

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDING SEPTEMBER 30, 2013 & 2012



SEACOAST UTILITY AUTHORITY
PALM BEACH GARDENS, FLORIDA

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FISCAL YEARS ENDED
September 30, 2013 and 2012**

Prepared by:

Danielá E. Russell, CPA
Finance Director

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For the Fiscal Years Ended September 30, 2013 and 2012**

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I. INTRODUCTORY SECTION

- Letter of Transmittal
- Certificate of Achievement for Excellence in Financial Reporting
- Organizational Chart
- List of Principal Officials: Authority Board Members and Staff

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Seacoast Utility Authority

Mailing Address:
P.O. Box 109602
Palm Beach Gardens,
FL 33410-9602

February 26, 2014

Honorable Chair and Members of the
Seacoast Utility Authority Board
Seacoast Utility Authority
Palm Beach Gardens, Florida

It is with pleasure that we submit to you the Comprehensive Annual Financial Report with the Independent Auditor's Report of Seacoast Utility Authority for the fiscal years ended September 30, 2012 and 2013. The Finance Department, in accordance with state statutes, the Bond Trust Indenture, and U.S. generally accepted accounting principles for governments, prepared this report. Responsibility for both the accuracy of the presented data, and the completeness and fairness of presentation, including all disclosures, rests with the Authority. To the best of our knowledge and belief, the data, as presented, is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included. Significant financial information is contained in the notes to the financial statements, and the notes should be considered an integral part of the financial information presented.

The financial data, as well as all disclosures, have been prepared in accordance with the standards for financial reporting promulgated by the Governmental Accounting Standards Board.

FINANCIAL PERFORMANCE

The Authority has adopted the provisions of GASB 34, "Basic Financial Statement – and Management Discussion and Analysis – for State and Local Governments". GASB 34 requires the Management's Discussion and Analysis (MD&A) of the Authority's financial performance to be included as an integral part of the financial statements. The Authority's MD&A can be found immediately following the Independent Auditors' Report.

THE AUTHORITY

Seacoast Utility Authority was created as a separate legal entity pursuant to an "Inter-local Agreement" entered into, by and among the City of Palm Beach Gardens, Palm Beach County, the Village of North Palm Beach, the Town of Lake Park and the Town of Juno Beach, all in Florida, under and in accordance with the provision of Chapter 163, Florida Statutes. In compliance with the requirements of such chapter, the Inter-local Agreement was filed with the Clerk of the Circuit Court of the Fifteenth Judicial Circuit of Florida, in and for Palm Beach County on August 24, 1988.

On December 20, 1988, pursuant to the Inter-local Agreement, the Authority acquired, by eminent domain, substantially all the utility assets of Seacoast Utilities, a water and wastewater utility formerly owned and operated as a separate division by the John D. and Catherine T. MacArthur Foundation. The Authority now owns, operates and maintains the utility.

The governance of the Authority resides in the Authority Board, which is comprised of five (5) members, one member appointed by each of the participating public entities. The members of the Authority Board serve for terms of four (4) years or until replaced by action of the respective members of the participating public entities. Voting by the members of the Authority Board is by weighted percentage as specified in the Inter-local Agreement.

SYSTEM DESCRIPTION

Seacoast Utility Authority, a regional water and wastewater utility, furnishes potable water service to 47,809 households and 2,886 commercial establishments. Wastewater collection, treatment and disposal services are provided to 44,034 residential dwellings and 1,734 businesses. The Authority's service area, which covers approximately 65 square miles, consists of certain unincorporated areas of Palm Beach County, and the incorporated areas of the City of Palm Beach Gardens, the Village of North Palm Beach and the Town of Lake Park and a portion of the unincorporated areas of the Town of Juno Beach, all in Florida.

ECONOMIC CONDITIONS AND OUTLOOK

The Authority's economic condition is generally affected less by the local economy than by weather and water use restrictions. Water and sewer service is a public necessity; thus revenue typically remains stable regardless of transient economic conditions. Permanent three-day per week irrigation restrictions enacted by South Florida Water Management District in 2010 continue to moderate water sales, but the Authority's rate structure design provides an effective economic buffer against fluctuating water demand.

During its peak growth period (2001 – 2006), the Authority opened over 1,000 new metered accounts per year. Since then the pace of new connections has significantly declined, with only 101 new meter installations during FY2013. While this is a slight increase from the previous year, a return to rapid system growth is not anticipated.

As the Authority converts from lime softening to membrane water treatment processes, operating expenses will trend higher proportional to increasing energy costs. Anticipating the need to synchronize revenue with rising costs, the Authority enacted an annual rate-indexing ordinance in 2009. This ordinance authorizes rate adjustments each October 1, consistent with the U.S. Department of Labor Water and Sewer Maintenance Index, allowing the Authority Board to apply a lesser percentage if it chooses.

MAJOR INITIATIVES

In terms of capital improvements, the Authority's major initiative over the next few years continues to be focused on the complete replacement of the Authority's water treatment systems. Significant changes in drinking water regulations will soon render the current treatment processes obsolete. In January 2006, the Authority Board approved an \$88 million dollar capital improvement program, which will replace the current lime softening process with membrane (nanofiltration, reverse osmosis) technology. In October 2009, the Authority issued new debt in the amount of \$77,795,000 to fund the project. Construction commenced in January 2010 and is scheduled for completion in 2014.

Lagging housing construction and land development activity affords the Authority an opportunity to shift its economic and human resources toward asset renewal and replacement and enhanced technology. In addition to the water treatment facility replacement project, the Authority will continue its overhaul of aging lift stations, gravity sewer facilities, water supply wells, and transmission and distribution pipelines. Further, field crews continue to install automated meters for the previously Board approved automated meter reading system.

Finally, staff proposes a multi-year easement policing initiative. The first phase will be to identify side property easements in which the Authority holds an interest, then to complete a field review to identify any encroachments. Encroachments will be classified as to severity (the potential for protracted service interruption), then a program for rectifying each will be developed. Program costs will be largely administrative, including extensive staff time and some legal and engineering fees, but the benefits will include less frequent and protracted service outages.

LONG-TERM FINANCIAL PLANNING

The Authority's annual operating budget includes a five-year projection of revenue, expenses, and capital needs. These estimates incorporate growth projections, inflation, anticipated changes in water, sewer, and reclaimed water flow, board approved multi-year capital improvement programs, targeted renewal and replacement projects, and an allowance for asset renewal and replacement costs not specifically identified.

The Authority's current rate structure and cash reserves are structured to generate sufficient revenue to pay routine asset replacement costs as well as the debt service costs incurred to fund the water treatment plant replacement. The five year budget considers the operating costs associated with the new treatment plant, and the essential renewal and replacement of other Authority assets. Planned indexed revenue increases consistent with the Board's direction are also included. Board approved budgets can be accessed via our website at www.sua.com.

Consistent with good financial management, the Authority's Cash Reserve Policy requires the Authority to maintain a minimum of cash reserves equal to 90 days operating and debt service costs. The Authority's current financial position is poised to achieve this requirement.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

As specified in Section 11.02 of the Bond Trust Indenture, the Authority's financial accounting system is based on accrual accounting principles. In developing and evaluating the Authority's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits requires estimates and judgments by management. We believe the Authority's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The Authority maintains budgetary controls at the department level with line item expenses managed through the issuance of approved purchase orders. The objective of these controls is to help ensure adherence to the legally adopted operating and capital budget approved by the Authority Board. As demonstrated by information provided in the Comprehensive Annual Financial Report, the Authority continues meeting its responsibility for sound financial management.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Seacoast Utility Authority for its comprehensive annual financial report for the fiscal year ended September 30, 2012. This was the 9th consecutive year that Seacoast Utility Authority has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

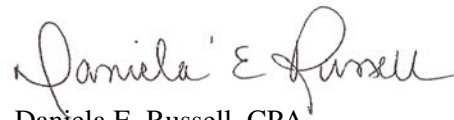
The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the dedicated efforts of the entire Authority staff. Their assistance and cooperation have facilitated the preparation of a report that provides a comprehensive view of the Authority's results of operations and strong financial position.

We would like to thank the Authority Board and customers of Seacoast Utility Authority for their continued interest, support and assistance in enabling the Authority to achieve its goal of providing quality water and wastewater service in a cost effective and responsible manner.

Respectfully submitted,



Rim Bishop
Executive Director



Daniela E. Russell, CPA
Finance Department Manager



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Seacoast Utility Authority
Florida

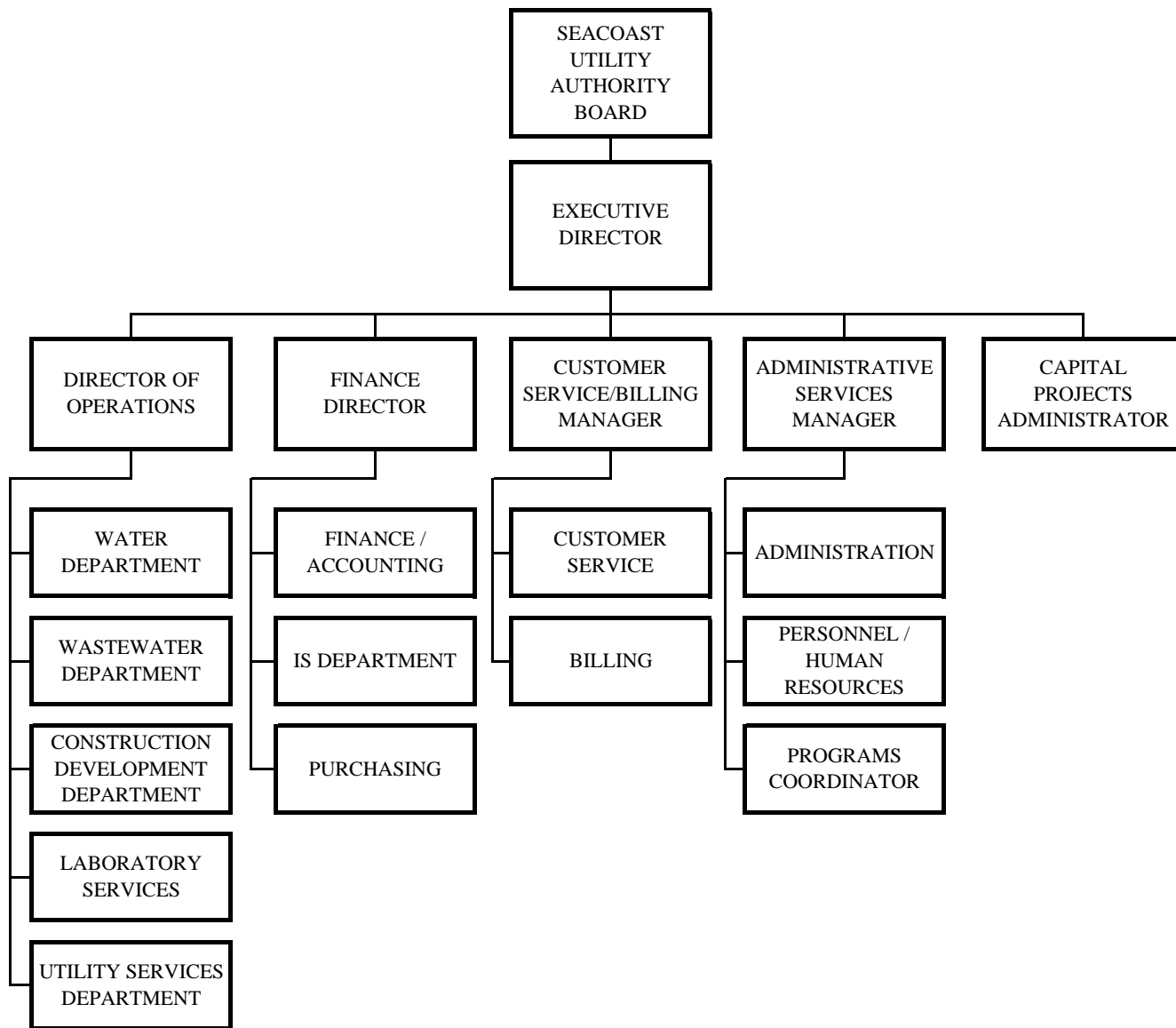
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO

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SEACOAST UTILITY AUTHORITY ORGANIZATIONAL CHART



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**SEACOAST UTILITY AUTHORITY
LIST OF PRINCIPAL OFFICIALS
As of September 30, 2013**

AUTHORITY BOARD MEMBERS

Name	Local Government
Mr. Robert Weisman, Chair	Palm Beach County
Mr. Joe Lo Bello, Vice Chair	Town of Juno Beach
Mr. Ron Ferris, President-Pro-Tem	City of Palm Beach Gardens
Mr. Robert Gebbia	Village of North Palm Beach
Mr. Dale S. Sugerman, Ph.D.	Town of Lake Park

AUTHORITY STAFF

Name	Title
Rim Bishop	Executive Director
Bruce Gregg, CAO	Director of Operations
Danielá E. Russell, CPA	Finance Director
Jessica Moore	Authority Clerk
Nason, Yeager, Gerson, White & Lioce, P.A.	Authority Counsel
Holtz Consulting Engineers, Inc.	Consulting Engineers
James Moore & Co., P.L.	Independent Auditors

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II. FINANCIAL SECTION

- Independent Auditors' Report
- Management's Discussion and Analysis
- Basic Financial Statements
 - Statements of Net Position
 - Statements of Revenues, Expenses and Changes in Net Position
 - Statements of Cash Flows
 - Notes to Basic Financial Statements
- Required Supplemental Information
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 - Comparative Schedules of Operating Revenues – Budget and Actual
 - Comparative Schedules of Operating Expenses – Budget and Actual
 - Comparative Schedules of Operating Expenses

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
Seacoast Utility Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Seacoast Utility Authority (the "Authority"), as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of September 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other post-employment benefits information, 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 opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, supplemental information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

James Moore & Co., P.L.

Daytona Beach, Florida
February 11, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The intent of the Management's Discussion and Analysis (MD&A) is to provide highlights of the Authority's financial activities for the fiscal year ended September 30, 2013. This information should be read with the accompanying audited financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

Seacoast Utility Authority (the Authority) uses a single enterprise fund to provide water and wastewater services. The Comprehensive Annual Financial Report is presented in four sections: Introductory, Financial, Statistical, and Compliance. The Introductory section includes a Transmittal Letter, List of Principal Officials and Staff, and the Authority's Organizational Chart. The Financial section includes the MD&A, audited basic financial statements and accompanying notes, as well as the report of the independent certified public accountant on the financial statements. The Statistical section includes unaudited financial and demographic information, and the Compliance section includes supplemental auditors' reports.

The MD&A represents management's examination, analysis, and report on the Authority's financial condition and performance. The financial statements as well as other available operational and financial information, budget, debt statements, etc. were used for this analysis. Again, the MD&A should be used with the audited financial statements and accompanying notes to those statements.

REQUIRED FINANCIAL STATEMENTS

As an Enterprise Fund, the Authority's financial statements and accounting methods closely resemble those of a business operation. These statements provide short and long term financial information about its activities. The required financial statements are: Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows; and Notes to Basic Financial Statements.

The Statement of Net Position includes all of the Authority's assets and liabilities and provides information on the investment in those assets. It presents the financial position on full accrual cost basis. It can be used for analyses such as liquidity and the structure of the assets and liabilities of the Authority. Over time, increases or decreases are indicators of whether the financial position is improving or not.

The Statement of Revenues, Expenses, and Changes in Net Position contains the current year's revenue and expenses. This can be used to evaluate operations during the past year by comparing operating revenue with income and also showing other income sources and the overall effectiveness of cost recovery. While the Statement of Net Position discussed previously shows a snapshot of balances as of a certain date, the Statement of Revenues, Expenses, and Changes in Net Position focuses on changes in the fiscal operating period.

The last required statement is the Statement of Cash Flows. This statement shows cash activity during the fiscal year. The statement is divided into cash flows from operating, capital, and investing activities. This statement can answer where the cash came from, how it was used and the resulting change in balances from the previous reporting period.

Finally, the accompanying Notes to the Financial Statements provide required disclosures and other information pertinent to understanding and explaining the financial statements. The notes contain information such as accounting policies, explanations and descriptions of significant account balances, expanded detail on summarized data in the financial statements, as well as required disclosures about the Authority.

The analysis below shows the Authority's net position (Table 1) and changes in net position (Table 2) during the year in a condensed format.

Table 1
Net Position
(Condensed)

	FY 2013	FY 2012	%	FY 2011	%
			Change		Change
Assets:					
Current assets	\$ 62,230,317	\$ 62,470,652	(0.4)	\$ 61,552,788	1.5
Restricted assets	11,659,185	11,898,036	(2.0)	20,652,911	(42.4)
Capital assets (net)	282,404,599	273,422,677	3.3	254,224,072	7.6
Other assets	1,566,297	1,885,366	(16.9)	2,347,227	(19.7)
Total assets	<u>\$ 357,860,398</u>	<u>\$ 349,676,731</u>	2.3	<u>\$ 338,776,998</u>	3.2
Deferred Outflows of Resources					
Outflows from interest rate swap	<u>\$ 1,866,811</u>	<u>\$ 2,603,998</u>	(28.3)	<u>\$ 2,674,845</u>	(2.6)
Liabilities:					
Current liabilities					
Payable from current assets	\$ 6,261,101	\$ 6,185,846	1.2	\$ 6,329,110	(2.3)
Payable from restricted funds	7,107,735	6,596,331	7.8	6,210,152	6.2
Other liabilities	3,385,452	4,135,245	(18.1)	4,076,781	1.4
Bonds payable (net)	113,731,114	120,240,253	(5.4)	126,362,899	(4.8)
Total liabilities	<u>130,485,402</u>	<u>137,157,675</u>	(4.9)	<u>142,978,942</u>	(4.1)
Net Position:					
Net investment in capital assets	159,968,584	145,262,799	10.1	129,063,652	12.6
Restricted	18,188,380	17,658,996	3.0	17,658,996	0.0
Unrestricted	51,084,843	52,201,259	(2.1)	51,750,253	0.9
Total net position	<u>\$ 229,241,807</u>	<u>\$ 215,123,054</u>	6.6	<u>\$ 198,472,901</u>	8.4

While system growth continued at a slow pace, total Net Position reached \$229,241,807 during FY2013, increasing 15.5% since FY2011 and 6.6% since FY2012. All three fiscal year increases in Net Position were the direct consequence of an excess of revenue over expenses.

In FY2013, total assets increased by 2.3%, over FY2012 to approximately \$8.1 million. Of the FY2013 total asset value, \$9 million was a capital asset increase, \$5.4 million of which resulted from capitalized interest charges, required to be added by generally accepted accounting principles. The remaining additions were funded by excess current revenues over expenses. However, for the three year period ending FY2013, current assets remained virtually unchanged. The FY2012 increase over FY2011, was 3.2% or \$11 million in total assets, with a greater increase in capital assets all paid by restricted bond funds. Additionally, in FY2012 previously restricted capital connection funds were unrestricted as allowed by the Bond Trust Indenture.

Deferred Outflows of Resources, a newly presented category, represents the accumulated decrease in the

fair value of the Authority's interest rate swap associated with the 2005 and 2006 Bonds. Further information on this can be found in Note 5 of the Financial Statements.

Finally, total liabilities at the end of FY2013 decreased from FY2012 by principal payments of approximately \$7 million. This is the same reason FY2012 decreased from FY2011.

Table 2
Statement of Revenues, Expenses, and Change in Net Position
(Condensed)

	FY 2013	FY 2012	Change	FY 2011	Change
Operating revenues:					
Charges for services	\$ 43,462,698	\$ 44,349,454	(2.0)	\$ 43,152,753	2.8
Miscellaneous	158,958	165,290	(3.8)	167,590	(1.4)
Total operating revenues	<u>43,621,656</u>	<u>44,514,744</u>	(2.0)	<u>43,320,343</u>	2.8
Operating expenses:					
Plant operation and maintenance	14,971,773	14,562,668	2.8	15,520,115	(6.2)
General and administrative	5,862,420	5,834,840	0.5	5,657,745	3.1
Depreciation	9,998,627	9,815,844	1.9	9,837,820	(0.2)
Total operating expenses	<u>30,832,820</u>	<u>30,213,352</u>	2.1	<u>31,015,680</u>	(2.6)
Nonoperating revenues:					
Interest income	458,167	512,414	(10.6)	531,642	(3.6)
Net increase (decrease) in FMV	(547,630)	97,271	(663.0)	(11,820)	(922.9)
Bond rebate	1,419,359	1,493,276	(4.9)	1,493,276	
Total nonoperating revenues	<u>1,329,896</u>	<u>2,102,961</u>	(36.8)	<u>2,013,098</u>	4.5
Nonoperating expenses:					
Interest expense	1,568,548	1,161,643	35.0	1,805,764	(35.7)
Amortization of bond costs	339,125	331,764	2.2	341,067	(2.7)
Other expense	213,682	345,518	(38.2)	382,006	(9.6)
Total nonoperating expenses	<u>2,121,355</u>	<u>1,838,925</u>	15.4	<u>2,528,837</u>	(27.3)
Income (loss) before capital contributions	<u>11,997,377</u>	<u>14,565,428</u>	(17.6)	<u>11,788,924</u>	23.6
Capital contributions and grants:					
Capital contributions	1,621,376	2,084,725	(22.2)	1,262,062	65.2
Grants	500,000		100.0		
Total capital contributions & grants	<u>2,121,376</u>	<u>2,084,725</u>	1.8	<u>1,262,062</u>	65.2
Change in net position	<u>\$ 14,118,753</u>	<u>\$ 16,650,153</u>	(15.2)	<u>\$ 13,050,986</u>	27.6

Table 2 reflects a \$14,118,753 increase in net position for FY2013. The following summarizes the change from year to year.

- FY2013 operating revenue decreased by 2.0%. Following an Authority Board approved 3.9% index adjustment effective October 1, 2011, revenue rose in FY2012, even though rainfall reduced the expected impact of such index. After careful consideration and review of the proposed FY2013 budget, the board elected to not implement an indexed rate increase for FY2013. Furthermore, starting with a rainy October 2012, due to Hurricane Sandy, rainfall continued to be above average for the remainder of the fiscal year. As such, water revenues from irrigation were diminished and hence the reduction from FY2012.
- Donated infrastructure and connection fees are dependent on developers. Consequently, capital contributions can fluctuate from one fiscal year to the next. In FY2013, construction remained fairly constant as compared to FY2012 however, completed donated capital infrastructure were actually less. FY2011 revenue reflected a one-time receipt of \$785,000 in Scripps Florida connection charges. There were no equivalent connection charge payments in FY2012 or FY2013.
- In FY2013 the Authority was awarded a \$500,000 grant from South Florida Water Management to assist in paying for the cost of a 3MGD nanofiltration concentrate blending pump station and reclaimed water main. Since the awarded funds were specifically tied to a capital project, FY2012 and FY2011 did not have such grant revenue.
- Available FY2012 investments presented record low investment yields. Consequently, following strict investment policy protocols, replacement of matured or called investments in FY2012 resulted in significantly reduced expected yields. For that reason, the Authority's overall portfolio yield for FY2013 was considerably reduced compared to FY2012 or FY2011. As the market began to present higher yields, previously expected bond calls did not present themselves, further suppressing earnings. At the end of FY2013, current bond yields were significantly higher than the Authority's portfolio. Therefore, as required by generally accepted governmental accounting standards, the Authority adjusted the value of its portfolio to reflect the unrealized loss. The total unrealized loss was approximately \$548,000. In comparison, FY2012 presented a gain of approximately \$97,000 and FY2011 presented a loss of approximately \$12,000. Additionally, the Federal Government sequestration caused an estimated \$75,000 reduction in the Build America Bond rebate revenue received in FY2013. Both FY2012 and FY2011 had the full expected allocation of this rebate revenue.
- During FY2013, operating expenses, including depreciation, increased by 2.1%, following a 2.6% decrease the previous year. In FY2013, labor costs generally remained level, as compared to FY2012, as cost savings from long tenured employee retirements occurred. Staff deferred long-term maintenance projects on lime softening infrastructure soon to be decommissioned. Chemical and Power costs were lower than FY2012 and FY2011 as FPL's rates were lowered and above average rain fall diminished water treatment demand decreasing chemical, power and residual (lime sludge) removal costs. Savings on disposal of lime sludge residual removal costs continued, as reuse alternatives were applied. FY2013 increased costs in the Sewer Treatment and Collection Departments were the direct result of the intensified maintenance and video services needed to detect areas of concern. Both of these areas were deferred in FY2012 and thus the reason for the increase in FY2013. Depreciation expense rose as expected as continued replacement of the aging system occurs, thus beginning a new cost recovery period.

- As required by generally accepted accounting principles, interest on the 2009A&B Bonds has been added to the cost of the construction in progress. FY2013 net assets include a \$5.4 million capitalized interest adjustment, which is slightly higher than FY2012 and FY2011 interest adjustments of \$4.6 and \$4.4 million, respectively.
- As the Authority continues to renew and replace aging infrastructure assets, those that have not been fully depreciated will be written off, resulting in accounting losses. FY2013 write offs included less unamortized costs and therefore were reduced from FY2012 and FY2011.

Economic and regulatory forces beyond local control, general inflation and customer demands will impact the revenues and expenses from year to year. Nevertheless, the Authority is confident that the unrestricted financial resources will provide management with the wherewithal to provide quality water and sewer services to our customers.

FISCAL YEAR 2013 FINANCIAL HIGHLIGHTS/ANALYSIS

Operating Revenue

In FY2013, operating revenue (water, reclaimed, wastewater, capacity reservation charges, and other fees) decreased to \$43,621,656, a \$893,088 decrease from the previous fiscal year's total of \$44,514,744. Further details for each of these categories follows.

Water Sales

Sales related to consumption totaled \$24,701,264, a 2.7% decrease of \$675,162 this fiscal year compared to the previous year's total of \$25,376,426. An indexed rate increase was not planned for FY2012-2013. Furthermore, after a rainy October 2012, due to Hurricane Sandy, rainfall continued to be above average for the remaining fiscal year, directly affecting the consumption patterns of our high volume irrigation users.

Reclaimed/Effluent Sales

Reclaimed usage increased over the previous fiscal year resulting in a total of \$1,093,282 in reclaimed water revenue; a 3.5% increase from the previous year's revenue of \$1,056,117. This increase is primarily related to a full year of the October 1, 2011 rate index, and conversion of lower cost Class "B" agreements to Class "A" format.

Wastewater Treatment Usage

Charges from wastewater activities decreased by \$46,078 in FY2013, resulting in revenue of \$16,521,433 in comparison to \$16,567,511 during FY2012. The effect of diminished wet-weather water sales on sewer revenue is minimal as most sewer revenue is derived from fixed monthly charges and capped commodity rates.

Capacity Reservation Charges

Revenue from capacity reservation charges for both water and wastewater decreased \$267,494 from the previous fiscal year resulting in revenue of \$614,734 down from \$882,228. The decrease was expected as majority of FY2012 revenue was generated by the renewal of a single project, from which approximately \$330,000 was received. FY2013 represents an average of 1,650 water and sewer reserved ERC's, which is on par with FY2011 and recent prior years.

Grant Revenue

In FY2013 the Authority was awarded a \$500,000 grant from South Florida Water Management to assist in paying for the cost of a 3MGD nanofiltration concentrate blending pump station and reclaimed water

main. Since the awarded funds were specifically tied to a capital project, such grant revenue is not expected to be received in upcoming years.

Other Charges

Charges for developer agreement administrative costs and other miscellaneous fees increased to \$583,964 as compared to the prior year revenue of \$527,594. These fees are dependent on land development and other customer charges; therefore they will vary from year to year.

Operating Expenses

After a 2.6% decline in the previous year, operating expenses, excluding depreciation, increased by 2.1% to \$20,834,193 in FY2013. As previously noted, labor costs generally remained level despite fulfillment of a few budgeted positions in both the Water and Wastewater Departments. Furthermore, on the administrative side, the increase in insurance premiums for health, property and other insurances drove costs 12% higher, though a revised formula for distributing administrative costs to specific departmental line items makes a line by line FY2012 to FY2013 comparison difficult. Offsets to these increases were payroll reductions due to the retirement of long tenured employees, lower power, lower residual removal and deferral of long term maintenance to lime softening infrastructure soon to be decommissioned.

Debt Service/Management

Debt service payments follow fixed schedules that were established when the bonds were issued. At the close of fiscal year 2013, the Authority's outstanding bond principal indebtedness (net of unamortized discounts and premiums) was \$120,260,309. The Authority paid \$5,992,548 of principal in FY2013. During FY2013, FY2012, & FY2011 the Authority received federal government interest subsidy credits of \$1,419,359, \$1,493,276 and \$1,493,276 respectively, which were recorded as income, as required, rather than a net against the interest paid.

Long Term Debt

At September 30, 2013, the Authority had five debt issues outstanding for a total of \$120,260,309 (net of unamortized discounts and premiums). The outstanding issues are the Series 1989 in the amount of \$24,005,687, the Series 2005 Refunding in the amount of \$9,854,794 the Series 2006 Refunding in the amount of \$9,256,503, the 2009A Revenue Bonds in the amount of \$12,128,325 and the 2009B Build America Revenue Bonds in the amount of \$65,015,000. More detailed information regarding long-term debt is presented in Note 5 of the financial statements.

Investment Income

From FY2012 to FY2013, interest income declined by \$54,247, excluding interest earned on unspent debt proceeds. In fiscal year 2013, the Authority earned \$458,167 in investment revenue. Secure investments yielded historically low interest rates, earning on average .85%

Capital Assets

The Authority had \$282,404,599 (net of accumulated depreciation) invested in the utility's capital assets on September 30, 2013. These capital assets include both purchased and donated assets and are comprised of land, easements and rights of ways, structures, and improvements; transmission, collection, distribution mains and accessories; and plant and equipment. This is a 3.3% increase over the last fiscal year total of \$273,422,677. The Authority has a capitalization policy threshold of \$1,000; therefore, all disbursements of less than \$1,000 are recorded as an operating expense.

Some of the more significant FY2013 capital projects were:

- Continued construction of the Membrane Capital Improvement Project; currently there are approximately 10 major projects underway, expected to be substantially completed May 2014;

- replacement of wells BR-22,25, & 23; NPB 5 & 6; and PBG Wells 8,10,13,&14; construction in progress of replacement wells NPB-1, 2, and 8 and PGB-5, 11, and 12 which were approximately 40% complete at year end; awarded contract for the replacement of BR well 21; and lastly rehabilitated well NPB-4;
- completed chlorine system modifications for the new membrane plant, including temporary feed lines to existing lime plant;
- completed high service pump nos. 4 and 6 refurbishment, initiated work on high service pump no. 10;
- installed temporary piping for well PBG-11 so it could remain in service until bisulfite system can be modified to remove dissolved oxygen from the water before membrane treatment;
- completed conversion of the Hood Road chemical building space for use as maintenance office and spare parts storage for the membrane treatment facility;
- rebuilt high service pump no. 1 motor; contracted to replace and install high service pump no. 7;
- completed design and installation of installation of fiber optic cable tying in 3 remote locations;
- installed ground water monitoring wells and equipment in wetland tracts located in Mirasol and Briger properties as required by SUA's SFWMD water use permit;
- completed the nanofiltration blending pump station at the PGA Wastewater facility; and
- continued installation and operation of the automated meter reading system.

Table 3 shows the distribution of the capital assets from 2011 to 2013. Additional detail is presented in Note 4 to the financial statements.

Table 3
Capital Assets
(Net of Accumulated Depreciation)

	As of September 30, 2013	As of September 30, 2012	%	As of September 30, 2011	%
			Change		Change
Capital assets not being depreciated:					
Land	\$ 323,799	\$ 323,799		\$ 323,799	
Easements & Right of Ways	798,634	756,862	5.5	722,037	100.0
Construction in Progress	<u>106,360,940</u>	<u>95,802,785</u>	11.0	<u>72,101,615</u>	32.9
Total capital assets not being depreciated	<u>107,483,373</u>	<u>96,883,446</u>	10.9	<u>73,147,451</u>	32.4
Capital assets being depreciated:					
Buildings	17,348,853	17,267,400	0.5	17,295,631	(0.2)
Utility plants and pipelines	248,505,557	241,808,112	2.8	239,093,438	1.1
Equipment	37,181,733	36,695,050	1.3	35,630,966	3.0
Less accumulated depreciation	<u>(128,114,917)</u>	<u>(119,231,331)</u>	7.5	<u>(110,943,414)</u>	7.5
Total assets being depreciated	<u>174,921,226</u>	<u>176,539,231</u>	(0.9)	<u>181,076,621</u>	(2.5)
Total assets, net	<u>\$ 282,404,599</u>	<u>\$ 273,422,677</u>	3.3	<u>\$ 254,224,072</u>	7.6

FISCAL YEAR 2012 FINANCIAL HIGHLIGHTS/ANALYSIS

Operating Revenue

In FY2012, operating revenue (water, reclaimed, wastewater, capacity reservation charges, and other fees) increased to \$44,514,744, a \$1,194,401 increase from the previous fiscal year total of \$43,320,343. In October 2011, an indexed rate of 3.9% was applied to all consumption charges. However, due to above average rain resulting in diminished water consumption, as compared to FY2011, total water sales revenue decreased. To the contrary, sewer sales increased over 5%. The basis for this is that sewer revenue has an assumed maximum usage. Also contributing to an overall increase in revenue was a one-time back capacity reservation charge.

Water Sales

Sales related to consumption totaled \$25,376,426. This is a decrease of \$83,348 this fiscal year compared to the previous year's total of \$25,459,774. As noted above in Operating Revenue, above average rain in the later part of FY2012 resulted in a reduced quantity of water to treat. Consequently even though a 3.9% indexed rate increase was effective October 1, 2011, water sales did not meet prior year levels or meet budget expectations.

Reclaimed/Effluent Sales

Reclaimed usage increased over the previous fiscal year resulting in a total of \$1,056,117 in reclaimed water revenue; a 3.2% increase from the previous year's revenue of \$1,023,094. This increase is primarily due to the indexed rate increase effective October 1, 2011.

Wastewater Treatment Usage

Charges from wastewater activities increased by \$881,604, in FY2012, resulting in revenue of \$16,567,511 in comparison to \$15,685,907 during FY2011. Sewer sales increased following an indexed rate increase made effective October 1, 2011.

Capacity Reservation Charges

Revenue from capacity reservation charges for both water and wastewater increased \$339,790 from the previous fiscal year resulting in revenue of \$882,228 up from \$542,438. A majority of this revenue was generated by the renewal of a single project, where back capacity of approximately \$330,000 was received in late FY2012. This revenue source was not present in FY2011 and is not expected to occur in FY2013.

Other Charges

Charges for developer agreement administrative costs and other miscellaneous fees increased to \$527,594 as compared to the prior year revenue of \$507,397. These fees are dependent on land development and other customer charges; therefore they will vary from year to year.

Operating Expenses

Operating expenses, excluding depreciation, were \$20,397,508 a 3.7% decrease over FY2011 operating expenses of \$21,177,860. In FY2012, the primary cost savings drivers were labor, less maintenance, and the effect of above average rain which diminished water treatment volumes decreasing chemical, power and residual (lime sludge) removal costs. Additionally, continued reuse of residual materials contributed to holding down the costs of removal of this material. Administrative costs did however increase approximately 3%. This increase is primarily attributed to insurance increases slightly offset by reduced professional services.

Debt Service/Management

Debt service payments follow fixed schedules that were established when the bonds were issued. At the close of fiscal year 2012, the Authority's outstanding bond principal indebtedness (net of unamortized discounts and premiums) was \$126,232,801. The Authority paid \$5,570,961 of principal in FY2012. During FY2012, FY2011, & FY2010 the Authority received Federal Government interest subsidy credits of \$1,493,276, \$1,493,276 and 1,468,388 respectively, which were recorded as income, as required, rather than a net against the interest paid.

Long Term Debt

As of September 30, 2012 the Authority has six debt issues outstanding for a total of \$126,232,801 (net of unamortized discounts and premiums). The outstanding issues are the Series 1989 in the amount of \$23,814,737, the Series 2001 Refunding in the amount of \$5,510,069, the Series 2005 Refunding in the amount of \$9,854,794 the Series 2006 Refunding in the amount of \$9,256,503, the 2009A Revenue Bonds in the amount of \$12,194,150 and the 2009B Build America Revenue Bonds in the amount of \$65,015,000. More detailed information regarding long-term debt is presented in Note 5 of the financial statements.

Investment Income

From FY2011 to FY2012, interest income declined by \$19,228, excluding interest earned on unspent debt proceeds. In fiscal year 2012, the Authority earned \$512,414 in investment revenue. Secure investments yielded historically low interest rates, earning on average .75%

Capital Assets

The Authority had \$273,422,677 (net of accumulated depreciation) invested in the utility's capital assets on September 30, 2012. These capital assets include both purchased and donated assets and are comprised of land, easements and rights of ways, structures, and improvements; transmission, collection, distribution mains and accessories; and plant and equipment. This is a 7.6% increase over the last fiscal year total of \$254,224,072. The Authority has a capitalization policy threshold of \$750; therefore, all disbursements of less than \$750 are recorded as an operating expense.

EVENTS, ECONOMIC FACTORS AND TRENDS

Membrane Conversion Project

Responding to a June 2005 staff memorandum, the Authority's Board authorized the firm LBFH, Inc. (AECOM Engineering) to evaluate the feasibility of replacing Seacoast's existing lime softening water treatment process with membrane (nanofiltration, reverse osmosis) processes. Staff had expressed concern that increasingly stringent water quality standards and limited lime sludge disposal options will soon render lime softening obsolete. The engineer's report was presented to the board in December 2005.

In January 2006, the Authority's Board adopted an \$88 million capital improvements plan that included the following elements:

- Construction of a single 30 million gallon per day (MGD) combination nanofiltration/reverse osmosis water treatment plant at the Hood Road Water Plant (WTP) site
- Construction of a series of Floridan aquifer water supply wells on or near the Hood Road (WTP) property
- Construction of deep injection well brine waste disposal facilities at the Hood Road WTP site
- Construction of such raw and finished water pumping and transmission pipeline facilities as are required to allow decommissioning of the Richard Road WTP and delivery of that facility's raw water supply to the proposed Hood Road WTP membrane plant

A request for engineering services proposals was published in June 2006, and the board selected engineers for project components in September 2006. At the close of fiscal 2008, the Authority's engineers, planners, surveyors, and technical staff had agreed on a site plan and were preparing a Preliminary Design Report for regulatory submittal. As of September 30, 2013, the overall Membrane Conversion Project was approximately 85% complete.

SFWMD issued a new 20-year permit effective September 2013, authorizing sufficient water resource allocation to meet the Authority's currently known build-out water demands.

Rates and Revenue

Ordinance No. 2-2009, effective October 1, 2009, increased monthly water, sewer and reclaimed water rates and provided for annual rate indexing. In August 2010, the Authority Board approved the first annual indexed increase of 6%, effective December 1, 2010. Yet again in August of 2012, the Authority Board approved a 3.9% annual index increase, effective October 1, 2012. After careful consideration and review of the proposed FY2013 budget, the board elected to not implement an indexed rate increase for FY2013.

Reclaimed Water

The Authority's reclaimed water system continues to operate at full capacity and in compliance with all regulatory requirements. During fiscal 2012/2013, Seacoast delivered an average of 8.0 million gallons per day (MGD), including supplemental water sources, to reclaimed water customers. Assisted by the Authority's SFWMD supplemental reclaimed water allocation, this represents a 85.5% recycling rate.

The Authority is presently contracted to provide up to 10.773 MGD of reclaimed irrigation water to a total of 31 separate sites. This total includes .020 MGD for one class "B", non-guaranteed agreement. In October 2012, the Board authorized termination of all class "B" reclaimed water agreements; directing staff to offer those customers more costly class "A" guaranteed agreements instead. Contractually mandated 180 day termination letters were issued to 5 of the Authority's 6 class "B" customers in November 2012. All 5 executed class "A" agreements during FY 2012/2013. The 6th customer will be issued a termination notice when that contract's initial 10-year term expires in 2014.

Authority's Bond Financial Rating

Following FitchRating's July 2012 upward bond rating adjustment to AA, Stable Outlook, in February 2013, review of the Authority's financial and operational performance by Standard & Poor's(S&P) resulted in the Authority's credit rating upward from "AA-, Stable" to "A+, Stable."

S&P's analysis noted that "the upgrade reflects our view of consistently strong debt service coverage and an improved and strong liquidity position, which we expect to continue". Similar to Fitch's perspective, the rating pointed out several reasons for S&P's assessment which included the following:

- strong liquidity and good bond coverage which confirms financial flexibility;
- participation in the economically diverse and affluent Palm Beach County, providing relatively stable and very diverse customer base;
- very strong financial position, with historically strong debt service coverage and liquidity;
- good rate flexibility due to rates considered to affordable relative to the service area wealth levels that were considered strong, in general;
- manageable capital needs that require no bonding; and
- adequate water and wastewater treatment capacity.

As a final point, S&P noted that they don't expect to raise or lower this rating within the next two years.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT TEAM

This financial report is designed to provide the Seacoast Utility Authority Board, customers, investors, creditors, and employees with a general overview of the Authority's finances and accountability. Questions concerning this report should be directed to the Authority's Finance Department at 4200 Hood Road, Palm Beach Gardens, Florida, 33410.

SEACOAST UTILITY AUTHORITY
STATEMENTS OF NET POSITION
September 30, 2013 and 2012

	2013	2012
<u>ASSETS</u>		
Current assets:		
Cash, cash equivalents and investments-unrestricted	\$ 49,054,497	\$ 50,354,660
Cash, cash equivalents and investments-restricted	7,107,735	6,596,331
Accounts receivable, net	4,857,668	4,707,039
Other receivables	132,108	157,293
Inventories	1,014,295	588,377
Prepaid expenses	64,014	66,952
	62,230,317	62,470,652
Non-current assets:		
Cash, cash equivalents and investments-restricted	11,659,185	11,898,036
Unamortized bond costs	1,566,297	1,885,366
Capital assets:		
Nondepreciable:		
Land	323,799	323,799
Easements and right of ways	798,634	756,862
Construction in progress	106,360,940	95,802,785
Depreciable:		
Buildings	17,348,853	17,267,400
Utility plants and pipelines	248,505,557	241,808,112
Equipment	37,181,733	36,695,050
Accumulated depreciation	(128,114,917)	(119,231,331)
Capital assets, net	282,404,599	273,422,677
Total non-current assets	295,630,081	287,206,079
Total Assets	\$ 357,860,398	\$ 349,676,731
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Accumulated decrease in fair value of interest rate swap	\$ 1,866,811	\$ 2,603,998

The accompanying notes to financial statements are an integral part of these statements.

SEACOAST UTILITY AUTHORITY
STATEMENTS OF NET POSITION
September 30, 2013 and 2012

	2013	2012
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ 1,516,837	\$ 1,688,715
Accrued liabilities	257,803	207,427
Retainage payable	2,930,970	2,862,818
Customer deposits	1,507,193	1,383,231
Compensated absences	48,298	43,655
Liabilities payable from restricted assets:		
Interest payable	578,540	603,783
Current portion of bonds payable	6,529,195	5,992,548
Total current liabilities	13,368,836	12,782,177
Non-current liabilities:		
Compensated absences	963,417	980,955
Other post employment benefits	212,996	179,175
Unearned revenue	342,228	371,117
Interest rate swap	1,866,811	2,603,998
Non-current portion of bonds payable, net	113,731,114	120,240,253
Total non-current liabilities	117,116,566	124,375,498
Total Liabilities	\$ 130,485,402	\$ 137,157,675
<u>NET POSITION</u>		
Net investment in capital assets	\$ 159,968,584	\$ 145,262,799
Restricted for:		
Debt service	3,883,166	3,585,370
Debt reserve	12,305,214	12,305,214
Renewal and replacement	2,000,000	2,000,000
Unrestricted	51,084,843	51,969,671
Total Net Position	\$ 229,241,807	\$ 215,123,054

The accompanying notes to financial statements are an integral part of these financial statements.

SEACOAST UTILITY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Charges for services	\$ 43,462,698	\$ 44,349,454
Miscellaneous	158,958	165,290
Total operating revenues	<u>43,621,656</u>	<u>44,514,744</u>
Operating expenses:		
Plant operation and maintenance	14,971,773	14,562,668
General and administrative	5,862,420	5,834,840
Depreciation and amortization	9,998,627	9,815,844
Total operating expenses	<u>30,832,820</u>	<u>30,213,352</u>
Operating income	<u>12,788,836</u>	<u>14,301,392</u>
Nonoperating revenues (expenses):		
Investment income:		
Interest income	458,167	512,414
Net increase (decrease) in the fair value of investments	(547,630)	97,271
Interest expense	(1,568,548)	(1,161,643)
Amortization of bond costs	(339,125)	(331,764)
Build America bond rebate	1,419,359	1,493,276
Other expense	(213,682)	(345,518)
Total nonoperating revenues (expenses)	<u>(791,459)</u>	<u>264,036</u>
Income before capital contributions	11,997,377	14,565,428
Capital contributions:		
Developer and other contributions	1,621,376	2,084,725
Grants	500,000	
Total capital contributions	<u>2,121,376</u>	<u>2,084,725</u>
Increase in net position	14,118,753	16,650,153
Net position, beginning of year	<u>215,123,054</u>	<u>198,472,901</u>
Net position, end of year	<u>\$ 229,241,807</u>	<u>\$ 215,123,054</u>

The accompanying notes to financial statements are an integral part of these statements.

SEACOAST UTILITY AUTHORITY
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 43,591,285	\$ 44,243,981
Cash paid to suppliers for goods and services	(13,450,411)	(12,652,206)
Cash paid to or for the benefit of employees	(7,697,092)	(7,689,442)
Net cash provided by operating activities	<u>22,443,782</u>	<u>23,902,333</u>
Cash flows from capital and related financing activities:		
Principal paid on bonds	(5,992,548)	(5,570,961)
Interest paid on bonds	(7,104,217)	(7,413,646)
Payments to acquire and construct plant property	(13,364,460)	(22,497,234)
Capital contributions	955,672	981,136
Developer reimbursement		38,201
Build America bond rebate	1,419,359	1,493,276
Proceeds from the sale of capital assets	15,566	
Net cash used in capital and related financing activities	<u>(24,070,628)</u>	<u>(32,969,228)</u>
Cash flows from investing activities:		
Purchase of investments	(32,294,633)	(33,847,088)
Redemption of investments	30,650,453	42,502,528
Interest received	488,332	644,184
Net cash provided by (used in) investing activities	<u>(1,155,848)</u>	<u>9,299,624</u>
Net increase (decrease) in cash and cash equivalents	(2,782,694)	232,729
Cash and cash equivalents, beginning of year	24,219,295	23,986,566
Cash and cash equivalents, end of year	<u>\$ 21,436,601</u>	<u>\$ 24,219,295</u>
Cash and cash equivalents:		
Cash, cash equivalents and investments - unrestricted	\$ 49,054,497	\$ 50,354,660
Cash, cash equivalents and investments - current restricted	7,107,735	6,596,331
Cash, cash equivalents and investments - noncurrent restricted	11,659,185	11,898,036
Less: Investments not considered cash equivalents	(46,384,816)	(44,629,732)
	<u>\$ 21,436,601</u>	<u>\$ 24,219,295</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 12,788,836	\$ 14,301,392
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	9,998,627	9,815,844
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts and other receivables	(125,444)	(459,045)
Inventories	(425,918)	42,305
Prepaid expenses	2,938	(29,677)
Increase (decrease) in liabilities:		
Accounts payable and other accrued expenses	109,670	43,232
Customer deposits payable	123,962	75,107
Unearned revenue	(28,889)	113,175
Total adjustments	<u>9,654,946</u>	<u>9,600,941</u>
Net cash provided by operating activities	<u>\$ 22,443,782</u>	<u>\$ 23,902,333</u>
Supplemental schedule of noncash investing, capital, and financing activities		
Change in fair value of investments	\$ (547,630)	\$ 97,271
Developer contributions of transmission & collection mains and lift stations	<u>\$ 591,236</u>	<u>\$ 1,065,384</u>

The accompanying notes to financial statements are an integral part of these statements.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(1) **Summary of Significant Accounting Policies:**

(a) **Reporting entity**—The Seacoast Utility Authority (the “Authority”) was created as a separate legal entity pursuant to an Interlocal Agreement entered into by and among the City of Palm Beach Gardens, Florida; Palm Beach County, Florida; the Village of North Palm Beach, Florida; the Town of Lake Park, Florida; and the Town of Juno Beach, Florida, under and in accordance with the provision of Chapter 163, Florida Statutes. In compliance with the requirements of such chapter, the Interlocal Agreement was filed with the Clerk of the Circuit Court of the Fifteenth Judicial Circuit of Florida in and for Palm Beach County, Florida on August 24, 1988.

On December 20, 1988, the Authority acquired, by eminent domain, substantially all the utility assets of Seacoast Utilities, a water and wastewater utility formerly owned and operated as a separate division by the John D. and Catherine T. MacArthur Foundation. The Authority is located within certain unincorporated areas of Palm Beach County and within the incorporated boundaries of the other members of the participating public entities. The Authority now owns, operates, and maintains the utility system.

The governance of the Authority resides in the Authority Board, which is comprised of five (5) members, one member appointed by each of the participating public entities. The members of the Authority Board serve for a term of four (4) years or until such time as an Authority Board member’s replacement has been appointed. Voting by the members of the Authority Board is by weighted percentage as specified in the Interlocal Agreement. All entities for which the Authority is financially accountable are included in the financial reporting entity.

(b) **Measurement focus, basis of accounting, and financial statement presentation**—All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Authority’s water and sewer utility systems are proprietary fund operations.

A proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The Authority’s principal operating revenues are charges for water and sewer services. The Authority also recognizes as operating revenues certain administrative fees associated with the utility system. Operating expenses include the costs to maintain and repair the water and sewer treatment plants, 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 by the Authority is determined by “measurement focus.” Measurement focus is a term used to describe which transactions are recorded within the financial statements. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, financial activity is reported in essentially the same manner as in commercial accounting where net income and capital maintenance are measured. All assets and all liabilities (whether current or non-current) are included in the financial statements. Net position (i.e., total assets net of total liabilities) is segregated into three categories on the statement of net position.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(1) **Summary of Significant Accounting Policies:** (Continued)

(b) **Measurement focus, basis of accounting, and financial statement presentation** (Continued)

Basis of accounting refers to the timing when transactions are recognized in the accounts and reported in the financial statements. The transactions of the Authority are accounted for using the accrual basis of accounting in accordance with the Governmental Accounting Standards Board (GASB). Under the accrual basis of accounting, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Water and sewer customers are billed at varying intervals during the period. Accounts receivable represent various revenues earned but not yet collected. Management has established an allowance for doubtful accounts and has estimated the potential uncollectible amounts. Included in accounts receivable are unbilled amounts which represent the estimated portion of water and sewer services through the end of the fiscal year.

Deferred revenues arise when resources are received by the Authority before it has legal claim to them. In subsequent periods, when the Authority has legal claim to the resources, the liability for deferred revenues is removed from the statement of net position and revenue is recognized. The Authority recognizes deferred revenue for funds received for the purpose of reserving capacity.

(c) **Implementation of new accounting standards**—At September 30, 2013 and for the year then ended, the Authority has implemented Governmental Accounting Standards Board (GASB) *Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASBS No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

(d) **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 revenues and expenses during the period reported. These estimates include assessing the collectability of accounts receivable, the use and recoverability of inventories, and useful lives and impairment of tangible and intangible assets, among others. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

(e) **Budgetary accounting**—The Annual Operating and Capital Budget is prepared and controlled on a departmental level. The Executive Director is authorized to transfer budgeted amounts within the departments. Budget amendments which require a change in total appropriations of any department are approved by the Authority's Board. The budgets are prepared on the accrual basis of accounting, which is consistent with the basis utilized for proprietary funds.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(1) **Summary of Significant Accounting Policies:** (Continued)

(f) **Cash, cash equivalents, and investments**—Cash and cash equivalents consist of cash on hand and deposits in banks and money market accounts. Investments with a maturity of three months or less when purchased are considered to be cash equivalents. Cash, cash equivalents, and investments are stated at fair value as determined by quoted market prices. Investments in the Local Government Surplus Funds Trust Fund (LGSF), or State Treasurer’s Investment Pool, are carried at cost, which is fair value. The Florida PRIME 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. In accordance with state legislation, the Authority has a written policy that places investment priorities on the safety of principal, liquidity of funds, and investment income (in that order of importance). The policy authorizes investments in obligations of the U.S. Government, its agencies and instrumentalities, repurchase agreements, interest-bearing time deposit or savings accounts, the treasurer’s investment pool (The Local Government Surplus Funds Trust Fund), corporate notes or bonds, municipal bonds (taxable and tax exempt), and certain highly rated commercial paper.

(g) **Utility plant in service and depreciation**—Property acquired through purchase or internal construction is stated at cost and where applicable includes capitalized interest. Property contributed in aid of construction is recorded at its estimated fair value on the date received. In addition to contributed facilities, plant capacity and connection charges are collected from developers and customers who connect to existing water and sewer lines. These funds are used to construct additional facilities or are applied towards debt service costs.

Expenditures of \$1,000 or more for system additions and improvements are capitalized. Professional services relative to construction projects are capitalized. The Authority’s policy is to record the fees as construction in progress on a progress-billing basis. Maintenance and repairs, which do not significantly extend the value or life of capital assets, are expensed as incurred.

The Authority utilizes the composite straight-line depreciation method with normal retirements charged to accumulated depreciation, and a gain or loss recognized on such retirements. Estimated useful lives of capital assets are as follows:

Buildings 10 to 33 years
Utility plants and pipelines 7 to 50 years
Equipment 3 to 15 years

(h) **Interest rate swaps**—The Authority enters into interest rate swap agreements to modify interest rates on outstanding debt.

(i) **Inventories**—Inventories consist of general supplies and are valued at normal average cost.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(1) **Summary of Significant Accounting Policies:** (Continued)

(j) **Restricted assets**—Proceeds of bonds, as well as other resources set aside for debt repayment, plant renewal and replacement, and capital activity are reported as restricted assets on the statement of net position. Except for additions to plant capacity, when both restricted and unrestricted resources are available for use, it is the Authority's policy to use unrestricted resources first, and then restricted resources as they are needed. Reserve requirements are as follows:

Debt service fund

An amount equal to 1/6 of the semi-annual interest requirement and 1/12 of the annual principal requirement must be set aside each month in a restricted debt service account.

Debt reserve fund

A reserve of \$12,305,214 is required upon debt issuance which equals the maximum debt service requirement outstanding. The reserve fund requirement can be funded with cash or a Reserve Fund Guaranty, or a combination thereof. See note 5(b) for a full description of the fund.

Renewal and replacement fund

A reserve of \$2,000,000 is required for system renewal and replacement.

Capital payments fund

Connection fees earned by the Authority are set aside in a restricted capital payments account. These amounts are used by the Authority to pay the costs of system expansion and improvements or can be applied toward certain debt service costs.

(k) **Accrued leave**—It is the Authority's policy to permit all employees to accumulate limited amounts of earned vacation and earned sick leave. Upon separation from service, employees receive payment for all unused vacation time and a percentage of unused sick time based on completed years of employment. The amount of earned but unused vacation and sick leave estimated to be payable upon termination is accrued as a liability.

(l) **Unamortized bond costs**—Acquisition costs, issuance costs, and a loss on bond refunding are reported on the statement of net position as deferred charges. These deferred charges are amortized using the straight-line method over the life of the bonds. The loss on refunding is amortized using the straight-line method over the life of the bonds issued to accomplish the refunding, which is shorter than the term of the refunded bonds.

(m) **Capital contributions**—The Authority receives contributions of cash, easements, and water or sewer lines from customers and developers who connect to the system. Contributions are recognized in the statement of revenues, expenses, and changes in net position when earned.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(1) **Summary of Significant Accounting Policies:** (Continued)

(n) **Deferred outflows/inflows of resources**—In addition to assets, the statement of financial position will, if required, report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority only has one item that qualifies for reporting in this category. It is the accumulated decrease in fair value of interest rate swap reported in the statement of net position.

In addition to liabilities, the statement of financial position will, if required, report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

(o) **New accounting pronouncements**—In March 2012, the Government Accounting Standards Board (GASB) issued GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, Elements of Financial Statements, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. The requirements of GASB 65 are effective for periods beginning after December 15, 2012, or for fiscal year 2014. The implementation GASB 65 will result in the removal of approximately \$1.6 million of unamortized bond issuance costs and result in the reduction of net investment in capital assets in the statement of net position by the same amount. The Authority has chosen not to early implement this statement.

(2) **Deposits and Investments:**

(a) **Deposits**—As of September 30, 2013 and 2012, the carrying amount of the Authority's deposits was \$23,255,326 and \$26,782,397, respectively, and the related bank balance totaled \$23,557,174 and \$27,930,381, respectively. The Authority also had cash on hand of \$976 in both 2013 and 2012, resulting in a total carrying amount of \$23,256,302, at September 30, 2013, and \$26,783,373 at September 30, 2012. The Authority's deposits include demand deposits in trust accounts in the amount of \$4,476,877 at September 30, 2013 and \$4,193,367 at September 30, 2012.

As of September 30, 2013 and 2012, the Authority's deposits are insured by the Federal Depository Insurance Corporation. Under Florida Statutes Chapter 280, Florida Security for Public Deposits Act, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or a banking institution eligible collateral. In the event of failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. The Authority's deposits at year end, except for the demand deposits in trust accounts, are considered insured for custodial credit risk purposes.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(2) **Deposits and Investments:** (Continued)

(b) **Investments**—Investment of funds is governed by a written policy. The policy limits investment of funds to the following:

1. Negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government at the prevailing market price for such securities (U.S. Treasuries and Agencies);
2. Obligations of United States Government agencies, for example, Government National Mortgage Association (GNMA), Small Business Administration (SBA), Federal Housing Administration (FHA), Farmers' Home Administration (FMHA), General Services Administration (GSA);
3. Obligations of United States Government instrumentalities, for example, Federal Home Loan Mortgage Corporation (Freddie-Mac), Federal Home Loan Bank or its district banks (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB);
4. Negotiable certificates of deposit up to the amount guaranteed by the U.S. Government under FDIC limits;
5. Non-negotiable certificates of deposit, money market funds, or interest bearing time deposits or savings accounts in banks and thrifts placed with commercial banks doing business and situated in this State and approved under Florida Statute 280, by the State Treasurer for public deposits;
6. Secured Repurchase Agreements can be entered into only with qualified Florida public depositories or qualified principal dealers in U.S. Government securities. Repurchase agreements must be fully collateralized by direct obligations of the U.S. Treasury or of United States sponsored agencies or instrumentalities. An executed master purchase agreement is required.
7. Participation in any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes and the Florida Municipal Investment Trust pursuant to Section 218.415 Fla. Statutes;
8. Prime Commercial Paper of any United States company that is rated, at the time of purchase, "P-1" or "A-1" or equivalent by nationally recognized rating agencies, such as Moody's Investor Services, Inc., or Standard & Poors Corporation;
9. Security of, or other interests in, any open-end management type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. 55.80a-1, et. Seq., as amended from time to time;

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(2) **Deposits and Investments:** (Continued)

(b) **Investments** (Continued)

10. State and local Taxable and/or Tax-Exempt Debt with a credit rating of at least AA, at the time of purchase, by at least one nationally recognized rating agency.
11. Corporate Notes issued by US corporations that have a long term debt rating of at least AA, at the time of purchase, by at least one nationally recognized rating agency.

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, which was approximately \$12 billion or 86% of Pool assets. Pool B, (Surplus Funds Trust Fund) consisted of assets that defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately \$2 billion or 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B.

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, 2013, Florida PRIME was assigned a “AAA(m)” principal stability fund rating by Standard and Poor’s. Florida PRIME is considered a SEC 2a7-like fund, thus, the account balances should be considered its fair value.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(2) **Deposits and Investments:** (Continued)

(b) **Investments** (Continued)

At September 30, 2013, Fund B is not rated by any national recognized statistical rating agency. Fund B is accounted for as a fluctuating NAV pool. The fair value factor for September 30, 2013 was 1.13262284. The factor should be multiplied by the account balance in order to calculate the fair value of the investment in Fund B.

The weighted average to maturity (WAM) of Florida PRIME at September 30, 2013 was 44 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 based on expected cash flows (WAL) of Fund B at September 30, 2013 was 4.04 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the weighted average life.

As of September 30, 2013, the Authority had \$217,990 invested in Florida PRIME. The cost basis of its investment in Fund B was \$177,455 and the fair value and adjusted book value was \$200,990. As of September 30, 2012, the Authority had \$7,606 invested in Florida PRIME. The cost basis of its investment in Fund B was \$387,626 and the fair value and adjusted book value was \$367,845. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

As of September 30, 2013, the Authority had the following investments:

	Weighted Average Maturity	Fair Value
Investments in:		
State Board of Administration		
Investment Pool		
Florida Prime	44 days	\$ 217,990*
Fund B	4.04 years	200,990
U.S. Agency Debentures	4.23 years	25,049,621
Corporate Bonds	3.53 years	2,929,347
Certificates of Deposit	2.02 years	13,559,338
Municipal Bonds	2.93 years	1,648,405
Treasury Bonds	2.43 years	1,998,095
Treasury Notes	2.38 years	999,020
U.S. Treasury Money Market		5,264,186*
Other Collateralized Money Market		12,334,324*
		<u>\$ 64,201,316</u>

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(2) **Deposits and Investments:** (Continued)

(b) **Investments** (Continued)

As of September 30, 2012, the Authority had the following investments:

	Weighted Average Maturity	Fair Value
Investments in:		
State Board of Administration		
Investment Pool		
Florida Prime	39 days	\$ 7,606*
Fund B	4.08 years	367,845
U.S. Agency Debentures	6.65 years	21,652,690
Corporate Bonds	0.22 years	1,757,628
Certificates of Deposit	2.28 years	10,683,423
Certificates of Deposit-Construction	30 days	10,168,146
U.S. Treasury Money Market		4,446,708*
Other Collateralized Money Market		18,755,259*
		\$ 67,839,305

*Cash and cash equivalents for statements of cash flows.

(c) **Credit Risk**—Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Authority’s investment policies limit its investments to high quality investments to control credit risk. As of September 30, 2013 and 2012, the State Board of Administration Investment Florida Prime was rated, by Standard and Poor’s Ratings Services, “AAA(m)” and Fund B was not rated. The obligations of U.S. government agencies that are only implicitly guaranteed by the U.S. government have an Aaa credit rating with Moody’s and Fitch and an AA+ rating with Standard and Poor’s. The negotiable certificates of deposit are not rated, but are covered under the FDIC. Certificates of deposit held by the Authority Trustee in the construction funds are collateralized CDs and are covered under the FDIC up to standard FDIC limits. The remaining amounts are public funds collateralized as prescribed by the Trustee laws.

(d) **Interest Rate Risk**—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority has a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(2) **Deposits and Investments:** (Continued)

(e) **Custodial Credit Risk**—Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to manage the custodial credit risk, the Authority's investment policy specifies certain requirements to pre-qualify financial institutions and brokers/dealers and does an annual review of the institutions used. The Authority's investments are held by a third party custodian, not in the name of the Authority. Investments are held in book entry form at the Federal Reserve by Depository Trust Company (DTC) via the custodian. The custodian further segregates the Authority's investments in their trust accounting system.

(3) **Accounts Receivable:**

Customer accounts receivable consist of the following at September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Accounts receivable –billed	\$ 2,552,052	\$ 2,765,801
Accounts receivable –unbilled	2,435,419	2,092,455
Gross accounts receivable	<u>4,987,471</u>	<u>4,858,256</u>
Less allowance for doubtful accounts	<u>(129,803)</u>	<u>(151,217)</u>
Net total receivables	<u>\$ 4,857,668</u>	<u>\$ 4,707,039</u>

(4) **Capital Assets:**

A summary of changes in capital assets for the year ended September 30, 2013, is as follows:

	<u>October 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 323,799	\$	\$	\$ 323,799
Easements and right of ways	756,862	43,648	(1,876)	798,634
Construction in progress	<u>95,802,785</u>	<u>15,604,442</u>	<u>(5,046,287)</u>	<u>106,360,940</u>
Total capital assets not being depreciated	<u>96,883,446</u>	<u>15,648,090</u>	<u>(5,048,163)</u>	<u>107,483,373</u>
Capital assets being depreciated:				
Building	17,267,400	83,166	(1,713)	17,348,853
Utility plants and pipelines	241,808,112	7,131,300	(433,855)	248,505,557
Equipment	<u>36,695,050</u>	<u>1,441,129</u>	<u>(954,446)</u>	<u>37,181,733</u>
Capital assets, being depreciated:	<u>295,770,562</u>	<u>8,655,595</u>	<u>(1,390,014)</u>	<u>303,036,143</u>
Less accumulated depreciation for:				
Building	8,359,288	692,062	(1,498)	9,049,852
Utility plants and pipelines	88,850,646	7,571,845	(183,965)	96,238,526
Equipment	<u>22,021,397</u>	<u>1,734,720</u>	<u>(929,578)</u>	<u>22,826,539</u>
Total accumulated depreciation	<u>119,231,331</u>	<u>9,998,627</u>	<u>(1,115,041)</u>	<u>128,114,917</u>
Total Capital Assets, net	<u>\$273,422,677</u>	<u>\$ 14,305,058</u>	<u>\$ (5,323,136)</u>	<u>\$ 282,404,599</u>

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(4) **Capital Assets:** (Continued)

A summary of changes in capital assets for the year ended September 30, 2012, is as follows:

	<u>October 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2012</u>
Capital assets not being depreciated:				
Land	\$ 323,799	\$	\$	\$ 323,799
Easements and right of ways	722,037	34,825		756,862
Construction in progress	<u>72,101,615</u>	<u>25,220,658</u>	<u>(1,519,488)</u>	<u>95,802,785</u>
Total capital assets not being depreciated	<u>73,147,451</u>	<u>25,255,483</u>	<u>(1,519,488)</u>	<u>96,883,446</u>
Capital assets being depreciated:				
Building	17,295,631	62,013	(90,244)	17,267,400
Utility plants and pipelines	239,093,438	3,385,947	(671,273)	241,808,112
Equipment	<u>35,630,966</u>	<u>2,176,009</u>	<u>(1,111,925)</u>	<u>36,695,050</u>
Capital assets, being depreciated:	<u>292,020,035</u>	<u>5,623,969</u>	<u>(1,873,442)</u>	<u>295,770,562</u>
Less accumulated depreciation for:				
Building	7,684,221	713,623	(38,556)	8,359,288
Utility plants and pipelines	81,792,145	7,463,457	(404,956)	88,850,646
Equipment	<u>21,467,048</u>	<u>1,638,764</u>	<u>(1,084,415)</u>	<u>22,021,397</u>
Total accumulated depreciation	<u>110,943,414</u>	<u>9,815,844</u>	<u>(1,527,927)</u>	<u>119,231,331</u>
Total Capital Assets, net	<u><u>\$254,224,072</u></u>	<u><u>\$ 21,063,608</u></u>	<u><u>\$ (1,865,003)</u></u>	<u><u>\$ 273,422,677</u></u>

The total interest expense incurred by the Authority for the fiscal year ended September 30, 2013 was \$7,104,217. Of this amount, \$5,446,391 was capitalized as part of the cost of construction in progress. The total interest expense incurred by the Authority for fiscal year ended September 30, 2012 was \$7,413,646, and of this amount \$6,056,769 was capitalized interest.

(5) **Bonds and Notes Payable:**

(a) **Interest Rate Swap**—As a means of stabilizing its borrowing costs, on July 25, 2005, the Authority entered into a 14 year interest rate swap agreement for the \$9,996,250 variable rate Refunding Revenue Bonds, Series 2005. The bonds and the related swap agreement mature on March 1, 2019, and the swap's notional amount matches the variable rate bond. Based on the swap agreement, the Authority pays a variable rate of 63.7% of the LIBOR rate plus .49% to the counterparty of the swap. In return, the counterparty pays the Authority a variable rate of 63.7% of the LIBOR rate plus .49%, negating the interest paid by the Authority. The Authority then pays a fixed rate of 3.93%. Bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(5) **Bonds and Notes Payable:** (Continued)

(a) **Interest Rate Swap**—(Continued)

On January 26, 2006, the Authority entered into a similar interest rate swap agreement for the \$9,383,854 variable rate Refunding Revenue Bonds, Series 2006. The bonds and the related swap agreement mature on March 1, 2019, and the swap's notional amount matches the variable rate bond. Based on the swap agreement, the Authority pays a variable rate of 63.7% of the LIBOR rate plus .49% to the counterparty of the swap. In return, the counterparty pays the Authority a variable rate of 63.7% of the LIBOR rate, negating the interest paid by the Authority less .49%. The Authority then pays a fixed rate of 3.32%, resulting in a total fixed rate of 3.81%. Bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

Because interest rates have declined since execution of the swap, as of September 30, 2013, the swap had a negative fair value of \$983,690 and \$883,121 for Series 2005 and 2006, respectively. As of September 30, 2012, the swap had a negative fair value of \$1,369,659 and \$1,234,339 for Series 2005 and 2006, respectively. The fair values are estimated using a proprietary valuation model developed by the counterparty. This valuation method estimates future cash flows by projecting forward rates, and then discounts those cash flows to their present value.

As of September 30, 2013, the Authority was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. As of September 30, 2013, Bank of America, the swap's counterparty, was rated A(Stable) by Fitch Ratings, A(Neg) by Standard & Poor's, and A2(Stable) by Moody's Investors Service.

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination, the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

(b) **Debt Reserve Fund**—A reserve of \$12,305,214 is required upon debt issuance which equals the maximum debt service requirement outstanding. The reserve was initially funded by a Reserve Fund Guaranty provided by Financial Guaranty Insurance Company (FGIC). In the event where the Reserve Fund Guarantor becomes insolvent, defaults in payment obligations, or the claims paying ability of the issuer of the insurance policy falls below "AAA" or "Aaa" as rated by S&P or Moody's, respectively, the obligation to reimburse the Reserve Fund Guarantor shall be subordinate to the cash replenishment of the Reserve Fund. Due to the downgrading of FGIC below "A" status the Authority was required to fund the reserve in cash. Upon issuance of the 2009 bonds, the Authority chose to cash fund the additional reserve requirement.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(5) **Bonds and Notes Payable:** (Continued)

(c) **Long-Term Debt—**

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

	Outstanding Principal October 1, 2012	Additions (Deletions)	Outstanding Principal September 30, 2013	Due Within One Year
<u>Revenue Bonds – Series 2009A:</u> \$12,780,000 current interest bonds maturing 2011-2022, interest rate 3.00%-5.00%	\$ 12,280,000	\$ (545,000)	\$ 11,735,000	\$
<u>Revenue Bonds – Series 2009B:</u> \$65,015,000 current interest bonds maturing 2030-2039, interest rate 6.430% - 6.680%	65,015,000		65,015,000	
<u>Refunding Bonds - Series 2006:</u> \$9,383,854 term bonds maturing 2014- 2019, in connection with this note, the Authority entered into a swap agreement to lock in an interest rate of 3.81%	9,276,799	(20,297)	9,256,502	561,069
<u>Refunding Bonds - Series 2005:</u> \$9,996,250 term bonds maturing 2014- 2019, in connection with this note, the Authority entered into a swap agreement to lock in an interest rate of 3.93%	9,877,046	(20,251)	9,854,795	598,126
<u>Refunding Bonds - Series 2001:</u> \$40,480,000 current interest bonds maturing 2003-2013, interest rates: 3.0-5.5% per annum	5,405,000	(5,405,000)		
<u>Revenue Bonds - Series 1989:</u> \$25,040,000 current interest bonds issued at an original issue discount, maturing 2014-2019, interest rate: 5.5% per annum	25,040,000		25,040,000	5,370,000
Total outstanding bonds	<u>\$ 126,893,845</u>	<u>\$ (5,992,548)</u>	<u>\$ 120,901,297</u>	<u>\$ 6,529,195</u>

All of the bonds are collateralized by revenue derived from the operation of the utility system.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(5) **Bonds and Notes Payable:** (Continued)

(c) **Long-Term Debt**—(Continued)

Annual debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending September 30:			
2014	\$ 6,529,195	6,776,099	13,305,294
2015	6,873,329	6,426,250	13,299,579
2016	7,221,417	6,082,795	13,304,212
2017	7,567,911	5,738,565	13,306,476
2018	7,925,521	5,380,785	13,306,306
2019 – 2023	23,593,924	22,773,495	46,367,419
2024 – 2028	19,125,000	17,028,430	36,153,430
2029 – 2033	19,125,000	10,836,711	29,961,711
2034 – 2038	19,120,000	4,468,252	23,588,252
2039	3,820,000	127,586	3,947,586
Total bonds payable	120,901,297	85,638,968	206,540,265
Less unamortized discount	(1,034,313)		(1,034,313)
Plus unamortized premium	393,325		393,325
Total debt service requirements	120,260,309	<u>\$ 85,638,968</u>	<u>\$ 205,899,277</u>
Less current portion	<u>6,529,195</u>		
Long-term portion	<u>\$ 113,731,114</u>		

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(5) **Bonds and Notes Payable:** (Continued)

(c) **Long-Term Debt**—(Continued)

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

	<u>Outstanding Principal October 1, 2011</u>	<u>Additions (Deletions)</u>	<u>Outstanding Principal September 30, 2012</u>	<u>Due Within One Year</u>
<u>Revenue Bonds – Series 2009A:</u> 12,780,000 current interest bonds maturing 2011-2022, interest rate 3.00% - 5.00%	\$ 12,680,000	\$ (400,000)	\$ 12,280,000	\$ 545,000
<u>Revenue Bonds – Series 2009B:</u> \$65,015,000 current interest bonds maturing 2030-2039, interest rate 6.430% - 6.680%	65,015,000		65,015,000	
<u>Refunding Bonds - Series 2006:</u> \$9,383,854 term bonds maturing 2014- 2019, in connection with this note, the Authority entered into a swap agreement to lock in an interest rate of 3.81%	9,296,350	(19,551)	9,276,799	20,296
<u>Refunding Bonds - Series 2005:</u> \$9,996,250 term bonds maturing 2014- 2019, in connection with this note, the Authority entered into a swap agreement to lock in an interest rate of 3.93%	9,898,456	(21,410)	9,877,046	22,252
<u>Refunding Bonds - Series 2001:</u> \$40,480,000 current interest bonds maturing 2003-2013, interest rates: 3.0-5.5% per annum	10,535,000	(5,130,000)	5,405,000	5,405,000
<u>Revenue Bonds - Series 1989:</u> \$25,040,000 current interest bonds issued at an original issue discount, maturing 2014-2019, interest rate: 5.5% per annum	25,040,000		25,040,000	
Total outstanding bonds	<u>\$132,464,806</u>	<u>\$ (5,570,961)</u>	<u>\$ 126,893,845</u>	<u>\$ 5,992,548</u>

All of the bonds are collateralized by revenue derived from the operation of the utility system.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(5) **Bonds and Notes Payable:** (Continued)

(d) **Hedging Derivative Instruments—**

2005 Series Swap—The table that follows represents debt service payments on the variable-rate bonds, net of swap payments associated with those bonds as of September 30, 2013. Although interest rates on variable rate debt change over time, the calculations in the table below are based on the assumption that the variable rate on September 30, 2013 remains constant over the life of the bonds.

Year Ending September 30,	Principal	Variable Rate Interest	Interest Rate Swaps, net	Net Cash Flows
2014	\$ 598,126	\$ 53,068	\$ 326,580	\$ 977,774
2015	617,883	54,202	301,283	973,368
2016	2,037,165	46,160	258,083	2,341,408
2017	2,115,976	33,581	186,963	2,336,520
2018	2,197,884	20,515	114,820	2,333,219
2019	2,287,761	6,929	37,526	2332,216
Total	<u>\$ 9,854,795</u>	<u>\$ 214,455</u>	<u>\$ 1,225,255</u>	<u>\$ 11,294,505</u>

2006 Series Swap—The table that follows represents debt service payments on the variable-rate bonds, net of swap payments associated with those bonds as of September 30, 2013. Although interest rates on variable rate debt change over time, the calculations in the table below are based on the assumption that the variable rate on September 30, 2013 remains constant over the life of the bonds.

Year Ending September 30,	Principal	Variable Rate Interest	Interest Rate Swaps, net	Net Cash Flows
2014	\$ 561,069	\$ 9,467	\$ 336,317	\$ 906,853
2015	585,446	9,665	314,894	910,005
2016	1,914,252	8,228	268,635	2,191,115
2017	1,986,935	5,984	194,660	2,187,579
2018	2,067,637	3,652	119,120	2,190,409
2019	2,141,163	1,231	39,332	2,181,726
Total	<u>\$ 9,256,502</u>	<u>\$ 38,227</u>	<u>\$ 1,272,958</u>	<u>\$ 10,567,687</u>

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(6) **Compensated Absences:**

September 30, 2013

Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
\$ 1,024,610	\$ 942,433	\$ (955,328)	\$ 1,011,715	\$ 48,298

September 30, 2012

Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
\$ 1,032,684	\$ 732,482	\$ (740,556)	\$ 1,024,610	\$ 43,655

(7) **Other Post Employment Benefits (OPEB):**

The Authority implemented Governmental Accounting Standards Board Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, beginning October 1, 2008. The Authority elected to implement prospectively, and the change in accounting principle had no effect on changes in net assets for prior periods. Retirees of the Authority pay an amount equal to the actual premium for health insurance charged by the carrier, but there is an implied subsidy in the healthcare insurance premium for retirees because the premium charged for these retirees is the same as the premium charged for active employees, who (on average) are younger than retirees. This implied subsidy constitutes other post employment benefits (OPEB) under GASB 45.

(a) **Plan Description**—The Authority provides a single employer defined benefit health care plan to all of its employees. The plan allows its employees and their beneficiaries, at their own cost, to obtain health, dental and other insurance benefits upon retirement. The benefits of the plan are in accordance with Florida Statutes, which are the legal authority for the plan. The plan has no assets and does not issue a separate financial report.

(b) **Funding Policy**—The Authority does not directly make a contribution to the plan on behalf of retirees. Retirees and their beneficiaries pay the same group rates as are charged to the Authority for active employees by its healthcare provider. However, the Authority’s actuaries, in their actuarial valuation, calculate an offset to the cost of these benefits as an Employer Contribution, based upon an implicit rate subsidy. This offset equals the total age-adjusted costs paid by the Authority or its active employees for coverage of the retirees and their dependents for the year net of the retiree’s own payments for the year.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(7) **Other Post Employment Benefits (OPEB):** (Continued)

(c) **Annual OPEB Cost and Net OPEB Obligation**—The annual other post employment benefit (OPEB) cost is calculated on the annual required contribution of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The annual OPEB cost and the net OPEB obligation for the Authority for the current year and the related information is as follows:

Required contribution rates:

Employer	Pay-as-you-go
Plan members	N/A
Normal cost	\$ 42,683
Amortization of unfunded AAL	19,942
Interest adjustment	2,505
Interest on net OPEB obligation	7,167
ARC adjustment	(6,211)
Annual OPEB cost	<u>66,086</u>
Contributions made	<u>(32,265)</u>
Increase in net OPEB obligation	33,821
Net OPEB obligation October 1, 2012	179,175
Net OPEB obligation September 30, 2013	<u>\$ 212,996</u>

(d) **Trend Information**—

Three-Year Trend Information			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/11	\$ 55,068	26%	\$ 142,525
09/30/12	\$ 61,840	41%	\$ 179,175
09/30/13	\$ 66,086	49%	\$ 212,996

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(7) **Other Post Employment Benefits (OPEB):** (Continued)

(e) **Funded Status**—The funded status of the plan as of most recent actuarial valuation date was as follows:

Actuarial valuation date	10/1/2010
Actuarial accrued liability	\$ 559,875
Actuarial value of plan assets	\$ -0-
Unfunded actuarial accrued liability (UAAL)	\$ 559,875
Funded ratio	0%
Covered payroll	\$ 6,738,690
UAAL as a percentage of covered payroll	8.3%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are comparable with past expectations and new estimates are made about the future.

(f) **Actuarial Methods and Assumptions**—Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	10/01/2010
Actuarial cost method	Entry Age
Amortization method	Level Percent, Open
Remaining amortization period	30 Years
Asset valuation method	Unfunded
Actual assumptions:	
Investment rate of return*	4.0%
Projected salary increases*	4.0% – 8.25 %
Payroll growth assumptions	4.0%
Health care cost inflation rate	8.0%
Ultimate trend rate	4.5%
* Includes inflation at	3.5%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(8) **Related Party Transaction:**

In June 2004, the Authority accepted an agreement to operate the First Park South Florida Association, Inc. (FKA Palm Beach Park of Commerce) water and sewer treatment facility. The original operations agreement was with an entity owned by the Authority's Executive Director. The assignment and assumption of rights and responsibilities associated with operating the facility earns the Authority net revenues which totaled \$8,103 and \$13,171 for the fiscal years ended September 30, 2013 and 2012, respectively.

SEACOAST UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

(9) Defined Contribution Plan:

The Authority sponsors and administers a defined contribution (money purchase) pension plan, the Seacoast Utility Authority Money Purchase Plan (the “Plan”). At the Plan’s inception date of January 1, 1995, all the Authority’s existing employees were fully vested in the Plan. All employees hired after January 1, 1995, became Plan participants on the first day of January or the first day of July after satisfying a one year service requirement, and are subject to the following vesting schedule:

Years of Vesting Service	Vested Percentage
1	20%
2	40%
3	60%
4	80%
5	100%

Plan revisions and contribution requirements are established and may be amended by the Authority Board. The Plan does not allow employee contributions. Effective April 1, 2010, the Authority began making matching contributions on behalf of the plan participants in an amount equal to 100% of the salary deferral made to the Seacoast Utility Authority Deferred Compensation Plan, up to the first 2% of plan compensation. Employer contributions equal a maximum of 10% of the participants covered employee’s salary and totaled \$762,012 and \$726,904 for the fiscal years ended September 30, 2013 and 2012, respectively.

(10) Commitments and Contingencies:

The Authority had outstanding purchase orders related to capital projects totaling approximately \$7,585,000 and \$12,931,930 for the fiscal years ended September 30, 2013 and 2012, respectively.

(11) Risk Management:

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters for which the Authority carries commercial insurance to cover losses or claims. During the past three years, there have been no settlements that exceeded the insurance coverage.

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SEACOAST UTILITY AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST EMPLOYMENT BENEFITS
September 30, 2013

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/1/2008	\$ -	\$ 671,000	\$ 671,000	0.0%	\$ 6,288,615	10.7%
10/1/2009	\$ -	\$ 727,000	\$ 727,000	0.0%	\$ 6,540,159	11.1%
10/1/2010	\$ -	\$ 517,422	\$ 517,422	0.0%	\$ 6,738,690	7.7%

Schedule of Employer Contributions

Year Ended September 30,	Annual Required Contribution (ARC)	Expected Amount Contributed	Percentage of ARC Contributed
2011	\$ 54,524	\$ 14,543	26.7%
2012	\$ 61,080	\$ 25,190	41.2%
2013	\$ 65,130	\$ 32,265	49.5%

SEACOAST UTILITY AUTHORITY
COMPARATIVE SCHEDULES OF OPERATING REVENUES
BUDGET AND ACTUAL
For the Fiscal Years Ended September 30, 2013 and 2012

	2013		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	\$ 25,887,133	\$ 24,701,264	\$ (1,185,869)
Sewer sales	16,433,544	16,521,433	87,889
Guaranteed revenue	617,632	614,734	(2,898)
Reclaimed water sales	1,072,000	1,093,282	21,282
Private fire protection	103,980	106,979	2,999
Administrative fees	15,000	50,003	35,003
Miscellaneous	436,310	533,961	97,651
Total operating revenues	\$ 44,565,599	\$ 43,621,656	\$ (943,943)

	2012		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:			
Metered water sales	\$ 26,812,496	\$ 25,376,426	\$ (1,436,070)
Sewer sales	16,351,990	16,567,511	215,521
Guaranteed revenue	498,720	882,228	383,508
Reclaimed water sales	1,006,642	1,056,117	49,475
Private fire protection	80,198	104,868	24,670
Administrative fees	12,000	55,518	43,518
Miscellaneous	475,369	472,076	(3,293)
Total operating revenues	\$ 45,237,415	\$ 44,514,744	\$ (722,671)

SEACOAST UTILITY AUTHORITY
COMPARATIVE SCHEDULES OF OPERATING EXPENSES
BUDGET AND ACTUAL
For the Fiscal Years Ended September 30, 2013 and 2012

	2013		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating expenses:			
Administration	\$ 2,580,129	\$ 2,538,448	\$ 41,681
Accounting	1,043,577	1,039,083	4,494
Customer service	1,857,499	1,704,826	152,673
Water treatment	9,316,372	6,582,164	2,734,208
Water distribution	1,764,854	1,513,839	251,015
Sewer treatment	3,836,274	2,850,385	985,889
Sewer collection	2,462,061	1,816,892	645,169
Utility services	1,748,353	1,340,319	408,034
Plant and administrative shared expenses	2,133,796	1,448,237	685,559
Depreciation		9,998,627	(9,998,627)
Total operating expenses	\$ 26,742,915	\$ 30,832,820	\$ (4,089,905)

	2012		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating expenses:			
Administration	\$ 1,913,526	\$ 1,883,097	\$ 30,429
Accounting	748,450	741,289	7,161
Customer service	1,337,728	1,286,358	51,370
Water treatment	7,761,029	5,988,750	1,772,279
Water distribution	1,322,003	963,144	358,859
Sewer treatment	3,175,945	2,413,470	762,475
Sewer collection	2,085,983	1,454,309	631,674
Utility services	1,259,802	1,062,345	197,457
Plant and administrative shared expenses	5,253,565	4,604,746	648,819
Depreciation		9,815,844	(9,815,844)
Total operating expenses	\$ 24,858,031	\$ 30,213,352	\$ (5,355,321)

SEACOAST UTILITY AUTHORITY
COMPARATIVE SCHEDULES OF OPERATING EXPENSES
For the Fiscal Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Water costs of sales and services:		
Treatment:		
Personnel services	\$ 2,305,051	\$ 1,466,631
Operating expenses	4,277,113	4,522,115
Total treatment	<u>6,582,164</u>	<u>5,988,746</u>
Distribution:		
Personnel services	1,093,822	692,271
Operating expenses	420,017	270,873
Total distribution	<u>1,513,839</u>	<u>963,144</u>
Total water cost of sales and services	<u>8,096,003</u>	<u>6,951,890</u>
Sewer costs of sales and services:		
Treatment:		
Personnel services	1,474,778	992,698
Operating expenses	1,375,607	1,420,772
Total treatment	<u>2,850,385</u>	<u>2,413,470</u>
Collection:		
Personnel services	1,187,550	808,666
Operating expenses	629,342	645,643
Total collection	<u>1,816,892</u>	<u>1,454,309</u>
Total sewer cost of sales and services	<u>4,667,277</u>	<u>3,867,779</u>
Utility services and fleet:		
Personnel services	787,854	532,773
Operating expenses	552,465	529,572
Total utility services and fleet	<u>1,340,319</u>	<u>1,062,345</u>
Administrative and general:		
Administration:		
Personnel services	2,390,107	1,743,419
Operating expenses	148,341	139,682
Total administration	<u>2,538,448</u>	<u>1,883,101</u>
Accounting:		
Personnel services	872,598	597,990
Operating expenses	166,485	143,299
Total accounting	<u>1,039,083</u>	<u>741,289</u>
Customer service:		
Personnel services	1,313,429	883,574
Operating expenses	391,397	402,784
Total customer service	<u>1,704,826</u>	<u>1,286,358</u>
Total administrative and general	<u>5,282,357</u>	<u>3,910,748</u>
Plant and administrative shared expenses:		
Personnel services	215,720	3,315,069
Operating expenses	1,232,517	1,289,677
Total plant and administrative shared expenses	<u>1,448,237</u>	<u>4,604,746</u>
Total operating expenses before depreciation	20,834,193	20,397,508
Depreciation	<u>9,998,627</u>	<u>9,815,844</u>
Total operating expenses	<u>\$ 30,832,820</u>	<u>\$ 30,213,352</u>

III. STATISTICAL SECTION

This part of the Seacoast Utility Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information reports.

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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year or from data collected from our billing history reports.

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SEACOAST UTILITY AUTHORITY
SCHEDULE OF NET POSITION BY COMPONENT
For the Last Ten Fiscal Years

	2004	2005	2006	2007	2008 (1)	2009 (2)	2010	2011	2012	2013
Net investment in capital assets	\$ 63,394,322	\$ 80,700,187	\$ 95,271,574	\$ 111,666,979	\$ 123,948,517	\$ 129,615,535	\$ 123,686,815	\$ 129,063,652	\$ 145,262,799	\$ 159,968,584
Restricted for:										
Debt service	2,492,940	2,243,434	2,325,376	2,476,820	2,595,382	2,813,671	3,018,232	3,353,782	3,585,370	3,883,166
Debt service reserve					4,323,950	8,647,900	12,305,214	12,305,214	12,305,214	12,305,214
Renewal and replacement	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Capital payments	27,384,760	23,454,020	15,202,787	13,125,829	13,570,709	10,576,543				
Other	53,772	27,101	21,492	31,331	17,671					
Unrestricted	19,686,625	15,513,465	22,577,547	22,861,688	16,750,712	16,002,702	44,411,654	51,750,253	51,969,671	51,084,843
Totals	\$ 115,012,419	\$ 123,938,207	\$ 137,398,776	\$ 152,162,647	\$ 163,206,941	\$ 169,656,351	\$ 185,421,915	\$ 198,472,901	\$ 215,123,054	\$ 229,241,807
% Change from the prior year	13.94%	7.76%	10.86%	10.75%	7.26%	3.95%	9.29%	7.04%	8.39%	6.56%

(1) Net Position for this fiscal year was restated in FY 2009.

(2) Net Position for this fiscal year was reclassified.

SEACOAST UTILITY AUTHORITY
SCHEDULE OF CHANGES IN NET POSITION
For the Last Ten Fiscal Years

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008 (2)</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
OPERATING REVENUES:										
Metered water revenue	\$ 16,218,156	\$ 16,417,302	\$ 18,900,092	\$ 18,782,566	\$ 17,736,153	\$ 18,607,710	\$ 23,965,429	\$ 25,459,774	\$ 25,376,426	\$ 24,701,264
Sewer revenue	6,457,634	6,547,208	9,360,244	12,775,840	12,983,742	12,970,466	14,907,192	15,685,907	16,567,511	16,521,433
Water surcharge					1,523,102	3,555,665				
Guaranteed revenue	1,154,006	1,058,818	892,049	793,086	579,967	355,547	443,467	542,438	882,228	614,734
Reclaimed water revenue	513,605	610,836	663,490	783,136	846,267	933,087	882,976	1,023,094	1,056,117	1,093,282
Fire protection and miscellaneous	530,097	550,810	499,488	468,266	522,391	492,950	620,394	609,130	632,462	690,943
Total operating revenues	<u>24,873,498</u>	<u>25,184,974</u>	<u>30,315,363</u>	<u>33,602,894</u>	<u>34,191,622</u>	<u>36,915,425</u>	<u>40,819,458</u>	<u>43,320,343</u>	<u>44,514,744</u>	<u>43,621,656</u>
OPERATING EXPENSES:										
Plant operation and maintenance	9,745,430	10,822,891	12,422,881	12,209,627	13,546,716	15,039,263	15,552,416	15,520,115	14,562,668	14,971,773
General and administrative	4,822,312	4,618,094	5,085,207	5,081,025	5,311,389	5,468,716	5,557,306	5,657,745	5,834,840	5,862,420
Depreciation	6,813,303	7,420,096	8,149,534	7,890,564	8,782,041	9,591,208	9,789,264	9,837,820	9,815,844	9,998,627
Total operating expenses	<u>21,381,045</u>	<u>22,861,081</u>	<u>25,657,622</u>	<u>25,181,216</u>	<u>27,640,146</u>	<u>30,099,187</u>	<u>30,898,986</u>	<u>31,015,680</u>	<u>30,213,352</u>	<u>30,832,820</u>
OPERATING INCOME (DEFICIT)	<u>3,492,453</u>	<u>2,323,893</u>	<u>4,657,741</u>	<u>8,421,678</u>	<u>6,551,476</u>	<u>6,816,238</u>	<u>9,920,472</u>	<u>12,304,663</u>	<u>14,301,392</u>	<u>12,788,836</u>
NONOPERATING REVENUES (EXPENSES):										
Investment income:										
Interest income	977,274	1,410,855	2,024,175	2,178,090	1,397,780	620,262	568,407	531,642	512,414	458,167
Net (decrease) in the fair value of investments	(322,655)	(245,269)	3,626	208,012	(73,805)	(277,952)	300,364	(11,820)	97,271	(547,630)
Interest expense	(4,347,889)	(4,249,817)	(2,984,193)	(2,407,590)	(2,772,184)	(2,706,317)	(2,664,371)	(1,805,764)	(1,161,643)	(1,568,548)
Amortization of discount										
on capital appreciation bonds	(46,887)									
Amortization of bond costs	(350,662)	(358,103)	(370,804)	(374,249)	(374,093)	(373,931)	(340,849)	(341,067)	(331,764)	(339,125)
Build America bond rebate							1,468,388	1,493,276	1,493,276	1,419,359
Other income (expense)	612,569	96,264	(145,485)	(267,249)	46,177	(471,088)	(865,685)	(382,006)	(345,518)	(213,682)
Total nonoperating revenues (expenses)	<u>(3,478,250)</u>	<u>(3,346,070)</u>	<u>(1,472,681)</u>	<u>(662,986)</u>	<u>(1,776,125)</u>	<u>(3,209,026)</u>	<u>(1,533,746)</u>	<u>(515,739)</u>	<u>264,036</u>	<u>(791,459)</u>
INCOME (DEFICIT) BEFORE										
CAPITAL CONTRIBUTIONS	<u>14,203</u>	<u>(1,022,177)</u>	<u>3,185,060</u>	<u>7,758,692</u>	<u>4,775,351</u>	<u>3,607,212</u>	<u>8,386,726</u>	<u>11,788,924</u>	<u>14,565,428</u>	<u>11,997,377</u>
CAPITAL/GRANT CONTRIBUTIONS	<u>14,058,015</u>	<u>9,947,965</u>	<u>10,275,509</u>	<u>7,005,179</u>	<u>6,268,943</u>	<u>2,842,198</u>	<u>7,378,838</u>	<u>1,262,062</u>	<u>2,084,725</u>	<u>2,121,376</u>
INCREASE (DECREASE) IN NET POSITION	<u>14,072,218</u>	<u>8,925,788</u>	<u>13,460,569</u>	<u>14,763,871</u>	<u>11,044,294</u>	<u>6,449,410</u>	<u>15,765,564</u>	<u>13,050,986</u>	<u>16,650,153</u>	<u>14,118,753</u>
NET POSITION, BEGINNING OF PERIOD	<u>100,940,201</u>	<u>115,012,419</u>	<u>123,938,207</u>	<u>137,398,776</u>	<u>152,162,647</u>	<u>163,206,941</u>	<u>169,656,351</u>	<u>185,421,915</u>	<u>198,472,901</u>	<u>215,123,054</u>
NET POSITION, END OF PERIOD	<u>\$ 115,012,419</u>	<u>\$ 123,938,207</u>	<u>\$ 137,398,776</u>	<u>\$ 152,162,647</u>	<u>\$ 163,206,941</u>	<u>\$ 169,656,351</u>	<u>\$ 185,421,915</u>	<u>\$ 198,472,901</u>	<u>\$ 215,123,054</u>	<u>\$ 229,241,807</u>

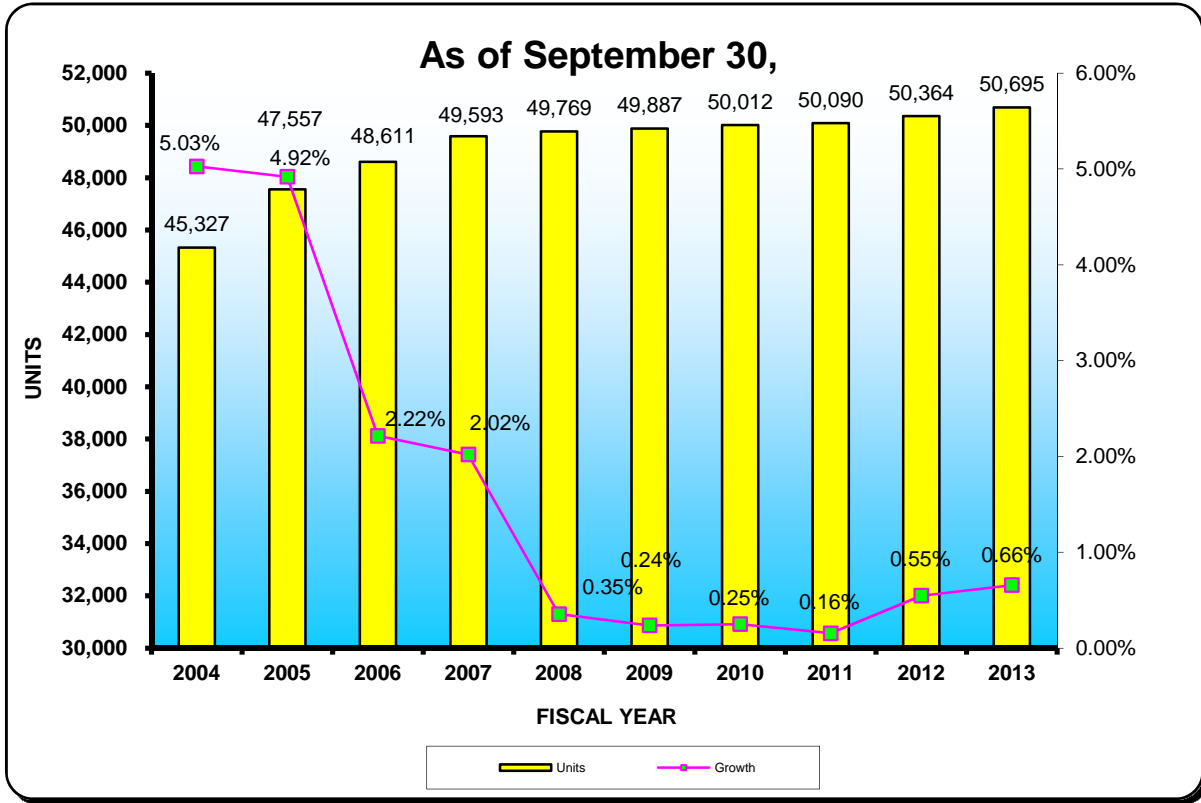
(1) This fiscal year's beginning net position and increase in net position were restated for prior period errors.

(2) Net position for this fiscal year was restated in FY 2009.

**SEACOAST UTILITY AUTHORITY
SCHEDULE OF REVENUES BY SOURCE
For the Last Ten Fiscal Years**

Fiscal Year Ended September 30,	Operating Revenues							Nonoperating Revenues				Total	
	Metered Water Sales	Sewer Sales	Water Surcharge	Guaranteed Revenues	Reclaimed Water Sales	Fire Protection and Miscellaneous	Total Operating Revenues	Investment Income	Grants/ Contributed Capital	Build America Bond Rebate	Other	Non- Operating Revenues	Total Revenues
2004	16,218,156	6,457,634		1,154,006	513,605	530,097	24,873,498	654,619	14,058,015		612,569	15,325,203	40,198,701
2005	16,417,302	6,547,208		1,058,818	610,836	550,810	25,184,974	1,165,586	9,947,965		96,264	11,209,815	36,394,789
2006	18,900,092	9,360,244		892,049	663,490	499,488	30,315,363	2,027,801	10,275,509			12,303,310	42,618,673
2007	18,782,566	12,775,840		793,086	783,136	468,266	33,602,894	2,386,102	7,005,179			9,391,281	42,994,175
2008	17,736,153	12,983,742	1,523,102	579,967	846,267	522,391	34,191,622	1,323,975	6,268,943		46,177	7,639,095	41,830,717
2009	18,607,710	12,970,466	3,555,665	355,547	933,087	492,950	36,915,425	342,310	2,842,198			3,184,508	40,099,933
2010	23,957,477	14,907,192	7,952	443,467	882,976	620,394	40,819,458	868,771	7,378,838	1,468,388		9,715,997	50,535,455
2011	25,459,774	15,685,907		542,438	1,023,094	609,130	43,320,343	519,822	1,262,062	1,493,276		3,275,160	46,595,503
2012	25,376,426	16,567,511		882,228	1,056,117	632,462	44,514,744	609,685	2,084,725	1,493,276		4,187,686	48,702,430
2013	24,701,264	16,521,433		614,734	1,093,282	690,943	43,621,656	(89,463)	2,121,376	1,419,359		3,451,272	47,072,928

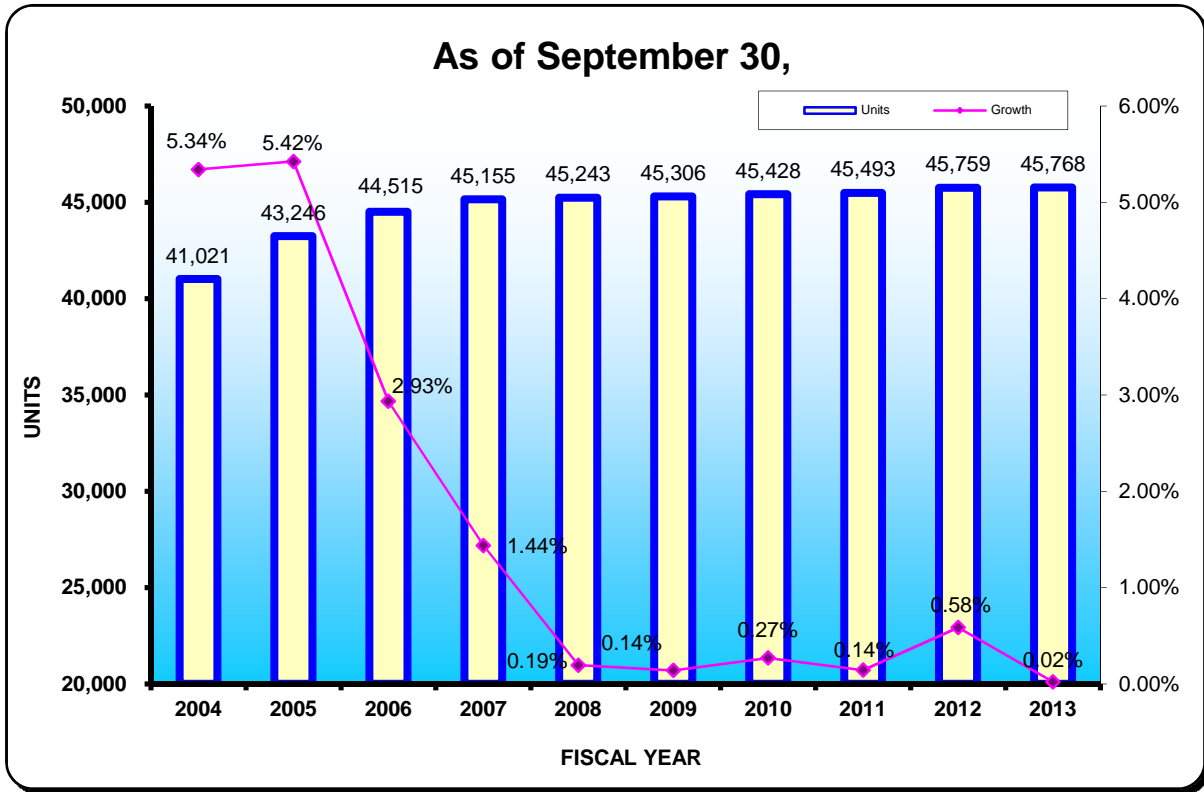
**SEACOAST UTILITY AUTHORITY
TOTAL WATER UNITS BY CATEGORY
For the Last Ten Fiscal Years**



TOTAL UNITS BY CATEGORY

Fiscal Year	Single Family		Multi-Family		Non-Residential		Total All
	Count	% of Annual Total	Count	% of Annual Total	Count	% of Annual Total	
2004	28,397	62.65%	14,419	31.81%	2,511	5.54%	45,327
2005	29,512	62.06%	15,463	32.51%	2,582	5.43%	47,557
2006	30,207	62.14%	15,695	32.29%	2,709	5.57%	48,611
2007	30,425	61.35%	16,377	33.02%	2,791	5.63%	49,593
2008	30,493	61.27%	16,412	32.98%	2,864	5.75%	49,769
2009	30,634	61.41%	16,387	32.85%	2,866	5.74%	49,887
2010	30,654	61.29%	16,489	32.97%	2,869	5.74%	50,012
2011	30,715	61.32%	16,506	32.95%	2,869	5.73%	50,090
2012	30,981	61.51%	16,513	32.79%	2,870	5.70%	50,364
2013	31,029	61.21%	16,780	33.10%	2,886	5.69%	50,695

**SEACOAST UTILITY AUTHORITY
TOTAL SEWER UNITS BY CATEGORY
For the Last Ten Fiscal Years**



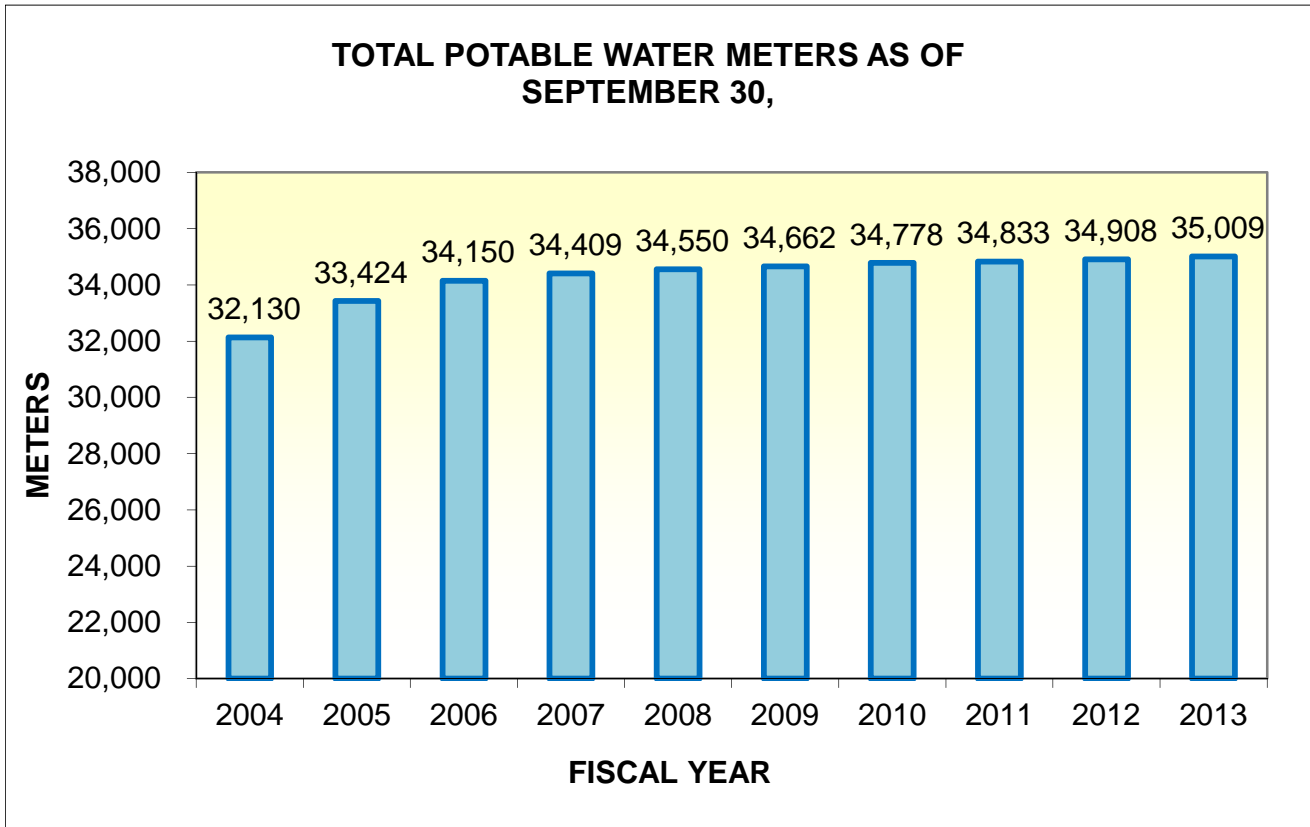
TOTAL UNITS BY CATEGORY

Fiscal Year	Single Family		Multi-Family		Non-Residential		Total All
	Count	% of Annual Total	Count	% of Annual Total	Count	% of Annual Total	
2004	25,477	62.11%	13,954	34.02%	1,590	3.87%	41,021
2005	26,613	61.54%	15,013	34.72%	1,620	3.74%	43,246
2006	27,299	61.33%	15,545	34.92%	1,671	3.75%	44,515
2007	27,515	60.94%	15,928	35.27%	1,712	3.79%	45,155
2008	27,600	61.00%	15,928	35.21%	1,715	3.79%	45,243
2009	27,624	60.97%	15,946	35.20%	1,736	3.83%	45,306
2010	27,642	60.85%	16,053	35.34%	1,733	3.81%	45,428
2011	27,703	60.90%	16,053	35.29%	1,737	3.82%	45,493
2012	27,962	61.11%	16,063	35.10%	1,734	3.79%	45,759
2013	27,971	61.11%	16,063	35.10%	1,734	3.79%	45,768

**SEACOAST UTILITY AUTHORITY
WATER METER DATA
For the Last Ten Fiscal Years**

OF METERS BY DWELLING TYPE

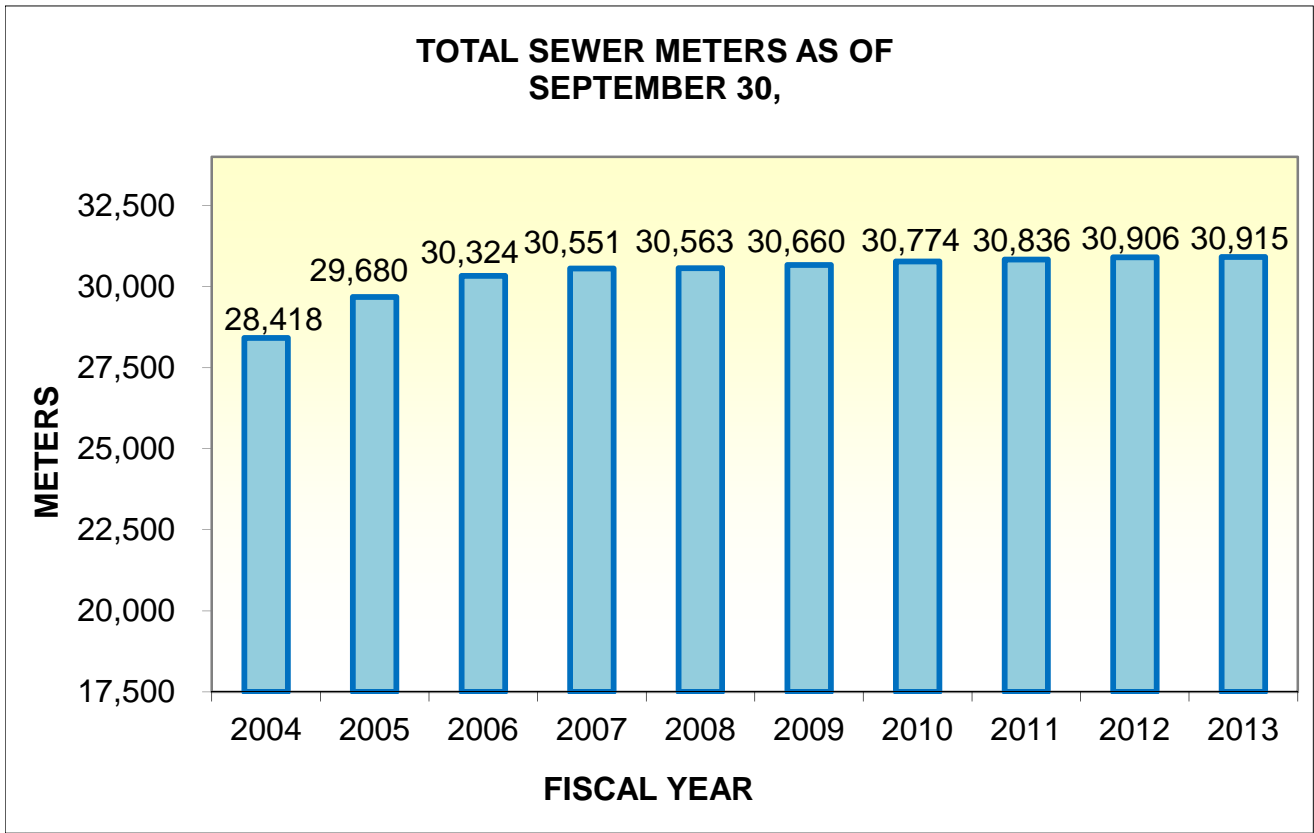
Fiscal Year	Single Family		Multi-Family		Non-Residential		Annual Total
	Count	% of Annual Total	Count	% of Annual Total	Count	% of Annual Total	
2004	27,157	84.52%	2,462	7.66%	2,511	7.82%	32,130
2005	28,272	84.59%	2,570	7.69%	2,582	7.72%	33,424
2006	28,862	84.52%	2,579	7.55%	2,709	7.93%	34,150
2007	29,034	84.38%	2,584	7.51%	2,791	8.11%	34,409
2008	29,172	84.43%	2,559	7.42%	2,819	8.16%	34,550
2009	29,250	84.39%	2,559	7.39%	2,853	8.23%	34,662
2010	29,350	84.39%	2,559	7.37%	2,869	8.25%	34,778
2011	29,401	84.41%	2,563	7.37%	2,869	8.24%	34,833
2012	29,475	84.44%	2,563	7.35%	2,870	8.22%	34,908
2013	29,570	84.46%	2,553	7.30%	2,886	8.24%	35,009



**SEACOAST UTILITY AUTHORITY
SEWER METER DATA
For the Last Ten Fiscal Years**

OF METERS BY DWELLING TYPE

Fiscal Year	Single Family		Multi-Family		Non-Residential		Annual Total
	Count	% of Annual Total	Count	% of Annual Total	Count	% of Annual Total	
2004	24,404	85.87%	2,424	8.53%	1,590	5.60%	28,418
2005	25,513	85.96%	2,547	8.58%	1,620	5.46%	29,680
2006	26,097	86.06%	2,556	8.43%	1,671	5.51%	30,324
2007	26,279	86.02%	2,560	8.38%	1,712	5.60%	30,551
2008	26,317	86.10%	2,535	8.29%	1,711	5.60%	30,563
2009	26,400	86.10%	2,535	8.27%	1,725	5.63%	30,660
2010	26,502	86.11%	2,539	8.25%	1,733	5.63%	30,774
2011	26,563	86.13%	2,536	8.22%	1,737	5.63%	30,836
2012	26,633	86.16%	2,539	8.22%	1,734	5.61%	30,906
2013	26,642	86.17%	2,539	8.21%	1,734	5.61%	30,915



**SEACOAST UTILITY AUTHORITY
POTABLE WATER SOLD BY CUSTOMER TYPE
For the Last Ten Fiscal Years**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Residential:	(in thousands of gallons)									
Single-Family	3,648,082	3,782,845	4,195,197	3,762,643	3,523,536	3,562,416	3,490,434	3,595,577	3,512,546	3,179,629
Multi-Family	718,562	745,106	686,092	672,776	612,314	664,029	665,626	664,839	666,714	585,494
Total Residential	4,366,644	4,527,951	4,881,289	4,435,419	4,135,850	4,226,445	4,156,060	4,260,416	4,179,260	3,765,123
Non-Residential	1,160,753	1,203,632	1,575,472	1,492,211	1,058,571	1,073,448	1,084,886	1,125,494	1,095,085	1,071,048
Grand Total	5,527,397	5,731,583	6,456,761	5,927,630	5,194,421	5,299,893	5,240,946	5,385,910	5,274,345	4,836,171

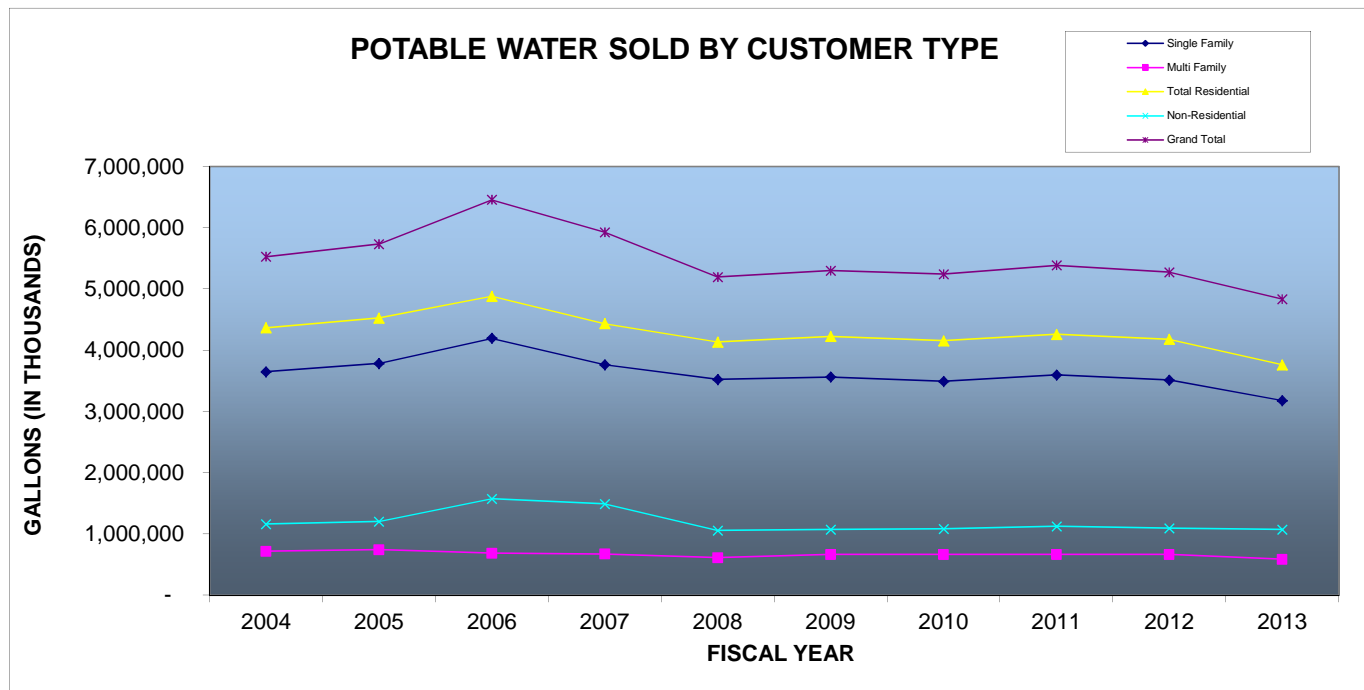
Charges for Services

\$ 24,873,498	\$ 25,184,974	\$ 30,315,363	\$ 33,602,894	\$ 34,191,622	\$ 36,915,425	\$ 40,819,458	\$ 43,320,343	\$ 44,514,744	\$ 43,621,656
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Calculated Total Direct Rate

per Thousand Gallons \$	4.50	\$ 4.39	\$ 4.70	\$ 5.67	\$ 6.58	\$ 6.97	\$ 7.79	\$ 8.04	\$ 8.44	\$ 9.02
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The Authority has a complex rate structure. Charges are based on a combination of factors: customer type, meter size, number of units, and level of consumption. Excluding wastewater only customers, who total less than 10, both potable water and wastewater are calculated based upon water sold. Therefore, the calculated total direct rate per thousand gallons is the total charges for services divided by water sold in thousands of gallons.



**SEACOAST UTILITY AUTHORITY
SCHEDULE OF WATER AND SEWER RATES
As of September 30, 2013**

Monthly Base Facility (Minimum) Charge: All Customers *

Meter Size	Single Family (per dwelling unit)		Multi-Family (per dwelling unit)		Non-Residential (per meter)	
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>
	5/8 " & 3/4 "	\$ 16.91	\$ 24.54	\$ 11.33	\$ 19.63	\$ 16.91
1"	42.43	24.54	11.33	19.63	42.43	61.12
1-1/2"	84.73	24.54	11.33	19.63	84.73	122.74
2"	135.19	24.54	11.33	19.63	135.19	196.44
3"		24.54	11.33	19.63	342.15	308.57
4"		24.54	11.33	19.63	423.61	617.15
6" Compound		24.54	11.33	19.63	1,003.68	1,481.16
6" Turbine		24.54	11.33	19.63	1,003.68	1,481.16
8" Turbine		24.54	11.33	19.63	1,254.60	1,851.46
10" Compound		24.54	11.33	19.63	1,730.01	2,468.60
10" Turbine		24.54	11.33	19.63	1,730.01	2,468.60
Sewer only		24.54		19.63		

Rates effective October 1, 2011

(Continued)

SEACOAST UTILITY AUTHORITY
SCHEDULE OF WATER AND SEWER RATES (Continued)
As of September 30, 2013

Point of Service Charge: All Customers

(Per meter, or per sewer connection if no meter)

Single Family (per dwelling unit)	Multi-Family (per dwelling unit)	Non-Residential (per meter)
<u>Water</u> <u>Sewer</u>	<u>Water</u> <u>Sewer</u>	<u>Water</u> <u>Sewer</u>
\$ 1.03 \$ 1.67	\$ 1.03 \$ 1.67	\$ 1.03 \$ 1.67

Gallage Charge: All Customers (steps times # of units)

		<u>Water</u>	<u>Sewer</u>
Single Family:	1 - 6,000 gallon rate	\$ 0.91	\$ 0.61
	6,001 - 30,000 gallon rate	3.58	0.61
	30,001 gallon rate or more	5.39	0.61
Multi- Family:	1 - 4,000 gallon rate	0.91	0.61
	4,001 - 20,000 gallon rate	3.58	0.61
	20,001 gallon rate or more	5.39	0.61
Non-Residential:	1 - 6,000 gallon rate	0.91	0.61
	6,001 gallon rate or more	3.58	0.61

Sewer Charge Caps (Limits): All Sewer Customers

Single Family:	10,000 gallons per month "per unit"
Multi-Family:	6,000 gallons per month "per unit"
Non-Residential:	None

Fire Line Charge Caps: Customers served by separate Fire Line

Fixed Monthly Charge:	All Fire Lines \$16.91 plus \$5.39 per 1,000 gallons
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SEACOAST UTILITY AUTHORITY
LARGEST CUSTOMERS
For the Fiscal Year Ended September 30, 2013

CUSTOMER	Operating Revenues	Rank	%
San Matera The Gardens Condo Assoc Inc.	298,017	1	0.68%
Westwood Gardens Dev. Corp.	296,427	2	0.68%
Landmark at Garden Square LLC	247,737	3	0.57%
Downtown Gardens Management Co LLC	224,794	4	0.52%
Housing Trust Group of Florida LLC	218,682	5	0.50%
The Realty Associates Fund dba San Merano	215,840	6	0.49%
Gables Residential	209,616	7	0.48%
Olen Company	200,985	8	0.46%
Magazine Gardens East LP	199,503	9	0.46%
Meadows Mobile Home Park	197,351	10	0.45%
Forbes/Cohen Fla Properties	192,397	11	0.44%
Harbour Oaks HOA	179,318	12	0.41%
Legacy Place Condo Association	167,577	13	0.38%
Devonshire at PGA National, LLC	149,592	14	0.34%
Waterford	149,259	15	0.34%
Senior Lifestyle/Prosperity Oaks	145,395	16	0.33%
11900 Valencia Gardens Ave Apt. Investors, LLC	144,167	17	0.33%
Golf Villas/PGA National	142,064	18	0.33%
Palm Beach Gardens Comm Hospital	134,681	19	0.31%
Uno Lago	121,289	20	0.28%
PGA Club Cottage Homeowners	119,503	21	0.27%
Fiore At The Gardens	109,509	22	0.25%
Westport Holdings PBG Limited Partnership	106,877	23	0.25%
Florida Power & Light	105,110	24	0.24%
Residences at Midtown Condo Association	99,382	25	0.23%
Lake Park Owner LLC	98,748	26	0.23%
The Landmark at the Gardens	98,186	27	0.23%
Subtotal	4,572,006		10.49%
Balance from other customers	39,049,650		89.51%
Total all	43,621,656		100.00%

GASB 44 requires presentation of the ninth previous year. This information is not available and therefore not presented.

**SEACOAST UTILITY AUTHORITY
SCHEDULE OF AREA DEMOGRAPHICS
SERVED BY SEACOAST UTILITY AUTHORITY
For the Last Six Fiscal Years**

Fiscal Year	Estimated Poplulation Served	Per Capita Personal Income	Median Age	Unemployment Rate
2008 City of Palm Beach Gardens	44,300	\$ 41,318	44.7	2.5%
Town of Lake Park	9,314	\$ 16,485	34.6	6.4%
Town of Juno Beach	1,816	\$ 50,819	55.1	2.0%
Village of North Palm Beach	12,274	\$ 45,563	48.4	1.6%
Palm Beach County	19,500	\$ 32,323	42.8	3.4%
2009 City of Palm Beach Gardens	46,279	\$ 44,073	45.4	7.3%
Town of Lake Park	7,898	\$ 17,563	35.8	14.8%
Town of Juno Beach	1,806	\$ 54,863	55.3	7.6%
Village of North Palm Beach	11,541	\$ 49,350	48.9	5.4%
Palm Beach County	18,525	\$ 34,092	43.2	9.7%
2010 City of Palm Beach Gardens	46,876	\$ 47,526	45.7	7.6%
Town of Lake Park	8,015	\$ 19,939	36.4	14.1%
Town of Juno Beach	1,820	\$ 58,684	55.1	7.7%
Village of North Palm Beach	11,639	\$ 49,130	49.0	6.0%
Palm Beach County	18,710	\$ 34,833	43.5	9.7%
2011 City of Palm Beach Gardens	50,075	\$ 52,725	46	7.2%
Town of Lake Park	8,155	\$ 18,626	34	8.2%
Town of Juno Beach	3,644	\$ 55,263	60.1	4.5%
Village of North Palm Beach	12,064	\$ 39,564	50.4	1.5%
Palm Beach County	18,897	\$ 30,735	43.5	11.7%
2012 City of Palm Beach Gardens	49,365	\$ 56,119	47.1	5.9%
Town of Lake Park	8,309	\$ 18,885	35.1	11.4%
Town of Juno Beach	3,235	\$ 54,136	60.4	11.2%
Village of North Palm Beach	12,241	\$ 49,117	51.1	5.3%
Palm Beach County	19,086	\$ 48,953	42.6	9.7%
2013 City of Palm Beach Gardens	49,568	\$ 66,660	47.3	5.1%
Town of Lake Park	8,342	\$ 42,994	35.3	11.4%
Town of Juno Beach	3,249	\$ 60,329	60.5	11.2%
Village of North Palm Beach	12,293	\$ 59,778	51.2	5.3%
Palm Beach County	19,470	\$ 51,390	42.8	7.7%

Personal Income and Education Level information is not presented. This information could not be obtained.

(Continued)

SEACOAST UTILITY AUTHORITY
SCHEDULE OF AREA DEMOGRAPHICS (Continued)
TOP 10 EMPLOYERS SERVED BY SEACOAST UTILITY AUTHORITY
For the Last Six Fiscal Years

Top Ten Employers by Number of Employees	FY 07/08			FY 08/09			FY 09/10			FY 10/11			FY 11/12			FY 12/13		
	Number of Employees	% of Total Service Area Employment	Rank	Number of Employees	% of Total Service Area Employment	Rank	Number of Employees	% of Total Service Area Employment	Rank	Number of Employees	% of Total Service Area Employment	Rank	Number of Employees	% of Total Service Area Employment	Rank	Number of Employees	% of Total Service Area Employment	Rank
Florida Power & Light	3,632	5.0%	1	3,632	5.0%	1	3,658	5.0%	1	3,658	5.0%	1	3,635	5.2%	1	3,804	5.4%	1
Wackenhut	3,000	4.1%	2	3,000	4.1%	2	3,000	4.1%	2	3,000	4.3%	2	3,000	4.3%	2	3,000	4.2%	2
PGA National Resort & Spa	780	1.1%	3	780	1.1%	3	780	1.1%	3	780	1.1%	3	700	1.0%	3	700	1.0%	3
BIOMET 3i, Inc.	537	0.7%	4	537	0.7%	4	519	0.7%	4	519	0.7%	4	476	0.7%	5	460	0.7%	5
Virtual Bank	497	0.7%	5	497	0.7%	5	497	0.7%	5	497	0.7%	5	0*	0.0%	0	0*	0.0%	0
Belcan Engineering Corp	467	0.6%	7	467	0.6%	7	467	0.6%	6	467	0.7%	6	329	0.5%	7	329	0.5%	7
City of Palm Beach Gardens	484	0.7%	6	484	0.7%	6	464	0.6%	7	464	0.7%	7	450	0.6%	6	450	0.6%	6
Palm Beach Gardens Marriott	277	0.4%	8	277	0.4%	8	277	0.4%	8	277	0.4%	8	154	0.2%	10	154	0.2%	10
Gobal Care Solutions	250	0.3%	10	250	0.3%	10	250	0.3%	9	250	0.4%	9	0*	0.0%	0	0*	0.0%	0
Anspach Companies	256	0.4%	9	256	0.4%	9	242	0.3%	10	242	0.3%	10	256	0.4%	8	256	0.4%	8
TBC Corporation													600	0.9%	4	641	0.9%	4
Catalfumo Construction													200	0.3%	9	200	0.3%	9
Total Employed by Top Ten	10,180	14.0%		10,180	14.5%		10,154	14.5%		10,154	14.5%		9,800	14.0%		9,994	14.2%	

Top Ten employer information for years prior to 9/30/08 is unavailable

* Company has closed since September 30, 2011.

SEACOAST UTILITY AUTHORITY
RATIO OF OUTSTANDING DEBT
For the Last Ten Fiscal Years

Fiscal Year	1989 Revenue Bonds	1992 Refunding Bonds	2001 Refunding Bonds	2005 Refunding Bonds	2006 Refunding Bonds	2009A Revenue Bonds	2009B Revenue Bonds	Debt Per Customer (1)
2004	25,040,000	19,225,000	39,950,000	(2)				1,858
2005	25,040,000	9,325,000	36,310,000	9,996,250	(3)			1,696
2006	25,040,000		32,515,000	9,993,960	9,383,854			1,583
2007	25,040,000		28,560,000	9,976,303	9,367,637			1,471
2008	25,040,000		24,395,000	9,957,951	9,350,802			1,381
2009	25,040,000		20,010,000	9,938,879	9,333,325	(4)	(4)	1,289
2010	25,040,000		15,395,000	9,919,058	9,315,183	12,780,000	65,015,000	2,749
2011	25,040,000		10,535,000	9,898,456	9,296,350	12,680,000	65,015,000	2,645
2012	25,040,000		5,405,000	9,877,046	9,276,799	12,280,000	65,015,000	2,520
2013	25,040,000			9,854,794	9,256,503	11,735,000	65,015,000	2,385

(1) Number of customers is defined as the number of potable water units

(2) The 2005 Refunding Bonds issued in 2005 refunded part of the 1992 Refunding Bonds

(3) The 2006 Refunding Bonds issued in 2006 refunded the remaining portion of the 1992 Refunding Bonds

(4) The 2009A & B Bonds were issued in 2009 to fund the replacement of the Water Treatment Plant

**SEACOAST UTILITY AUTHORITY
SCHEDULE OF PLEDGED REVENUE COVERAGE
For the Last Ten Fiscal Years**

Fiscal Year Ended September 30,	Available for Debt Service				Debt Service				Coverage				
	Operating Revenue Excluding Guaranteed Revenue, and Connection Fees	75% of Non-Construction Interest Income	Operating Expenses Excluding Depreciation	Net Revenue Available (1)	Guaranteed Revenue	Connection Charges	25% of Non-Construction Interest Income	Net Revenue Available (3)	Principal	Interest	Total Debt Service Requirements	Excluding Guaranteed Revenue and Connection Fees (2)	Including Guaranteed Revenue and Connection Fees (4)
2004	23,719,492	732,956	14,567,742	9,884,706	1,154,006	5,921,212	244,319	17,204,243	2,570,000	4,338,675	6,908,675	1.43	2.49
2005	24,126,156	1,058,141	15,264,401	9,919,896	1,058,818	5,453,399	352,714	16,784,827	3,640,000	4,261,825	7,901,825	1.26	2.12
2006	29,423,315	1,518,131	17,508,088	13,433,358	892,048	3,583,777	506,044	18,415,227	3,797,290	3,956,166	7,753,456	1.73	2.38
2007	32,809,808	1,633,568	17,290,652	17,152,724	793,086	2,327,677	544,523	20,818,010	3,988,874	3,733,893	7,722,767	2.22	2.70
2008	33,611,655	1,048,336	18,858,105	15,801,886	579,967	1,556,186	349,444	18,287,483	4,200,186	3,520,883	7,721,069	2.05	2.37
2009	36,559,878	465,197	20,507,979	16,517,096	355,547	792,318	155,066	17,820,027	4,421,549	3,300,784	7,722,333	2.14	2.31
2010	40,375,991	426,305	21,109,722	19,692,574	443,467	1,222,632	142,102	21,500,776	4,652,963	7,443,185	12,096,148	1.63	1.78
2011	42,777,905	398,732	21,177,860	21,998,777	542,438	407,050	132,911	23,081,175	4,999,435	7,393,417	12,392,852	1.78	1.86
2012	43,632,516	384,310	20,397,508	23,619,318	882,228	981,136	128,103	25,610,785	5,570,961	7,413,646	12,984,607	1.82	1.97
2013	43,006,922	343,625	20,834,197	22,516,350	614,734	955,702	114,542	24,201,328	5,992,548	7,104,217	13,096,765	1.72	1.85

(1) Net revenue available for debt service before guaranteed revenue, connection charges and 25% of non-construction interest income.

(2) In accordance with the Bond Trust Indenture, required debt service coverage is "1.05 times".

(3) Net revenue available for debt service including guaranteed revenue, connection charges and 25% of non-construction interest income.

(4) In accordance with the Bond Trust Indenture, required debt service coverage is "1.20 times".

(5) Debt service requirements are calculated on a cash basis and interest expense is before capitalization.

Details regarding the Authority's outstanding debt can be found in the notes to the financial statements.

**SEACOAST UTILITY AUTHORITY
 FULL-TIME EMPLOYEES BY FUNCTION
 For the Last Ten Fiscal Years**

FUNCTION	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Administration	33	34	34	34	34	34	31	31	31	30
Customer/Field Service	17	15	16	16	14	15	20	18	18	18
Utility Services/Fleet	11	12	11	12	10	10	11	10	10	10
Sewer Treatment	11	13	13	13	16	16	15	17	16	16
Water Treatment	19	19	20	20	21	22	22	21	21	22
Water Distribution	13	12	14	14	14	14	14	14	13	14
Wastewater Collection	14	14	15	15	16	16	16	16	16	16
Total	118	119	123	124	125	127	129	127	125	126

SEACOAST UTILITY AUTHORITY
OPERATION INDICATORS BY FUNCTION
For the Last Ten Fiscal Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
WATER										
Number of accounts	32,130	33,424	34,150	34,409	34,563	34,739	34,778	34,833	34,908	35,009
Average Daily Consumption (in thousands of gallons)	19,857	15,455	17,690	16,240	14,231	14,520	14,359	14,756	14,450	13,250
SEWER										
Number of accounts	28,418	29,680	30,324	30,551	30,636	30,869	30,774	30,836	30,906	30,915
Average Daily Sewer Charged (in thousands of gallons)	11,561	12,095	13,121	12,099	8,660	8,747	11,987	12,272	11,719	11,335

**SEACOAST UTILITY AUTHORITY
CAPITAL AND INFRASTRUCTURE STATISTICS BY FUNCTION
For the Last Ten Fiscal Years**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
WATER										
Water main (miles)	421.9	440.4	458.0	463.6	471.2	471.2	477.6	477.2	478.0	480.5
Fire hydrants	3,099	3,177	3,265	3,360	3,420	3,432	3,467	3,493	3,500	3,508
Valves	6,218	6,470	6,563	6,646	6,734	6,734	6,745	6,810	6,885	6,935
SEWER										
Sanitary sewer (miles)	264.7	270.4	274.1	277.0	280.4	280.7	280.8	281.1	281.1	281.4
Force main miles	78.7	82.7	83.5	85.7	86.3	87.7	88.4	85.3	85.8	86.2
Lift stations	142	146	148	150	150	150	150	150	150	150
Manholes	6,966	7,205	7,313	7,444	7,563	7,567	7,574	7,588	7,592	7,607
Reclaimed water main (miles)	23.5	24.1	23.8	24.2	24.3	24.3	24.3	24.3	24.3	24.3

IV. COMPLIANCE

- Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Independent Auditors' Management Letter Required by Chapter 10.550, Rules of the State of Florida, Office of the Auditor General

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

To the Board of Directors,
Seacoast Utility Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Seacoast Utility Authority as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise Seacoast Utility Authority's basic financial statements, and have issued our report thereon dated February 11, 2014.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Seacoast Utility Authority'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*.

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.

James Moore & Co., P.L.C.

Daytona Beach, Florida
February 11, 2014

**INDEPENDENT AUDITORS' MANAGEMENT LETTER
REQUIRED BY CHAPTER 10.550, RULES OF THE STATE OF
FLORIDA, OFFICE OF THE AUDITOR GENERAL**

To the Board of Directors,
Seacoast Utility Authority:

We have audited the financial statements of the Seacoast Utility Authority, as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated February 11, 2014.

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 Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in that report, which is dated February 11, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which govern 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 auditors' report:

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

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Seacoast Utility Authority, complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. There are no component units of the Seacoast Utility Authority to be disclosed as required by accounting principles generally accepted in the United States of America. The legal authority has been disclosed in the notes.

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Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the financial emergency 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 Seacoast Utility Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Seacoast Utility Authority for the fiscal year ended September 30, 2013, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2013. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)6.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Seacoast Utility Authority's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

James Moore & Co., P.L.

Daytona Beach, Florida
February 11, 2014