

**Florida Community Services
Corporation Of Walton County**

**A Component Unit of Walton
County, Florida**

Financial Statements

February 28, 2018 and 2017



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Florida Community Services Corporation of Walton County
A Component Unit of Walton County, Florida
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Florida Community Services Corporation of Walton County
Santa Rosa Beach, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Florida Community Services Corporation of Walton County (the "Corporation"), a component unit of Walton County, Florida, which comprise the statements of net position as of February 28, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Community Services Corporation of Walton County as of February 28, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance 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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Operations Expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2018, on our consideration of the Corporation'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 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* in considering Florida Community Services Corporation of Walton County's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

May 2, 2018
Miramar Beach, Florida



Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS
FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA

This discussion and analysis (MD&A) of Florida Community Services Corporation of Walton County, a component unit of Walton County, Florida's, (hereinafter referred to as the Corporation) financial condition provides an overview of financial activity, identifies changes in financial position, and assists the reader in focusing on significant financial issues. The primary purpose of the Corporation is to provide central wastewater and water service through a regional utilities system for South Walton County, Florida. Although it is important to the long-term existence of the Corporation to maintain its financial health, net position is accumulated only to the extent required to ensure that there are sufficient reserve funds for future operations and for new capital needs.

The MD&A provides summary level financial information; therefore, it should be read in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS

Financial Highlights

- Total assets increased \$7,381,717. This is primarily due to increases in capital assets.
- Total liabilities decreased \$2,084,928 primarily due to repayments of debt issues.
- Net position increased by \$9,432,960, resulting in total net position of \$194,206,582. This increase is the result of increased water and sewer revenues from new and expanding developments.

Corporation Highlights

During the 2017-18 fiscal year, the Corporation completed the following water projects:

- Water ERC's total 21,087 and 15,357 water meters are being read on a monthly basis
- Pumped 1,604,479,300 gallons of water
- Installed 226 grinder pumps for new and existing homes
- Seacroft Road 12" Water Line: including the design, permitting and construction of a 12" potable water line on Seacroft Road from Satinwood to CR393
- Satinwood 18" Water Transmission Main including the design, permitting and construction of 2,600 ft. of 18" water transmission main along Seacroft Road from the Satinwood Tank site to CR393
- Hwy 98 24" Water Transmission line from US 331 to CR 393, including the design and permitting associated with construction 16,500 feet of 24" water transmission line from just east of Hwy 331 along Hwy 98 to CR 393
- CR393 18" Transmission to Satinwood Tank: including the design, permitting and construction of 7,700 ft. of 18" water transmission main on CR 393 to Seacroft Drive to serve the Satinwood water storage tank

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA**

FINANCIAL HIGHLIGHTS – CONTINUED

Corporation Highlights – Continued

- CR83 18" including the design, permitting and construction of 11,000 ft. of 18" potable water main on CR83 from US98 to CR30-A
- Lakeview Drive water upgrade and relocation, including the design, permitting and construction of a new 6" potable water line associated with Lakeview Drive realignment and reconstruction
- 30" Pipeline on US 331 from Nokuse Wellfield, Phase I and II design and permitting
- Cypress Point Lane Water Extension design and permitting

The Corporation completed the following wastewater projects:

- Wastewater ERC's total 27,981
- Treated 1,249,810,000 gallons of wastewater
- Installed 226 grinder pumps for new and existing homes
- Seacrest Wastewater Treatment Plant 2MG Expansion substantially complete
- 4MG Reclaim Storage Tank and Pumping Station, including the design, permitting and construction of a new restricted access reclaim water storage tank and pumping station along with all necessary valves and appurtenances
- Cypress Point Lane Sewer Extension design and permitting
- Golfview Drive Low Pressure Sewer Extension design and permitting
- Country Cabins Low Pressure Sewer design and permitting

The Corporation also completed the following drainage relocation and improvements for Walton County upgrades:

- Harborview Drive Utility relocation
- CR 393 Drainage Improvements Utility relocation
- Hewett Bayou Stormwater Retrofit Utility relocation
- CR30A/CR395 Drainage Utility relocation

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA**

FINANCIAL HIGHLIGHTS – CONTINUED

Corporation Highlights – Continued

- Western Lake Drainage Improvement Utility relocation
- Mack Bayou Road Drainage Utility relocation
- Alligator Lake Utility relocation
- Brown Street Drainage Utility relocation
- Little Redfish Lake Utility relocation
- Gulf Hill Estates Utility relocation
- Casa Grande Utility relocation
- Paradise Point Utility relocation
- Bluebell Circle Utility relocation

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts; management's discussion and analysis, basic financial statements, and supplementary information. The basic financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The basic financial statements of the Corporation report information about the Corporation using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The statements of net position include all of the Corporation's assets and deferred outflows of resources, and liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the consumption of resources applicable to a future reporting period (deferred outflows of resources) and the obligations to the Corporation's creditors (liabilities) and the acquisition of resources applicable to a future period (deferred inflows of resources). It also provides the basis for computing rate of return, evaluating the capital structure of the Corporation and assessing the liquidity and financial flexibility of the Corporation. All of the current year revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. This statement measures the success of the Corporation's operations over the past year and can be used to determine whether the Corporation has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the statement of cash flows.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA**

REQUIRED FINANCIAL STATEMENTS – CONTINUED

The primary purpose of this statement is to provide information about the Corporation'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, capital and related financing, and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE CORPORATION

The financial statements of the Corporation begin on page twelve. The statements of net position, and the statements of revenues, expenses and changes in net position report the net position of the Corporation and changes in the net position. The net position, the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, is one way to measure the financial health or financial position. Over time, increases or decreases in the Corporation's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered such as economic conditions, population growth, and changing government legislation.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA**

NET POSITION

The following table reflects the condensed statements of net position and is compared to the prior two years.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current assets	\$ 47,167,569	\$ 52,339,968	\$ 48,760,183
Non-current assets	9,142,933	8,640,238	8,222,373
Capital assets, net	<u>167,550,865</u>	<u>155,499,444</u>	<u>151,168,030</u>
Total assets	<u>223,861,367</u>	<u>216,479,650</u>	<u>208,150,586</u>
Total deferred outflow of resources	<u>312,045</u>	<u>345,730</u>	<u>379,415</u>
Liabilities			
Current liabilities	2,772,559	2,933,515	2,636,235
Non-current liabilities	<u>27,194,271</u>	<u>29,118,243</u>	<u>30,992,947</u>
Total liabilities	<u>29,966,830</u>	<u>32,051,758</u>	<u>33,629,182</u>
Net position			
Net investment in capital assets	141,123,035	127,276,448	121,205,944
Restricted for debt service	5,833,925	5,870,224	6,074,186
Unrestricted	<u>47,249,622</u>	<u>51,626,950</u>	<u>47,620,689</u>
Total net position	<u>\$ 194,206,582</u>	<u>\$ 184,773,622</u>	<u>\$ 174,900,819</u>

For more detailed information, see the accompanying statements of net position.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA**

Change in Net Position

The following schedule compares the revenues and expenses for the current and previous two fiscal years.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 22,918,827	\$ 21,512,414	\$ 20,107,329
Operating expenses	<u>(24,026,883)</u>	<u>(23,318,782)</u>	<u>(21,932,688)</u>
Operating income (loss)	<u>(1,108,056)</u>	<u>(1,806,368)</u>	<u>(1,825,359)</u>
Non-operating revenues	9,113,901	11,259,422	6,687,008
Non-operating expenses	<u>(827,712)</u>	<u>(876,200)</u>	<u>(1,237,055)</u>
Non-operating revenues (expenses)	<u>8,286,189</u>	<u>10,383,222</u>	<u>5,449,953</u>
Increase (decrease) in net position before capital contributions	7,178,133	8,576,854	3,624,594
Capital contributions	<u>2,254,827</u>	<u>1,295,949</u>	<u>842,745</u>
Increase (decrease) in net position	9,432,960	9,872,803	4,467,339
Net position, beginning (As restated)	<u>184,773,622</u>	<u>174,900,819</u>	<u>170,433,480</u>
Net position, ending	<u><u>\$ 194,206,582</u></u>	<u><u>\$ 184,773,622</u></u>	<u><u>\$ 174,900,819</u></u>

For more detailed information, see the accompanying statements of revenues, expenses, and changes in net position.

Operating revenues increased for fiscal year ended February 28, 2018 by 6.54% or \$1,406,413 due to growth in the system from the previous year. Operating expenses increased by 3.04% or \$708,101 from the previous year, as a result of growth in the system.

Non-operating revenues decreased by \$2,145,521 from fiscal year 2017 to 2018. This decrease was primarily due to decreased impact fees of \$1,148,052 and the prior year insurance proceeds from the bay crossing repair provided \$653,655 in 2017. Capital contributions from developers increased by \$958,878.

The overall results were a \$9,432,960 increase in net position for fiscal year ending February 28, 2018 compared to a \$9,872,803 increase in net position in fiscal year ending February 28, 2017.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At February 28, 2018, the Corporation had \$167,550,865 invested in capital assets (net of accumulated depreciation). This amount represents a net increase (including additions, deletions and depreciation expense) of \$12,051,421 or 7.75% from the fiscal year February 28, 2017 total.

A listing of capital assets by major category for the current and prior two years follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land	\$ 10,446,045	\$ 10,446,045	\$ 9,996,971
Construction in progress	16,825,503	4,444,730	6,901,773
Buildings	10,865,654	10,865,654	10,650,210
Utility system	276,674,417	265,638,039	248,794,112
Automobiles and trucks	5,843,222	5,467,091	4,845,787
Furniture and fixtures	786,209	771,107	748,653
Machinery and equipment	17,366,177	15,127,177	13,660,417
	<u>338,807,227</u>	<u>312,759,843</u>	<u>295,597,923</u>
Accumulated depreciation	<u>(171,256,362)</u>	<u>(157,260,399)</u>	<u>(144,429,893)</u>
Net capital assets	<u>\$ 167,550,865</u>	<u>\$ 155,499,444</u>	<u>\$ 151,168,030</u>

Debt Administration

At February 28, 2018, the Corporation had \$26,739,875 in revenue bonds and revenue notes outstanding, net of unamortized discounts and premiums, versus \$28,569,188 in the prior year, a decrease of \$1,829,313 as shown below:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenue bonds, Series 2011, net	\$ 5,702,875	\$ 6,277,188	\$ 6,836,501
Revenue note, Series 2012	1,024,000	1,836,000	2,634,000
Revenue note, Series 2013	5,590,000	5,925,000	6,245,000
Revenue note, Series 2015	14,423,000	14,531,000	14,626,000
Total	<u>\$ 26,739,875</u>	<u>\$ 28,569,188</u>	<u>\$ 30,341,501</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA**

Debt Administration – Continued

The last payment on the debt is due in fiscal year 2032. The payment of the principal and interest on this debt is payable solely from and secured by a pledge on the assets of the Corporation and future Net Revenues. All outstanding bond issues were rated Aa3, AA-, and AA by Moody's, Standard and Poors, and Fitch, respectively in their most recent ratings as of February 28, 2018.

For additional information on Debt, see Notes 5, 6, and 7 in the accompanying financial statements.

FUTURE FINANCIAL FACTORS

Florida Community Services Corporation of Walton County is a Florida non-profit corporation established on August 7, 1985. A seven person Board of Directors governs the Corporation. The Board establishes policy and sets rates. The Corporation has no taxing authority and receives no funds from the State or other source other than certain state grants for the extension of the current system. Revenues are generated by charges to the Corporation's customers for water and wastewater related services. Rates for fiscal year 2019 have been established to provide for the operations of the Corporation, necessary capital requirements, and meet the required covenants of 2011 revenue bonds and the 2012, 2013, and 2015 revenue notes.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of Florida Community Services Corporation of Walton County's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional information, contact the Manager of Florida Community Services Corporation of Walton County, 4432 Highway 98 East, Santa Rosa Beach, Florida 32459.



Financial Statements

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
STATEMENTS OF NET POSITION
FEBRUARY 28, 2018 AND 2017**

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 17,250,143	\$ 13,264,485
Cash – designated for construction	17,426,230	27,044,597
Investments	5,000,000	5,000,000
Billed accounts receivable – trade, net	1,836,459	1,666,584
Unbilled accounts receivable – trade	558,742	595,625
Accounts receivable – developer agreements, net	1,402,477	929,744
Interest receivable	30,178	-
Insurance proceeds receivable	-	403,655
Inventory	3,663,340	3,416,040
Prepaid expenses	-	19,238
Total current assets	47,167,569	52,339,968
NON-CURRENT ASSETS		
Restricted cash		
Revenue bond – debt service fund	4,686,139	4,794,603
Revenue bond – renewal and replacement fund	1,147,786	1,075,621
Customer deposits	2,074,655	1,938,915
Total restricted cash	7,908,580	7,809,139
Accounts receivable – developer agreements, net	1,234,353	819,769
Utility deposits	-	11,330
Capital assets, net	167,550,865	155,499,444
Total non-current assets	176,693,798	164,139,682
TOTAL ASSETS	223,861,367	216,479,650
DEFERRED OUTFLOWS OF RESOURCES		
Deferred losses on debt refundings	312,045	345,730
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 312,045	\$ 345,730

The accompanying notes are an integral part of these financials.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
STATEMENTS OF NET POSITION – CONTINUED
FEBRUARY 28, 2018 AND 2017**

LIABILITIES	2018	2017
CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS		
Accounts payable	378,554	585,082
Accrued expenses	148,226	132,632
Total current liabilities payable from current assets	526,780	717,714
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Revenue bonds, 2011 series	390,000	570,000
Revenue note, 2012 series	1,024,000	812,000
Revenue note, 2013 series	340,000	335,000
Revenue note, 2015 series	111,000	108,000
Accrued interest	380,779	390,801
Total current liabilities payable from restricted assets	2,245,779	2,215,801
NON-CURRENT LIABILITIES		
Compensated absences	244,741	238,591
Customer deposits	2,074,655	1,938,915
Obligation under employment agreement	-	196,549
Revenue bonds, 2011 series, net	5,312,875	5,707,188
Revenue note, 2012 series, net	-	1,024,000
Revenue note, 2013 series, net	5,250,000	5,590,000
Revenue note, 2015 series, net	14,312,000	14,423,000
Total non-current liabilities	27,194,271	29,118,243
TOTAL LIABILITIES	29,966,830	32,051,758
	NET POSITION	
Net investment in capital assets	141,123,035	127,276,448
Restricted for debt service	5,833,925	5,870,224
Unrestricted	47,249,622	51,626,950
TOTAL NET POSITION	\$194,206,582	\$184,773,622

The accompanying notes are an integral part of these financials.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED FEBRUARY 28, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Charges for services	\$ 22,918,827	\$ 21,512,414
OPERATING EXPENSES		
Operations	9,483,932	9,652,559
Depreciation and amortization	14,542,951	13,666,223
Total operating expenses	<u>24,026,883</u>	<u>23,318,782</u>
OPERATING LOSS	<u>(1,108,056)</u>	<u>(1,806,368)</u>
NON-OPERATING REVENUES (EXPENSES)		
Impact fees	7,936,925	9,084,977
Grant income	122,151	122,998
Interest income	98,110	75,043
Interest expense	(802,966)	(864,163)
Bad debt recovery – developer agreements	291,485	769,714
Gain on sales of assets	435,318	335,657
Other expense	(24,746)	(12,037)
Insurance proceeds	-	653,655
Miscellaneous	229,912	217,378
Total non-operating revenues (expenses)	<u>8,286,189</u>	<u>10,383,222</u>
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	7,178,133	8,576,854
CAPITAL CONTRIBUTIONS	<u>2,254,827</u>	<u>1,295,949</u>
CHANGE IN NET POSITION	9,432,960	9,872,803
NET POSITION, AT BEGINNING OF YEAR	<u>184,773,622</u>	<u>174,900,819</u>
NET POSITION, AT END OF YEAR	<u>\$ 194,206,582</u>	<u>\$ 184,773,622</u>

The accompanying notes are an integral part of these financials.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments from customers	\$ 23,325,230	\$ 21,483,269
Payments to suppliers	(7,056,839)	(6,801,595)
Payments to employees	<u>(3,043,505)</u>	<u>(3,000,724)</u>
Net cash flows provided by operating activities	<u>13,224,886</u>	<u>11,680,950</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on debt	(1,825,000)	(1,768,000)
Interest on revenue bonds	(783,616)	(866,783)
Payments for the purchase of capital assets	(24,351,376)	(17,158,626)
Proceeds from the sale of capital assets	435,318	812,800
Proceeds from impact fees	7,341,093	8,850,153
Proceeds from insurance	-	250,000
Proceeds from grants	122,151	268,251
Proceeds from miscellaneous income	<u>205,166</u>	<u>205,342</u>
Net cash used in capital and related financing activities	<u>(18,856,264)</u>	<u>(9,406,863)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,000,000)	(5,000,000)
Proceeds from maturities of investments	5,000,000	10,000,000
Interest on investments	<u>98,110</u>	<u>63,008</u>
Net cash provided by investing activities	<u>98,110</u>	<u>5,063,008</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,533,268)	7,337,095
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>48,118,221</u>	<u>40,781,126</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 42,584,953</u>	<u>\$ 48,118,221</u>

The accompanying notes are an integral part of these financials.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
STATEMENTS OF CASH FLOWS – CONTINUED
FOR THE YEARS ENDED FEBRUARY 28, 2018 AND 2017**

	2018	2017
COMPOSITION OF CASH AND CASH EQUIVALENTS		
Cash – unrestricted	\$ 17,250,143	\$ 13,264,485
Cash – unrestricted – designated for construction	17,426,230	27,044,597
Cash – restricted	7,908,580	7,809,139
TOTAL CASH AND CASH EQUIVALENTS	\$ 42,584,953	\$ 48,118,221
RECONCILIATION OF NET OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (1,108,056)	\$ (1,806,368)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	14,542,951	13,666,223
Bad debt	26,868	22,664
Changes in operating assets and liabilities:		
Billed accounts receivable – trade	206,912	(114,985)
Unbilled accounts receivable – trade	36,883	(69,982)
Inventory	(247,300)	(235,312)
Prepaid expenses	19,238	-
Accounts payable	(206,528)	254,115
Customer deposits	135,740	133,158
Accrued expenses	14,727	30,368
Obligation under employment agreement	(196,549)	(198,931)
Net cash provided by operating activities	\$ 13,224,886	\$ 11,680,950
NON-CASH CAPITAL AND RELATED FINANCING TRANSACTIONS		
Non-cash developer contributions	\$ 2,254,827	\$ 1,295,949

The accompanying notes are an integral part of these financials.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018 AND 2017**

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Florida Community Services Corporation of Walton County, a component unit of Walton County, Florida, (hereinafter referred to as the Corporation) was organized under the laws of the State of Florida on August 7, 1985, as a non-profit corporation. Under a Franchise Agreement with Walton County, the Corporation is authorized to acquire and improve existing water distribution facilities in the Southern part of Walton County, Florida, for incorporation into a county regional utility system. The Corporation is also authorized to construct a regional sewage collection treatment and disposal facility as well as a water transmission, storage, and distribution system. This service territory encompasses areas from the Sandestin Resort to Rosemary Beach for wastewater services and from just east of the Sandestin Resort to Rosemary Beach for water services. The territory runs north to south from Choctawhatchee Bay to the Gulf of Mexico, plus the area within the following boundaries: North Boundary: Choctawhatchee River, East Boundary: Bay County, South Boundary: Intracoastal Water Way and West Boundary: Choctawhatchee Bay. To fulfill its purpose, the Corporation has issued revenue bonds pledging its property and revenues to secure the payment of such bonds. After the bonds have been fully paid, the Corporation without consideration will transfer all of its assets to Walton County. Because of the equity interest with Walton County, the financial statements of Florida Community Services Corporation of Walton County are included in the basic financial statements of Walton County, Florida, as a discretely presented component unit.

Basis of Accounting

The Corporation has 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," as amended by Statements No. 37 and No. 63. These Statements established standards for external financial reporting for all state and local government entities in the United States which include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. It requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted.

These classifications are defined as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and is 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Instead, that portion of the debt is included in the same net position component as the unspent proceeds.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018 AND 2017**

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
– CONTINUED**

Basis of Accounting – Continued

- Restricted – This component of net position consists of restricted assets, other than capital assets, reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- Unrestricted – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

The Corporation maintains its records under the accrual method of accounting. Under this method, income is recognized when earned, rather than when received, and expenses are recognized when incurred rather than when paid. Unbilled receivables and the related revenue are recognized in the period in which the service is incurred. The Corporation complies with generally accepted accounting principles (GAAP).

Statements of Cash Flows

For purposes of the statements of cash flows, the Corporation considers all highly liquid investments (including restricted assets), unless specifically designated as an investment security, with maturities of three months or less at the date of acquisition to be cash equivalents.

Investments

Investments held by the Corporation consist of certificates of deposit. Certificates of deposit held by the Corporation are recorded at amortized cost.

Restricted Assets

Certain assets of the Corporation are set aside and used for specific purposes; thus, they are not available for general operating purposes. Restricted assets are restricted 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. When both restricted and unrestricted resources are available for use, it is the Corporation's policy to first use restricted resources only for items which are restricted and then unrestricted resources as they are needed.

Allowance for Doubtful Accounts

The Corporation provides for doubtful accounts based on analysis of individual accounts. For customer accounts, an allowance is created for accounts that are 120 days past due. For developer receivables, an allowance has been created for the full amount of all past due developer receivables.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
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NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018 AND 2017**

**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
– CONTINUED**

Inventory

Inventories are valued at the lower of cost or net realizable value using the first in first out method. The inventory of operating supplies is reported using the consumption method under which operating supplies are expensed or additions to the utility system are recorded as the supplies are used.

Capital Assets and Related Depreciation

Capital assets are carried at cost. Capital assets contributed by developers are recorded at estimated fair market value at the date contributed. Major additions and improvements are charged to the capital asset accounts while replacements, maintenance, and repairs which do not extend the lives of the respective assets are expensed. When capital assets are retired or otherwise disposed of, the cost of the capital assets and related accumulated depreciation is removed and the related gain or loss is included in income. Capital assets are depreciated using the straight-line method over the individual asset's estimated useful life, ranging from five to thirty years. Useful lives of capital assets range by major asset class as follows:

	<u>Useful Life</u>
Buildings	30 years
Utility system	15-30 years
Automobiles and trucks	5 years
Furniture and fixtures	7 years
Machinery and equipment	5-7 years

Bond Premiums, Discounts, and Issuance Costs

Bond premiums and discounts are deferred and amortized as a component of interest expense over the remaining life of the related debt. Debt issuance costs are considered outflows of resources in the period incurred and accordingly, are expensed at the time of debt issuance.

Losses on Refundings

Losses on refundings resulting from differences between the costs incurred to refund debt and the carrying value of the refunded debt at the time of refunding are deferred and amortized on the straight-line basis over the shorter of the term of the new debt or the refunded debt. Unamortized losses on refundings are presented as deferred outflows of resources within the statements of net position.

Customer Deposits

This account represents deposits made by customers utilizing water and sewer services provided by the Corporation. The amounts are retained in non-interest bearing accounts.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
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**1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
– CONTINUED**

Compensated Absences

Employees of the Corporation are entitled to accumulate earned, but unused personal leave benefits which are guaranteed to be paid to employees upon separation from service. For the years ended February 28, 2018 and 2017, accumulated and unpaid compensated absences were \$244,741 and \$238,591, respectively.

Revenues and Expenses

Operating revenues and expenses result from ongoing principal operations of the wastewater treatment facility as well as providing drinking water through the system. Non-operating revenues and expenses are primarily related to investing and financing type activities.

Contributed Capital

In order to induce the Corporation to provide water and sewer service to a new development, developers and certain governmental entities contribute a portion of the cost of construction of the water production and transmission system and/or the sewer collection and treatment system. In addition, other governmental entities and certain State agencies have contributed monies to assist in the expansion or improvement of existing water and sewer facilities. In accordance with GASB 34, capital assets received from developers and governmental entities are recorded as capital contributions, and presented after non-operating revenues (expenses) on the statements of revenues, expenses, and changes in net position.

Impact Fees

Impact fees represent water and sewer connection fees paid by developers and individual property owners for connection to the system. The Corporation recognizes its impact fees as non-operating revenue.

Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Events Occurring After Report Date

The Corporation has evaluated events and transactions that occurred between February 28, 2018 and May 2, 2018, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
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2. DEPOSITS AND INVESTMENTS

Unless otherwise authorized by law or by ordinance, the Corporation is authorized under Chapter 218.415, Florida Statutes, to invest and reinvest surplus public funds in its control or possession, in accordance with resolutions to be adopted from time to time, in:

- The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Chapter 163.01, Florida Statutes.
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Chapter 280.02, Florida Statutes.
- Direct obligations of the United States Treasury.
- Federal agencies and instrumentalities.
- Securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided the portfolio of such investment company or investment trust is limited to United States Government obligations or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations and provided such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.
- Other investments authorized by law or by ordinance for a county or a municipality

Risks Associated with Deposits and Investments

Deposits may be exposed to custodial credit risk, which is the risk that in the event of a bank failure, the Corporation's deposits may not be returned. Insurance provided by the Federal Deposit Insurance Corporation (FDIC) protects the first \$250,000 of deposits at each financial institution. The Corporation places a portion of its cash deposits with federally insured institutions; however, these balances may exceed FDIC limits at times.

In addition, the Corporation manages its custodial credit risk by maintaining cash deposits with "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes. The provisions of this statute allow "Qualified Public Depositories" to participate in a multiple financial institution collateral pool to ensure the security for public deposits. All Qualified Public Depositories must deposit eligible collateral with the Treasurer of the State of Florida equal to or in excess of their required collateral pledging level. In the event of default by a qualified public financial institution, the Treasurer will pay public depositors all losses in excess of insurance and collateral through assessments among all Qualified Depositories.

FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
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FEBRUARY 28, 2018 AND 2017

2. DEPOSITS AND INVESTMENTS – CONTINUED

Risks Associated with Deposits and Investments – Continued

For the year ended February 28, 2018, the Corporation invested certain reserve funds through the Blackrock T-Fund (BTRXX) at the Bank of New York Mellon. The fund strategy is to invest at least 99.5% of its total assets in cash, U.S. Treasury bills, notes and other obligations issued or guaranteed as to principal and interest by the U.S. Treasury, and repurchase agreements secured by such obligation or cash. The average weighted maturity of investments held by the fund is 42 days, therefore the Corporation considers these cash equivalents. Blackrock T-Fund has a Standard & Poor's credit rating of AAAM and a Moody's credit rating of Aaa-mf. At February 28, 2018, total invested in the fund with The Bank of New York Mellon totaled \$9,823,814.

For the year ended February 28, 2018, the Corporation also invested in the Goldman Sachs Financial Square Treasury Obligations Fund (FYAXX and FTOXX) at the Bank of New York Mellon. The fund is a high quality money market portfolio that comprises U.S. Government and U.S. Treasury securities including bills, bonds, notes and repurchase agreements. The average weighted maturity of investments held by the fund is 23 days, therefore the Corporation considers these cash equivalents. Goldman has a Standard & Poor's credit rating of AAAM and a Moody's credit rating of Aaa-mf. At February 28, 2018, total invested in the fund with The Bank of New York Mellon totaled \$2,595,645 (FYAXX) and \$1,893,060 (FTOXX).

For the year ended February 28, 2017, the Corporation invested certain reserve funds through the Blackrock T-Fund (BTRXX) at the Bank of New York Mellon. The fund strategy is to invest at least 99.5% of its total assets in cash, U.S. Treasury bills, notes and other obligations issued or guaranteed as to principal and interest by the U.S. Treasury, and repurchase agreements secured by such obligation or cash. The average weighted maturity of investments held by the fund is 42 days, therefore the Corporation considers these cash equivalents. Blackrock Treasury Reserves has a Standard & Poor's credit rating of AAAM and a Moody's credit rating of Aaa-mf. At February 28, 2017, total invested in the fund with The Bank of New York Mellon totaled \$6,381,679.

For the year ended February 28, 2017, the Corporation also invested in the Goldman Sachs Financial Square Treasury Obligations Fund (FYAXX) at the Bank of New York Mellon. The fund is a high quality money market portfolio that comprises U.S. Government and U.S. Treasury securities including bills, bonds, notes and repurchase agreements. The average weighted maturity of investments held by the fund is 25 days, therefore the Corporation considers these cash equivalents. Goldman has a Standard & Poor's credit rating of AAAM and a Moody's credit rating of Aaa-mf. At February 28, 2017, total invested in the fund with The Bank of New York Mellon totaled \$4,196,856.

Investments at February 28, 2018 and 2017, consisted of certificates of deposit with financial institutions. At February 28, 2018 and 2017, investments in certificates of deposit totaled \$5,000,000 each year. The certificates of deposit bear interest at 1.12% and mature in August 2018.

As certificates of deposit are debt instruments, there is credit risk associated with their purchase, however; insurance provided by the Federal Deposit Insurance Corporation protects the first \$250,000 of cash and certificates of deposit at each financial institution. The certificates of deposit

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held by the Corporation as of February 28, 2018 and 2017, were entirely covered by federal deposit insurance.

Certificates of deposit are also subject to interest rate risk, resulting from fluctuations in interest rates. The Corporation has limited interest rate risk by maintaining certificates of deposit with original maturities of 12 months or less.

Investments held at February 28, 2018 and 2017, were insured or registered, or are securities held by the Corporation or its agent in the Corporation's name.

Restricted Deposits

The Corporation has restricted certain amounts of deposits as noted in the statements of net position. These amounts are restricted to remain in compliance with bond covenants, to meet indenture provision requirements, and for customer deposits.

3. CAPITAL ASSETS

A summary of the changes in capital assets for the year ended February 28, 2018, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Ending Balance</u>
Assets not being depreciated:				
Land	\$ 10,446,045	\$ -	\$ -	\$ 10,446,045
Construction in progress	4,444,730	17,662,592	(5,281,819)	16,825,503
Total assets not being depreciated	<u>14,890,775</u>	<u>17,662,592</u>	<u>(5,281,819)</u>	<u>27,271,548</u>
Assets being depreciated:				
Buildings	10,865,654	-	-	10,865,654
Utility system	265,638,039	5,735,772	5,300,606	276,674,417
Automobiles and trucks	5,467,091	926,886	(550,755)	5,843,222
Furniture and fixtures	771,107	29,861	(14,759)	786,209
Machinery and equipment	15,127,177	2,501,099	(262,099)	17,366,177
Total assets being depreciated	297,869,068	9,193,618	4,472,993	311,535,679
Less accumulated depreciation	<u>(157,260,399)</u>	<u>(14,542,951)</u>	<u>546,988</u>	<u>(171,256,362)</u>
Total assets being depreciated, net	<u>140,608,669</u>	<u>(5,349,333)</u>	<u>5,019,981</u>	<u>140,279,317</u>
Capital assets, net	<u>\$ 155,499,444</u>	<u>\$ 12,313,259</u>	<u>\$ (261,838)</u>	<u>\$ 167,550,865</u>

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
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3. CAPITAL ASSETS – CONTINUED

A summary of the changes in capital assets for the year ended February 28, 2017, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Ending Balance</u>
Assets not being depreciated:				
Land	\$ 9,996,971	\$ 673,429	\$ (224,355)	\$ 10,446,045
Construction in progress	6,901,773	9,621,216	(12,078,259)	4,444,730
Total assets not being depreciated	<u>16,898,744</u>	<u>10,294,645</u>	<u>(12,302,614)</u>	<u>14,890,775</u>
Assets being depreciated:				
Buildings	10,650,210	-	215,444	10,865,654
Utility system	248,794,112	4,981,113	11,862,814	265,638,039
Automobiles and trucks	4,845,787	1,768,294	(1,146,990)	5,467,091
Furniture and fixtures	748,653	29,834	(7,380)	771,107
Machinery and equipment	13,660,417	1,472,848	(6,088)	15,127,177
Total assets being depreciated	278,699,179	8,252,089	10,917,800	297,869,068
Less accumulated depreciation	<u>(144,429,893)</u>	<u>(13,666,223)</u>	<u>835,717</u>	<u>(157,260,399)</u>
Total assets being depreciated, net	<u>134,269,286</u>	<u>(5,414,134)</u>	<u>11,753,517</u>	<u>140,608,669</u>
Capital assets, net	<u>\$ 151,168,030</u>	<u>\$ 4,880,511</u>	<u>\$ (549,097)</u>	<u>\$ 155,499,444</u>

4. ACCOUNTS RECEIVABLE

Accounts Receivable and Allowance for Doubtful Accounts

The Corporation reads its meters and bills its customers on a monthly basis. Billings are estimated at the year-end date for the time period since the last meter reading and are accrued as unbilled receivables. Accounts are generally considered to be due within 30 days. The Corporation provides for doubtful accounts based on an analysis of individual accounts. For customer accounts, an allowance is created for accounts that are 120 days past due. When specific amounts are determined to be uncollectible, they are written off by charging the allowance and crediting trade accounts receivable. As of February 28, 2018, the Corporation had gross balances for accounts receivable of \$1,858,474 and allowance for doubtful accounts of \$22,015. As of February 28, 2017, the Corporation had gross balances for accounts receivable of \$1,674,882 and allowance for doubtful accounts of \$8,298.

Developers' Agreements

As of February 28, 2018 and 2017, the Corporation had gross balances for accounts receivable related to developers' agreements of \$5,109,349, and \$4,513,517, respectively. These receivables represent amounts owed by developers for water and/or sewer connection fees under the terms of contracts between the parties and the Corporation.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
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4. ACCOUNTS RECEIVABLE – CONTINUED

Developers’ Agreements – Continued

As of February 28, 2018, the Corporation had taken legal action related to the collection of the past due amounts by filing liens. However, management believes there is uncertainty regarding the collectability of the past due amounts. Therefore, at February 28, 2018 and 2017, the Corporation had established an allowance for doubtful accounts of \$2,472,519, and \$2,764,004, respectively. Revenues related to developer agreements are reported as non-operating revenues.

5. REVENUE BONDS AND NOTES PAYABLE

The following is a summary of revenue bond transactions of the Corporation for the years ended February 28, 2018 and 2017:

	<u>3/1/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2/28/2018</u>
Revenue Bond Series 2011	\$ 6,215,000	\$ -	\$ (570,000)	\$ 5,645,000
Revenue Note 2012	1,836,000	-	(812,000)	1,024,000
Revenue Note 2013	5,925,000	-	(335,000)	5,590,000
Revenue Note 2015	14,531,000	-	(108,000)	14,423,000
Revenue bonds and notes payable	28,507,000	-	(1,825,000)	26,682,000
Plus unamortized bond premium	62,188	-	(4,313)	57,875
Less current portion of bonds payable	<u>(1,825,000)</u>	<u>(1,865,000)</u>	<u>1,825,000</u>	<u>(1,865,000)</u>
Revenue bonds and notes payable - net of current portion	<u>\$ 26,744,188</u>	<u>\$ (1,865,000)</u>	<u>\$ (4,313)</u>	<u>\$ 24,874,875</u>
	<u>3/1/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>2/28/2017</u>
Revenue Bond Series 2011	\$ 6,770,000	\$ -	\$ (555,000)	\$ 6,215,000
Revenue Note 2012	2,634,000	-	(798,000)	1,836,000
Revenue Note 2013	6,245,000	-	(320,000)	5,925,000
Revenue Note 2015	14,626,000	-	(95,000)	14,531,000
Revenue bonds and notes payable	30,275,000	-	(1,768,000)	28,507,000
Plus unamortized bond premium	66,501	-	(4,313)	62,188
Less current portion of bonds payable	<u>(1,768,000)</u>	<u>(1,825,000)</u>	<u>1,768,000</u>	<u>(1,825,000)</u>
Revenue bonds and notes payable - net of current portion	<u>\$ 28,573,501</u>	<u>\$ (1,825,000)</u>	<u>\$ (4,313)</u>	<u>\$ 26,744,188</u>

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018 AND 2017**

5. REVENUE BONDS AND NOTES PAYABLE – CONTINUED

Bonds and notes payable were comprised of the following as of February 28, 2018:

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
\$8,685,000 Revenue Bonds, Series 2011, serial bonds for purpose of refunding the outstanding Water and Sewer Revenue Refunding Bonds, Series 2001, principal and interest payments are due semi-annually with principal due in increasing amounts and interest rates from 2.00% to 4.75%. The bonds are secured by the assets of the Corporation and by future revenues.	\$ 390,000	\$ 5,255,000	\$ 5,645,000
\$4,868,000 Water and Sewer Revenue Refunding Note, Series 2012 (Series 2012 Note) for purpose of refunding the outstanding Water and Sewer Revenue Refunding Bonds, Series 2002; principal and interest payments on the note are due semi-annually with principal due in increasing amounts and an interest rate of 1.97%. The note is secured by the assets of the Corporation and by future revenues.	1,024,000	-	1,024,000
\$6,800,000 Water and Sewer Revenue Note, Series 2013, for purpose of refunding the outstanding Water and Sewer Revenue Refunding Bonds, Series 2003; principal and interest payments on the note due semi-annually with principal due in increasing amounts and an interest rate of 2.47%. The note is secured by the assets of the Corporation and by future revenues.	340,000	5,250,000	5,590,000
\$14,626,000 Water and Sewer Revenue Note, Series 2015, for purpose of refunding the outstanding Water and Sewer Revenue Refunding Bonds, Series 2006; principal and interest payments on the note due semi-annually with principal due in increasing amounts and an interest rate of 2.54%. The note is secured by the assets of the Corporation and by future revenues.	111,000	14,312,000	14,423,000
Total revenue bonds and notes outstanding	1,865,000	24,817,000	26,682,000
Unamortized premium	-	57,875	57,875
Total revenue bonds and notes, net	<u>\$ 1,865,000</u>	<u>\$ 24,874,875</u>	<u>\$ 26,739,875</u>

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018 AND 2017**

5. REVENUE BONDS AND NOTES PAYABLE – CONTINUED

Debt Service to Maturity

The annual requirements to amortize all debts outstanding as of February 28, 2018 on the bond and notes are as follows:

<u>Year Ending February 28</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 1,865,000	\$ 745,864	\$ 2,610,864
2020	1,604,000	700,269	2,304,269
2021	1,649,000	656,304	2,305,304
2022	1,695,000	609,533	2,304,533
2023-2027	9,229,000	2,294,887	11,523,887
2028-2032	10,640,000	868,505	11,508,505
Total	<u>\$ 26,682,000</u>	<u>\$ 5,875,361</u>	<u>\$ 32,557,361</u>

6. DEBT COVENANTS AND INDENTURE PROVISIONS

Debt Covenants

The Corporation's outstanding bond and note issues require the Corporation to provide in each fiscal year net revenues and water and sewer impact fees that are adequate to pay at least 115% of the annual debt service. Additionally, annual net revenues must be adequate to pay 105% of the Corporation's annual debt service plus any amounts required to be deposited in reserve and certain other accounts. As of February 28, 2018 and 2017, the Corporation was in compliance with all of its debt covenants.

Indenture Provisions

The Corporation's outstanding bond and note issues require the establishment of certain debt service reserve accounts to be maintained. At February 28, 2018 and 2017, the Corporation was in compliance with the debt service reserve requirements of the outstanding bond and note issues.

The Corporation's outstanding bond and note issues require the establishment of a renewal and replacement fund which must maintain a balance equal to 5% of the gross revenues received by the issuer in the immediately preceding fiscal year. The Corporation met this requirement for fiscal years 2018 and 2017. Within the same bank account, the Corporation maintains additional funds which are designated by the Corporation's Board for use in replacements and repairs due to natural disasters, such as hurricanes.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018 AND 2017**

7. DEFERRED OUTFLOWS OF RESOURCES

The Corporation defers losses resulting from the refunding of debt issues and amortizes the losses over the lesser of the remaining life of the refunded debt or the life of the new debt. Unamortized deferred losses on debt refundings are presented as deferred outflows of resources within the statements of net position and are summarized as follows as of February 28.

	<u>2018</u>	<u>2017</u>
Unamortized loss on Series 2001 refunding	\$ 163,035	\$ 175,187
Unamortized loss on Series 2002 refunding	1,696	11,862
Unamortized loss on Series 2003 refunding	57,547	61,974
Unamortized loss on Series 2006 refunding	<u>89,767</u>	<u>96,707</u>
Total deferred losses on debt refundings	<u>\$ 312,045</u>	<u>\$ 345,730</u>

8. GRANT REVENUES

In February 2016, the Corporation entered into a grant agreement with Northwest Florida Water Management District to fund 50% of the Nokuse Plantation Well Field Expansion project costs up to \$245,149. The Corporation completed this project and for the years ended February 28, 2018 and 2017, recognized revenues of \$122,151 and \$122,998, respectively.

9. 401(K) PLAN

The Corporation has established a 401(k), defined contribution retirement plan which is available to all full time employees who have reached age 20 and have a least one year of service with the Corporation. Under this plan, the Corporation matches voluntary employee deferrals dollar for dollar up to a total employer contribution of 6% of total employee compensation. The plan is administered by Transamerica.

The Board of Directors of the Corporation has the authority to establish or amend the plan's provisions and contribution requirements. Contributions made by the Corporation for the year ended February 28, 2018 and 2017, were \$162,473, and \$149,381, respectively. Contributions made by employees for the years ended February 28, 2018 and 2017, were \$218,934 and \$204,974, respectively.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018 AND 2017**

10. COMMITMENTS, CONTINGENCIES, AND UNCERTAINTIES

Employment Agreements

Chief Executive Officer

The Corporation has entered into an employment agreement with the former Chief Executive Officer. The amended agreement is for five years, and unless notice is given, the agreement automatically renews for an additional five-year period on the same terms. For the term of the agreement, he will receive a minimum annual salary, various insurance benefits, a death benefit, and the use of a vehicle as well as maintenance and insurance on that vehicle.

In the event of a change in control of the Corporation, which means a change in ownership or a change of more than 40% of the Board of Directors, either party, within three months after the change, has the right to terminate the agreement. In the event of termination under this provision, the employee will have no further job duties with the Corporation, but the Corporation will continue to pay the employee compensation for the five years following such termination at a stated rate of pay. In lieu of such continued compensation and provision of benefits, the employee, at his sole discretion, may elect to receive a lump-sum buy-out in an amount equal to the total of all sums to be paid per the Agreement discounted by 10%.

In the event of voluntary termination by the employee (retirement), the employee will be retained as an independent contractor, and will be paid a base salary consisting of 60% of the employee's compensation at the time of retirement and benefits. The Corporation's Board of Directors approved a motion stating that compensation will be paid as time worked and a payout of any remaining time of the five year period would not be guaranteed if the five year period was not fulfilled. Accordingly, a liability for future obligations is not recorded.

In addition, for each day of consultation, or part thereof the employee will receive 1/240th of the total sum of salary and benefits the employee received for the year immediately preceding retirement. Beginning March 1, 2008, the former Chief Executive Officer elected to exercise this option for voluntary termination, and has been retained as an independent contractor going forward.

General Manager/President

The Corporation has also entered into an employment agreement with the General Manager/President and current Chairman of the Board. The original term of the agreement is ten years, and unless notice is given, the agreement automatically renews annually for an additional ten-year period on the same terms. For the term of the agreement, she will receive a minimum annual salary, various insurance benefits, a death benefit, and the use of a vehicle as well as maintenance and insurance on that vehicle.

In the event of a change in control of the Corporation, which means a change in ownership or a change of more than 40% of the Board of Directors, either party, within three months after the change, has the right to terminate the agreement. In the event of termination under this provision, the employee will have no further job duties with the Corporation, but the Corporation will continue to pay the employee compensation for the ten years following such termination at a stated rate of pay.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018 AND 2017**

11. COMMITMENTS, CONTINGENCIES, AND UNCERTAINTIES – CONTINUED

Employment Agreements – Continued

In lieu of such continued compensation and provision of benefits, the employee, at her sole discretion, may elect to receive a lump-sum buy-out in an amount equal to the total of all sums to be paid per the Agreement discounted by 10%. In the event of voluntary termination by the employee (retirement), the employee will be retained as an independent contractor, and will be paid 25% of the employee's compensation at the time of retirement and benefits for ten years after retirement. Beginning January 2006, the current General Manager/President and current Chairman of the Board elected to exercise the option for voluntary termination, and has been retained as an independent contractor.

Under the terms of the agreement, in her duties as an independent contractor following voluntary termination, the employee works a minimum of eight hours per week, and performs specific tasks for the Corporation in return for the base pay and benefits specified. Accordingly, no liability for the employment agreement has been recorded for this employment agreement. In addition, for each day of consultation, or part thereof the employee receives 1/240th of the total sum of salary and benefits the employee received for the year immediately preceding retirement.

Purchase of Water

The Corporation has an agreement with the City of Freeport, Florida for purchase of water. Pursuant to this agreement, the Corporation is obligated to annually purchase a minimum of 1.1 million gallons of water per year. This agreement will end May 2018.

12. RISK MANAGEMENT

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation carries commercial insurance for all risks of loss, including liability, workers compensation, fidelity bond, accidental death and dismemberment, and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Corporation has opted to self-insure for wind damage to equipment items due to the relatively large deductible and premium costs related to the extent of possible damage. The Corporation does maintain insurance for wind damage on the buildings. The board has made a designation of funds that are held under investments in the amount of \$3,000,000 at February 28, 2018.

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2018 AND 2017**

13. BAY CROSSING WATER LINE REPAIRS AND INSURANCE PROCEEDS

During the fiscal year ending February 28, 2017, the Corporation experienced a subaqueous leak in a bay crossing water line. Repairs regarding this leak equated to \$666,010 during the year and are recognized as part of operating expenses on the statement of revenue, expenses, and changes in net position. The Corporation filed an insurance claim for this incident and received proceeds of \$250,000 during the year. As of February 28, 2017, the Corporation was due an additional payment and subsequently received \$403,655 in April 2017. Accordingly, the Corporation recorded an insurance receivable of this amount as of February 28, 2017 and is presented on the Statement of Net Position. The Corporation has recognized insurance proceeds revenue as part of non-operating revenues in the amount of \$653,655 for the year ended February 28, 2017.



Supplementary Information

**FLORIDA COMMUNITY SERVICES CORPORATION OF WALTON COUNTY
A COMPONENT UNIT OF WALTON COUNTY, FLORIDA
SCHEDULES OF OPERATIONS EXPENSES
FOR THE YEARS ENDED FEBRUARY 28, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Accounting and legal	\$ 86,298	\$ 82,643
Advertising	6,083	9,134
Auto and truck expense	323,145	378,382
Bad debt	26,868	22,664
Bank charges	61,749	51,207
Board compensation	30,000	30,000
Consulting fees	9,585	15,300
Dues and subscriptions	7,928	8,777
Donations	1,050	50,000
Engineering expenses	69,687	87,325
Public relations	2,372	2,544
Insurance	1,230,514	1,150,164
Licenses and taxes	39,330	33,540
Miscellaneous	108,357	67,819
Office maintenance	228,333	210,491
Payroll taxes	251,640	240,395
Pension expense	109,867	103,196
Postage and billing	156,428	142,097
Purchased water	210,638	185,282
Repairs and maintenance	1,754,363	1,419,522
Repairs to Bay Crossing Subaqueous Line	-	666,010
Salaries	2,470,176	2,458,570
Water and sewer chemicals	484,680	460,811
Seminars	-	3,700
Telephone	146,641	158,147
Travel	-	2,154
Utilities	1,575,988	1,515,523
Water and sewer testing	73,578	71,305
Warehouse expense	18,634	25,857
TOTAL OPERATIONS EXPENSES	<u>\$ 9,483,932</u>	<u>\$ 9,652,559</u>

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

To the Board of Directors
Florida Community Services Corporation
of Walton County
Santa Rosa Beach, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Florida Community Services Corporation of Walton County (the "Corporation"), a component unit of Walton County, Florida, as of and for the year ended February 28, 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated May 2, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 Corporation'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Florida Community Services Corporation of Walton County'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 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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

May 2, 2018
Miramar Beach, Florida



Carr, Riggs & Ingram, LLC
Certified Public Accountants
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INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Supervisors
Florida Community Services Corporation of Walton County
Santa Rosa Beach, Florida

We have examined Florida Community Services Corporation of Walton County's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended February 28, 2018. Management of Florida Community Services Corporation of Walton County (the "Corporation") is responsible for the Corporation's compliance with those requirements. Our responsibility is to express an opinion on the Corporation's compliance based on our examination.

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

Our examination does not provide a legal determination on the Corporation's compliance with specified requirements.

In our opinion, the Corporation complied, in all material respects, with the aforementioned requirements for the year ended February 28, 2018.

This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
May 2, 2018