted assets are funded from operating revenues. Unspent bond proceeds (construction accounts plus/minus other restricted receivables and payables) are added back to net position, net investment in capital assets. Following are the balances in restricted assets and restricted net position at September 30, 2014:

	Restricted Assets	Restricted Net Position
Construction - Grants	$ 9,954,977	$ 7,428,714
Renewal and Replacement	2,230,910	2,230,910
Operations Reserve	8,140,581	8,140,581
Rate Stabilization Account	1,951,554	1,951,554
Total	$ 22,278,022	$ 19,751,759

Note 7 - Retirement Plan

Membership in the Florida Retirement System (FRS) is required for all full-time and part-time employees in regularly established positions for state agencies, county governments, district school boards, state universities and state community colleges, or cities, independent special districts, metropolitan planning districts, and public charter schools that make an irrevocable election to participate. Certain members, including elected officials and local government senior managers, may elect to not participate in the system. The FRS Pension Plan is a cost-sharing, multiple employer, defined benefit public retirement system administered by the State of Florida, Division of Retirement. The FRS also offers eligible employees participation in an alternative defined contribution plan (the Investment Plan).

During its 2011 regular session, the State Legislature adopted legislation that made significant changes to the FRS with respect to employee contributions, employer contributions, and other items. These changes have been incorporated into the remainder of this Note.

For employees participating in the FRS Pension Plan, the normal retirement date depends on the employee's FRS enrollment date. For employees initially enrolled before July 1, 2011, normal retirement is reached at or after age 62 with six years of credited service, or with 30 years of service regardless of age. For employees initially enrolled on or after July 1, 2011, normal retirement is reached at or after age 65 with eight years of credited service, or with 33 years of service regardless of age.

The normal retirement benefit is payable monthly for life, at one-twelfth the yearly benefit. The yearly benefit depends on the membership class and payment option chosen. Under option one, a benefit for the retiree's life only, the yearly benefit at normal retirement is equal to 1.6% for regular employees and 2% for senior management, for each year of credited service times their average final compensation. Benefits are increased annually by a cost of living adjustment (COLA), except that there is no COLA on service earned on or after July 1, 2011. Average final compensation is the employee's average of the five highest years of salary earned during credited service (eight if the employee is initially enrolled on or after July 1, 2011).

Note 7 - Retirement Plan *(Concluded)*

Vesting in the FRS Pension Plan occurs with six years of creditable service (eight years if initially enrolled on or after July 1, 2011). Vested employees may retire early and receive retirement benefits that are reduced 5% for each year the actual retirement date precedes the normal retirement date. Employees participating in the Investment Plan are vested after one year of service with no age requirement. The System also provides death and disability benefits. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S-4, *Florida Administrative Code*.

The Deferred Retirement Option Program (DROP) is available under the FRS Pension Plan when the member first reaches eligibility for normal retirement. DROP allows a member to retire while continuing employment for up to 60 months. While in the DROP, the member's retirement benefits accumulate in the FRS trust fund (increased by a COLA each July, but only through July 2011) and earn monthly interest equivalent to an annual rate of 6.50% (1.30% for employees entering DROP on or after July 1, 2011). When the DROP period ends, the DROP account is paid out as a lump-sum payment, a rollover, or a combination, and monthly benefits are subsequently paid to the member in the amount as calculated upon entry into DROP, plus COLAs for intervening years, where applicable. In most cases, the DROP participant must cease employment when the DROP period ends.

Each year, the Florida Legislature establishes the uniform contribution rates applicable to both the FRS Pension Plan and the Investment Plan. Prior to July 1, 2011, members were not required to make employee contributions; the employers paid all required contributions. Effective July 1, 2011, all Investment Plan and FRS Pension Plan members (except those in the DROP) are required to contribute 3% of their gross compensation on a pre-tax basis. Actuarial information and related disclosures attributable to the Authority's employees are not determinable. The fiscal year-end June 30, 2015 and 2014 employer contribution rates, by member class are as follows: regular employees (7.37% and 6.95%), DROP participants (12.28% and 12.84%), and senior management (21.14% and 18.31%). Contributions to the plan for the current and prior two fiscal years were as follows:

	Employer	Employee
2014	$ 226,336	$ 67,804
2013	147,043	66,226
2012	121,594	66,504

The State of Florida issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. That report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or by calling (850) 488-5706.

Note 8 - Operating Lease

The Authority leases its administrative headquarters in Lakewood Ranch, Florida. The lease is for a 5-year term through March 31, 2017, with two 5-year renewal options. The lease contains annual fixed rent increases over the lease term, plus adjustments for actual common area maintenance costs (CAM). The rent expense for 2014 was $134,560. Future minimum commitments under this operating lease as of September 30, 2014, are as follows:

Year	Amount
2015	$ 137,372
2016	140,292
2017	70,887

Note 9 - Risk Management

The Authority 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 Authority carries commercial insurance. There has been no significant reduction in insurance coverage from the prior year, and there have been no settlements or claims in excess of coverage for the past three years.

Note 10 - Taxes

During 2014, the Authority reached a settlement with the Internal Revenue Service (IRS) related to the issuance of the Authority's 2010B Bonds. The 2010B Bonds had been issued under the provisions of the *American Recovery and Reinvestment Act of 2009*, which prohibited the reimbursement of expenditures incurred prior to the date of the Act's enactment. In the Settlement Agreement, the Authority acknowledged that a portion of the proceeds were expended prior to the Act's enactment. Under terms of the Settlement Agreement, the Authority paid the IRS $224,975, and will incur a 6.25% reduction in future interest subsidies related to the Bonds.

Note 11 - Adjustment to Beginning Net Position

In 2014, the Authority implemented GASB 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). Per GASB 65, certain items were previously reported as assets and liabilities are now reported as deferred outflows of resources or deferred inflows of resources. In addition, paragraph 15 of GASB 65 indicates that debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. In compliance with this statement, the Authority's unamortized bond issuance costs from prior years have been reclassified as a restatement of beginning net position as shown in the table below.

	2014	2013
Net Position, Beginning of Year, As Originally Reported	$ 157,900,243	$ 162,637,661
Cumulative Effect of Implementing GASB Statement No. 65	(1,353,520)	(1,428,306)
Net Position, Beginning of Year, (Restated)	$ 156,546,723	$ 161,209,355

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*

Board of Directors
Peace River/Manasota Regional
Water Supply Authority
Sarasota, Florida

We have audited, 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, the basic financial statements of the Peace River/Manasota Regional Water Supply Authority (the Authority) as of and for the year ended September 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated January 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Board of Directors
Peace River/Manasota Regional
Water Supply Authority
Sarasota, Florida

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* *(Concluded)*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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.

Purvis, Gray and Company, LLP

January 23, 2015
Sarasota, Florida

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE
WITH SECTION 218.415, *FLORIDA STATUTES*

Board of Directors
Peace River/Manasota Regional
Water Supply Authority
Sarasota, Florida

Report on Compliance
We have examined the Peace River/Manasota Regional Water Supply Authority's (the Authority) compliance with the requirements of Section 218.415, *Florida Statutes*, as of and for the year ended September 30, 2014, as required by Section 10.556(10)(a), *Rules of the Auditor General*.

Management's Responsibility
Management is responsible for the Authority's compliance with those requirements.

Accountants' Responsibility
Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

Opinion
In our opinion, the Authority complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.

Restriction on Use
This report 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, and the Authority's Board of Directors and applicable management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

January 23, 2015
Sarasota, Florida

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY CHAPTER 10.550, *RULES OF THE AUDITOR GENERAL*

Board of Directors
Peace River/Manasota Regional
Water Supply Authority
Sarasota, Florida

Report on Compliance for Each Major State Project
We have audited the Peace River/Manasota Regional Water Supply Authority's (the Authority) compliance with the types of compliance requirements described in the Florida Department of Financial Services' State Project Compliance Supplement, that could have a direct and material effect on the Authority's major state project for the year ended September 30, 2014. The Authority's major state project is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state projects.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of the Authority's major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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*. Those standards and rules require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state project. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major State Project
In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended September 30, 2014.

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Board of Directors
Peace River/Manasota Regional
Water Supply Authority
Sarasota, Florida

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY CHAPTER 10.550, *RULES OF THE AUDITOR GENERAL*
(Concluded)

Report on Internal Control over Compliance
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project, and to test and report on internal control over compliance in accordance with Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.550, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

Purvis, Gray and Company, LLP

January 23, 2015
Sarasota, Florida

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2014
SARASOTA, FLORIDA

State Agency/Pass-Through Grantor State Project	CSFA Number	Award Amount	Contract/ Grant Number	Expenditures
Florida Department of Environmental Protection:				
Water Resource Management:				
Statewide Surface Water Restoration and Wastewater Projects	37.039	$ 1,500,000	LP58010	$ 1,000,000
Total State Financial Assistance				$ 1,000,000

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of state financial assistance includes the state grant activity of Peace River/Manasota Regional Water Supply Authority, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Florida *Single Audit Act* and Chapter 10.550, *Rules of the Auditor General*.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
STATE FINANCIAL ASSISTANCE PROJECTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

PART A - SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unmodified opinion on the financial statements of the Peace River/Manasota Regional Water Supply Authority (the Authority), as of and for the year ended September 30, 2014.

2. No material weaknesses or significant deficiencies in the internal control over financial reporting, were disclosed during the audit of the basic financial statements (see independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*).

3. No instances of noncompliance material to the financial statements of the Authority were disclosed during the audit (see the same report referenced in 2).

4. No material weaknesses or significant deficiencies in internal control over major state financial assistance projects were disclosed (see independent auditors' report on compliance for each major state project and on internal control over compliance required by Chapter 10.550, *Rules of the Auditor General).*

5. An unmodified opinion was issued on compliance over the major state project (see the same report referenced in 4).

6. Audit findings relative to the major state financial assistance project is reported in Part D of this schedule.

7. The project tested as a major project was the following:

   ■ **Major State Project:**
   Florida Department of Environmental Protection:
   - *Water Resource Management:* Statewide Surface Water Restoration and Wastewater Projects, CFSA: 37.039

8. The threshold for distinguishing Type A and Type B programs/projects was $300,000 for major state financial assistance projects.

PART B - FINDINGS - FINANCIAL STATEMENT AUDIT

There are no financial statement findings reported.

PART C - FINDINGS AND QUESTIONED COSTS MAJOR FEDERAL AWARD PROGRAMS

Not applicable

PART D - FINDINGS AND QUESTIONED COSTS MAJOR STATE FINANCIAL ASSISTANCE PROJECTS

None

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
STATE FINANCIAL ASSISTANCE PROJECTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014
(Concluded)

PART E - OTHER ISSUES

No summary schedule of prior audit findings is required because there were no prior audit findings related to federal programs or state projects.

No corrective action plan is required because there was no *Federal Single Audit* and there were no current year findings under the Florida *Single Audit*.

MANAGEMENT LETTER

Board of Directors
Peace River/Manasota Regional
Water Supply Authority
Sarasota, Florida

Report on the Financial Statements
We have audited the financial statements of Peace River/Manasota Regional Water Supply Authority (the Authority), as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated January 23, 2015.

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

Other Reports and Schedule
We have issued our 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*; Independent Accountants' Report on Compliance with Section 218.415, *Florida Statutes*; Independent Auditors' Report on Compliance for Each Major State Project and on Internal Control over Compliance Required by Chapter 10.550, *Rules of the Auditor General*; and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated January 23, 2015, should be considered in conjunction with this management letter.

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

Official Title and Legal Authority
Section 10.554(l)(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. The Authority was created by interlocal agreement dated February 26, 1982. There are no component units.

Financial Condition
Section 10.554(1)(i)5.a., *Rules of the Auditor General*, requires that we report the results of our determination as to whether or not the Authority 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 the Authority did not meet any of the conditions described in Section 218.503(1), *Florida Statutes*.

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Board of Directors
Peace River/Manasota Regional
Water Supply Authority
Sarasota, Florida

MANAGEMENT LETTER
(Concluded)

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

Annual Financial Report
Section 10.554(1)(i)5.b., *Rules of the Auditor General*, requires that we report the results of our determination as to whether the annual financial report for the Authority for the fiscal year ended September 30, 2014, 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, 2014. In connection with our audit, we determined that these two reports were in agreement.

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

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we have the following finding:

- **2014.1 - Customer Billing**—Our audit procedures detected that the City of North Port had neglected to pay their water bill from the Authority for the month of February, 2014, and that the Authority had neglected to follow up on the collection. We recommend the Authority review their procedures over monthly billing and collections.

Purpose of this Letter
Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, granting agencies and pass-through entities including the Southwest Florida Water Management District, and the Authority's Board of Directors and applicable management, and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of our audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

Purvis, Gray and Company, LLP

January 23, 2015
Sarasota, Florida

PEACE RIVER MANASOTA REGIONAL WATER SUPPLY AUTHORITY

January 23, 2015

State of Florida
Auditor General
Tallahassee, FL

Re: Section 10.544(l) (i) 3.,2014.1 – Customer Billing

Dear Sir:

In reference to the above Customer Billing matter noted in the FY2014 audit management letter dated January 23, 2015, the error is duly noted. This error occurred during new employee training and a delegation of duties process. The account receivable review process has been revised and implemented in that department to minimize duplication of the error again.

If you have any questions, please do not hesitate to call.

Sincerely,

Patrick J. Lehman
Executive Director

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