

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**PEACE RIVER/MANASOTA REGIONAL
WATER SUPPLY AUTHORITY
SARASOTA, FLORIDA**

SEPTEMBER 30, 2016

**FINANCIAL STATEMENTS
AND
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WATER SUPPLY AUTHORITY
SARASOTA, FLORIDA**

SEPTEMBER 30, 2016

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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, 2016, 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.

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)

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, 2016, 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.


Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information as listed in the table of contents (collectively the "required supplementary information") be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, 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 March 10, 2017, 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.


March 10, 2017
Sarasota, Florida

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
SEPTEMBER 30, 2016**

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, 2016. 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 (and deferred inflows of resources) at the close of the most recent fiscal year by \$139,588,511 (*net position*). Of this amount, \$7,875,473 (*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 \$5,075,247 during the year. Capital grants and contributions were \$475,036 (net of capital disbursements). The loss before capital contributions was \$5,550,283. This compares to a loss before capital contributions in the prior year of \$7,412,897.

Overview of the Financial Statements

This section of the Authority's annual financial report presents a discussion and analysis of the financial position of the Authority as of September 30, 2016 and 2015, as well as an overview of the financial activities during the fiscal year ended September 30, 2016, with 2015 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 2016 and 2015. This statement shows the assets (current and noncurrent), deferred outflows, liabilities (current and noncurrent), deferred inflows, and net position (assets and deferred outflows minus liabilities and deferred inflows) as of the end of the fiscal year. The 2015 beginning net position has been restated to reflect the retroactive application of changes required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68).

MANAGEMENT'S DISCUSSION AND ANALYSIS
PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
SEPTEMBER 30, 2016
(Continued)

Statement of Net Position (Concluded)

The statement of net position is prepared using the accrual basis of accounting, 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 the reader of the financial statements with fiscal snapshots of the Authority at September 30, 2016 and 2015. Following is the summarized statement of net position for 2016 and 2015:

Net Position

	<u>Business-type Activities</u>	
	<u>2016</u>	<u>2015</u>
Current assets	\$ 11,290,932	\$ 10,156,032
Noncurrent assets	<u>287,661,361</u>	<u>298,012,936</u>
Total assets	<u>298,952,293</u>	<u>308,168,968</u>
 Deferred outflows	 <u>3,540,889</u>	 <u>3,080,633</u>
 Current liabilities	 4,262,673	 5,516,824
Noncurrent liabilities	<u>158,491,073</u>	<u>160,778,692</u>
Total liabilities	<u>162,753,746</u>	<u>166,295,516</u>
 Deferred inflows	 <u>150,925</u>	 <u>290,327</u>
 Net position		
Net investment in capital assets	112,351,825	118,384,875
Restricted	19,361,213	19,738,780
Unrestricted	<u>7,875,473</u>	<u>6,540,103</u>
Total net position	<u>\$ 139,588,511</u>	<u>\$ 144,663,758</u>

Over time, the changes in net position provide an indication of the overall financial condition of the Authority. At September 30, 2016, net position was \$139,588,511, and for the year, there was a decrease in net position of \$5,075,247. A substantial portion of the Authority's net position at September 30, 2016, (80.5%) 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 (13.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position (5.6%) is unrestricted.

Statement of Revenues, Expenses, and Changes in Fund Net Position

Following is a summarized statement of changes in net position for 2016 and 2015. 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:

MANAGEMENT'S DISCUSSION AND ANALYSIS
PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
SEPTEMBER 30, 2016
(Continued)

Statement of Revenues, Expenses and Changes in Fund Net Position (Concluded)

	<u>Changes in Net Position</u>	
	<u>Business-type Activities</u>	
	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 28,110,490	\$ 27,474,921
Operating grants and contributions	2,938,126	2,949,748
Capital grants and contributions (net)	475,036	5,643,635
General revenues:		
Other	178,737	146,591
Total revenues	<u>31,702,389</u>	<u>36,214,895</u>
Expenses:		
Water Supply and Delivery	<u>(36,777,636)</u>	<u>(37,984,157)</u>
Change in net position	<u>(5,075,247)</u>	<u>(1,769,262)</u>
Net position – beginning of year:		
As originally reported	144,663,758	148,140,910
Adjustment – GASB 68	<u>0</u>	<u>(1,707,890)</u>
As Adjusted	<u>144,663,758</u>	<u>146,433,020</u>
Net position – end of year	<u>\$ 139,588,511</u>	<u>\$ 144,663,758</u>

Charges for services increased by \$635,569 or 2.3% from 2015 to 2016, as budgeted. Capital grants and contributions (net) in 2016, included capital contributions from the City of Punta Gorda of \$500,000 toward the Phase 1 Interconnect pipeline project. In 2016, the same line item included refunds to customers of \$24,964 for project savings. Expenses decreased \$1,206,521 or 3.2% from 2015 to 2016. The biggest reasons for the reduction in expenses were:

- a) Studies and master plan costs decreased by \$38,506 from 2015 to 2016.
- b) Interest expense decreased by \$633,845 from 2015 to 2016 in conjunction with three bond refunding transactions in 2015.
- c) Bond issuance costs decreased by \$833,705 from 2015 to 2016.

These reductions were offset by the following increases in expenses:

- a) Costs of sales and services increased by \$80,896 from 2015 to 2016.
- b) Administration costs increased by \$34,066 from 2015 to 2016.
- c) Other customer payments increased by \$143,637 from 2015 to 2016.
- d) Depreciation costs increased by \$282,210 from 2015 to 2016.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
SEPTEMBER 30, 2016
(Continued)**

Capital Assets

The Authority's investment in capital assets as of September 30, 2016, totals \$268,121,280 (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	
	2016	2015
Land and easements	\$ 2,584,259	\$ 2,584,259
Buildings and improvements, water treatment plant, supply, and transmission systems	261,763,985	257,364,075
Leasehold improvements, furniture, and equipment	1,967,093	2,010,220
Construction in progress	1,805,943	15,148,092
Total	\$ 268,121,280	\$ 277,106,646

The book value of capital assets decreased by \$8.985 million during 2016. Additions were \$18 million and depreciation was \$11.878 million. Additions during 2016 included the following:

- Training Center/Laboratory Building - \$2,560,410
- 1991 Facility Rebuild - \$12,512,551
- Renewal and replacement projects - \$885,334
- Vehicles, machinery, and equipment - \$276,613

Additional information on the Authority's capital assets can be found in Note 4 of this report.

Long-term Debt

The Authority's bonded debt outstanding as of September 30, 2016, totaled \$147,105,000. These bonds are secured by the Net Revenues pledged in the Master Water Supply Contract.

<u>Business-type Activities</u>	2016	2015
Revenue bonds	\$ 147,105,000	\$ 149,500,000

Long-term debt decreased by \$2,395,000 during the year. Of this amount, \$2,395,000 was from scheduled principal payments. 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 51 million gallons per day (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 2016 water deliveries to Customers averaged about 26 MGD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
SEPTEMBER 30, 2016
(Continued)

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

The Authority has completed the rebuild of 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 the work was completed in spring 2016. Total project cost was \$12.5 million and represented a 3 MGD increase in treatment capacity (from 12 MGD to 15 MGD) and updated the total treatment capacity of the Peace River Facility from 48 MGD to 51 MGD.

In FY 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. Substantial completion for the project was awarded in September 2015 and the final completion of the project occurred in December 2015.

The Authority has continued its efforts to recharge the Aquifer Storage and Recovery (ASR) System and the system reached its full capacity of 6 billion gallons in FY 2016. 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. A pilot program for untreated water storage into the ASR system is slated to be underway in FY 2017, and if successful, should decrease the Authority's operations and maintenance costs associated with the ASR system.

In FY 2016, the Authority began the predesign phase for two pipeline projects. The first project is the Phase I Regional Interconnect consisting of 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 providing increased reliability of the regional and City's water systems. Conceptual design efforts for this project were undertaken in FY 2016 and the project is estimated to cost \$12 million. The project is currently in predesign phase and final design work should be initiated in early 2017.

The second project is the Loop Phase 3B Regional Interconnect consisting of a five-mile pipeline from the current terminus of the Phase 3A Regional Interconnect at State Road 681 along Cow Pen Slough to Clark Road (State Road 72) with the goal of serving Sarasota County's growth in this area and providing a starting point for future projects that will connect the regional transmission system to Manatee County. Preliminary Engineering for this project began in FY 2016 and the project is expected to cost \$27 million.

Moody's, S&P and Fitch have assigned ratings of "Aa3" (stable outlook), "AA-" (stable outlook) and "AA-" (stable outlook) respectively, to the 2015 Bonds. These ratings by all three major rating agencies reflect the Authority's ample long-term water supply and favorable financial condition dictated by policy. The Authority's "AA-" rating was reaffirmed by Fitch in August 2016.

Revenues and expenses for FY 2016 decreased as noted in the statement of revenues and expenses above. The majority of the expense decreases were driven by the decreased interest expenses and bond issuance costs related to three bond refunding transactions that occurred in FY 2015. The cost of sales and services increased as the decrease in chemical costs and contractual services were offset by pension expenses and increased maintenance costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS
PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
SEPTEMBER 30, 2016
(Concluded)

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

Near-term focus for the Authority includes the final design phases for the Phase 1 Interconnect Pipeline and the Phase 3B Regional Interconnect pipeline, the Raw Water ASR pilot testing, and in maintaining the 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, 2016
SARASOTA, FLORIDA

Assets

Current Assets:	
Cash	\$ 1,966,094
External Investment Pools	4,974,437
Accounts Receivable	3,729,954
Inventory	594,560
Prepaid Expenses	25,887
Total Current Assets	11,290,932
Restricted Assets:	
Cash and Cash Equivalents	793,679
External Investment Pools	18,746,402
Total Restricted Assets	19,540,081
Capital Assets:	
Land and Easements	2,584,259
Buildings and Improvement, Water Treatment Plant, Supply, and Transmission Systems	369,087,116
Leasehold Improvements, Furniture, and Equipment	5,576,305
Construction in Progress	1,805,943
(Less Accumulated Depreciation)	(110,932,343)
Total Capital Assets, Net	268,121,280
Total Assets	298,952,293
Deferred Outflows of Resources	
Deferred Charge on Refunding	2,419,773
Pension Related	1,121,116
Total Deferred Outflows of Resources	3,540,889
Total Assets and Deferred Outflows of Resources	302,493,182
Liabilities	
Current Liabilities:	
Accounts Payable	932,337
Contracts Payable	178,868
Accrued Expenses	666,468
Current Portion - Revenue Bonds Payable	2,485,000
Total Current Liabilities	4,262,673
Noncurrent Liabilities:	
Revenue Bonds Payable	155,704,227
Retirement System Net Liability	2,786,846
Total Noncurrent Liabilities	158,491,073
Total Liabilities	162,753,746
Deferred Inflows of Resources	
Pension Related	150,925
Total Deferred Inflows of Resources	150,925
Total Liabilities and Deferred Inflows of Resources	162,904,671
Net Position	
Net Investment in Capital Assets	112,351,825
Restricted	19,361,213
Unrestricted	7,875,473
Total Net Position	\$ 139,588,511

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, 2016
SARASOTA, FLORIDA

Operating Revenues	
Member Dues	\$ 309,500
Water Sales	28,110,490
Special Assessment	50,000
Renewal and Replacement	2,000,000
Other	21,993
Total Operating Revenues	<u>30,491,983</u>
Operating Expenses	
Cost of Sales and Services	13,574,250
Studies and Master Plan	20,790
Administration	602,466
Depreciation	11,878,125
Total Operating Expenses	<u>26,075,631</u>
Operating Income	<u>4,416,352</u>
Nonoperating Revenues (Expenses)	
Investment Earnings	156,744
Oversize Facility Payments	(1,971,557)
County Payments	(796,000)
Other Customer Payments	(1,331,317)
Interest Expense	(6,598,330)
Bond Issuance Costs	(4,801)
Federal Direct Payments	578,626
Total Nonoperating Revenues (Expenses)	<u>(9,966,635)</u>
(Loss) Before Capital Contributions	<u>(5,550,283)</u>
Capital Contributions	
Capital Refunds - Customers	(24,964)
Contributions - Customers	500,000
Total Capital Contributions	<u>475,036</u>
Change in Net Position	(5,075,247)
Total Net Position, Beginning of Year	<u>144,663,758</u>
Total Net Position, End of Year	<u>\$ 139,588,511</u>

See accompanying notes.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
SARASOTA, FLORIDA

Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ 30,717,161
Payments to Suppliers	(11,444,982)
County Payments	(796,000)
Other Customer Payments	(1,331,317)
Payment to Employees	(2,670,857)
Other Income	21,993
Net Cash Provided by Operating Activities	<u>14,495,998</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and Construction of Capital Assets	(3,941,830)
Principal Payments on Long-term Debt	(2,395,000)
Oversize Facility Payment	(1,971,557)
Capital Grants	60,430
Capital Refunds - Customers	(24,964)
Contributions - Customers	500,000
Interest Payments on Long-term Debt	(7,155,648)
Federal Direct Payments	578,626
Bond Issuance Costs	(4,801)
Net Cash (Used in) Capital and Related Financing Activities	<u>(14,354,744)</u>
Cash Flows from Investing Activities	
Earnings Received	<u>156,744</u>
Net Cash Provided by Investing Activities	<u>156,744</u>
Net Increase in Cash and Cash Equivalents	297,998
Cash and Cash Equivalents, Beginning of Year	<u>26,182,614</u>
Cash and Cash Equivalents, End of Year	<u>\$ 26,480,612</u>
<u>Composition of Cash and Cash Equivalents, End of Year</u>	
Cash	\$ 1,966,094
External Investment Pools	4,974,437
Cash and Cash Equivalents, Restricted	793,679
External Investment Pools, Restricted	18,746,402
Total Composition of Cash and Cash Equivalents, End of Year	<u>\$ 26,480,612</u>

See accompanying notes.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2016
SARASOTA, FLORIDA
(Concluded)

Reconciliation of Operating Income to Net

Cash Provided by Operating Activities

Operating Income	\$ 4,416,352
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation Expense	11,878,125
County Payments	(796,000)
Other Customer Payments	(1,331,317)
Retirement System Adjustments	155,040
(Increase) Decrease in Assets:	
Accounts Receivable	247,171
Inventory	142,988
Prepaid Expenses	78,718
Increase (Decrease) in Liabilities:	
Accounts Payable	(311,298)
Accrued Expenses	16,219
Net Cash Provided by Operating Activities	<u>\$ 14,495,998</u>

See accompanying notes.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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 Chapters 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 (net of deferred charges on refunding and 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."

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

The statement of net position is presented in a classified format to distinguish between current and noncurrent 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 amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ from those estimates.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

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.

Water Sales

The primary source of funding the Authority's operations is from water sales to its member counties and the City of North Port (who is a customer, not a member). The Authority does not currently provide any water to Manatee County, so charges to it consist solely of the member fees and customer planning assessments each year. The Authority is currently permitted to withdraw a maximum amount from the Peace River of 120 million gallons per day (MGD), and provides for the delivery of treated water to meet an annual average demand of 34.8 MGD and a peak month demand of 41.8 MGD to Authority Water Customers.

The Authority's water rate consists of two components; the Base Rate Charge and Water Use Charge. The Base Rate Charge is further broken into a Debt Service Component and a Fixed Operations and Maintenance Component. The Debt Service Component of the Base Rate Charge consists of costs from the 1991 acquisition and allocation percentages for the debt associated with additional water supply acquisitions and/or expansions and pipelines for each respective customer.

The Fixed Operations and Maintenance Component of the Base Rate Charge is calculated as a unitary rate based on each customer's contractual water allocation and consists of: fixed costs associated with CIP, Renewal and Replacement and Resource/Supply projects, Fund Disbursements associated with the prior fiscal year's debt service coverage payments, contributions to the Renewal and Replacement fund, and contingencies. The Fixed Operation and Maintenance Component also includes inter-governmental payments, such as DeSoto County's Payment.

The second component of the Authority's water rate is the Water Use Charge, which reflects actual metered water usage. This charge is derived from the Variable Operations and Maintenance Expenses related to the Peace River Facility cost center. For fiscal year 2016, the per 1,000 gallon charge was \$0.74. The Authority has maintained the \$0.74 per 1,000 gallons for six consecutive years.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Water Sales (Concluded)

For the fiscal year ended September 30, 2016, water sales were allocated between Water Sales (\$28,110,490) and a Repair and Replacement Charge (\$2,000,000). Gross water sales to each of its customers were as follows:

Charlotte	\$ 11,683,694
DeSoto	657,623
Sarasota	15,137,268
Manatee	0
North Port	<u>2,631,911</u>
Total	<u>\$ 30,110,496</u>

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, 2016.

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

Bond issuance costs (except 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.

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.

Deferred Charge on Refunding

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. Refunding losses are recorded as deferred outflows in the statement of net position and amortized over the remaining term of the *refunded* debt or the term of the new *refunding* debt, whichever is shorter.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 1 - Summary of Significant Accounting Policies (Concluded)

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 Years
■ Vehicles	5 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 straight-line method. Bond discounts/premiums are recorded as a reduction/addition to the bond payable balance.

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.

Net Pension Liability

The Authority participates in the Florida Retirement System (FRS) defined benefit pension plan and the Health Insurance Subsidy (HIS) defined benefit plan administered by Florida Division of Retirement. Employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liabilities and related pension amounts of the defined benefit pension plans.

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, 2016, 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, 2016, the carrying amount of the Authority's deposits was \$2,759,773 and the bank balance was \$3,262,305.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 2 - Deposits and Investments (Continued)

Investments

The Authority holds assets that are defined as investments. The Authority's investments are recorded at fair value unless the investment qualifies as an external investment pool under the guidance in GASB Statement No. 79.

The Authority holds investments in qualified external investment pools that measure all of its investments at amortized cost. The following investments are recorded at amortized cost at September 30, 2016:

<u>Investment Pool</u>	<u>Operating</u>	<u>Restricted</u>	<u>Amortized Cost</u>
SBA Florida PRIME	\$ 3,949,801	\$ 15,672,495	\$ 19,622,296
Florida Local Government Investment Trust	<u>1,024,636</u>	<u>3,073,907</u>	<u>4,098,543</u>
Total	<u>\$ 4,974,437</u>	<u>\$ 18,746,402</u>	<u>\$ 23,720,839</u>

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 stable value investment 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, 2016, are 50 days and 1.43 years, respectively. The weighted average life (WAL) of Florida PRIME at September 30, 2016, is 70 days. 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.

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.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 2 - Deposits and Investments (Continued)

Authorized Investments (Concluded)

- 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 Interlocal Cooperation Act*, as provided in Section 163.01, *Florida Statutes*.

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.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 2 - Deposits and Investments (Concluded)

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 - Receivables

Accounts receivable at September 30, 2016, consists primarily of amounts due from customers for water sales, in the amount of \$3,729,954.

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

Note 4 - Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-type Activities				
Capital Assets Not Being Depreciated:				
Land and Easements	\$ 2,584,259	\$ 0	\$ 0	\$ 2,584,259
Construction in Progress	15,148,092	1,805,941	(15,148,090)	1,805,943
Total Capital Assets Not Being Depreciated	<u>17,732,351</u>	<u>1,805,941</u>	<u>(15,148,090)</u>	<u>4,390,202</u>
Capital Assets Being Depreciated:				
Buildings and Improvements, Water Treatment Plant, Supply and Transmission Systems	353,128,821	15,958,295	0	369,087,116
Leasehold Improvements, Furniture, and Equipment	5,377,082	276,613	(77,390)	5,576,305
Total Capital Assets Being Depreciated	<u>358,505,903</u>	<u>16,234,908</u>	<u>(77,390)</u>	<u>374,663,421</u>
Less Accumulated Depreciation:				
Buildings and Improvements, Water Treatment Plant, Supply, and Transmission Systems	(95,764,746)	0	(11,558,385)	(107,323,131)
Leasehold Improvements, Furniture, and Equipment	(3,366,862)	77,390	(319,740)	(3,609,212)
Total Accumulated Depreciation	<u>(99,131,608)</u>	<u>77,390</u>	<u>(11,878,125)</u>	<u>(110,932,343)</u>
Total Capital Assets Being Depreciated, Net	<u>259,374,295</u>	<u>16,312,298</u>	<u>(11,955,515)</u>	<u>263,731,078</u>
Total Business-type Activities Capital Assets, Net	<u>\$ 277,106,646</u>	<u>\$ 18,118,239</u>	<u>\$ (27,103,605)</u>	<u>\$ 268,121,280</u>

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 4 - Capital Assets (Concluded)

Depreciation expense in the amount of \$11,878,125 was reported as a separate line item in the statement of revenues, expenses, and changes in net position.

Construction Commitments

There are no construction commitments as of September 30, 2016. The Authority's current construction projects are in the pre-design phases.

Note 5 - Long-term Debt

Long-term debt activity for the year ended September 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term Debt:					
Bonds Payable:					
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
Series 2014A Revenue Bonds	27,155,000	0	(1,055,000)	26,100,000	1,080,000
Series 2014B Revenue Bonds	55,915,000	0	0	55,915,000	0
Series 2015 Revenue Bonds	<u>23,735,000</u>	<u>0</u>	<u>(1,340,000)</u>	<u>22,395,000</u>	<u>1,405,000</u>
Total Bonds Payable	<u>149,500,000</u>	<u>0</u>	<u>(2,395,000)</u>	<u>147,105,000</u>	<u>2,485,000</u>
Bond-Related Amounts:					
Unamortized Premiums	12,039,044	0	(699,317)	11,339,727	0
Unamortized Discounts	<u>(267,667)</u>	<u>0</u>	<u>12,167</u>	<u>(255,500)</u>	<u>0</u>
Total Bonds Payable	<u>161,271,377</u>	<u>0</u>	<u>(3,082,150)</u>	<u>158,189,227</u>	<u>2,485,000</u>
Retirement System – Net Liability	<u>1,902,315</u>	<u>884,531</u>	<u>0</u>	<u>2,786,846</u>	<u>0</u>
Total Long-term Debt	<u>\$ 163,173,692</u>	<u>\$ 884,531</u>	<u>\$ (3,082,150)</u>	<u>\$ 160,976,073</u>	<u>\$ 2,485,000</u>

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 refunding 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, 2016, is \$255,500, 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.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 5 - Long-term Debt (Continued)

The 2010A and B Bonds (Concluded)

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.

The 2014 and 2015 Bonds

On October 6, 2014, the Authority issued \$27,390,000 Utility System Refunding Revenue Bonds, Series 2014A (the 2014A Bonds). On December 29, 2014, the Authority issued \$56,065,000 Utility System Refunding Revenue Bonds Series 2014B (the 2014B Bonds). On July 7, 2015, the Authority issued \$23,910,000 Utility System Refunding Revenue Bonds Series 2015 (the 2015 Bonds).

The 2014A and 2014B 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 2005A Bonds in the par amount of \$88,415,000. The 2015 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 2005B Bonds in the par amount of \$27,845,000.

The 2014A Bonds were issued without premium or discount, as term bonds maturing on October 1, 2027, but subject to mandatory redemption in specified lots beginning on October 1, 2015. The stated interest rate on the term bonds is 2.54%. Principal payments are due each October 1, and interest is due semi-annually each October 1 and April 1. The final maturity is October 1, 2027. Early redemption is permitted, subject to certain conditions.

The 2014B Bonds were issued at a premium of \$8,903,446, as serial bonds, with stated interest rates of 5.00% (except for \$150,000 at 2.00% which was due and payable on October 1, 2015). The unamortized premium at September 30, 2016 is \$8,353,851. Principal payments are due each October 1, beginning October 1, 2028 (except for \$150,000 at 2.00% which was due and payable on October 1, 2015), and interest is due semi-annually each October 1 and April 1. The final maturity is October 1, 2035. The 2014B Bonds may be redeemed in whole or in part at any time on or after October 1, 2024, without penalty.

The 2015 Bonds were issued at a premium of \$3,310,428, as serial bonds, with stated interest rates of 5.00%. The unamortized premium at September 30, 2016, is \$2,985,876. Principal payments are due each October 1, and interest is due semi-annually each October 1 and April 1. The final maturity is October 1, 2028. The 2015 Bonds may be redeemed in whole or in part at any time on or after October 1, 2024, without penalty.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 5 - Long-term Debt (Concluded)

The 2014 and 2015 Bonds (Concluded)

At September 30, 2016, unamortized losses were \$2,347,617 (2014 A/B Bonds) and \$72,156 (2015 Bonds). Amortization of \$123,559 (2014 A/B Bonds) and \$6,274 (2015 Bonds) were charged to interest expense in 2016. These losses are being amortized over the remaining debt term using the straight-line method.

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 2016:

<u>Pledge Revenue</u>	<u>Revenue Pledged Through</u>	<u>Total Principal and Interest Outstanding</u>	<u>Current Year Principal and Interest Paid</u>	<u>Current Year Net Revenue</u>	<u>Percentage of Net Revenues to Principal and Interest Paid</u>
Net Revenues	10/01/40	\$ 258,888,395	\$ 9,550,648	\$ 16,691,137	174.8%

The following is a schedule of future gross debt service requirements (excluding federal direct payments) of the Authority's outstanding bonds payable:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,485,000	\$ 7,061,851	\$ 9,546,851
2018	2,585,000	6,964,169	9,549,169
2019	2,685,000	6,862,102	9,547,102
2020	2,790,000	6,755,773	9,545,773
2021-2025	23,915,000	31,708,956	55,623,956
2026-2030	30,710,000	26,699,990	57,409,990
2031-2035	39,240,000	17,652,055	56,892,055
2036-2040	42,695,000	8,078,499	50,773,499
Total	<u>\$ 147,105,000</u>	<u>\$ 111,783,395</u>	<u>\$ 258,888,395</u>

Total interest costs on the above bonds incurred during 2016 were \$7,155,648, and federal direct payments on the 2010B Bonds were \$578,626. No interest costs were capitalized in 2016.

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.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

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, 2016:

	Restricted Assets	Restricted Net Position
Construction (Including Grants)	\$ 6,761,100	\$ 6,582,232
Renewal and Replacement	2,571,228	2,571,228
Operations Reserve	8,237,024	8,237,024
Rate Stabilization Account	1,970,729	1,970,729
Total	\$ 19,540,081	\$ 19,361,213

Contracts payable in the amount of \$178,868 account for the variance between Restricted Assets and Restricted Net Position above.

Within the assets restricted for construction above, certain amounts have been attributed to specific customers to be used toward future projects as follows:

	Allocated Construction
Charlotte County	\$ 0
Sarasota County	2,357,291
City of North Port	3,057,489
Total	\$ 5,414,780

Note 7 - Retirement Plan

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any state-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the Authority are eligible to enroll as members of the State-administered FRS. Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer defined-benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' web site (www.dms.myflorida.com).

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 7 - Retirement Plan (Continued)

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership applicable to the Authority are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of the Plan may include up to four years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. The following chart shows the percentage value for each year of service credit earned:

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 7 - Retirement Plan (Continued)

FRS Pension Plan (Continued)
Benefits Provided. (Concluded)

Class, Initial Enrollment, and Retirement Age/Years of Service	Percent Value
<i>Regular Class Members Initially Enrolled Before July 1, 2011:</i>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<i>Regular Class Members Initially Enrolled on or After July 1, 2011:</i>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<i>Senior Management Service Class</i>	2.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3% per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3%. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the Authority's 2015-16 fiscal year were as follows:

Class	Year Ended June 30, 2016		Year Ended June 30, 2017	
	Percent of Gross Salary		Percent of Gross Salary	
	Employee	Employer	Employee	Employer
FRS, Regular	3.00	5.56	3.00	5.80
FRS, Senior Management Services	3.00	19.73	3.00	20.05
DROP – Applicable to Members from All of the Above Classes	0.00	11.22	0.00	11.33
Investment Plan, Regular	0.00	2.65	0.00	2.83
FRS, Reemployment Retiree	(1)	(1)	(1)	(1)

Notes: (1) Contribution rates are dependent upon retirement class in which reemployed.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 7 - Retirement Plan (Continued)

FRS Pension Plan (Continued)

Contributions. *(Concluded)*

The Authority's contributions (employer only) to the Plan totaled \$188,652 for the fiscal year ended September 30, 2016. This excludes the HIS defined benefit pension plan contributions.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2016, the Authority reported a liability of \$1,855,745 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Authority's proportionate share of the net pension liability was based on the Authority's 2015-16 fiscal year contributions relative to the fiscal year 2014-15 fiscal year contributions of all participating members. At June 30, 2016, the Authority's proportion was .007349464%, which was a decrease of .0000103965 from its proportion measured as of June 30, 2015.

For the year ended September 30, 2016, the Authority recognized pension expense of \$311,026 related to the Plan. At September 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Employer Contributions after Measurement Date	\$ 51,381	\$ 0
Difference Between Expected and Actual Experience	142,090	17,278
Changes of Assumptions	112,267	0
Changes in Proportion and Difference Between Authority Contributions and Proportionate Share of Contributions	178,023	123,563
Net Difference between Projected and Actual Earnings on Pension Plan Investments	479,688	0
Total	<u>\$ 963,449</u>	<u>\$ 140,841</u>

The deferred outflows of resources related to pensions, totaling \$51,381, resulting from Authority contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2017	\$ 126,795
2018	126,795
2019	313,807
2020	194,893
2021	8,852
Thereafter	85
Total	<u>\$ 771,227</u>

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 7 - Retirement Plan (Continued)

FRS Pension Plan (Continued)

Actuarial Assumptions. The total pension liability in the July 1, 2016, actuarial valuation was determined using the individual entry age cost method, and the following actuarial assumptions:

Inflation	2.60%
Salary Increases	3.25% Average, Including Inflation
Investment Rate of Return	7.60% Net of Pension Plan Investment Expense, Including Inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Annual Arithmetic Return</u>	<u>Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	<u>100%</u>			
Assumed Inflation – Mean		2.6%		1.9%

Discount Rate. The discount rate used to measure the total pension liability was 7.60%. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate was 7.65% in the July 1, 2015 valuation.

Sensitivity of the Authority's Proportionate Share of the Net Position Liability to Changes in the Discount Rate. The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60%) or 1-percentage-point higher (8.60%) than the current rate:

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 7 - Retirement Plan (Continued)

FRS Pension Plan (Concluded)

Sensitivity of the Authority's Proportionate Share of the Net Position Liability to Changes in the Discount Rate. (Concluded)

FRS – Authority:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Authority's Proportionate Share of the Net Pension Liability	\$ 3,416,553	\$ 1,855,745	\$ 556,579

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan. At September 30, 2016, the Authority reported a payable of \$28,344 for the outstanding amount of contributions to the Plan required for the fiscal year ended September 30, 2016.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Division of Retirement within the Florida Department of Management Services.

Benefits Provided. For the fiscal year ended September 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the Plan fiscal years ended June 30, 2017 and 2016, the contribution rates were 1.66% and 1.66% of payroll respectively, pursuant to Section 112.363, Florida Statutes. The Authority contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The Authority's contributions to the HIS Plan totaled \$43,099 for the fiscal year ended September 30, 2016.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 7 - Retirement Plan (Continued)

HIS Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2016, the Authority reported a net pension liability of \$931,101 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The Authority's proportionate share of the net pension liability was based on the Authority's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the Authority's proportionate share was .007989135%, which was a decrease of .00000039047 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended September 30, 2016, the Authority recognized pension expense of \$75,769 related to the HIS Plan. In addition, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Employer Contributions after Measurement Date	\$ 11,083	\$ 0
Difference Between Expected and Actual		
Experience	0	2,121
Changes of Assumptions	146,113	0
Changes in Proportion and Difference between		
Authority Contributions and Proportionate		
Share of Contributions	0	7,963
Net Difference between Projected and Actual		
Earnings on Pension Plan Investments	471	0
Total	<u>\$ 157,667</u>	<u>\$ 10,084</u>

The deferred outflows of resources related to pensions, totaling \$11,083, resulting from Authority contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
2017	\$ 24,275
2018	24,275
2019	24,186
2020	24,143
2021	21,336
Thereafter	18,285
Total	<u>\$ 136,500</u>

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 7 - Retirement Plan (Continued)

HIS Pension Plan (Concluded)

Actuarial Assumptions. The total pension liability in the July 1, 2016, actuarial valuation was determined using the individual entry age cost method, and the following actuarial assumptions:

Inflation	2.60%
Salary Increases	3.25% Average, Including Inflation
Investment Rate of Return	2.85% Net of Pension Plan Investment Expense, Including Inflation

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

The actuarial assumptions used in the July 1, 2016 valuation, were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate. The discount rate used to measure the total pension liability was 2.85%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 2.85%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.85%) or 1-percentage-point higher (3.85%) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
Authority's Proportionate Share of the Net Pension Liability	\$ 1,068,184	\$ 931,101	\$ 817,329

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan. At September 30, 2016, the Authority reported a payable of \$4,781 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended September 30, 2016.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Continued)

Note 7 - Retirement Plan (Continued)

FRS – Defined Contribution Pension Plan

The Authority contributes to the FRS Investment Plan (Investment Plan), a defined contribution pension plan, for its eligible employees electing to participate in the Investment Plan. The Investment Plan is administered by the SBA, and is reported in the SBA’s annual financial statements and in the State of Florida Comprehensive Annual Financial Report. Service retirement benefits are based upon the value of the member’s account upon retirement.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. Authority employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member’s accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Allocations to the investment member’s accounts during the 2015-16 fiscal year were as follows:

Class	Percent of Gross Compensation
FRS, Regular	6.30%
FRS, Senior Management Service	7.67%

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five year period, the employee will regain control over their account. If the employee does not return within the five year period, the employee will forfeit the accumulated account balance. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04% of payroll and by forfeited benefits of Investment Plan members. For the fiscal year ended September 30, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the Authority.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016
(Concluded)

Note 7 - Retirement Plan (Concluded)

FRS – Defined Contribution Pension Plan (Concluded)

The Authority’s Investment Plan pension expense totaled \$8,593 for the fiscal year ended September 30, 2016.

Payables to the Pension Plan. At September 30, 2016, the Authority reported a payable of \$2,103 for the outstanding amount of contributions to the Investment Plan required for the fiscal year ended September 30, 2016.

Note 8 - Operating Lease

The Authority leases its administrative headquarters in Lakewood Ranch, Florida. The lease is for a five-year term through March 31, 2017, with two five-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 2016 was \$150,703. Future minimum commitments under this operating lease as of September 30, 2016, are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 75,843

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.

REQUIRED SUPPLEMENTARY INFORMATION

**PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PENSION PLANS
LAST 10 FISCAL YEARS**

FLORIDA RETIREMENT SYSTEM PENSION PLAN

Year Ended June 30,	Authority's Proportion of the FRS Net Pension Plan	Authority's Proportion Share of the FRS Net Pension Plan Liability	Authority's Covered- Employee Payroll (FYE June 30)	Authority's Proportionate Share of the FRS Net Pension Liability as a Percentage of its Covered- Employee Payroll	FRS Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.007989257%	\$ 487,462	\$ 2,390,715	20.39%	96.09%
2015	0.008389114%	1,083,567	2,460,331	44.04%	92.00%
2016	0.007349464%	1,855,745	2,466,289	75.24%	84.88%

HEALTH INSURANCE SUBSIDY PENSION PLAN

Year Ended June 30,	Authority's Proportion of the HIS Net Pension Plan	Authority's Proportion Share of the HIS Net Pension Liability	Authority's Covered- Employee Payroll (FYE June 30)	Authority's Proportionate Share of the HIS Net Pension Liability as a Percentage of its Covered- Employee Payroll	HIS Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.008048456%	\$ 752,550	\$ 2,304,992	32.65%	0.99%
2015	0.008028182%	818,748	2,460,331	33.28%	0.50%
2016	0.007989135%	931,101	2,466,289	37.75%	0.97%

Note:

Additional information will be provided annually until ten years' data is presented.

**PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
SCHEDULE OF AUTHORITY CONTRIBUTIONS
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PENSION PLANS
LAST 10 FISCAL YEARS**

FLORIDA RETIREMENT SYSTEM PENSION PLAN

Year Ended September 30,	Contractually Required Contribution	FRS Contribution in Relation to the Contractually Required Contribution	FRS Contribution Deficiency (Excess)	Authority's Covered- Employee Payroll (FYE September 30)	FRS Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 219,705	\$ (219,705)	\$ 0	\$ 2,411,837	9.11%
2015	201,785	(201,785)	0	2,458,752	8.21%
2016	188,652	(188,652)	0	2,600,710	7.25%

HEALTH INSURANCE SUBSIDY PENSION PLAN

Year Ended September 30,	Contractually Required Contribution	HIS Contribution in Relation to the Contractually Required Contribution	HIS Contribution Deficiency (Excess)	Authority's Covered- Employee Payroll (FYE September 30)	HIS Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 34,372	\$ (34,372)	\$ 0	\$ 2,411,837	1.43%
2015	32,819	(32,819)	0	2,458,752	1.33%
2016	43,099	(43,099)	0	2,600,710	1.66%

Note:

Additional information will be provided annually until ten years' data is presented.

PEACE RIVER/MANASOTA REGIONAL WATER SUPPLY AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2016

Note I - Changes in Benefit Terms and Assumptions - 2016

Changes in Benefit Terms from the year ended June 30, 2015 to June 30, 2016:

- **FRS**—No significant changes.
- **HIS**—No significant changes.

Changes in Assumptions from the year ended June 30, 2015 to June 30, 2016:

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

Note II - Changes in Benefit Terms and Assumptions - 2015

Changes in Benefit Terms from the year ended June 30, 2014 to June 30, 2015:

- **FRS**—No significant changes.
- **HIS**—No significant changes.

Changes in Assumptions from the year ended June 30, 2014 to June 30, 2015:

- **FRS**—No significant changes. The inflation rate assumption remained at 2.60%, the real payroll growth assumption remained at 0.65%, and the overall payroll growth rate assumption remained at 3.25%. The long-term expected rate of return remained at 7.65%.
- **HIS**—The municipal rate used to determine total pension liability decreased from 4.29% to 3.80%.

**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, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2017.

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.

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 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.

Durvis, Gray and Company, LLP

March 10, 2017
Sarasota, Florida

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE
WITH FLORIDA STATUTE SECTION 218.415 – INVESTMENTS OF PUBLIC FUNDS**


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

We have examined the Peace River/Manasota Regional Water Supply Authority's (the Authority) compliance with Section 218.415, Florida Statutes, during the fiscal year ended September 30, 2016. Management is responsible for the Authority's compliance with those requirements. 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.

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

This report is intended solely for the information and use of 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.


March 10, 2017
Sarasota, Florida

Certified Public Accountants

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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, 2016, and have issued our report thereon dated March 10, 2017.

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*; and Independent Accountants' Report on Compliance with Florida Statute Section 218.415 – Investments of Public Funds. Disclosures in those reports, which are dated March 10, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The Authority was created by interlocal agreement dated February 26, 1982. There are no component units.

Financial Condition

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether or not 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*.

Certified Public Accountants

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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), *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

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

Other Matters

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

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

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, 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.


March 10, 2017
Sarasota, Florida