

**OKEECHOBEE UTILITY AUTHORITY**  
**FINANCIAL STATEMENTS WITH INDEPENDENT**  
**AUDITOR'S REPORT THEREON**  
**SEPTEMBER 30, 2017**

OKEECHOBEE UTILITY AUTHORITY  
SEPTEMBER 30, 2017  
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## INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and Members of the  
Okeechobee Utility Authority Board  
Okeechobee, Florida

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### Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary fund of the Okeechobee Utility Authority as of and for the year ended September 30, 2017, and the related notes to the financial statements, which together with the aggregate remaining fund information, collectively comprise the Okeechobee Utility Authority's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Okeechobee Utility Authority Employees' Retirement System, which comprises 100% of the aggregate remaining fund information of the Okeechobee Utility Authority.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Okeechobee Utility Authority Employees' Retirement System, which comprises 100% of the aggregate remaining fund information of the Okeechobee Utility Authority. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Okeechobee Utility Authority Employees' Retirement System, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the proprietary fund and the aggregate remaining fund information of the Okeechobee Utility Authority as of September 30, 2017, and the changes in its financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, the schedule of funding progress on page 46, and the pension schedules on pages 47 through 49 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2018, on our consideration of the Okeechobee Utility Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Okeechobee Utility Authority's internal control over financial reporting and compliance.

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

West Palm Beach, Florida  
June 20, 2018

**Okeechobee Utility Authority  
Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2017**

Management's discussion and analysis is intended to provide an objective analysis of the Okeechobee Utility Authority (the "Authority") financial activities for fiscal year ended September 30, 2017. The analysis provides summary financial information for the Authority and should be read in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

- § The Authority's assets exceeded its liabilities at September 30, 2017, by \$46 million (net position). Of this amount, approximately \$8.7 million is its unrestricted net position (Table 1).
- § The Authority's total assets decreased by approximately \$0.5 million or 0.7% from FY2016.
- § The Authority's operating revenues increased by approximately \$0.1 million or 1.07% and operating expenses decreased by approximately \$0.15 million or 1.64% from FY2016 (Table 2).
- § Operating expenses were \$8.8M, which was 6.4% less than budget.
- § The Authority refunded the balance of \$19.975 million of Capital Improvement Revenue Notes with a savings in interest expense of \$1.062 million over 14 years.
- § The Authority received \$650,000 in capital grants from the Florida Department of Environmental Protection that helped fund part of the cost of approximately \$1.5 million for the Pine Ridge Park water and wastewater projects.
- § The Authority's utility plant, before accumulated depreciation, increased by approximately \$2.4 million from FY2016 (Table 3).

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the Authority is a special district involved solely in the provision of water and wastewater services within the service area of the utility system, its operations are accounted for in a Proprietary Fund, specifically an Enterprise Fund. Enterprise Funds are used to report business-type functions, which recover all or a significant portion of their costs through user fees and charges. Over time, significant changes in the Authority's net position serve as a useful indicator of whether its financial health is improving or deteriorating. To fully assess the financial health of any entity, the reader must also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates

The Okeechobee Utility Authority Employees' Retirement System is a component unit of the Authority as it is fiscally dependent on and imposes a specific financial burden. It is reported in the Authority's financial statements as a Fiduciary Fund, the General Employee's Pension Trust Fund. Fiduciary Funds are not included in the government-wide financial statements because the Authority cannot use these assets to finance its operations. Therefore, there are no government-wide financial statements, as they would be redundant to the fund financial statements.

## **REQUIRED FINANCIAL STATEMENTS**

The financial statements report information about the Authority using accounting methods similar to those used by private business enterprises; mainly, costs of providing goods or services are financed or recovered primarily through user charges. The full accrual basis of accounting is used whereby revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The *Statement of Net Position* includes the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. The current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Position*. This statement measures the results of the Authority's operations over the past year and may be used to determine whether the Authority is efficiently recovering all its costs through its user fees and other charges. This statement helps the reader understand the Authority's profitability and credit worthiness.

The other required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. Answers to questions regarding source of cash, use of cash, and changes in cash balances during the reporting period may be found in this report. The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the financial statements.

## **FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE**

The *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Net Position* report information about the Authority's activities in a way that reflects whether the Authority is improving or deteriorating as a result of the year's activities. These two statements report the net position of the Authority and changes in the net position. Viewing the Authority's net position helps one to evaluate the financial health or financial position of the Authority. Net position is the difference between assets and deferred outflows of resources (what is owned) and liabilities and deferred inflows of resources (what is owed).

The Authority's total net position increased \$1,358,103. The condensed analysis below focuses on the Authority's net position (Table 1) and changes in net position (Table 2) during the year.

**Table 1**  
**Net Positions**

	<u>FY2017</u>	<u>FY2016</u>	<u>Net Change</u>	
Net Capital Assets	\$ 61,224,975	\$ 61,523,966	\$ (298,991)	(0.49%)
Restricted Assets	5,081,695	6,833,605	(1,751,910)	(25.64%)
Current and Other Assets	9,977,377	8,442,757	1,534,620	18.18%
<b>Total assets</b>	<b>\$ 76,284,047</b>	<b>\$ 76,800,328</b>	<b>\$ (516,281)</b>	<b>(0.67%)</b>
<b>Total deferred outflows</b>	<b>\$ 1,640,765</b>	<b>\$ 2,144,160</b>	<b>\$ (503,395)</b>	<b>(23.48%)</b>
Noncurrent Liabilities	\$ 27,841,018	\$ 30,842,797	\$ (3,001,779)	(9.73%)
Liabilities Payable from Restricted Assets	541,424	577,641	(36,217)	(6.27%)
Current Liabilities	2,982,828	2,361,316	621,512	26.32%
<b>Total liabilities</b>	<b>\$ 31,365,270</b>	<b>\$ 33,781,754</b>	<b>\$ (2,416,484)</b>	<b>(7.15%)</b>
<b>Total deferred inflows</b>	<b>\$ 210,263</b>	<b>\$ 171,558</b>	<b>\$ 38,705</b>	<b>22.56%</b>
Net Investment in Capital Assets	\$ 33,077,487	\$ 31,595,225	\$ 1,482,262	4.69%
Restricted for Capital Projects	2,382,408	3,535,535	(1,153,127)	(32.62%)
Restricted for Debt Service	204,570	338,549	(133,979)	(39.57%)
Restricted for Rate Stabilization	1,953,293	2,381,591	(428,298)	(17.98%)
Unrestricted Net Position	8,731,521	7,140,276	1,591,245	22.29%
<b>Total Net Position</b>	<b>\$ 46,349,279</b>	<b>\$ 44,991,176</b>	<b>\$ 1,358,103</b>	<b>3.02%</b>



A comparison of the Authority's income (loss) is as follows (Table 2):

<b>Table 2</b>				
<b>Income</b>				
	<b><u>FY2017</u></b>	<b><u>FY2016</u></b>	<b><u>Net Change</u></b>	
<b>Revenue</b>				
Charges for Services	\$ 9,890,272	\$ 9,785,526	\$ 104,746	1.07%
Miscellaneous Revenue	158,210	86,995	71,215	81.86%
Non-Operating Revenue	301,115	416,661	(115,546)	(27.73%)
<b>Total Revenue</b>	<b>\$ <u>10,349,597</u></b>	<b>\$ <u>10,289,182</u></b>	<b>\$ <u>60,415</u></b>	<b>0.59%</b>
<b>Expenses</b>				
Operating Expenses	\$ 8,766,758	\$ 8,913,147	\$ (146,389)	(1.64%)
Non-Operating Expenses	890,173	1,030,282	(140,109)	(13.60%)
<b>Total Expenses</b>	<b>\$ <u>9,656,931</u></b>	<b>\$ <u>9,943,429</u></b>	<b>\$ <u>(286,498)</u></b>	<b>(2.88%)</b>
<b>Excess Revenue over Expenses</b>				
Before Capital Contributions	\$ 692,666	\$ 345,753	\$ 346,913	100.3%
Capital Contributions	665,437	18,253	647,184	3545.6%
<b>Total change in net position</b>	<b>\$ <u>1,358,103</u></b>	<b>\$ <u>364,006</u></b>	<b>\$ <u>994,097</u></b>	<b>273.1%</b>
<b>Beginning Net Position</b>	<b>\$ <u>44,991,176</u></b>	<b>\$ <u>44,627,170</u></b>	<b>\$ <u>364,006</u></b>	<b>0.82%</b>
<b>Ending Net Position</b>	<b>\$ <u>46,349,279</u></b>	<b>\$ <u>44,991,176</u></b>	<b>\$ <u>1,358,103</u></b>	<b>3.02%</b>

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of fiscal year 2017, the Authority had \$61,224,975 after accumulated depreciation invested in a broad range of utility capital assets including land, ground water plant, surface water plant, water main system, wastewater plant, lift stations, sanitary sewer system, force mains and equipment.

The Authority's total capital assets decreased after accumulated depreciation from last year by approximately \$0.3 million as reflected in the following table (Table 3):

<b>Table 3</b>				
<b>Changes in Capital Assets</b>				
	<b><u>FY2017</u></b>	<b><u>FY2016</u></b>	<b><u>Net Change</u></b>	
Land and Easements	\$ 2,897,455	\$ 2,897,455	\$	
Buildings	985,404	948,904	36,500	
Equipment	3,875,023	3,647,756	227,267	
Distribution & Collection System	91,167,277	89,000,640	2,166,637	
	<b>\$ <u>98,925,159</u></b>	<b>\$ <u>96,494,755</u></b>	<b>\$ <u>2,430,404</u></b>	
Less: Accumulated Depreciation	(38,855,213)	(36,182,765)	(2,672,448)	
	<b>\$ <u>60,069,946</u></b>	<b>\$ <u>60,311,990</u></b>	<b>\$ <u>(242,044)</u></b>	
Construction in Progress	1,155,029	1,211,976	(56,947)	
	<b>\$ <u>61,224,975</u></b>	<b>\$ <u>61,523,966</u></b>	<b>\$ <u>(298,991)</u></b>	

The Authority plans each year for capital improvement projects; some projects may be completed within the fiscal year and some projects that extend over a longer period. The SWTP Storage Water Tank Project listed below is the construction of a 3 million-gallon water tank at a cost of approximately \$5 million.

Table 4 below reflects the major additions and costs incurred as of September 30, 2017.

**Table 4**  
**Capital Improvement Projects Ongoing**  
**(Dollars in Thousands)**

PRP Wastewater Improvement	\$ 945,298
Whispering Pines Water System	62,279
NW 20 <sup>th</sup> Lane WM	15,905
SWTP Storage Water Tank Project	131,547
<b>Total Ongoing CIP Projects</b>	<b><u>\$ 1,155,029</u></b>

Damage from Hurricane Irma is estimated at \$550,000; a substantial portion of this cost is expected to be recovered from FEMA and insurance proceeds. See *Notes to the Financial Statements (Note 7)* for additional information related to capital assets.

### **Debt Administration**

On September 30, 2017, the Authority had State Revolving Loans and notes payable outstanding in the amount of \$29,159,310. During fiscal year 2017, refunded the Series 2010 Notes with the Series 2017 Notes. Debt service payments excluding the refunding totaled \$2,620,619. See *Notes to the Financial Statements (Note 8)* for additional information related to State Revolving Loans and notes payable.

## **CURRENT ECONOMIC FACTORS AND ASSESSMENT OF GROWTH**

The Authority began operations in 1995. Since 1995, the net increase in new customer accounts had been averaging approximately 1.5% per year. In the most recent fiscal year ended September 30, 2017, capital connection charge revenue for 57 water and 18 wastewater equivalent residential connections (ERC's) was received. Given the current economic environment, a modest growth in the number of connections is expected to be realized from general infill in the existing developed sections of the Authority's service area rather than through previously planned new developments.

During the most recent real estate expansion period that affected both Atlantic and Gulf coastal Florida areas, rural central areas did not experience the same rate of growth. Additionally, since those coastal areas are approaching their maximum build out levels, future growth, when the housing market stabilizes, is anticipated to have a higher impact on more central underdeveloped rural areas such as Okeechobee.

The City of Okeechobee is approximately one hour from the Atlantic coast. The main east / west access highways are State Road 70 and State Road 710. As such, the Okeechobee Utility Authority's service area is within a commutable range of the Atlantic coast and all that is offered there. Many developers who, historically had focused their activities in the Atlantic coastal areas of Palm Beach

and Saint Lucie Counties, have purchased property within the Authority's service area with the intention of creating future developments similar to or more modest than those which they have developed on the east coast. Developments that were originally planned continue to be on hold until a more favorable economic environment emerges.

The Authority's current water treatment plants with a total treatment capacity of six million gallons per day (6mgd) can accommodate approximately twenty-four thousand (24,000) residential water connections, well over the existing customer base of approximately nine thousand two hundred thirty (9,230) residential connections. The Authority's expanded wastewater treatment plant with three million gallons per day (3mgd) of total treatment capacity can accommodate approximately twelve thousand (12,000) additional wastewater customers, well over the existing customer base of approximately four thousand two hundred sixteen (4,216). In the near-term projection of five years, this available capacity is more than adequate to accommodate the projected level of customer growth.

This financial report is designed to provide a general overview of the Okeechobee Utility Authority's finances for those interested in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Finance Director, 100 SW 5<sup>th</sup> Avenue, Okeechobee, Florida, 34974-4221. Complete financial statements for the Authority may be obtained at the Main Office of the Authority.

**OKEECHOBEE UTILITY AUTHORITY**  
**Statement of Net Position - Proprietary Fund**  
**September 30, 2017**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 6,324,932
Investments	1,025,330
Interest receivable	8,506
Receivables:	
Accounts receivable, less allowance for uncollectible accounts of \$240,421	1,206,051
Inventories	457,051
Prepaid expenses	55,387
Total current assets	<u>9,077,257</u>

**NONCURRENT ASSETS**

Restricted assets:	
Cash and cash equivalents	5,081,695
Capital assets:	
Land	2,897,455
Utility plants	96,027,704
	<u>98,925,159</u>
Less accumulated depreciation	(38,855,213)
	60,069,946
Construction in progress	1,155,029
Total capital assets	<u>61,224,975</u>
Other noncurrent assets:	
Non-operating land	727,257
Unamortized organizational costs, net	172,863
	<u>67,206,790</u>
Total noncurrent assets	<u>76,284,047</u>
<b>TOTAL ASSETS</b>	<u>76,284,047</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Pension related items	628,943
Deferred loss on bond refunding, net	1,011,822
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,640,765</u>

## LIABILITIES

### CURRENT LIABILITIES

Accounts payable	\$ 256,572
Accrued expenses	56,776
Due to other governments	29,516
Bonds payable (current)	2,045,840
Accrued compensated absences (current)	52,700
Payable from restricted assets:	
Accrued interest	8,526
Customer deposits	532,898
Total current liabilities	<u>2,982,828</u>

### NONCURRENT LIABILITIES

Long-term portion of bonds payable	27,113,470
Long-term portion of compensated absences	160,924
Net pension liability	529,825
Accrued OPEB payable	63,085
Unearned revenues:	
Connection fees	64,028
Land lease	31,520
Developer fees	419,590
Total noncurrent liabilities	<u>28,382,442</u>

TOTAL LIABILITIES	<u>31,365,270</u>
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### DEFERRED INFLOWS OF RESOURCES

Pension related items	<u>210,263</u>
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### NET POSITION

Net investment in capital assets	33,077,487
Restricted for capital projects	2,382,408
Restricted for debt service	204,570
Restricted for rate stabilization	1,953,293
Unrestricted	8,731,521
TOTAL NET POSITION	<u>\$ 46,349,279</u>

See notes to the financial statements.

**OKEECHOBEE UTILITY AUTHORITY**  
**Statement of Revenues, Expenses, and Changes in Net Position -**  
**Proprietary Fund**  
**For the Fiscal Year Ended September 30, 2017**

OPERATING REVENUE	
Charges for services	\$ 9,890,272
Miscellaneous	158,210
Total operating revenues	<u>10,048,482</u>
OPERATING EXPENSES	
Water services	1,362,977
Sewer services	855,684
Maintenance	1,719,487
Meter reader	223,510
Administrative and general	1,923,052
Depreciation and amortization	2,682,048
Total operating expenses	<u>8,766,758</u>
OPERATING INCOME	<u>1,281,724</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	79,378
Interest expense	(890,173)
Total nonoperating revenues (expenses)	<u>(810,795)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>470,929</u>
CAPITAL CONTRIBUTIONS	
Capital grants	650,000
Capital connection fees	221,737
Developer contributions for capital projects	15,437
Total capital contributions	<u>887,174</u>
INCREASE IN NET POSITION	1,358,103
NET POSITION, BEGINNING OF PERIOD	<u>44,991,176</u>
NET POSITION, END OF PERIOD	<u><u>\$ 46,349,279</u></u>

See notes to the financial statements.

**OKEECHOBEE UTILITY AUTHORITY**  
**Statement of Cash Flows - Proprietary Fund**  
**For the Fiscal Year Ended September 30, 2017**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 10,101,073
Payments to suppliers	(2,575,744)
Payments to employees	(2,389,066)
Payments for employee benefits	<u>(820,548)</u>

Net cash provided (used) by operating activities	<u>4,315,715</u>
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**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(2,326,705)
Loan fees	(99,775)
Bond and loan principal payments	(21,250,099)
Bond refunding proceeds	19,425,000
Bond and loan interest paid	(795,534)
Capital connection fees received	238,494
Capital grants	<u>650,000</u>

Net cash (used) by capital and related financing activities	<u>(4,158,619)</u>
-------------------------------------------------------------	--------------------

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from investments	1,782,608
Interest on investments	<u>80,914</u>

Net cash provided by investing activities	<u>1,863,522</u>
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Net increase (decrease) in cash and cash equivalents	2,020,618
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Cash and cash equivalents at beginning of year	<u>9,386,009</u>
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Cash and cash equivalents at end of year	<u><u>\$ 11,406,627</u></u>
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See notes to the financial statements.

**OKEECHOBEE UTILITY AUTHORITY**  
**Statement of Cash Flows (continued)**  
**For the Fiscal Year Ended September 30, 2017**

**CASH AND CASH EQUIVALENTS CLASSIFIED AS:**

Current assets	\$ 6,324,932
Restricted assets	5,081,695
Total	<u>\$ 11,406,627</u>

**ADJUSTMENTS TO RECONCILE OPERATING INCOME  
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$ 1,281,724
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in net pension liability and related deferred amounts	6,758
Depreciation and amortization	2,682,048
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	86,683
(Increase) decrease in inventory	(50,618)
(Increase) decrease in prepaid expenses	408,099
Increase (decrease) in accounts payable	(8,944)
Increase (decrease) in accrued liabilities	(7,172)
Increase (decrease) in compensated absences	(19,083)
Increase (decrease) in OPEB	(30,151)
Increase (decrease) in deposits	(33,987)
Increase (decrease) in unearned fees	(105)
Increase (decrease) in due to other governments	<u>463</u>
Total adjustments	<u>3,033,991</u>
Net cash provided (used) by operating activities	<u>\$ 4,315,715</u>

See notes to the financial statements.



**OKEECHOBEE UTILITY AUTHORITY**  
**Statement of Fiduciary Net Position**  
**Pension Trust Fund**  
**September 30, 2017**

**ASSETS**

Contributions receivable	
Employee	\$ 9,681
Employer	6,648
Accrued interest and dividends	67
Prepaid expenses	2,065
Investments: (at fair value)	
Cash equivalents	109,458
Investment funds- fixed income	2,890,886
Investment funds - equity	4,795,131
Total investments	<u>7,795,475</u>

<b>TOTAL ASSETS</b>	<u><u>7,813,936</u></u>
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**LIABILITIES**

Accounts payable	<u>7,111</u>
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<b>FIDUCIARY NET POSITION - RESTRICTED FOR PENSION BENEFITS</b>	<u><u>\$ 7,806,825</u></u>
-----------------------------------------------------------------	----------------------------

See notes to the financial statements.

**OKEECHOBEE UTILITY AUTHORITY**  
**Statement of Changes in Fiduciary Net Position**  
**Pension Trust Fund**  
**For the Fiscal Year Ended September 30, 2017**

**ADDITIONS**

Contributions	
Employer	\$ 287,362
Plan members	130,765
Total contributions	<u>418,127</u>
Investment income	
Net appreciation in fair value of investments	695,171
Interest and dividends	156,566
	<u>851,737</u>
Less: investment expenses	<u>(20,250)</u>
Net investment income	<u>831,487</u>
 TOTAL ADDITIONS	 <u>1,249,614</u>

**DEDUCTIONS**

Benefits paid to participants	201,221
Refunds due on terminations	17,426
DROP payment	3,445
Administrative expenses	<u>52,153</u>
 TOTAL DEDUCTIONS	 <u>274,245</u>

NET INCREASE 975,369

**FIDUCIARY NET POSITION - RESTRICTED FOR PENSION BENEFITS**

Beginning of year	-
Transfers	6,831,456
End of year	<u><u>\$ 7,806,825</u></u>

See notes to the financial statements.

**OKEECHOBEE UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017**

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

The financial statements of the Okeechobee Utility Authority (the “Authority”) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Authority’s significant accounting policies are described below.

**Reporting Entity**

The Okeechobee Utility Authority is an independent special district created pursuant to an Interlocal Agreement (the “Agreement”), dated November 10, 1994, between the City of Okeechobee (the “City”) and the County of Okeechobee (the “County”) in accordance with the provisions of Chapters 163 and 189, Florida Statutes.

As required by generally accepted accounting principles, these financial statements include the Authority (the primary government) and its component units. Component units are legally separate entities for which the Authority is financially accountable. The Authority is financially accountable if:

- a) the Authority appoints a voting majority of the organization’s governing board and (1) the Authority is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Authority, or
- b) the organization is fiscally dependent on the Authority and (1) there is a potential for the organization to provide specific financial benefits to the Authority or (2) impose specific financial burdens on the Authority.

Organizations for which the Authority is not financially accountable are also included when doing so is necessary in order to prevent the Authority’s financial statements from being misleading.

Based upon application of the above criteria, the Authority has determined that there is one legally separate entity to consider as a potential component unit. The Okeechobee Utility Authority Employees’ Retirement System is a component unit as it is fiscally dependent on and imposes a specific financial burden on the Authority. It is reported in the Authority’s financial statements as a Fiduciary Fund, the General Employee’s Pension Trust Fund.

**OKEECHOBEE UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017**

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

Reporting Entity (Continued)

The Authority was created in order to regionalize the water and wastewater services being provided to the residents and customers within the service area of the utility system and to assist in addressing environmental issues concerning the quality and supply of water for Lake Okeechobee and South Florida. The Authority has broad powers with respect to the operation and maintenance of the utility system.

The Authority services both residential and commercial customers and its service area includes the City and County of Okeechobee and extends into part of the unincorporated section of Glades County.

The Authority began operations on September 28, 1995 and is governed by a Board of Directors comprised of five (5) members and three (3) alternates. The Board of Directors has financial accountability and control over all activities relating to the operations of the Authority.

Basis of Presentation

The Authority is accounted for as a proprietary type enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises. Enterprise funds are used in the following situations: 1) the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; 2) laws or regulations require that all costs of providing services, including capital costs, be recovered from fees and charges; or 3) fees and charges are designed to recover the costs of the activity, including capital costs.

Basis of Accounting

These financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under the accrual basis of accounting, revenues are recognized when earned; expenses are recognized when incurred. The assets, deferred outflows, liabilities, deferred inflows, and net position of the Authority are reported in a self-balancing set of accounts, which include restricted and unrestricted resources, representing funds available for support of the Authority's operations.

Pension trust funds also use the accrual basis of accounting and the economic resources measurement focus.

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

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

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. The Authority's operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation and maintenance of its system, including administrative expenses and depreciation of capital assets. All other revenues and expenses not meeting the definition above are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Budget Process

Pursuant to the interlocal agreement, the Authority is required to adopt a budget and provide a copy to the City of Okeechobee and the Okeechobee County Board of County Commissioners. The Authority adopted its final budget relating to the fiscal year ended September 30, 2017 on September 13, 2016.

Deposits and Investments

Cash and cash equivalents include amounts on deposit in demand accounts and money market accounts. For the purposes of the statement of cash flows, the Authority considers all highly liquid investments and certificates of deposit with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value as required by generally accepted accounting principles. The fair value of an investment is the amount that the Authority could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale. The Authority categorizes its investments according to the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on observable and unobservable inputs used in establishing the fair value of a financial asset or liability. Purchases and sales of investments are recorded on a trade date basis.

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

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

Accounts Receivable

Accounts receivable consist of both billed and unbilled receivables. Unbilled receivables represent the estimated amount of accounts receivable for services that have not been billed as of the statement of financial position date. The amounts are a result of a timing difference between the Authority's fiscal year end and the date the various utility cycles are subsequently billed.

Inventories

Inventories are recorded at cost using the first-in, first-out method.

Utility Plant

Property, plant, and equipment are stated at cost for items constructed or purchased. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value.

Depreciation of exhaustible utility fixed assets, including those acquired through intergovernmental grants externally restricted to capital acquisition, is charged as an expense against operations. Depreciation of the various assets is computed over the assets' estimated useful lives using the straight-line method. The estimated useful lives range as follows:

Distribution and collection plants	10-60 years
Buildings	20-25 years
Equipment	5-25 years

Capitalized Interest

Interest costs are capitalized and included in the cost of capital assets when debt proceeds are used to finance the construction of assets.

Unearned Revenues

Unearned revenues primarily represent water and wastewater capital connection and inspection fees and service payments that are paid in advance by customers. These fees will be recognized as income in subsequent years as the services are performed.

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

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

Deferred Outflow of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for Deferred Outflows of Resources. Deferred Outflows of Resources represent the usage of net position applicable to future periods and will not be recognized as an expense until the future period to which it applies. The Authority has two items that qualify for reporting in this category. The first is the deferred amount on bond refunding. The deferred loss on current and advance refunding of bonds is being charged to operations through the year 2030 based on the effective interest method. The second is deferred pension items in connection with its pension plan. These deferred pension charges are either (a) recognized in the subsequent period as a reduction of the net pension liability or (b) amortized in a systematic and rational method as pension expense in future periods.

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for Deferred Inflows of Resources. Deferred Inflows of Resources represent the acquisition of net position applicable to future periods and will not be recognized as revenue until the future period to which it applies. The Authority currently reports deferred pension items in connection with its pension plan. These deferred pension charges are either (a) recognized in the subsequent period as a reduction of the net pension liability or (b) amortized in a systematic and rational method as pension expense in future periods.

Compensated Absences

The Authority's policy is to allow each employee eligible for vacation leave to accumulate up to thirty (30) days. Employees are paid unused vacation leave at current hourly rates upon retirement or at termination. Employees of the Authority, with ten (10) years or more of continuous service, receive payment for unused sick leave at a rate of fifty percent (50%) of current hourly rates upon retirement or at termination. This also applies to employees at normal retirement, regardless of length of service.

Accrued liabilities, based on hourly salary rates at September 30, 2017, are reflected in the accounts of the Authority for vested (not contingent on an employee's future services) vacation and sick leave benefits.

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

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

Amortization Expense

Organizational costs related to the start-up of operations are amortized over forty (40) years. Organizational costs are recorded as other assets.

Net Position

Net position is the result of assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position is classified in three components:

*Net investment in capital assets*

This category consists of the Authority's capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds or notes that are attributable to the acquisition, construction, or improvements of those assets.

*Restricted*

This category of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted*

This category represents all other Authority net position that do not meet the definition of net investment in capital assets, restricted for capital projects, or restricted for debt service as defined earlier.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets, deferred inflows and outflows, and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.



**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**Authority Deposits**

As of September 30, 2017, the carrying amount of the Authority's book balance for deposits in "Qualified Public Depositories" was \$12,430,007 and the bank balance was \$12,484,210. Included in deposits are \$1,025,330 of certificates of deposits with an original maturity greater than three months that are reported as an investment on the financial statements, the Authority also had \$1,950 in petty cash for a total carrying amount of \$12,431,957.

In addition to insurance provided by the Federal Depository Insurance Corporation, deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, Florida Security for Public Deposits Act, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or 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 are considered insured for custodial credit risk purposes.

**Authority Investments**

The Authority's investment policy authorizes investments in savings accounts, certificates of deposits, money market funds, bonds, notes or other obligations of the U.S. Government, repurchase agreements, securities issued or guaranteed by certain federal agencies and instrumentalities, Local Government Surplus Trust Fund or any intergovernmental investment fund authorized pursuant to the Florida Interlocal Cooperation Act, commercial paper, securities issued by the Authority, any guaranteed investment contract within the limitations established by Florida Statutes, tax certificates issued by Okeechobee County, Florida on lands on which the Authority has placed a Special Assessment thereon in accordance with the terms described in the Standard Developer's Agreement, and any other investment vehicle authorized by Florida law and determined by the investment officer and the Board of Directors to be a prudent investment.

The Authority had the following investments as of September 30, 2017:

	<u>Weighted Average Maturity (Days)</u>	<u>Fair Value</u>
Certificates of deposit	347	<u>\$ 1,025,330</u>

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

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

**Authority Investments** (Continued)

*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.

*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 does not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Cash and cash equivalents and investments were comprised of the following as of September 30, 2017:

Cash on hand	\$ 1,950
Deposits held by public depositories	<u>12,430,007</u>
Total cash and cash equivalents and investments	<u>\$ 12,431,957</u>

Cash and cash equivalents and investments are presented in the balance sheet as of September 30, 2017, as follows:

Current cash and cash equivalents	\$ 6,324,932
Investments	1,025,330
Restricted cash and cash equivalents	<u>5,081,695</u>
Total cash and cash equivalents and investments	<u>\$ 12,431,957</u>

**General Employee's Pension Trust Fund**

Salem Trust Company periodically holds uninvested cash in its capacity as custodian for the Plan. These funds exist temporarily as cash in the process of collection from the sale of securities and for the payments of benefits and expenses. The pension plan's policy for the allocation of invested assets is established by the Plan's Board of Trustees which pursues an investment strategy that reduces risk through a prudent diversification of the portfolio across a selection of distinct asset classes. The policy discourages the use of cash equivalents, except for liquidity purposes and refrains from shifting asset class allocations over short time spans.

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

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

**General Employee's Pension Trust Fund** (Continued)

Investment management fees are calculated quarterly as a percentage of the fair market value of the Plan's assets managed, where applicable. The plan uses mutual funds as the investment vehicle for fixed income, international equity and additional domestic equity investments for further diversification. These investments are recommended and monitored by the investment monitor.

The plan follows the investment guidelines as established within the ordinance and Florida Statute 112.661. The Pension Trust Fund is authorized to invest in the local government surplus funds trust fund, obligations of the U.S. Government or agencies thereof, banking institution within the state and other such institutions within the guidelines of the state statutes which are insured by the Federal Deposit Insurance Corporation, investment agreements, direct and general long-term obligations of any state with proper credit rating and full faith and credit pledge, municipal obligations with proper credit rating, annuity and life insurance contracts, bonds issued by the State of Israel, foreign stocks or bonds, and stocks, bonds, and commingled funds administered by National or State banks or evidences that the corporation is listed on a nationally recognized exchange and holds proper credit ratings as set forth by a major credit rating service. These equity investments are not to exceed 60% of the assets of the fund on a cost basis or 70% of the market value of plan assets. Foreign investments are not to exceed 25% of the market value of the assets. Temporary investment funds held by the custodian in a money market fund are classified as cash equivalents within the investment account.

The Plan carried no particular security investment that individually represented 5% or more of the Plan's net assets available for benefits as of September 30, 2017.

Investments not evidenced by securities that exist in physical or book-entry form include investments in mutual funds, domestic investment funds or a commingled pooled trust fund.

The Plan's independently managed investments are segregated into a separate account. The investment manager is monitored by the Board of Trustees and an investment performance monitor, when applicable.

The Plans investments are uninsured and unregistered and are held in the custodian's accounts in the Plan's name as described above.

The Plan has no instrument that, in whole or in part, is accounted for as a derivative instrument under GASB statement No. 53, Accounting and Financial Reporting for Derivative Instruments during the current year.

The Plan invests in mortgage-backed securities representing interests in pools of mortgage loans as part of its interest rate risk management strategy. The mortgage-backed securities are not used to leverage investments in fixed income portfolios.

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

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

**General Employee's Pension Trust Fund** (Continued)

The mortgage-backed securities held by the Plan are guaranteed by federally sponsored agencies such as the Government National Mortgage Association. These investments are inside of the fixed income open-end mutual fund that the plan holds.

All of the Plan's financial investments are carried at fair value on the Statement of Fiduciary Net Position included in investments. The gain or loss on financial instruments is recognized and recorded on the Statement of Changes in Fiduciary Net Position as part of investment income.

The Plan invests in a variety of investment vehicles. Investments in general are exposed to various risks, such as interest rate, credit, and overall volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and such changes could materially affect the amounts reported in the statement of fiduciary net position.

For a more detailed and comprehensive list of available investments, the Investment Policy Statement, as approved by the Board of Trustees, should be referenced. All of the Plan's financial investments are carried at fair value on the statement of fiduciary net position. The gain or loss on financial instruments is recognized in the changes in net position as part of investment income.

The following is a list of the Plan's investments by categories of risk as of September 30, 2017:

	2017	
	Historical Cost	Fair Value
Cash Equivalents	\$ 109,525	\$ 109,458
Investment Funds - Equity	4,033,931	4,795,131
Investment Funds - Fixed Income	2,899,093	2,890,886
	<u>\$ 7,042,549</u>	<u>\$ 7,795,475</u>

**Investment Measurement at Fair Value**

The accounting standards break down the fair value hierarchy into three levels based on how observable inputs are valued. The most observable inputs are classified as Level 1 where as the most unobservable inputs are classified as Level 3.

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

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

**General Employee's Pension Trust Fund** (Continued)

*Investment Measurement at Fair Value* (Continued)

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access. As a general rule, any asset that has a daily closing price and is actively traded will be classified as a Level 1 input.

Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly. Inputs to the valuation methodology include: (1) quoted market prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in active markets, (3) inputs other than quoted prices that are observable for the asset or liability, and (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

As a general rule, if an asset or liability does not fall into the requirements of a Level 1 or Level 3 input, it would default to Level 2. With Level 2 inputs, there is usually data that can be easily obtained to support the valuation, even though it is not as easily obtained as a Level 1 input would be.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As a general rule, Level 3 inputs are those that are difficult to obtain on a regular basis and require verification from an outside party, such as an auditor or an appraisal, to validate the valuation.

Net asset value (NAV) is a common measurement of fair value for Level 1, Level 2, and Level 3 investments. A fund's NAV is simply its assets less its liabilities and is often reported as a per share amount for fair value measurement purposes. The Plan would multiply the NAV per share owned to arrive at fair value. Level 1 investment in funds such as mutual funds report at a daily NAV per share and are actively traded. NAV is also used to value Level 2 and 3 investments. As a matter of convenience (or referred to in accounting literature as a "practical expedient"), a Plan can use the NAV per share for investments in a nongovernmental entity that does not have a readily determined fair value, such as an alternative investment. Investments measured at NAV as a practical expedient would be excluded from the fair value hierarchy because the valuation is not based on actual market inputs but rather is quantified using the fund's reported NAV as a matter of convenience.

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

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

**General Employee's Pension Trust Fund** (Continued)

*Investment Measurement at Fair Value* (Continued)

The Plan categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following total recurring fair value measurements as of September 30, 2017:

- Debt securities - Debt securities classified in Level 1 or Level 2 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique.
- Investment mutual funds - The rationale for inclusion in Level 1 or Level 2 points to the unobservable inputs involved in mutual fund pricing. Mutual funds do not trade using bid and ask, as with ETF's or common stock. Instead, the prices are determined by the net asset value of the underlying investments at the close of business for the next day's open. The underlying assets themselves may include a variety of Level 1 and Level 2 securities and some may be valued using matrix pricing which interpolates the price of a security based on the price of similar securities.
- Fixed income funds - Valued using pricing models maximizing the use of observable input for similar securities. This includes basing value on yield currently available on comparable securities of issues with similar credit ratings.
- Equity funds - Valued at market prices for similar assets in active markets.
- Common stock - Valued at quoted market prices for identical assets in active markets

The Plan categorizes its fair value measurements within the fair value hierarchy established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Plan has the following recurring fair value measurement as of September 30, 2017:

	<b><u>Fair Value Measurement</u></b>			
	<b><u>Balance</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
Investments by fair value level				
Cash equivalents -temporary investments	\$ 109,458	\$ 109,458	\$	\$
Domestic investment fund - equity	4,795,131	4,795,131		
Domestic investment fund - fixed income	2,890,886		2,890,886	
Investments by fair value level	<u>\$ 7,795,475</u>	<u>\$ 4,904,589</u>	<u>\$ 2,890,886</u>	<u>\$</u>

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

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

**General Employee's Pension Trust Fund** (Continued)

*Risk Level*

Fixed income securities have inherent financial risks, including credit risk and interest rate risk. Credit risk for fixed income securities is the risk that the issuer will not fulfill its obligations. Nationally recognized statistical rating organizations ("NSROs"), such as Moody's, Fitch or Standard and Poor's, assign credit ratings to security issuers and issues that indicate a measure of potential credit risk to investors. Fixed income securities considered investment grade are those rated at least Baa by Moody's and BBB by Standard and Poor's. A minimum rating of investment grade or higher is required for at least 85% of the fixed income investments. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of fixed income securities. Effective duration, a commonly used measure of interest rate risk, incorporates a security's yield, coupon, final maturity, call features and other imbedded options into one number expressed in years that indicates how price-sensitive a security or portfolio of securities is to changes in interest rates. The effective duration of a security or portfolio indicates the approximate percentage change in fair value expected for a one percent change in interest rates. The longer the duration, the more sensitive the security or portfolio is to changes in interest rates.

Concentration of credit risk is an increased risk of loss which occurs as more investments are acquired from one issuer (i.e. lack of diversification). Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, an entity may be unable to recover deposits, or collateral securities, that are in the possession of an outside party.

At September 30, 2017, the fixed income fund was invested in a mutual fund primarily in high quality bonds and other fixed income securities including U.S. Government obligations, mortgage and asset-backed securities, corporate and municipal bonds, collateralized mortgage obligations, short-term instruments, and the other investments A rated by Standard & Poor's, Moody's Investor Services or Fitch. To a lesser extent the fund may also invest in fixed income securities rated Baa or lower. This fund had an effective duration of 4.2 years and effective maturity of 7.5 years as of September 30, 2017.

**NOTE 3 – INVENTORY**

Inventory was comprised of the following at September 30, 2017:

Chemicals	\$ 20,920
Parts and supplies	<u>436,131</u>
Total inventory	<u><u>\$ 457,051</u></u>

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 4 – RESTRICTED ASSETS**

Restricted assets consist of the following accounts as of September 30, 2017:

Renewal, replacement & improvement	\$ 503,777
Capital connection water	1,052,880
Capital connection wastewater and treatment plant	752,394
Fire hydrant	73,357
Debt service	213,096
Rate stabilization	1,953,293
Customer deposits	<u>532,898</u>
 Total restricted assets	 <u>\$ 5,081,695</u>

**NOTE 5 – UNRESTRICTED NET POSITION**

Unrestricted net position consists of the following as of September 30, 2017:

Designated:

Capital improvement project	\$ 1,277,969
Operating reserve	1,730,372
Emergency funding	<u>567,771</u>
Total designated	3,576,112
Undesignated	<u>5,155,409</u>

Total unrestricted net position	<u>\$ 8,731,521</u>
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**NOTE 6 – NON-OPERATING LAND**

In 2014, the Authority acquired land from Land Ventures of America, LLC (LVA) through a tax deed sale. LVA entered a Standard Developer's Agreement in 2007 with the Authority. When LVA did not pay their tax bill the Authority purchased tax certificates to protect their interest. The net carrying amount of the tax certificates at the time of acquisition was \$445,485, which the Authority believes was the fair market value.

In 2015, the Authority acquired land from Freshwater Development Company (Freshwater) through a tax deed sale. Freshwater entered a Standard Developer's Agreement in 2007 with the Authority. When Freshwater did not pay their tax bill the Authority purchased tax certificates to protect their interest. The net carrying amount of the tax certificates at the time of acquisition plus additional funds needed to acquire the property was \$281,772, which the Authority believes was the fair market value.



**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 6 – NON-OPERATING LAND** (Continued)

This land is not considered to be an investment under GASB Statement No. 72, *Fair Value Measurement and Application*, however, it is not used in the operations of the Authority and is therefore classified separately on the Statement of Net Position.

**NOTE 7 – CAPITAL ASSETS**

Capital assets are summarized as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Capital assets, not being depreciated</u>				
Land	\$ 2,897,455	\$	\$	\$ 2,897,455
Construction in progress	<u>1,211,976</u>	<u>1,807,906</u>	<u>(1,864,853)</u>	<u>1,155,029</u>
Total capital assets not being depreciated	<u>4,109,431</u>	<u>1,807,906</u>	<u>(1,864,853)</u>	<u>4,052,484</u>
<u>Capital assets being depreciated</u>				
Buildings	948,904	36,500		985,404
Equipment	3,647,756	227,267		3,875,023
Distribution and collection plant	<u>89,000,640</u>	<u>2,166,637</u>	<u>                    </u>	<u>91,167,277</u>
Total capital assets being depreciated	<u>93,597,300</u>	<u>2,430,404</u>	<u>                    </u>	<u>96,027,704</u>
<u>Less accumulated depreciation for</u>				
Buildings	(483,297)	(35,432)		(518,729)
Equipment	(2,862,668)	(184,499)		(3,047,167)
Distribution and collection Plant	<u>(32,836,800)</u>	<u>(2,452,517)</u>	<u>                    </u>	<u>(35,289,317)</u>
Total accumulated depreciation	<u>(36,182,765)</u>	<u>(2,672,448)</u>	<u>                    </u>	<u>(38,855,213)</u>
Total capital assets being depreciated, net	<u>57,414,535</u>	<u>(242,044)</u>	<u>                    </u>	<u>57,172,491</u>
Total capital assets, net	<u>\$61,523,966</u>	<u>\$ 1,565,862</u>	<u>\$ (1,864,853)</u>	<u>\$61,224,975</u>

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 8 – LONG-TERM LIABILITIES**

Current Refunding

The Utility System Capital Improvement Refunding Revenue Note, Series 2017A was issued to current refund the Capital Improvement Refunding Revenue Note, Series 2010A. The reacquisition price exceeded the net carrying amount of the old debt by \$397,567. This amount is reported as a deferred outflow of resources in the statement of net position and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. The debt service requirements on the new debt are \$206,312 less than the debt service requirements on the retired debt. The economic gain on the current refunding transaction was \$123,707. The Series 2010A bonds were called and paid in full March 29, 2017.

The Utility System Capital Improvement Refunding Revenue Note, Series 2017B was issued to current refund the Capital Improvement Refunding Revenue Note, Series 2010B. The reacquisition price exceeded the net carrying amount of the old debt by \$690,981. This amount is reported as a deferred outflow of resources in the statement of net position and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. The debt service requirements on the new debt are \$856,302 less than the debt service requirements on the retired debt. The economic gain on the current refunding transaction was \$636,062. The Series 2010B bonds were called and paid in full March 29, 2017.

Capital Improvement Refunding Revenue Notes, Series 2017

On March 29, 2017, the Authority issued \$19,425,000 Capital Improvement Refunding Revenue Notes, Series 2017 with Branch Banking and Trust Company. The notes were issued to provide funds to current-refund the Capital Improvement Refunding Revenue Note, Series 2010.

The Series 2017 Notes are comprised of \$10,000,000 Series 2017A and \$9,425,000 Series 2017B as follows:

<u>Series</u>	<u>Original Face Amount</u>	<u>Interest Rate</u>	<u>Mandatory Redemption Beginning October 1</u>	<u>Maturity</u>
2017A	\$10,000,000	2.4%	2017	October 1, 2025
2017B	9,425,000	2.83%	2017	October 1, 2030

Interest is to be paid semiannually on each April 1 and October 1. Principal is to be paid annually commencing October 1, 2017 through October 1, 2030. As of September 30, 2017, the balance due on Series 2017A and 2017B is \$9,560,000 and \$9,355,000, respectively.

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 8 – LONG-TERM LIABILITIES** (Continued)

Loan Agreement WW615100

The Authority was approved for a construction loan of \$10,000,000, with an interest rate of 1.86%, by the Florida Department of Environmental Protection under the State Revolving Fund Loan Program. The amount outstanding as of September 30, 2017, was \$7,040,544. According to the loan agreement, 40 semi-annual payments of principal and interest commence on September 15, 2009, in the amount of \$341,431. This loan is junior, inferior, and subordinate in all regards in right of payment and security to the Capital Improvement Refunding Revenue Note, Series 2017A and Capital Improvement Refunding Revenue Note, Series 2017B.

Loan Agreement WW615101

The Authority was approved for a construction loan of \$13,056,266, with an interest rate of 2.23%, by the Florida Department of Environmental Protection under the State Revolving Fund Loan Program. The amount outstanding as of September 30, 2017, was \$3,203,766. According to the loan agreement, 40 semi-annual payments of principal and interest commence on September 15, 2009, in the amount of \$411,026. The Authority paid off \$6,422,932 of principal on the March 2014 semi-annual payment, reducing the future semi-annual payments to \$159,322. This loan is junior, inferior, and subordinate in all regards in right of payment and security to the Capital Improvement Refunding Revenue Note, Series 2017A and Capital Improvement Refunding Revenue Note, Series 2017B.

Debt service requirements to amortize long term debt at September 30, 2017 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,045,840	\$ 690,052	\$ 2,735,892
2019	2,096,900	643,351	2,740,251
2020	2,143,286	595,455	2,738,741
2021	2,190,004	546,497	2,736,501
2022	2,242,060	496,411	2,738,471
2023-2027	12,018,508	1,680,000	13,698,508
2028-2031	6,422,712	284,649	6,707,361
	<u>\$ 29,159,310</u>	<u>\$ 4,936,415</u>	<u>\$ 34,095,725</u>

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 8 – LONG-TERM LIABILITIES** (Continued)

Changes in Long-Term Liabilities

A summary of changes in long-term liabilities is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
Notes payable	\$30,984,409	\$ 19,425,000	\$(21,250,099)	\$29,159,310	\$ 2,045,840
Compensated absences	232,707	153,207	(172,290)	213,624	52,700
Net pension liability	1,021,321		(491,496)	529,825	
OPEB liability	93,236		(30,151)	63,085	
Total long-term liabilities	<u>\$32,331,673</u>	<u>\$ 19,578,207</u>	<u>\$(21,944,036)</u>	<u>\$29,965,844</u>	<u>\$ 2,098,540</u>

Interest Expense

Total interest costs incurred during the year ended September 30, 2017, was \$793,304. Of this amount, \$46,753 was capitalized as part of the cost of construction in progress. Total interest paid during the year was \$795,534.

**NOTE 9 – CHANGE IN PENSION PLAN**

On June 14, 2016, the Authority adopted resolution 2016-03 withdrawing from participation in the City of Okeechobee and Okeechobee Utility Authority Employees' Retirement System, a cost-sharing multiple-employer defined benefit plan, and adopting the Okeechobee Utility Authority Employees' Retirement System, a single employer defined benefit plan.

All contributions, benefits, assets and liabilities of the City of Okeechobee and Okeechobee Utility Authority Employees' Retirement System attributable to current and former Okeechobee Utility Authority employees and their beneficiaries on September 30, 2016, were transferred and become contributions, benefits, assets and liabilities of the System on October 1, 2016, or as soon thereafter as administratively possible. There were no lapses in plan membership or credited service and no changes in the accrued benefits of current and former Okeechobee Utility Authority employees and their beneficiaries under the City of Okeechobee and Okeechobee Utility Authority Employees' Retirement System due to the adoption of the System or the transfer between the retirement systems.

**OKEECHOBEE UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017**

**NOTE 9 – CHANGE IN PENSION PLAN** (Continued)

Under the old plan, the Authority had elected to report the net pension liability, deferred inflows and outflows, and pension expense as of the prior fiscal year. Under the new plan, these amounts are reported as of the same date as the financial statements.

Below is a summary of the effects of withdrawing from the previous plan and starting the new plan.

	Prior Plan at September 30, 2016*	New Plan at October 1, 2016	Change
Net Pension Liability	\$ 1,021,321	\$ 607,988	\$ (413,333)
Deferred Outflows	1,088,492	693,874	(394,618)
Deferred Inflows	171,558	158,139	(13,419)

\* Using a September 30, 2015, measurement date.

The net effect on the change in net position for the fiscal year ended September 30, 2017, was an increase of \$32,134.

**NOTE 10 – EMPLOYEE RETIREMENT SYSTEM**

General Information

The Employees' Retirement System of the Okeechobee Utility Authority (the System) is a single-employer, defined benefit contributory pension trust established by the Authority in Resolution 2016-03 for the benefit of the Authority employees. The System is under the supervision of a five-member local independent board of trustees, two of whom shall be a legal resident within the Authority's jurisdictional boundaries, who shall be appointed by the Okeechobee Utility Authority Board; two of whom shall be Employee Members employed by the Authority and elected by Member employees; and one of whom shall be the Executive Director of the Authority or his designee. Any changes to the plan requires approval by the Board of the Authority.

The System issues a publicly available financial report that includes financial statements, ten-year historical trend information, and other required supplementary information. That report may be obtained by writing to the attention of Janet McKinley, Okeechobee Utility Authority, 100 SW. 5th Avenue, Okeechobee, FL 34974-4221.

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 10 – EMPLOYEE RETIREMENT SYSTEM** (Continued)

Basis of Accounting

The retirement system is reported on the accrual basis of accounting. Plan members contributions are recognized as revenues in the period that the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms the plan. The plan's fiduciary net position has been determined on the same basis used by the pension plan. Investments are reported at fair value

Plan Description

The pension plan provides retirement, death and disability benefits for its participants. Each person employed by the Authority as a full-time employee becomes a member of the Plan as a condition of their employment except that the Executive Director of the Utility Authority, may opt out of the Plan within 60 days of employment. All employees are eligible to participate on the date of employment following attainment of age 18. Participation is mandatory. Normal retirement is provided for at age 65 and 5 years of service, or at 30 years of service regardless of age. The benefit is calculated at 2.1% of average monthly earnings times years of continuous service with the employer. Benefits are payable by monthly annuity for 10 years certain and life thereafter with other options available. Early retirement is provided for at age 55 and 10 years of participation. Death and disability benefits are also available through the plans. Early retirement reduction factor is 2% per year.

Upon termination of employment, with less than 5 years of service, the plan refunds accumulated employee contributions. After 5 years of service, the pension benefit is accrued to date of termination and payable at normal retirement age if employee contributions are left in the fund.

The Plan contains a deferred retirement option plan (DROP) whereupon the employee could retire from the pension plan but continue employment with the Utility Authority for an additional maximum period of up to five years. The retirement benefit is immediately calculated and the monthly benefit is allocated to the DROP account. An election is made to either earn interest at the rate of 6.5% per annum or credited or debited with an investment return or loss approximating the other assets in the fund. Once a participant elects this option, he is no longer eligible for disability or pre-retirement benefits. The Plan's guidelines for the DROP are designed to adhere to IRS regulations. Additional information about the DROP can be obtained from the ordinance.

The Plan is administered by its Board of Trustees. Any changes to benefit provisions requires approval by the Board of the Authority.

**OKEECHOBEE UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017**

**NOTE 10 – EMPLOYEE RETIREMENT SYSTEM** (Continued)

Members of the plan consisted of the following at September 30, 2017:

Retired Plan Members or Beneficiaries	
currently receiving benefits	18
Inactive Plan Members entitled to but	
not yet receiving benefits	7
Drop Participants	-
Active Plan Members	<u>48</u>
Total	<u>73</u>

**Contributions**

Contributions are made in accordance with applicable Florida Statutes and meeting the actuarially determined contribution requirements as based on the benefit structure established within the Plan as approved by the plan sponsor. The employer is required to contribute an amount equal to the difference between the normal cost, as calculated for the plan year from the applicable actuarial valuation, less the member contributions for the current year. The October 1, 2016 actuarial valuation determined there was a prepaid contribution of \$15,795 to the Plan from the Authority. The Authority is required to fund the plan according to any contribution deficit as determined by actuarial valuation for the plan beyond the contributions by employees and the regular employer contributions by the Okeechobee Utility Authority. After applying the allocable prepaid contribution from the beginning of the year, the employer contribution was sufficient to meet the required annual contribution. As of September 30, 2017, there was no remaining prepaid employer contributions.

The Utility Authority was to fund the pension plan at the rate of 13.91% of covered payroll for plan participants based on the 2015 actuarial valuation. Employee contributions are at the rate of 6% of payroll.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation. The funding policy for the Plan is to make an actuarially determined pension contribution in an amount, such that when combined with the participants' contributions, all participants' benefits will be fully provided for by the time they attain retirement age.

Investments Concentrations. The plan did not hold investments in any one organization that represents 5 percent or more of the Pension Plan's fiduciary net position.

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 10 – EMPLOYEE RETIREMENT SYSTEM** (Continued)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2016 updated to September 30, 2017 using the following actuarial assumptions.

Inflation	2.5 %
Salary increases	6.00%, average, including inflation
Investment rate of return	7.00%, net of pension plan investment expense, including inflation
Retirement Age	100% when first eligible for normal retirement or DROP entry
Mortality	RP-2000 mortality tables with collar adjustments and generational projections using Scale BB

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included the pension plan's target asset allocation as of September 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Real Rate of Return*</u>
Domestic Equity	50%	7.5%
International Equity	10%	8.5%
Fixed Income	40%	2.5%
Cash Equivalents	0%	0.0%
Total	<u>100%</u>	

\*Net of long-term inflation assumption of 2.5%



**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 10 – EMPLOYEE RETIREMENT SYSTEM** (Continued)

Rate of Return.

For the year ended September 30, 2017, the annual money-weighted rate of return on Pension Plan investments, net of pension plan investment expense, was 10.83 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The components of the net pension liability at September 30, 2017, were as follows:

Description	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at September 30, 2016	\$ 7,423,763	\$ 6,815,775	\$ 607,988
Changes due to:			
Service cost	285,610		285,610
Interest	723,860		723,860
Differences between expected and actual experience			
Change of Assumptions	109,828		109,828
Employer contributions		287,362	(287,362)
Employee contributions		130,765	(130,765)
Benefit payments and refunds	(206,413)	(206,413)	
Net investment income		831,485	(831,485)
Administrative expenses		(52,151)	52,151
Total changes	912,885	991,048	(78,163)
Balances at September 30, 2017	<u>\$ 8,336,648</u>	<u>\$ 7,806,823</u>	<u>\$ 529,825</u>

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 10 – EMPLOYEE RETIREMENT SYSTEM** (Continued)

The Plan fiduciary net position was 93.64% of the total pension liability as of September 30, 2017.

The change of assumptions was the assumed rate of mortality were changed.

Sensitivity of the Net Position Liability to Changes in the Discount Rate

The following represents the Authority's net pension liability calculated using the discount rate of 7.0%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease 6%	Current Rate 7%	1% Increase 8%
Net pension liability	\$ 1,714,869	\$ 529,825	\$ (461,688)

Pension expense and deferred outflows and inflows of resources

For the fiscal year ended September 30, 2017, the Authority recognized pension expense of \$326,254. In addition, the Authority reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 20,792	\$ 126
Change of assumptions	207,617	
Net difference between projected and actual earnings on plan investments	400,534	210,137
Total	\$ 628,943	\$ 210,263

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 10 – EMPLOYEE RETIREMENT SYSTEM** (Continued)

Pension expense and deferred outflows and inflows of resources (Continued)

The amounts reported as deferred outflows of resources and deferred inflows of resources related to the plan will be recognized in pension expense as follows:

<u>Year ended September 30:</u>	<u>Amount</u>
2018	\$ 95,866
2019	95,867
2020	148,529
2021	15,015
2022	41,234
Thereafter	22,169
	<u>\$ 418,680</u>

Payables to the Pension Plan

At September 30, 2017, the Authority reported a payable in the amount of \$16,332 for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2017.

**NOTE 11 – 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*, effective October 1, 2009. 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 are younger than retirees on average. This implied subsidy constitutes other postemployment benefits (OPEB) under GASB 45.

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 continue 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.

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB)** (Continued)

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.

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The Authority has elected to calculate the ARC and related information using the alternative measurement method permitted under GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC 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
Annual Required Contribution (ARC)	\$ 7,198
Interest on Net Unfunded OPEB Obligation	2,340
Adjustment to Annual Required Contribution	<u>(5,410)</u>
Annual OPEB cost	4,128
Age Adjusted Contributions made	<u>(34,279)</u>
Increase in net OPEB obligation	(30,151)
Net OPEB obligation October 1, 2016	<u>93,236</u>
Net OPEB obligation September 30, 2017	<u>\$ 63,085</u>

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB)** (Continued)

Trend Information

Three-Year Trend Information			
Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/15	\$ 32,267	40.18%	\$ 90,092
09/30/16	\$ 33,006	90.47%	\$ 93,236
09/30/17	\$ 4,128	830.40%	\$ 63,085

Funded Status

The funded status of the plan as of most recent actuarial valuation date was as follows:

Actuarial valuation date	09/30/17
Actuarial accrued liability	\$ 86,334
Actuarial value of plan assets	\$
Unfunded actuarial accrued liability (UAAL)	\$ 86,334
Funded ratio	0.0%
Covered payroll	\$2,427,029
UAAL as a percentage of covered payroll	3.56%

Funding Progress

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 compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Authority has not contributed assets to the plan at this time.

**OKEECHOBEE UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017**

**NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB)** (Continued)

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	9/30/17
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll
Amortization period	18 years
Asset valuation method	Unfunded
Actual assumptions:	
Payroll growth rate	1.5%
Investment rate of return	2.51%
Healthcare cost trend	8% for 2016 decreasing to 4.7% in 2026

**NOTE 12 – CONTINGENCIES**

The Authority is involved in various litigations and claims arising in the course of operations. It is the opinion of legal counsel that the likelihood of unfavorable outcomes and the amounts of potential losses cannot be reasonably determined at this time. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements.

In the opinion of management, no present claims exist that would, in the event of an adverse resolution, result in liabilities in excess of the Authority's insurance coverage.

**NOTE 13 – COMMITMENTS**

As of September 30, 2017, the Authority had commitments on outstanding construction contracts for improvements to the system of approximately \$420,000.

**NOTE 14 – RISK MANAGEMENT**

The Okeechobee Utility Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the 2017 fiscal year, coverage was maintained via membership renewal with Preferred Governmental Insurance Trust ("PGIT"), a public entity risk pool. The Okeechobee Utility Authority pays an annual premium to PGIT for the following coverage: property and inland marine, general liability, automobile, crime, public official's liability, employment

**OKEECHOBEE UTILITY AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017**

**NOTE 14 – RISK MANAGEMENT** (Continued)

practices liability, and worker's compensation. The PGIT purchases excess of loss insurance policies. The excess of loss insurance policies attaches at \$100,000 per occurrence except for property insurance which is \$25,000 per occurrence. Since the PGIT purchases excess of loss insurance, the pool has not billed and does not plan to bill members for additional assessments.

As of September 30, 2017, the Authority's management is of the opinion that the PGIT is able to pay claims incurred to date and that the Authority will not be liable to pay any submitted claims.

The Okeechobee Utility Authority continues to carry commercial insurance for the following risks: pollution liability, health, life, and disability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Florida Statutes limit the Authority's maximum loss for most liability claims to \$200,000 per person and \$300,000 per occurrence under the Doctrine of Sovereign Immunity. However, under certain circumstances, a plaintiff can seek to recover damages in excess of statutory limits by introducing a claims bill to the Florida Legislature. The limits addressed in Florida Statutes do not apply to claims filed in Federal courts.

**NOTE 15– NEW ACCOUNTING STANDARDS**

Below is a brief description and effective date of new accounting standards that could have a significant impact on the Authority's financial statements. Management is currently evaluating the impact of the adoption of these statements on the Authority's financial statements.

In June 2015 the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for the fiscal year ending September 30, 2018.

In May 2017 the GASB issued Statement No. 87, Leases. This Statement will increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting that is based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is effective for the fiscal year ending September 30, 2021.

**OKEECHOBEE UTILITY AUTHORITY**  
**Required Supplemental Information**  
**Schedule of Funding Progress**  
**Other Postemployment Benefits (OPEB)**  
**September 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age(1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
09/30/15		\$ 297,306	\$ 297,306	0.0%	\$ 2,310,279	12.87%
09/30/16		318,064	318,064	0.0%	2,384,900	13.34%
09/30/17		86,334	86,334	0.0%	2,427,029	3.56%

The schedule of funding progress presented above presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The Authority has not contributed assets to the plan at this time.



**OKEECHOBEE UTILITY AUTHORITY**  
**Required Supplemental Information**  
**September 30, 2017**

**Employees' Retirement System**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Ten Fiscal Years**

	<u>2017</u>
Total pension liability:	
Service cost	\$ 285,610
Interest	723,860
Differences between expected and actual experience	
Change of assumptions	109,828
Benefit payments, including refunds of employee contributions	<u>(206,413)</u>
Net change in total pension liability	912,885
Total pension liability - beginning	<u>7,423,763</u>
Total pension liability - ending (a)	<u><u>\$ 8,336,648</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 287,362
Contributions - employees	130,765
Net investment income	831,485
Benefit payments, including refunds of employee contributions	(206,413)
Administrative expenses	<u>(52,151)</u>
Net change in plan fiduciary net position	991,048
Plan fiduciary net position - beginning	<u>6,815,775</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 7,806,823</u></u>
Net pension liability (a) - (b)	<u><u>\$ 529,825</u></u>
Plan fiduciary net position as a percentage of the total pension liability	<u><u>93.64%</u></u>
Covered payroll	<u><u>\$ 2,179,417</u></u>
Net pension liability as a percentage of covered payroll	<u><u>24.31%</u></u>

NOTE: Prior to October 1, 2016, the Authority participated in the City of Okeechobee and Okeechobee Utility Authority Employees' Retirement System, a cost-sharing multiple-employer defined benefit plan. Effective October 1, 2016, the Authority withdrew from that plan and started the Okeechobee Utility Authority Employees' Retirement System, a single-employer defined benefit plan with the same contribution and benefit provisions as the prior plan.

This schedule is intended to show information for 10 years. However, until a full 10-year trend is compiled, information will be presented for those years for which information is available.

Change of Assumptions

For the year ending September 30, 2017, the assumed rates of mortality were changed.

**OKEECHOBEE UTILITY AUTHORITY**  
**Required Supplemental Information**

**Last Ten Fiscal Years**

**Schedule of Employer Contributions**

<u>Fiscal Year Ended September 30</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Excess (Deficiency)</u>	<u>Authority's Covered Payroll</u>	<u>Actual Contribution as a Percentage of Covered Payroll</u>
2017	303,157	287,362 *	(15,795) *	2,179,417	13.19%

\* Excess contributions from previous years totaling \$15,795 were applied to satisfy the full contribution requirement.

**Schedule of Annual Money-Weighted Rate of Return, Net of Investment Expense**

<u>Fiscal Year Ending September 30</u>	
2017	10.83%

NOTE: Prior to October 1, 2016, the Authority participated in the City of Okeechobee and Okeechobee Utility Authority' Employees' Retirement System, a cost-sharing multiple-employer defined benefit plan. Effective October 1, 2016, the Authority withdrew from that plan and started the Okeechobee Utility Authority Employees' Retirement System, a single-employer defined benefit plan with the same contribution and benefit provisions as the prior plan.

This schedule is intended to show information for 10 years. However, until a full 10-year trend is compiled, information will be presented for those years for which information is available.

**OKEECHOBEE UTILITY AUTHORITY**  
**Notes to the Schedule of Contributions**

**September 30, 2017**

The actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Valuation Date                      October 1, 2015

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Aggregate
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	4-year smoothed market
Inflation	2.50%
Salary Increases	6.00%
Cost of Living Adjustments	None
Investment Rate of Return	7.00%
Retirement age	100% when first eligible for normal retirement or DROP entry
Mortality	RP-2000 Combined Healthy Participant Mortality Table with mortality improvement projected to all future years after 2000 using Scale AA



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

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The Honorable Chairman and Members of the  
Okeechobee Utility Authority Board  
Okeechobee, Florida

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Okeechobee Utility Authority as of and for the year ended September 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Okeechobee 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Okeechobee Utility Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Okeechobee 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Okeechobee Utility Authority's financial statements are free of material misstatement, we performed tests of the 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.

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

West Palm Beach, Florida  
June 20, 2018



# NOWLEN, HOLT & MINER, P.A.

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## MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

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The Honorable Chairman and Members of the  
Okeechobee Utility Authority Board  
Okeechobee, Florida

### Report on the Financial Statements

We have audited the basic financial statements of the Okeechobee Utility Authority, as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated June 20, 2018.

### Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General.

### Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 20, 2018, should be considered in conjunction with this management letter.

### Prior Audit Findings

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

### **Official Title and Legal Authority**

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements.

### **Financial Condition and Management**

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the Okeechobee Utility Authority has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the Okeechobee Utility Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes, during the fiscal year ended September 30, 2017.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the Authority. It is management's responsibility to monitor the Okeechobee Utility Authority's financial condition, and our financial condition assessment was based in part on representations made by management and review of financial information provided by same. Our assessment was done as of the fiscal year end. The results of our procedures did not disclose any matters that are required to be reported.

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

### **Annual Financial Report**

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether the annual financial report for the Okeechobee Utility Authority for the fiscal year ended September 30, 2017, 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, 2017. In connection with our audit, we determined that these two reports were in agreement.

### **Special District Component Units**

Section 10.554(1)(i)5.d, Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes.

Based on the application of criteria in publications cited in Section 10.553, Rules of the Auditor General, there are no special district component units of the Okeechobee Utility Authority.

### **Additional Matters**

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate 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 warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

### **Purpose of this Letter**

Our management letter is intended solely for the information and use of 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.

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

West Palm Beach, Florida  
June 20, 2018





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## INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES

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The Honorable Chairman and Members of the  
Okeechobee Utility Authority Board  
Okeechobee, Florida

We have examined the Okeechobee Utility Authority's compliance with Section 218.415, Florida Statutes during the year ended September 30, 2017. Management of the Okeechobee Utility Authority is responsible for Okeechobee Utility Authority's compliance with the specified requirements. Our responsibility is to express an opinion on the Okeechobee Utility Authority compliance with the specified requirements based on our examination.

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

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

In our opinion, the Okeechobee Utility Authority complied, in all material respects, with Section 218.415, Florida Statutes for the year ended September 30, 2017.

This report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and Florida House of Representatives, the Florida Auditor General, applicable management, and the Okeechobee Utility Authority Board, and is not intended to be and should not be used by anyone other than these specified parties.

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

West Palm Beach, Florida  
June 20, 2018