

BIG BEND WATER AUTHORITY

AUDIT REPORT

SEPTEMBER 30, 2009

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Independent Auditors' Report

Board of Directors
Big Bend Water Authority
Steinhatchee, Florida

We have audited the accompanying basic financial statements of the Big Bend Water Authority (the "Authority") as of and for the fiscal year ended September 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

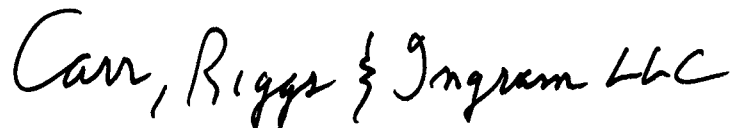
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 15, 2010 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Big Bend Water Authority
Steinhatchee, Florida
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As discussed in Note 8 to the financial statements, the Authority restated its beginning net assets. The previously-issued auditors' report (dated February 19, 2009) is not to be relied on and is replaced by this report on the restated financial statements.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Carr, Riggs & Ingram LLC". The signature is written in a cursive, flowing style.

July 15, 2010
Gainesville, Florida

Management's Discussion and Analysis

This discussion and analysis of the Big Bend Water Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2009. Please read it in conjunction with the Authority's financial statements, which follow this section.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This annual report contains financial statements that report on the Authority, which is a proprietary fund-enterprise fund that provides the community with adequate water and wastewater treatment facilities. Enterprise funds are used to account for activities in a manner similar to private-sector business enterprises and use the accrual basis of accounting.

The first financial statement is the Statement of Net Assets. This statement includes all of the Authority's assets and liabilities using the accrual basis of accounting. All of the current year transactions are recorded, regardless of when cash is received or paid. Net assets – the difference between assets and liabilities – can be used to measure the Authority's financial position.

The second financial statement is the Statement of Revenues, Expenses and Changes in Net Assets. This statement is also shown using the accrual basis of accounting. It shows the increases and decreases in net assets during the fiscal year. Over time, the increases or decreases in net assets are useful indicators of whether the Authority's financial health is improving or deteriorating. However, other non-financial factors must also be considered when assessing the overall health of the Authority.

The Statement of Cash Flows reports cash receipts and cash payments, and classifies the Authority's cash transactions in four categories: operating, noncapital financing, capital and related financing, or investing activities.

In these statements, all of the Authority's activities are considered to be business-type activities, which are generally financed in whole or in part by fees charged to external parties for goods or services. The Authority has no governmental activities.

CONDENSED FINANCIAL INFORMATION

The following presents condensed data about net assets and changes in net assets.

| Net Assets | | | | |
|---|---------------------|---------------------|-------------------|-----------------|
| | <u>2008</u> | <u>2009</u> | <u>Change</u> | <u>% Change</u> |
| Assets: | | | | |
| Non-Capital Assets | \$ 851,615 | \$ 993,610 | \$ 141,995 | 16.67 |
| Capital Assets | 8,393,680 | 8,382,396 | (11,284) | (0.13) |
| Total Assets | <u>9,245,295</u> | <u>9,376,006</u> | <u>130,711</u> | 1.41 |
| Liabilities: | | | | |
| Current Liabilities | 279,320 | 1,212,072 | 932,752 | 333.94 |
| Long-Term Liabilities | 4,419,980 | 3,363,644 | (1,056,336) | (23.90) |
| Total Liabilities | <u>4,699,300</u> | <u>4,575,716</u> | <u>(123,584)</u> | (2.63) |
| Net Assets: | | | | |
| Invested In Capital Assets, Net of Related Debt | 4,830,646 | 5,452,776 | 622,130 | 12.88 |
| Restricted | - | 39,405 | 39,405 | 100.00 |
| Unrestricted | (284,651) | (691,891) | (407,240) | (143.07) |
| Total Net Assets | <u>\$ 4,545,995</u> | <u>\$ 4,800,290</u> | <u>\$ 254,295</u> | 5.59 |

Change In Net Assets

| | | | | |
|--|---------------------|---------------------|-------------------|----------|
| Revenues: | | | | |
| Operating Revenues | \$ 796,640 | \$ 825,852 | \$ 29,212 | 3.67 |
| Insurance Proceeds | 44,146 | - | (44,146) | (100.00) |
| Gain on Sales of Assets | 2,500 | - | (2,500) | (100.00) |
| Capital Grants and Contributions | 289,281 | 246,279 | (43,002) | (14.87) |
| Investment Earnings | 7,601 | 6,460 | (1,141) | (15.01) |
| Total Revenues | <u>1,140,168</u> | <u>1,078,591</u> | <u>(61,577)</u> | (5.40) |
| Expenses: | | | | |
| Water/Sewer Services | 692,388 | 609,895 | (82,493) | (11.91) |
| Depreciation | 126,487 | 249,494 | 123,007 | 97.25 |
| Interest on Long-term Debt | 193,732 | 92,030 | (101,702) | (52.50) |
| Total Expenses | <u>1,012,607</u> | <u>951,419</u> | <u>(61,188)</u> | (6.04) |
| Change In Net Assets | 127,561 | 127,172 | (389) | 0.30 |
| Beginning Net Assets, as Restated | 4,418,434 | 4,673,118 | 254,684 | 5.76 |
| Ending Net Assets | <u>\$ 4,545,995</u> | <u>\$ 4,800,290</u> | <u>\$ 254,295</u> | 5.59 |

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Revenues were \$1,078,591 compared to expenses of \$951,419. This resulted in an increase for the year of \$127,172. Because of this, net assets increased by same. A capital contribution (grant) accounted for approximately \$246,000 of the current year revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority put approximately \$5,857,000 of construction in process into service in the current year. Please refer to a note to the accompanying financial statements entitled *Capital Asset Activity* for more detailed information.

Debt Administration

The Authority's net long-term debt was reduced by \$39,912 during the year. Please refer to a note to the accompanying financial statements entitled *Long-term Liabilities* for more detailed information about the Authority's long-term debt activity.

ECONOMIC FACTORS

We are not currently aware of any conditions that are expected to have a significant effect on the Authority's financial position or results of operations.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Authority at Post Office Box 670, Steinhatchee, Florida 32359.

Statement of Net Assets
September 30, 2009
Big Bend Water Authority

| | |
|---|-----------------------------------|
| <u>CURRENT ASSETS</u> | |
| Cash and Equivalents | \$ 228,785 |
| Accounts Receivable (Net of Allowance of \$1,825) | 71,342 |
| Due From Other Governments | 71,178 |
| Prepaid Expenses | <u>3,004</u> |
| TOTAL CURRENT ASSETS | <u>374,309</u> |
| <u>NONCURRENT ASSETS</u> | |
| Restricted Cash and Equivalents | 594,056 |
| Restricted Investments | 25,245 |
| Capital Assets: | |
| Non-Depreciable | 1,165,091 |
| Depreciable, Net | <u>7,217,305</u> |
| TOTAL NONCURRENT ASSETS | <u>9,001,697</u> |
| TOTAL ASSETS | <u>9,376,006</u> |
| <u>CURRENT LIABILITIES</u> | |
| Accounts Payable | 105,176 |
| Interest Payable | 18,105 |
| Unearned Revenue | 896,589 |
| Compensated Absences | 11,502 |
| Customer Deposits | 52,074 |
| Service Fees Payable | 5,044 |
| Current Portion of Notes Payable | <u>123,582</u> |
| TOTAL CURRENT LIABILITIES | <u>1,212,072</u> |
| <u>NONCURRENT LIABILITIES</u> | |
| Notes Payable | 3,359,575 |
| Compensated Absences | <u>4,069</u> |
| TOTAL NONCURRENT LIABILITIES | <u>3,363,644</u> |
| TOTAL LIABILITIES | <u>4,575,716</u> |
| <u>NET ASSETS</u> | |
| Invested in Capital Assets, Net of Related Debt | 5,452,776 |
| Restricted for Debt Service Reserve | 39,405 |
| Unrestricted | <u>(691,891)</u> |
| TOTAL NET ASSETS | <u><u>\$ 4,800,290</u></u> |

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

**Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended September 30, 2009
Big Bend Water Authority**

| | |
|--|----------------------------|
| <u>OPERATING REVENUES</u> | |
| Charges for Services | \$ 819,867 |
| Other Operating Revenues | <u>5,985</u> |
| TOTAL OPERATING REVENUES | <u>825,852</u> |
| <u>OPERATING EXPENSES</u> | |
| Personal Services | 275,996 |
| Operating Expenses | 333,899 |
| Depreciation | <u>249,494</u> |
| TOTAL OPERATING EXPENSES | <u>859,389</u> |
| OPERATING LOSS | <u>(33,537)</u> |
| <u>NONOPERATING REVENUES (EXPENSES)</u> | |
| Interest Revenue | 6,460 |
| Interest Expense | <u>(92,030)</u> |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>(85,570)</u> |
| LOSS BEFORE CAPITAL CONTRIBUTIONS | (119,107) |
| Capital Contributions - Grants | <u>246,279</u> |
| CHANGE IN NET ASSETS | 127,172 |
| NET ASSETS, October 1, 2008, as Restated | <u>4,673,118</u> |
| NET ASSETS, September 30, 2009 | <u><u>\$ 4,800,290</u></u> |

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

Statement of Cash Flows
For the Fiscal Year Ended September 30, 2009
Big Bend Water Authority

| | |
|---|--------------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | |
| Receipts from Customers | \$ 864,033 |
| Payments to Suppliers | (446,943) |
| Payments to Employees | <u>(191,128)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>225,962</u> |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u> | |
| Proceeds from Capital Contributions | 246,279 |
| Payments on Long-Term Debt | (42,994) |
| Payments of Interest | (113,890) |
| Proceeds from New Debt | 3,082 |
| Acquisition of Capital Assets | <u>(238,210)</u> |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(145,733)</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | |
| Interest Received | 6,460 |
| Acquisition of Investments | <u>(25,245)</u> |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(18,785)</u> |
| NET CHANGE IN CASH | 61,444 |
| CASH – OCTOBER 1, 2008 | <u>761,397</u> |
| CASH – SEPTEMBER 30, 2009 | <u><u>\$ 822,841</u></u> |
| <u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED</u> | |
| <u>BY OPERATING ACTIVITIES</u> | |
| Operating Loss | \$ (33,537) |
| Depreciation | 249,494 |
| Changes in Assets and Liabilities: | |
| Accounts Receivable | 5,760 |
| Due from Other Governments | 89,116 |
| Prepaid Expense | 10,112 |
| Accounts Payable | (43,332) |
| Unearned Revenue | (59,661) |
| Service Fees Payable | 5,044 |
| Deposits | <u>2,966</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 225,962</u></u> |

The accompanying "Notes to Financial Statements"
form an integral part of this statement.

Notes to Financial Statements
September 30, 2009
Big Bend Water Authority

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Big Bend Water Authority (the “Authority”) conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The Authority is a multi-county special unit of government created through an interlocal agreement between the Boards of County Commissioners of Dixie and Taylor Counties, dated September 6, 2007. It is an independent special district created pursuant to the authority provided in Chapter 163, Part 1, Florida Statutes.

The Authority uses the criteria established in GASB Statement No. 14 to define the reporting entity and identify component units. Component units are entities for which the Authority is considered to be financially accountable. There are no other entities that qualify for inclusion as a component unit within the Authority’s reporting entity.

Basis of Presentation

The financial transactions of the Authority are reported as a proprietary fund type – Enterprise Fund. Enterprise Funds are used to account for activities in a manner similar to private-sector business enterprises.

The Authority’s operating revenues result from exchange transactions. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

Measurement Focus and Basis of Accounting

The Authority utilizes the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Application of FASB Pronouncements

The Authority applies all applicable GASB pronouncements. Additionally, the Authority applies pronouncements of the FASB and its predecessor bodies issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Equivalents

The Authority’s cash consists of legally authorized demand deposits. The institutions in which such deposits are kept are certified as Qualified Public Depositories under the Florida Public Deposits Act. Therefore, the total bank balances on deposit at September 30, 2009 are insured or collateralized pursuant to Chapter 280, Florida Statutes.

For purposes of the statement of cash flows, the Authority considers only highly liquid investments with original maturities of less than three months to be cash equivalents.

Notes to Financial Statements
September 30, 2009
Big Bend Water Authority

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

The Authority invests excess public funds pursuant to the guidelines established in Section 218.415, Florida Statutes. Accordingly, the Authority is authorized to invest excess public funds in the following instruments: the Local Government Surplus Funds Trust Fund; Securities and Exchange Commission registered money market funds with the highest credit quality rating; savings accounts and certificates of deposit in qualified public depositories; and direct obligations of the U.S. Treasury.

At September 30, 2010, and during the year then ended, investments consisted of certificates of deposit in qualified public depositories with original maturities of more than three months. Such investments are stated at cost and are entirely insured or collateralized.

Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

For qualifying constructed assets, interest costs are capitalized, net of interest revenue earned on debt proceeds, from the time of borrowing until the completion of the project.

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

| | |
|--|------------|
| Plant and Equipment | 5-40 Years |
| Vehicles | 3 Years |
| Other Equipment and Wastewater Machinery | 5-20 Years |

Restricted Net Assets

In the accompanying statement of net assets, *restricted net assets* are subject to restrictions beyond the Authority's control. The restriction is either externally imposed (for instance, by creditors, grantors, contributors, or laws/regulations of other governments) or is imposed by law through constitutional provisions or enabling legislation. It is the practice of the Authority to utilize restricted assets before unrestricted assets.

Compensated Absences

The Authority's policy is to allow limited vesting of employee vacation pay. Employees may not vest accumulated sick leave. A liability for compensated absences is accrued when incurred in the Authority's financial statements.

Notes to Financial Statements
September 30, 2009
Big Bend Water Authority

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the accompanying financial statements have been reclassified in order to conform to the 2009 presentation.

NOTE 2 – CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended September 30, 2009 follows:

| | Balance October 1, 2008 | Increases | Decreases | Balance September 30, 2009 |
|---|-------------------------------|---------------------|---------------------|----------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 264,500 | \$ - | \$ - | \$ 264,500 |
| Construction in Progress | 6,536,855 | 220,499 | 5,856,763 | 900,591 |
| Total Capital Assets Not Being Depreciated | <u>6,801,355</u> | <u>220,499</u> | <u>5,856,763</u> | <u>1,165,091</u> |
| Capital Assets Being Depreciated: | | | | |
| Vehicles | 95,691 | - | - | 95,691 |
| Water Plant and Structure | 328,287 | 3,918,492 | - | 4,246,779 |
| Pipeline | 1,577,363 | 568,416 | - | 2,145,779 |
| Waste Water Pipeline | 21,682 | 1,326,306 | - | 1,347,988 |
| Waste Water Plant and Structure | 143,831 | 58,309 | - | 202,140 |
| Software | 6,691 | 934 | - | 7,625 |
| Office Equipment | 13,158 | 2,017 | - | 15,175 |
| Machinery and Equipment | 75,478 | - | - | 75,478 |
| Total Capital Assets Being Depreciated | <u>2,262,181</u> | <u>5,874,474</u> | <u>-</u> | <u>8,136,655</u> |
| Less Accumulated Depreciation for: | | | | |
| Vehicles | 70,605 | 7,910 | - | 78,515 |
| Water Plant and Structure | 247,178 | 82,657 | - | 329,835 |
| Pipeline | 254,277 | 106,982 | - | 361,259 |
| Waste Water Pipeline | 1,978 | 24,272 | - | 26,250 |
| Waste Water Plant and Structure | 40,509 | 10,561 | - | 51,070 |
| Software | 3,923 | 1,182 | - | 5,105 |
| Office Equipment | 6,969 | 2,292 | - | 9,261 |
| Machinery and Equipment | 44,417 | 13,638 | - | 58,055 |
| Total Accumulated Depreciation | <u>669,856</u> | <u>249,494</u> | <u>-</u> | <u>919,350</u> |
| Total Capital Assets Being Depreciated, Net | <u>1,592,325</u> | <u>5,624,980</u> | <u>-</u> | <u>7,217,305</u> |
| Capital Assets, Net | <u>\$ 8,393,680</u> | <u>\$ 5,845,479</u> | <u>\$ 5,856,763</u> | <u>\$ 8,382,396</u> |

Notes to Financial Statements
September 30, 2009
Big Bend Water Authority

NOTE 3 – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended September 30, 2009:

| <u>Description</u> | October 1, 2008 <u>(As Restated)</u> | <u>Increases</u> | <u>Decreases</u> | Balance September 30, 2009 | <u>Due Within One Year</u> |
|----------------------|--|-------------------------|-------------------------|----------------------------------|--------------------------------|
| Revenue Bonds | \$ 1,725,000 | \$ - | \$ - | \$ 1,725,000 | \$ - |
| Notes Payable | 1,798,069 | 3,082 | 42,994 | 1,758,157 | 123,582 |
| Compensated Absences | 15,571 | 11,732 | 11,732 | 15,571 | 11,502 |
| Total | <u>\$ 3,538,640</u> | <u>\$ 14,814</u> | <u>\$ 54,726</u> | <u>\$ 3,498,728</u> | <u>\$ 135,084</u> |

Revenue Bonds

Branch Bank and Trust Company

Wastewater Revenue Bonds, 2.7%, Series 2008, dated April 16, 2008, were issued in the amount of \$1,725,000 as the temporary financing of improvements of the wastewater system. In February 2010, this loan was refinanced with a loan from the Florida Department of Environmental Protection.

\$ 1,725,000

Notes Payable

Florida Department of Environmental Protection (FDEP)

Note Payable to finance water system improvements. Payable in semi-annual installments of \$14,620 on October and April 15, including interest from 2.64 to 3.52%. Payable from the Pledged Revenues, after satisfaction of any senior obligation. There is no debt senior to this obligation.

\$ 512,900

Note Payable to finance water system improvements. Payable in semi-annual installments of \$29,281 on November and May 15, including interest at 2.67%. Payable from the Pledged Revenues, after satisfaction of any senior obligation. The preceding loan is senior to this obligation.

1,078,079

Note Payable to finance water system improvements. Payable in semi-annual installments of \$14,358 on February and August 15, including interest at 2.64%. Payable from the Pledged Revenues, after satisfaction of any senior obligation. The preceding loans are senior to this obligation.

47,227

Note Payable to finance wastewater system improvements. Payable in semi-annual installments of \$52,499 on December and June 15, including interest at .855%. Payable beginning June 15, 2010, from the Pledged Revenues, after satisfaction of any senior obligation. The preceding loans are senior to this obligation.

119,951

Total Notes Payable

\$ 1,758,157

Notes to Financial Statements
September 30, 2009
Big Bend Water Authority

NOTE 3 – LONG-TERM LIABILITIES

Aggregate maturities of the long-term debt are as follows:

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------------|---------------------|-------------------|---------------------|
| 2010 | \$ 123,582 | \$ 92,656 | \$ 216,238 |
| 2011 | 1,857,832 | 68,743 | 1,926,575 |
| 2012 | 46,490 | 41,312 | 87,802 |
| 2013 | 47,784 | 40,017 | 87,801 |
| 2014 | 49,115 | 38,687 | 87,802 |
| 2015-2019 | 266,871 | 172,138 | 439,009 |
| 2020-2024 | 306,183 | 132,825 | 439,008 |
| 2025-2029 | 351,320 | 87,691 | 439,011 |
| 2030-2034 | 372,286 | 36,045 | 408,331 |
| 2035-2038 | <u>61,694</u> | <u>812</u> | <u>62,506</u> |
| Total | <u>\$ 3,483,157</u> | <u>\$ 710,926</u> | <u>\$ 4,194,083</u> |

NOTE 4 – RESTRICTED ASSETS

Restricted assets are comprised of the following:

| | |
|---|-------------------|
| Unexpended loan proceeds, restricted for project costs | \$ 553,537 |
| Debt service sinking and reserve accounts | <u>65,764</u> |
| Total Restricted Assets | <u>\$ 619,301</u> |

NOTE 5 – UNEARNED REVENUES

The unearned revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. These deferred revenues represent the following prepaid water and sewer installations, and advance collections, in the amount of \$896,589 as of September 30, 2009.

| | |
|------------------------------------|-------------------|
| The Estuary | \$ 70,241 |
| Woods Gulf Breeze | 676,000 |
| Steinhatchee Shores | 67,900 |
| Riverwalk | 48,600 |
| Bond | <u>19,500</u> |
| | 882,241 |
| Advance Collections from Customers | <u>14,348</u> |
| Total Unearned Revenues | <u>\$ 896,589</u> |

Notes to Financial Statements
September 30, 2009
Big Bend Water Authority

NOTE 6 – PENSION PLANS

Simplified Employee Plan

The Authority has a Salary Reduction Simplified Employee Pension Plan with Prudential Securities that covers all full time employees. The maximum that may be contributed by the Authority and the employee is 15 percent of the employee's salary. The Plan was granted tax-exempt status by the Internal Revenue Service under Section 408 of the Internal Revenue Code. The Authority's contributions to the plan for the year ended September 30, 2009 totaled \$3,844, which represented 6 percent of eligible employee salaries. One employee participated in this plan.

Florida Retirement System

Plan Description. The Authority contributes to the Florida Retirement System ("System"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Florida, Department of Administration, Division of Retirement. The System provides retirement, disability or death benefits to retirees or their designated beneficiaries. Chapter 121, Florida Statutes, establishes the authority for benefit provisions. Changes to the law can only occur through an act of the Florida Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Division of Retirement, PO Box 9000, Tallahassee, Florida, 32315-9000, or by calling (850) 488-6491.

Funding Policy. The system is employee noncontributory. The Authority is required to contribute at an actuarially determined rate. The rates at September 30, 2009 were as follows: Regular Employees 9.85%; Special Risk Employees 20.92%; Senior Management 13.12%; Elected Officials 16.53%. The contribution requirements of plan members and the Authority are established and may be amended by the Florida Legislature. The Authority's contributions to the System for the years ended September 30, 2009 and 2008 were \$14,372 and \$1,370, respectively, equal to the required contributions for each year.

NOTE 7 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to theft of, damage to and destruction of assets; and injury or death on the job of employees. To manage its risks, the Authority participates in the Preferred Government Insurance Trust (the "Trust"), a public entity risk pool currently operating as a common risk management and insurance program for member districts. The Authority pays an annual premium to the Trust for its coverage. The premiums are designed to fund the liability risks assumed by the Trust and are based on certain actual exposures of each member.

Notes to Financial Statements
September 30, 2009
Big Bend Water Authority

NOTE 8 – RESTATEMENT

Beginning net assets have been restated to correct the effects of errors made in previously-issued financial statements, as summarized below:

| | |
|--|----------------------------|
| Beginning net assets, as previously reported | \$ 4,545,995 |
| Restatements: | |
| Grant Receivable | 160,294 |
| Compensated Absences Liability | (15,571) |
| Deferred Revenue | <u>(17,600)</u> |
| Beginning net assets, as restated | <u><u>\$ 4,673,118</u></u> |

NOTE 9 – SUBSEQUENT EVENTS

The Authority raised water and sewer rates in October 2009 to address recurring operating losses.

Additionally, the Authority received a \$300,000 cost-reimbursement grant for wastewater improvements subsequent to the end of the fiscal year.

**ADDITIONAL ELEMENTS REQUIRED BY
THE RULES OF THE AUDITOR GENERAL**

Management Letter

Board of Commissioners
Big Bend Water Authority
Steinhatchee, Florida

We have audited the financial statements of the Big Bend Water Authority (the "Authority"), as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated July 15, 2010.

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. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

Prior Audit Findings

The Rules of the Auditor General require that we comment as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding audit. In that regard, the predecessor auditor reported a significant deficiency relating to the internal controls over the financial statement preparation function. During the current year, the Authority adequately addressed that finding by engaging a consultant to assist with the year-end close-out and preparation of the financial statements.

Financial Condition

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.503, Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the Authority has met one of the conditions described in Section 218.503(1), Florida Statutes. That condition – an unrestricted net assets deficit – resulted from a deteriorating financial condition as discussed in the following paragraph.

Also, as required by the Rules of the Auditor General, we applied financial condition assessment procedures, as of the end of the fiscal year, pursuant to Rule 10.556(7). It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management. The application of such procedures revealed evidence of "deteriorating financial condition" as that term is defined in Rule 10.554. We observed that the Authority incurred an operating loss, of \$33,537, and a loss before capital contributions of \$119,107. The Authority's unrestricted net assets deficit was \$691,891 at September 30, 2009. Given this condition, we recommend that the Authority's financial condition be closely monitored on an ongoing basis during 2010.

Annual Financial Report

As required by the Rules of the Auditor General, we determined that the 2008-2009 annual financial report was filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, and is in substantial agreement with the audit report for the fiscal year ended September 30, 2009.

Investment of Public Funds

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. Our audit did not reveal any noncompliance with the provisions of Section 218.415, Florida Statutes.

Other Matters

Our audit did not reveal any other matters that we are required to include in this management letter.

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

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

Car, Riggs & Ingram LLC

July 15, 2010
Gainesville, Florida

Board of Commissioners
Big Bend Water Authority
Steinhatchee, Florida

We have audited the financial statements of the Big Bend Water Authority (the "Authority") as of and for the year ended September 30, 2009, and have issued our report thereon dated July 15, 2010. Our report on the financial statements explained that the Authority restated its beginning net assets. 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.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings as items 09-1 and 09-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We also noted a matter which we reported in the accompanying Schedule of Findings as item 09-3.

The Authority's response to the findings identified in our audit is described in its accompanying letter of response. We did not audit the Authority's response and, accordingly, we express no opinion on it.

Communication with Those Charged with Governance

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope. The timing of the audit was delayed for several months pending the resolution of certain issues relating to revenue recognition.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates may be particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimate affecting the financial statements is the estimate of depreciation expense.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users. There are no particularly sensitive disclosures significantly affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Our audit did not reveal any such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

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

Car, Riggs & Ingram LLC

July 15, 2010
Gainesville, Florida

**Schedule of Findings
For the Fiscal Year Ended September 30, 2009
Big Bend Water Authority**

09-1 *Condition* – Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional errors or irregularities could exist and not be promptly detected.

Recommendation – To help compensate for the lack of segregation of incompatible employee duties and responsibilities, the Authority's day-to-day financial activities should be closely monitored on an ongoing basis. To the extent practical, a system of "checks and balances" should be maintained to help mitigate the Authority's overall risks that result from this condition.

09-2 *Condition* – The Authority's accounting personnel do not necessarily possess the suitable skill, knowledge, or experience necessary to ensure that accurate, timely financial information is being internally generated in conformity with generally accepted accounting principles. We observed various specific control deficiencies that are hereafter summarized for your consideration:

- We detected a material error in last year's financial statements.
- Bank accounts were not always accurately reconciled to the general ledger.
- An accounts receivable subsidiary ledger was not prepared at year-end. Additionally, the accounts receivable subsidiary records were not reconciled to the control account on a monthly basis.
- Restricted resources were not adequately segregated. Separate accountability was not sufficient for customer deposits and developer deposits.
- Construction-in-progress was not reclassified as depreciable property when the asset was placed in service.
- The liability for accrued compensated absences was not recorded in the accounting records.
- The customer deposits subsidiary records were not reconciled to the general ledger on a monthly basis.
- We noted an instance where payroll taxes had not been deposited timely, which resulted in a penalty being paid by the Authority.
- Checks require two signatures although this control was not always put in place.
- Capital assets were not inventoried and tagged for identification.

Recommendation – Internal controls should be strengthened to mitigate these specific risks. The Authority should implement policies and procedures to ensure that its accounting system produces accurate, timely data that can be effectively utilized to manage the Authority's fiscal affairs.

Schedule of Findings
For the Fiscal Year Ended September 30, 2009
Big Bend Water Authority

09-3 *Condition* – The Authority’s State Revolving Fund agreements with FDEP contain rate coverage covenants. During the fiscal year ended September 30, 2009, the Authority’s loss before capital contributions totaled \$119,107.

Recommendation – The Authority should ensure that its rates and charges for services are sufficient to fully comply with its debt covenants.

BIG BEND WATER AUTHORITY
1313 1ST AVENUE SE, POST OFFICE BOX 670
STEINHATCHEE, FLORIDA 32359
(352)498-3576 FAX (352)498-3624

July 19, 2010

Office of the Auditor General
State of Florida
111 W. Madison Street
Tallahassee, FL 32399

RE: Schedule of Findings

Dear Sir:

Please be advised that we are in receipt of the September 30, 2009 Annual Financial Statement Audit as prepared by Carr, Riggs & Ingram in Gainesville, Florida. We have reviewed their findings and comments and are providing this letter to document our course of corrective action.

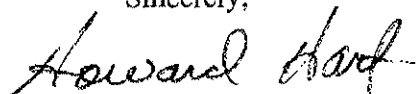
With regards to the management letter item concerning our current financial condition, we would like to explain that the \$692,000 deficit net asset position is largely a result of a contract interpretation with a local real estate developer. We anticipate this issue being resolved by September 30, 2010 restoring \$676,000 of unearned revenue to an equity position. While this does not totally eliminate the deficit position of the Authority, it is anticipated that a rate increase implemented in October, 2009 will yield positive results in 2010.

With regards to the schedule of findings, we submit the following:

- 09-1 The board is fully aware of our lack of segregation of employee duties and the effect this has on our internal control. The board is very involved with day to day financial activities and constantly monitors and reviews transactions in order to provide a reasonable system of checks and balances.
- 09-2 The board is currently reviewing our accounting procedures in an effort to eliminate financial reporting errors. We have engaged a local CPA firm to assist us in implementing a corrective action plan.
- 09-3 The Board will again review the utility rates charged to determine if an additional rate increase is required to insure profitability of the Authority.

We hope this information is satisfactory for your purposes.

Sincerely,



Howard Hart
Chairman