

**LOXAHATCHEE RIVER ENVIRONMENTAL  
CONTROL DISTRICT**

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

**SEPTEMBER 30, 2011 AND 2010**

LOXAHATCHEE RIVER ENVIRONMENTAL  
CONTROL DISTRICT

TABLE OF CONTENTS

SEPTEMBER 30, 2011 AND 2010

	<u>Page</u>
Independent Auditor's Report	1- 2
Management's Discussion and Analysis	3-12
Basic Financial Statements	
Statements of Net Assets	13-14
Statements of Revenues, Expenses and Changes in Net Assets	15
Statements of Cash Flows	16-17
Notes to Financial Statements	18-37
Other Reports	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38-39
Management Letter	40-42



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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Loxahatchee River Environmental Control District  
Jupiter, Florida

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We have audited the accompanying financial statements of the Loxahatchee River Environmental Control District (the "District") as of and for the years ended September 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 11, 2012, on our consideration of the District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Nowlen, Holt & Mimer, P.A.*

West Palm Beach, Florida  
April 11, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Loxahatchee River Environmental Control District (the District), we offer the readers of the District's financial statements this narrative overview and analysis of the financial activities of the Loxahatchee River Environmental Control District for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented in this discussion and analysis in conjunction with the District's basic financial statements, which begin on page 13.

### FINANCIAL HIGHLIGHTS

- √ The District's net assets decreased by \$321,853, or less than one percent.
- √ Total revenues (operating and non-operating) for the year ended September 30, 2011, were \$15,465,181. This represents an increase of \$661,137, or 4%, when compared with the prior year. Operating revenues from regional sewer service increased by 9% due to a 7.5% rate increase implemented in April, 2011 and additional customers, while noncapital grants decreased by 62% and interest income decreased by 20%.
- √ Contributed assets totaled \$286,565 and consisted of three sanitary sewer facilities constructed and turned over to the District by individual developers.
- √ Total operating expenses, including depreciation and amortization, were \$17,204,574. Excluding depreciation and amortization, this represents an increase of \$598,819, or 6%, when compared with the prior year. Operational costs increased by 14% primarily due to a 100% increase in pass through costs for the Town of Jupiter's nanofiltration concentrate (partial year to a full year), 13% increase in freight and postage, a 5% increase in utility services and a new master lift station and headworks odor scrubber lease agreement. A 10% decrease in supplies and chemicals was directly related to the new scrubber lease agreement. Repair & maintenance costs increased 13%, much of which is attributable to the \$5,000 limit in our capitalization policy.
- √ Operating expenses (excluding depreciation and amortization) were \$550,123 less than the budget adopted by the Governing Board.
- √ The components of net assets as of September 30, 2011, were as follows:
  - Invested in capital assets, net of related debt \$103,274,062
  - Restricted \$6,308,855 (\$6,050,000 for renewal & replacement and \$258,855 for debt service)
  - Unrestricted \$24,274,660

### OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

## **Required Financial Statements**

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

## **Notes to the Financial Statements**

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

## **FINANCIAL ANALYSIS OF THE DISTRICT**

Net assets may serve over time as a useful indicator of a government's financial position. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District's activities in a way that will help determine the District's financial position at September 30, 2011. The District's net assets, the difference between assets and liabilities, are one way to measure the financial health or financial position of the District. Over time, increases and decreases in the District's net assets indicate whether the District's financial health is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, and new or changed governmental legislation also impact the District's fiscal condition.

## **NET ASSETS**

We begin our analysis by providing a summary of the District's statements of net assets for years ended September 30, 2011, 2010 and 2009.

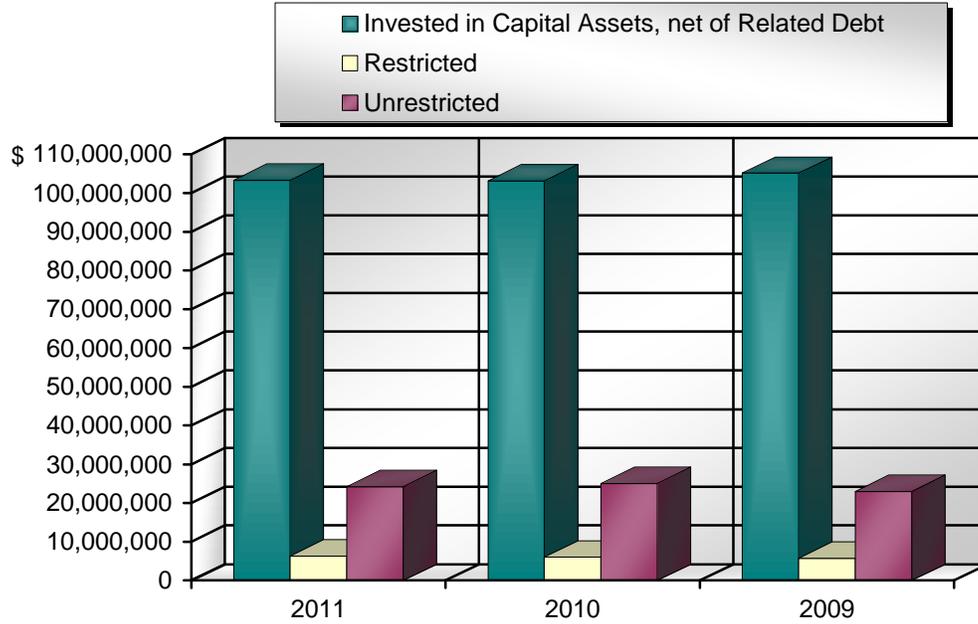
### Condensed Statements of Net Assets

	2011	2010	% Change	2009	% Change
Current and other assets	\$ 34,639,065	\$ 34,487,431	0%	\$ 32,335,852	7%
Capital assets, net	110,848,034	112,209,944	(1%)	115,728,886	(3%)
<b>Total assets</b>	<b>145,487,099</b>	<b>146,697,375</b>	<b>(1%)</b>	<b>148,064,738</b>	<b>(1%)</b>
Long-term debt	5,968,321	7,573,992	(21%)	9,139,916	(17%)
Other liabilities	5,661,201	4,943,953	15%	5,031,281	(2%)
<b>Total liabilities</b>	<b>11,629,522</b>	<b>12,517,945</b>	<b>(9%)</b>	<b>14,171,197</b>	<b>(12%)</b>
Net assets:					
Invested in capital assets	103,274,062	103,076,355	0%	105,095,535	(2%)
Restricted for:					
Renewal and replacement	6,050,000	5,800,000	4%	5,550,000	5%
Debt service	258,855	254,972	2%	247,436	3%
Unrestricted	24,274,660	25,048,103	(3%)	23,000,570	9%
<b>Total net assets</b>	<b>133,857,577</b>	<b>134,179,430</b>	<b>0%</b>	<b>133,893,541</b>	<b>0%</b>
<b>Total liabilities and net assets</b>	<b>\$145,487,099</b>	<b>\$146,697,375</b>	<b>(1%)</b>	<b>\$148,064,738</b>	<b>(1%)</b>

As illustrated in the table above, the District's assets exceeded liabilities by \$133,857,577, \$134,179,430 and \$133,893,541 at September 30, 2011, 2010 and 2009, respectively. At September 30, 2011, the largest portion of the District's net assets (77%) reflects its investments in capital assets (land, treatment and disposal systems, collection and transmission systems, equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to pay these liabilities. At this time, the \$9.5 million in noncurrent special assessments receivable is more than sufficient to repay the \$5.9 million in noncurrent bonds payable.

An additional portion of the District's net assets (5%) represents resources that are subject to restrictions on how they may be used. Specifically, for fiscal year 2011 the District had reserved cash in the amount of \$6.05 million for renewal and replacement and \$258,855 for debt service.

The following graph presents the components of the District's net assets as of September 30, 2011, 2010 and 2009.



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

The District's net assets decreased by \$321,853 during the fiscal year ending September 30, 2011. Much of this decrease is due to loss on disposal of fixed assets that prematurely reached the end of their useful lives (i.e. were depreciated over too long of a period). The remainder is mainly due to a decrease in both grants and interest income.

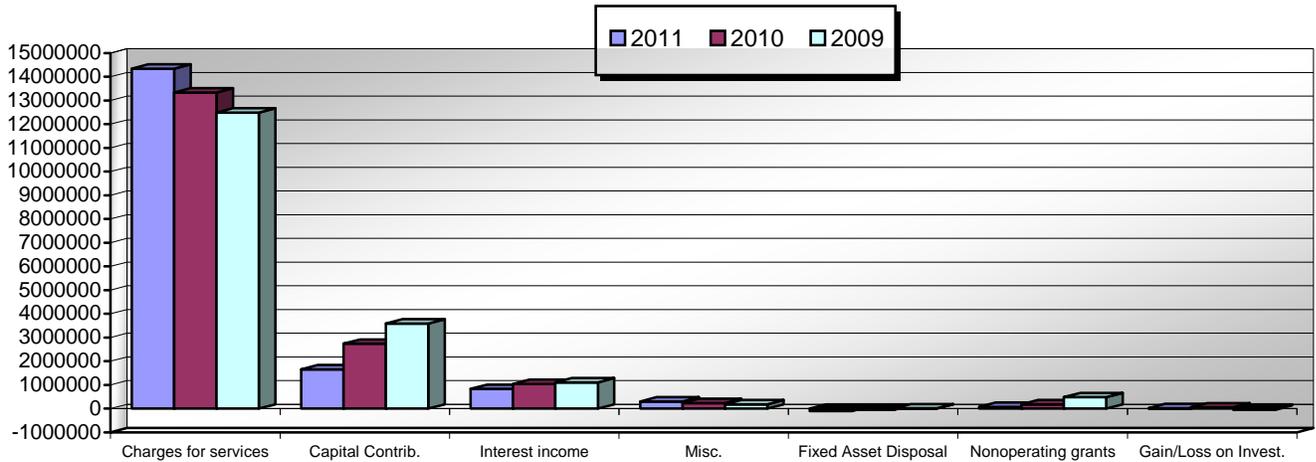
The following analysis highlights the changes in net assets for the years ended September 30, 2011, 2010 and 2009:

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

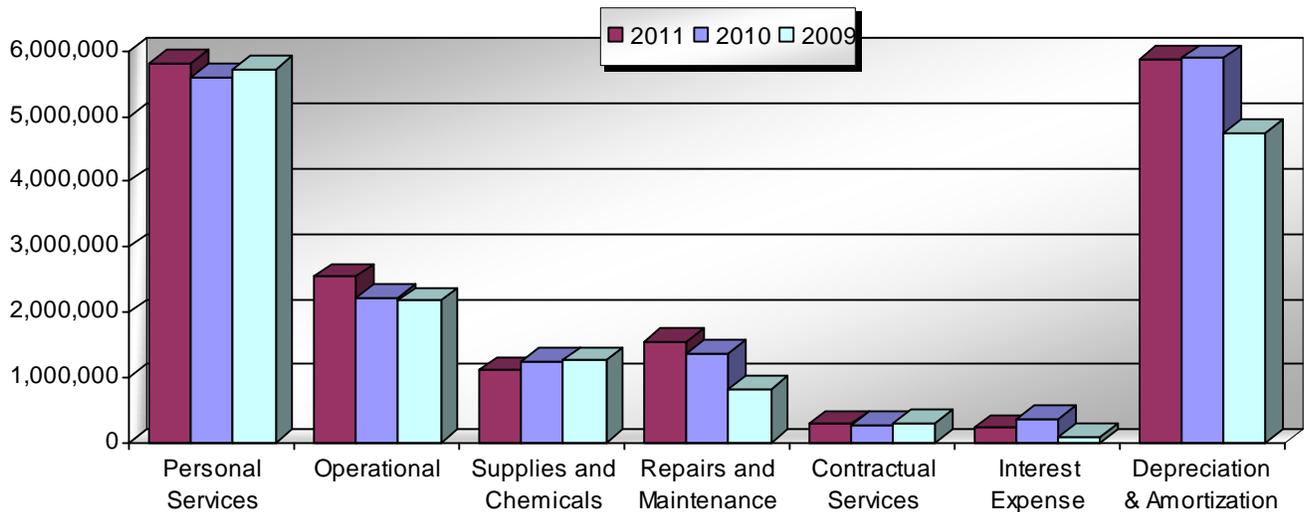
	<b>2011</b>	<b>2010</b>	<b>% Change</b>	<b>2009</b>	<b>% Change</b>
Operating Revenues	\$ 14,643,315	\$ 13,578,224	8%	\$13,156,131	3%
Nonoperating Revenues	821,866	1,225,820	(33%)	1,073,065	14%
<b>Total Revenues</b>	<b>15,465,181</b>	<b>14,804,044</b>	<b>4%</b>	<b>14,229,196</b>	<b>4%</b>
Depreciation & Amortization Expense	5,876,477	5,885,491	0%	4,744,141	24%
Operating Expense	11,328,097	10,729,278	6%	10,299,038	4%
Nonoperating Expense	239,883	367,996	(35%)	103,556	255%
<b>Total Expenses</b>	<b>17,444,457</b>	<b>16,982,765</b>	<b>3%</b>	<b>15,146,735</b>	<b>12%</b>
<b>Income (Loss) before Capital Contributions</b>	<b>(1,979,276)</b>	<b>(2,178,721)</b>	<b>(9%)</b>	<b>(917,539)</b>	<b>137%</b>
Capital Contributions	1,657,423	2,738,273	(39%)	3,585,788	(24%)
Extraordinary item-escrow shortage	0	(273,663)		0	
<b>Change in net assets</b>	<b>(321,853)</b>	<b>285,889</b>	<b>(213%)</b>	<b>2,668,249</b>	<b>(89%)</b>
Net assets, beginning of year	134,179,430	133,893,541	0%	131,225,292	2%
<b>Net assets, end of year</b>	<b>\$133,857,577</b>	<b>\$134,179,430</b>	<b>0%</b>	<b>\$133,893,541</b>	<b>0%</b>

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

The chart below shows revenues by source for fiscal years ended September 30, 2011, 2010, and 2009, respectively. The continuing decline in capital contributions, due largely to continuing reductions in developer contributed assets, is the largest change that occurred between 2009 and 2011. In addition, interest income has shown a steady decline since 2009. Charges for services have shown modest positive increases since 2009.



The following graph presents expenses (operating and non-operating) for the last three years. The change in personal services is largely attributable to full employment and overtime being used to complete projects in-house rather than using outside contractors. The majority of the increase in operational expenses was due to increasing Town of Jupiter nanoconcentrate pass through costs, freight, postage and utility services. The addition of leased equipment to operational expenses resulted in a decrease in supplies and chemicals costs. The majority of the increase in repair & maintenance was due to a change in capital policy. The increase in depreciation & amortization in 2010 is due to shortening the expected lives of the most recent plant expansion equipment.



## BUDGETARY HIGHLIGHTS

The District adopts an Operating Budget that is approved by the Governing Board prior to the start of each fiscal year. The budget remains in effect for the entire fiscal year and the Governing Board must approve any revisions that increase total appropriations. Because proprietary fund budgets are not part of the basic financial statements or required supplementary information, the fiscal year 2011 budget is not reported on, nor shown in, the financial statement section of this report. However, the table below presents a comparison between budget and actual as of September 30, 2011.

	<b>Budget</b>	<b>Actual</b>	<b>Favorable (Unfavorable) Variance</b>
Operating revenues	\$ 14,314,185	\$ 14,643,315	\$ 329,130
Operating expenses less depreciation	\$ 11,878,220	\$ 11,328,097	\$ 550,123
Nonoperating revenues – interest income	\$ 1,068,000	\$ 832,981	\$ (235,019)

The favorable variance in operating revenues relates to greater than anticipated regional sewer service revenue as a result of a 7.5% rate increase and an increase in customers.

The majority of the favorable variance in operating expenses is related to several factors including conservative budgeting, decreased engineering support services and other contractual services, and a decrease in chemical costs due to including these costs in the leasing of equipment.

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The District's investment in capital assets as of September 30, 2011, amounts to \$110,848,034 (net of accumulated depreciation), a 1% decrease from the prior year. This investment in capital assets includes land, treatment and reuse/disposal system, collection and transmission system, equipment, and construction in progress. Although there were \$3.2 million in capital additions and total related debt decreased by \$1.5 million, the decrease of \$5.8 million from normal scheduled depreciation contributed largely to the net decrease in capital assets.

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

- ✓ Construction work in progress as of the close of the fiscal year ended September 30, 2011, was \$1,908,506. Of this amount, \$401,830 was for the western force main, \$516,809 was for U.S. One sewer adjustments and \$517,003 was for the master lift station rehabilitation.

- ✓ Construction of new treatment and disposal features and renewal of existing features were completed during fiscal year 2011 at a cost of \$1,024,408.
- ✓ Construction of new collection and transmission systems and renewal of existing features were completed in fiscal year 2011 at a cost of \$1,354,610.

Additional information on the District’s capital assets, including projects under construction, can be found in Note 4 on page 29 of this report.

Long-term debt. The District has four Utility System Revenue Bonds, \$2,400,000 Series 1997B, \$2,600,000 Series 1997C, \$3,600,000 Series 2009, and \$3,693,245 Series 2010. The principal and interest due on each of the bonds at September 30, 2011, as well as the current portion to be paid by September 30, 2012, are shown below.

<b>Revenue Bonds</b>	<b>Matures</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Series 1997B	2017	\$ 916,712	\$ 136,369	\$ 1,053,081
Series 1997C	2017	985,403	118,395	1,103,798
Series 2009	2024	3,240,290	1,047,348	4,287,638
Series 2010	2013	2,431,567	65,705	2,497,272
Total due as of 9/30/11		7,573,972	1,367,817	8,941,789
Less current portion (11/12)		(1,605,651)	(270,593)	(1,876,244)
<b>Total due as of 9/30/12</b>		<b>\$5,968,321</b>	<b>\$1,097,224</b>	<b>\$ 7,065,545</b>

The District’s long-term debt of \$5,968,321 represents a decrease of \$1,605,671 from the prior year. Additional information on the District’s long-term debt can be found in Note 6 on pages 32 through 34 of this report.

## **ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES**

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

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

## **Revenue**

### **Quarterly Service Charges**

Revenue from quarterly service charges to residential and commercial customers is projected to increase at a rate of 5% for the next several years based on adopted rule 31-10 scheduled rate increases and system growth. New connections are projected to increase by an average of 1% per year.

### **Miscellaneous Revenue**

Includes administrative and engineering fees, intergovernmental grants and miscellaneous revenues. Fees are fixed by District rule 31-10. As a result of economic conditions, grant revenues have declined significantly and are expected to stay very low over the next few years.

### **IQ Fees**

IQ fees have reached a stable level pending the availability of additional product. Fee increases, adjusted by the Engineering News Record, Construction Cost Index, are scheduled for implementation in accordance with District rule 31-10.

### **Plant Charge**

These charges are scheduled to increase at a rate of 5% for the next several years. The current level of growth is expected to continue to experience a significant decline from the prior 10 years.

### **Line Charge**

Line charges are projected to increase at a rate of 5% for the next several years. New development agreements are projected to remain very low for the next few years.

### **Assessments**

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

### **Interest**

A 1% return is projected through 2014 with rates increasing to 3% in 2017 and beyond. The principal amount available for investment will decrease as on-going and scheduled capital and renewal and replacement programs are completed.

Annual cash flow is projected to be negative four out of the next seven years (e.g., 2012, 2013, 2015 and 2016). Additional debt in the amount of \$6 million will be incurred in 2014 to support projected neighborhood sewerage projects and renewal of our travelling bridge (sand) filters with deep bed filters capable of meeting more stringent nutrient limits, if necessary.

The District has extended financing of connection fees for a period of up to three years at 8% simple interest for customers with preexisting homes and commercial properties (i.e., neighborhood sewerage projects).

## **Expenses**

### **Administration/Engineering/Operations**

Annual increases of 5.5% to 6% are projected based on system growth and increasing costs through the year 2019.

### **Loan Payment**

Current payments are fixed. By 2014 additional indebtedness in the amount of \$6 million will occur to fund neighborhood sewerage and renewal of travelling bridge filters. In 2013, the series 2010 bond debt will be retired and in 2017 both 1997 bonds will be retired.

### **Capital Improvement / Collection & Transmission Lines**

Neighborhood sewerage programs will continue at a pace of approximately \$1,000,000 per year in future years with the District continuing to pay 10% of associated neighborhood sewerage costs.

### **Capital Improvement / Treatment & Disposal**

New odor control facilities are currently under design for the biosolids processing area at an estimated total cost of \$2,100,000. Capital projects are expected to cost an average of \$700,000 per year through 2019.

### **Renewal & Replacement**

Planned projects, which include rehabilitation of the on-site biosolids facility, sand filters, a clarifier and lift stations, force mains and collection systems, are projected to cost an average of \$3,500,000 per year through 2019.

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

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

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT**  
**Statements of Net Assets**  
**September 30, 2011 and 2010**

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 2,337,599	\$ 3,429,619
Investments - unrestricted	5,150,974	5,993,047
Investments - restricted	6,591,420	6,347,039
Receivables		
Accounts	734,228	542,286
Special assessments	487,516	454,962
Accrued interest	699,870	658,643
Due from other governments	103,797	193,467
Inventories	761,101	552,404
Prepaid expenses	354,519	328,394
Total current assets	17,221,024	18,499,861
Noncurrent assets		
Receivables		
Accounts	362,715	279,700
Special assessments	9,531,380	9,869,828
Investments	4,113,687	2,797,521
Investment in joint venture	3,410,259	3,040,521
Capital assets		
Non-depreciable	2,762,940	1,426,848
Depreciable (net of depreciation)	108,085,094	110,783,096
Total noncurrent assets	128,266,075	128,197,514
Total assets	\$ 145,487,099	\$ 146,697,375

Continued on the following page.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT**  
**Statements of Net Assets (Continued)**  
**September 30, 2011 and 2010**

	2011	2010
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 415,724	\$ 312,717
Construction contracts payable	831,295	209,492
Bonds payable (current)	1,329,974	1,285,017
<b>Accrued liabilities</b>		
Accrued interest	16,821	19,606
Wages and payroll taxes	162,021	134,441
Pension	92,315	81,545
Compensated absences	606,245	548,570
Deferred revenue	1,665,385	1,805,526
Total current liabilities (payable from current assets)	5,119,780	4,396,914
<b>Payable from restricted assets</b>		
Accrued interest	7,004	8,102
Bonds payable (current)	275,677	274,578
Customer deposits	258,740	264,359
Total current liabilities (payable from restricted assets)	541,421	547,039
Total current liabilities	5,661,201	4,943,953
<b>Noncurrent liabilities</b>		
Bonds payable	5,968,321	7,573,992
Total noncurrent liabilities	5,968,321	7,573,992
<b>Total liabilities</b>	11,629,522	12,517,945
<b>Net Assets</b>		
Invested in capital assets, net of related debt	103,274,062	103,076,355
Restricted for:		
Renewal and replacement	6,050,000	5,800,000
Debt service	258,855	254,972
Unrestricted	24,274,660	25,048,103
Total net assets	133,857,577	134,179,430
<b>Total liabilities and net assets</b>	\$ 145,487,099	\$ 146,697,375

See notes to the financial statement.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating revenues		
Charges for services	\$ 14,337,671	\$ 13,340,593
Miscellaneous	305,644	237,631
Total operating revenues	<u>14,643,315</u>	<u>13,578,224</u>
Operating expenses		
Personal services	5,812,896	5,601,498
Operational	2,543,941	2,224,518
Supplies and chemicals	1,118,311	1,247,970
Repairs and maintenance	1,556,464	1,376,050
Contractual services	296,485	279,242
Depreciation and amortization	5,876,477	5,885,491
Total operating expenses	<u>17,204,574</u>	<u>16,614,769</u>
Operating (loss)	<u>(2,561,259)</u>	<u>(3,036,545)</u>
Nonoperating revenues (expenses)		
Grants	68,909	182,500
Interest income	832,981	1,040,468
Interest expense	(239,883)	(367,996)
Net gain (loss) on fair value of investments	18,580	53,959
Gain (loss) on disposal of capital assets	(98,604)	(51,107)
Total nonoperating revenues (expenses)	<u>581,983</u>	<u>857,824</u>
Income before capital contributions	(1,979,276)	(2,178,721)
Capital contributions	1,657,423	2,738,273
Extraordinary item		
Escrow shortage for refunded bonds		<u>(273,663)</u>
Change in net assets	(321,853)	285,889
Total net assets, beginning of year	<u>134,179,430</u>	<u>133,893,541</u>
Total net assets, end of year	<u>\$ 133,857,577</u>	<u>\$ 134,179,430</u>

See notes to the financial statement.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT**  
**Statements of Cash Flows**  
**For the Fiscal Year Ended September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from customers	\$ 14,057,095	\$ 13,166,063
Other receipts (payments)	255,173	732,535
Payments to employees	(5,716,871)	(5,610,542)
Payments for goods and services	<u>(5,647,016)</u>	<u>(5,151,491)</u>
Net cash provided (used) by operating activities	<u>2,948,381</u>	<u>3,136,565</u>
Cash flows from non-capital financing activities:		
Grant	<u>68,909</u>	<u>182,500</u>
Net cash provided (used) by non-capital financing activities	<u>68,909</u>	<u>182,500</u>
Cash flows from capital and related financing activities:		
Contributed capital	940,003	1,504,656
Proceeds from debt issued		3,693,245
Acquisition and construction of capital assets	(4,007,214)	(2,644,490)
Cash received from the sale of capital assets	5,536	43,834
Payment to escrow for refunded bonds		(273,663)
Principal paid on bonds and notes payable	(1,559,615)	(5,193,009)
Proceeds from collections of special assessments	736,749	804,013
Interest paid on bonds and notes payable	<u>(316,629)</u>	<u>(409,638)</u>
Net cash provided (used) by capital and related financing activities	<u>(4,201,170)</u>	<u>(2,475,052)</u>
Cash flows from investing activities:		
Purchase of investments	(13,767,540)	(12,302,859)
Proceeds from sales of investments	13,067,646	9,810,638
Interest and dividends on investments	<u>791,754</u>	<u>999,173</u>
Net cash provided (used) by investing activities	91,860	(1,493,048)
Net increase (decrease) in cash and cash equivalents	(1,092,020)	(649,035)
Cash and cash equivalents at beginning of year	<u>3,429,619</u>	<u>4,078,654</u>
Cash and cash equivalents at end of year	<u>\$ 2,337,599</u>	<u>\$ 3,429,619</u>

Continued on the following page.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT**  
**Statements of Cash Flows (Continued)**  
**For the Fiscal Year Ended September 30, 2011 and 2010**

	2011	2010
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Operating loss	\$ (2,561,259)	\$ (3,036,545)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,876,477	5,885,491
(Increase) decrease in assets:		
Accounts receivable	(274,957)	(124,124)
Due from other governments	89,670	2,181
Inventory	(208,697)	(25,855)
Prepayments	(26,125)	3,184
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	199,032	(10,084)
Developer deposits	(5,619)	(50,406)
Deferred revenue	(140,141)	492,723
Net cash provided (used) by operating activities	\$ 2,948,381	\$ 3,136,565
 Noncash investing, capital and financing activities		
Developer contributions of lift stations, lines and equipment	\$ 286,565	\$ 199,637
Book value of assets disposed	104,140	94,941

See notes to the financial statements.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

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

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

**Basis of Presentation and Accounting**

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

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011 AND 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Basis of Presentation and Accounting* (Continued)

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consist of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District’s financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States. The District applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011 AND 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Basis of Presentation and Accounting* (Continued)

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the District's wastewater treatment enterprise fund are charges for the operation of the plant facilities. Operating expenses for the enterprise fund include the cost of the operation of the plant facilities, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Assets.

*Budgetary Accounting*

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

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

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011 AND 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Other Post Employment Benefits (OPEB)*

The District was required to implement Governmental Accounting Standards Board Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the fiscal year ending September 30, 2010. The District has determined that they do not provide any benefits that qualify as other post employment benefits under GASB 45.

*Estimates*

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

*Cash and Cash Equivalents*

The District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash balances are invested to the extent available in the State Treasurer's Investment Pool and money market funds.

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

*Investments*

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

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Inventory and Prepaid Items*

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

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

*Capital Assets*

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

Net interest cost is capitalized on capital projects during the construction period in accordance with Statements of Financial Accounting Standards Nos. 34 and 62.

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

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

*Accumulated Compensated Absences*

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

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Restricted Resources*

As of September 30, 2011 and 2010, the District had \$6,332,680 and \$6,082,680 of cash and investments reserved for renewal and replacement and debt service, respectively. Other than the liabilities designated to be paid from restricted assets, it is the District's policy to spend restricted funds only when unrestricted amounts are insufficient or unavailable.

*Contributions*

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

*Allowance for Doubtful Accounts*

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

**NOTE 2 - DEPOSITS AND INVESTMENTS**

*Deposits*

At September 30, 2011 and 2010, the carrying amount of the District's cash on deposit in its bank account was \$18,070,944 and \$18,424,465, and the related bank balance was \$18,522,246 and \$18,756,180, respectively. In addition, the District had cash on hand of \$10,850 and \$11,150, resulting in a total cash carrying amount of \$18,081,794 and \$18,435,615 in 2011 and 2010 respectively. The District's deposits include certificates of deposit in the amount of \$15,855,202 and \$15,006,003 with an original maturity greater than three months. The certificates of deposit are reported as investments in the statement of net assets. All deposits are insured by federal deposit insurance or collateralized pursuant to Chapter 280, Florida Statutes.

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

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011 AND 2010**

**NOTE 2 - DEPOSITS AND INVESTMENTS** (Continued)

*Investments*

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

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

The State Board of Administration is part of the Local Governments Surplus Funds Trust Fund and is governed by Chapter 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Local Governments Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration. The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7 fund.

On November 29, 2007, the State Board of Administration implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the Pool coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub prime mortgage risk. On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A, (Local Government Surplus Funds Trust Fund Investment Pool) consisted of all money market appropriate assets. Pool B, (Surplus Funds Trust Fund) consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 2 - DEPOSITS AND INVESTMENTS** (Continued)

*Investments* (Continued)

On August 3, 2009, the SBA announced “Florida PRIME” as the highly enhanced version of the SBA’s prior Local Government Investment Pool. Pool A is now referred to as Florida PRIME, and Pool B is referred to as Fund B.

At September 30, 2011, Florida PRIME was assigned a “AAA(m)” principal stability fund rating by Standard and Poor’s. Florida PRIME is considered a 2a-7 like fund, thus, the account balances should be considered its fair value. Fund B is not rated by any national rating agency.

The weighted average days to maturity (WAM) of Florida PRIME at September 30, 2011 was 38 days. A portfolio’s WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of Florida PRIME to interest rate changes.

The weighted average life (WAL) of Fund B at September 30, 2011 was 4.82 years. A portfolio’s WAL is the dollar weighted average length of time until securities held reach maturity. WAL is based on legal final maturity dates for Fund B as of September 30, 2011.

As of September 30, 2011 and 2010, the District had \$7 invested in Florida PRIME. The cost basis of its investment in Fund B as of September 30, 2011 and 2010 was \$147,824 and \$186,129 and the fair value and adjusted book value was \$111,879 and \$131,604, respectively. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 2 - DEPOSITS AND INVESTMENTS** (Continued)

*Investments* (Continued)

The District had the following investments as of September 30, 2011 and 2010:

	<b>September 30, 2011</b>	
	Weighted Average Maturity	Fair Value
Investment in:		
State Board of Administration		
Investment Pool		
Florida PRIME	38 days	\$       7
Fund B	4.82 years	<u>111,879</u>
		<u>\$ 111,886</u>

	<b>September 30, 2010</b>	
	Weighted Average Maturity	Fair Value
Investment in:		
State Board of Administration		
Investment Pool		
Florida PRIME	52 days	\$       7
Fund B	7.49 years	<u>131,604</u>
		<u>\$ 131,611</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits its investments to high quality investments to control credit risk. As of September 30, 2011, Florida PRIME is rated by Standard & Poors and Fund B is not rated. The current rating for Florida PRIME is "AAA(m)".

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 2 - DEPOSITS AND INVESTMENTS** (Continued)

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District's investments are held by the investment's counterparty, not in the name of the District.

**NOTE 3 – INVESTMENT IN JOINT VENTURE**

*Biosolids Processing and Recycling Facility*

On September 23, 2003, the District entered into an interlocal agreement (Agreement) with the Solid Waste Authority (SWA) to fund a portion of the cost to design, build, and operate a Biosolids Processing and Recycling Facility (BPF). Amendments to the agreement were approved May 3, 2005 and July 11, 2006.

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

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

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 3 – INVESTMENT IN JOINT VENTURE** (Continued)

Since the BPF agreement does not state that the participants are to share in the profits and losses of the joint venture, the investment in joint venture account will not be adjusted to reflect the joint venture's results of operations. Rather the investment in joint venture will be amortized using the straight-line method over the twenty-year life of the agreement. The amortization started on August 1, 2009. The District's 10.5% share resulted in pro rata obligations of \$3,760,052 million for construction costs. The District's total operating costs were \$494,572 and \$435,975 for the years ended September 30, 2011 and 2010.

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

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

The SWA is in dispute with NEFCO and on November 1, 2010, an Arbitration panel awarded NEFCO the total sum of \$1,335,871. This Arbitration award was under appeal.

On March 22, 2011 SWA and NEFCO reached a negotiated settlement for all claims brought forth by both parties related to the design and construction of the Biosolids Processing Facility resulting in an increase in the total project Capital Cost of \$3,098,686. The settlement agreement was subsequently approved by the SWA Governing Board at the June 2011 meeting. This amount includes the net cost of delays, additional work, liquidated damages and claims defense expenses. The District will be required to make an additional contribution of \$325,362 under the terms of the Interlocal Government Agreement with SWA. This amount is accounted for in the investment in joint venture as well as contracts payable.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 3 – INVESTMENT IN JOINT VENTURE** (Continued)

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

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

**NOTE 4 - CAPITAL ASSETS**

A summary of the District's property, plant, and equipment at September 30, 2011 and 2010 is as follows:

	<b>September 30, 2011</b>			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital assets not being depreciated				
Land and land rights	\$ 854,434	\$	\$	\$ 854,434
Construction in progress	572,414	3,164,419	(1,828,327)	1,908,506
Total capital assets not being depreciated	<u>1,426,848</u>	<u>3,164,419</u>	<u>(1,828,327)</u>	<u>2,762,940</u>
Treatment and disposal system				
Plant	64,797,053	1,041,007	(6,650,471)	59,187,589
Lakes	1,211,079			1,211,079
Lines	81,482,524	1,164,755	(36,103)	82,611,176
Lift stations	20,541,895	495,542	(1,274,087)	19,763,350
Equipment	6,326,079	479,963	(70,985)	6,735,057
Total capital assets being depreciated	174,358,630	3,181,267	(8,031,646)	169,508,251
Less accumulated depreciation	<u>(63,575,534)</u>	<u>(5,715,033)</u>	<u>7,867,410</u>	<u>(61,423,157)</u>
Total capital assets being depreciated, net	<u>110,783,096</u>	<u>(2,533,766)</u>	<u>(164,236)</u>	<u>108,085,094</u>
Capital assets, net	<u>\$ 112,209,944</u>	<u>\$ 630,653</u>	<u>\$ (1,992,563)</u>	<u>\$ 110,848,034</u>

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 4 - CAPITAL ASSETS** (Continued)

	<u>September 30, 2010</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	
Capital assets not being depreciated				
Land and land rights	\$ 854,424	\$ 10	\$	\$ 854,434
Construction in progress	<u>116,216</u>	<u>1,556,470</u>	<u>(1,100,272)</u>	<u>572,414</u>
Total capital assets not being depreciated	<u>970,640</u>	<u>1,556,480</u>	<u>(1,100,272)</u>	<u>1,426,848</u>
Treatment and disposal system				
Plant	64,719,655	199,861	(122,463)	64,797,053
Lakes	1,211,079			1,211,079
Lines	80,882,828	661,194	(61,498)	81,482,524
Lift stations	19,899,359	714,379	(71,843)	20,541,895
Equipment	<u>6,353,728</u>	<u>268,403</u>	<u>(296,052)</u>	<u>6,326,079</u>
Total capital assets being depreciated	173,066,649	1,843,837	(551,856)	174,358,630
Less accumulated depreciation	<u>(58,308,403)</u>	<u>(5,724,047)</u>	<u>456,916</u>	<u>(63,575,534)</u>
Total capital assets being depreciated, net	<u>114,758,246</u>	<u>(3,880,210)</u>	<u>(94,940)</u>	<u>110,783,096</u>
Capital assets, net	<u>\$ 115,728,886</u>	<u>\$ (2,323,730)</u>	<u>\$ (1,195,212)</u>	<u>\$ 112,209,944</u>

The total interest expense incurred by the District for the fiscal year ended September 30, 2011 was \$312,746. Of this amount \$72,863 was included as part of the cost of construction in progress. The total interest expense incurred by the District for the fiscal year ended September 30, 2010 was \$402,102; of this amount \$34,106 was capitalized interest.

Depreciation expense was \$5,715,033 and \$5,724,047 for the years ended September 30, 2011 and 2010, respectively.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 5 - CONTRACTS PAYABLE**

Construction contracts of the District at September 30, 2011 and 2010 are as follows:

	<b>September 30, 2011</b>			
	Total Project Authorization	Expended Through September 30, 2011	Contracts Payable September 30, 2011	Balance to Complete
Biosolid Facility	\$ 3,558,317	\$ 3,027,136	\$ 531,181	\$
Wildpine Lab	719,871	619,565	100,306	
Western Force Main	619,369	343,282	111,395	164,692
Limestone Creek/Church St.	136,154	136,154		
Plant Site Fencing	90,292	57,721	32,571	
Other Construction Contracts	432,104	317,770	55,842	58,492
Total:	<u>\$ 5,230,745</u>	<u>\$ 4,501,628</u>	<u>\$ 831,295</u>	<u>\$ 223,184</u>

	<b>September 30, 2010</b>			
	Total Project Authorization	Expended Through September 30, 2010	Contracts Payable September 30, 2010	Balance to Complete
Biosolid Facility	\$ 3,232,955	\$ 3,027,136	\$	\$ 205,819
Wildpine Lab	663,624	83,574	27,767	552,283
Operations Building	1,011,668	913,043	98,625	
IQ Pump Station	2,734,019	2,734,019		
Other Construction Contracts	417,323	130,756	83,100	203,467
Total:	<u>\$ 8,059,589</u>	<u>\$ 6,888,528</u>	<u>\$ 209,492</u>	<u>\$ 961,569</u>

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 6 - BONDS PAYABLE**

Bonds and notes payable at September 30, 2011 and 2010 are as follows:

	September 30,	
	2011	2010
<u>Series 1997B</u>		
<p>\$2,400,000 Series 1997B Bonds were issued to pay the cost of certain improvements to the Utility System. Due in quarterly installments of \$48,719, each March 1, June 1, September 1, and December 1, commencing June 1, 1997 thru March 1, 2017; interest rate is 5.18%. Effective September 19, 2003, the interest rate was reduced to 4.89% thereby reducing the quarterly installments to \$47,868.</p>	\$ 916,712	\$1,058,356
<u>Series 1997C</u>		
<p>\$2,600,000 Series 1997C Bonds due in quarterly installments of \$50,833, each March 1, June 1, September 1 and December 1, commencing December 1, 1999 thru March 1, 2017; interest rate is 4.19%. Effective September 19, 2003, the interest rate was reduced to 3.98% thereby reducing the quarterly installments to \$50,172.</p>	985,403	1,142,365
<u>Series 2009</u>		
<p>\$3,600,000 Series 2009 Bonds were issued to pay the cost of improvements to the Utility System. Due in equal monthly installments of \$27,628, commencing on September 1, 2009 thru August 1, 2024; interest rate is 4.53%.</p>	3,240,290	3,420,579

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 6 - BONDS PAYABLE** (Continued)

	September 30,	
	2011	2010
<u>Series 2010</u>		
\$3,693,245 Series 2010 Bonds were issued to pay the cost of improvements to the Utility System. Due in equal monthly installments of \$96,045, commencing on August 1, 2010 thru November 1, 2013; interest rate is 2.38%.	<u>\$ 2,431,567</u>	<u>\$ 3,512,287</u>
Total	7,573,972	9,133,587
Less current portion	<u>(1,605,651)</u>	<u>(1,559,595)</u>
Long-term portion	<u>\$ 5,968,321</u>	<u>\$ 7,573,992</u>

Annual debt service requirements at September 30, 2011 to maturity are as follows:

Year Ending September 30,	Principal	Interest	Total Debt Service
2012	\$ 1,605,651	\$ 270,593	\$ 1,876,244
2013	1,657,839	218,405	1,876,244
2014	739,756	176,158	915,914
2015	573,138	150,565	723,703
2016	598,905	124,799	723,704
2017-2021	1,489,897	363,885	1,853,782
2022-2025	908,786	63,412	972,198
Total	<u>\$ 7,573,972</u>	<u>\$ 1,367,817</u>	<u>\$ 8,941,789</u>

Provisions of Bond Resolution

- A. The District covenants to fix, establish and maintain rates, fees, rentals or other charges to provide:
- Gross revenues, including investment earnings of the various funds and accounts created by the bond resolution, to pay all operating expenses (excluding depreciation and amortization), and;

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 6 - BONDS PAYABLE** (Continued)

- At least one hundred ten percent (110%) of the annual debt service requirement for the bonds, and;
- Together with capital charges, at least one hundred twenty-five percent (125%) of the annual debt service requirement for the bonds, and;
- For all other payments required by the resolution.

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

Debt Service Reserve Account - The Resolution provides for the funding of this account in amounts equal to \$120,000 and \$130,000 for the 1997B and 1997C Bonds, respectively.

Repairs and Replacement Fund - \$250,000, or higher amount as certified necessary by the District's engineer.

At September 30, 2011 and 2010, the District was in compliance with the bond covenants.

**NOTE 7 - LONG-TERM LIABILITIES**

Changes in long-term liabilities for the years ended September 30, 2011 and 2010 were as follows:

<b>September 30, 2011</b>					
	Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011	Due Within One year
Bonds payable	\$ 9,133,587	\$	\$ 1,559,615	\$ 7,573,972	\$ 1,605,651

<b>September 30, 2010</b>					
	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Due Within One year
Bonds payable	\$ 10,633,351	\$ 3,693,245	\$ 5,193,009	\$ 9,133,587	\$ 1,559,595

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 8 - DEFEASED DEBT**

In a prior year, the District defeased a bond issue by creating an irrevocable trust fund. New debt was issued and the proceeds were used to purchase U.S. Government securities that were placed in trust funds. The investments and fixed earnings from the investments are sufficient to fully service the refunded debt until the debt is called. Consequently, the debt is considered defeased and was removed as a liability. At September 30, 2011 and 2010, the amounts of defeased debt outstanding, but removed from the financial statements, is \$2,720,000 and \$3,500,000, respectively.

**NOTE 9 - RESTRICTED ASSETS, LIABILITIES AND RESERVES**

Restricted assets and liabilities at September 30, 2011 and 2010 represent bond proceeds restricted for debt service, and renewal and replacements under the terms of the outstanding utility system revenue bonds, as well as customer deposits. Assets restricted for these purposes represent cash and investments totaling \$6,591,420 and \$6,347,039 for the years ended September 30, 2011 and 2010, respectively. Liabilities payable from restricted assets represent the current portion of long-term debt and customer deposits.

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011 AND 2010**

**NOTE 9 - RESTRICTED ASSETS, LIABILITIES AND RESERVES** (Continued)

The following is a summary of restricted assets, related liabilities, and reserves at September 30, 2011 and 2010:

<u>2011</u>	<u>Restricted Assets</u>	<u>Liabilities Payable from Restricted Assets</u>	<u>Restricted Net Assets</u>
Renewal and replacement	\$6,050,000	\$	\$6,050,000
Debt service	282,680	7,004	275,676
Customer deposits	<u>258,740</u>	<u>258,740</u>	<u>                    </u>
	<u>\$6,591,420</u>	<u>\$265,744</u>	<u>\$6,325,676</u>
<u>2010</u>	<u>Restricted Assets</u>	<u>Liabilities Payable from Restricted Assets</u>	<u>Restricted Net Assets</u>
Renewal and replacement	\$5,800,000	\$	\$5,800,000
Debt service	282,680	8,102	274,578
Customer deposits	<u>264,359</u>	<u>264,359</u>	<u>                    </u>
	<u>\$6,347,039</u>	<u>\$272,461</u>	<u>\$6,074,578</u>

**NOTE 10 – DEFINED CONTRIBUTION PLAN**

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

**LOXAHATCHEE RIVER ENVIRONMENTAL CONTROL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011 AND 2010**

**NOTE 10 – DEFINED CONTRIBUTION PLAN** (Continued)

Employees are required to participate in the District's mandatory plan after attainment of 21 years of age and completion of one year of continuous service. Employees are fully vested after two years of plan participation. Employees contribute 4% of their eligible compensation while the District contributes an amount equal to 12% of the eligible employee's total compensation. Plan details and contribution requirements are established in the published and IRS approved plan.

The District's total payroll for the years ended September 30, 2011 and 2010 was \$3,979,271 and \$3,825,634, respectively. The contributions were calculated using the base salary amounts of \$3,691,506 and \$3,439,044 for the years ended September 30, 2011 and 2010, respectively, and the required contributions of \$590,641 and \$550,247, respectively, were deposited with the trustee for the plan.

**NOTE 11 - COMMITMENTS**

*Service Agreement*

On June 10, 2010 the District renewed the agreement with H&H Liquid Sludge Disposal for a one year period with an option to renew for an additional two year period on a yearly basis for the hauling and disposal of wastewater sludge to the SWA Pelletization Facility. The contract provides for a fixed rate of \$13.61 per ton. For the years ended September 30, 2011 and 2010, the District paid \$139,173 and \$127,766 respectively.

*Construction Commitments*

The District had outstanding purchase orders related to capital projects totaling approximately \$777,800 and \$760,800 for the fiscal years ended September 30, 2011 and 2010.

**NOTE 12 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Specifically, the District purchases commercial insurance for property, medical benefits, worker's compensation, general liability, automobile liability, errors and omissions, and directors and officers liability. The District is also covered by Florida Statutes under the Doctrine of Sovereign Immunity, which effectively limits the amount of liability of government agencies to individual claims of \$100,000/\$200,000 for all claims relating to the same accident. There were no changes in insurance coverage from the prior year and there were no settlements that exceeded insurance coverage in the last three years.



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## 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*

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Governing Board  
Loxahatchee River Environmental Control District  
Jupiter, Florida

We have audited the financial statements of the Loxahatchee River Environmental Control District (the "District") as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated April 11, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Loxahatchee River Environmental Control District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Loxahatchee River Environmental Control District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Loxahatchee River Environmental Control District's internal control over financial reporting.

*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 misstatements on a timely basis. A *material weakness* is a significant deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Nowlen, Holt & Mimer, P.A.*

West Palm Beach, Florida  
April 11, 2012



# NOWLEN, HOLT & MINER, P.A.

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## MANAGEMENT LETTER

Governing Board  
Loxahatchee River Environmental Control District  
Jupiter, Florida

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We have audited the basic financial statements of the Loxahatchee River Environmental Control District (the "District"), as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated April 11, 2012.

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. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report, which is dated April 11, 2012, should be considered in conjunction with this Management Letter.

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

### **PRIOR YEAR COMMENTS**

Rules of the Auditor General require that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address the finding and recommendation made in the preceding annual financial report.

## **CURRENT YEAR COMMENTS**

### *Investment of Public Funds*

Rules of the Auditor General require our audit to include a review of the District's compliance with Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Loxahatchee River Environmental Control District complied with Section 218.415, Florida Statutes.

### *Current Year Recommendations*

Rules of the Auditor General require that we address in the Management Letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any recommendations that are required to be reported in this letter.

### *Violations of Contracts and Grant Provisions or Abuse*

Rules of the Auditor General require that we address violations of provisions of contracts and 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 more than inconsequential. In connection with our audit, we did not have any such findings.

### *Matters Inconsequential to the Financial Statements*

Rules of the Auditor General require based on professional judgment, the reporting of the following matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse; and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit for the fiscal year ended September 30, 2011, we did not have any such findings.

### *Oversight Unit and Component Units*

Rules of the Auditor General require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this Management Letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements.

Consideration of Financial Emergency Criteria

Rules of the Auditor General require a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Loxahatchee River Environmental Control District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Annual Financial Report

Rules of the Auditor General require that we determine whether the annual financial report for Loxahatchee River Environmental Control District for the fiscal year ended September 30, 2011, 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, 2011. In connection with our audit, we determined that these two reports were in substantial agreement.

Financial Condition Assessment Procedures

Rules of the Auditor General require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The results of our procedures did not disclose any matters that are required to be reported.

Single Audits

The District expended less than \$500,000 of federal awards and less than \$500,000 of state financial assistance for the year ended September 30, 2011. The District was not required to have a federal single audit or a state single audit.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, the Board of Directors, federal and state awarding agencies and pass-through entities, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*Nowlen, Holt & Mimer, P.A.*

West Palm Beach, Florida  
April 11, 2012