

Florida Community Services
Corporation Of Walton County

Financial Statements

February 28, 2011 and 2010

Florida Community Services Corporation of Walton County
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of net assets of Florida Community Services Corporation of Walton County (the "Corporation"), a component unit of Walton County, Florida, as of February 28, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Community Services Corporation of Walton County as of February 28, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2011, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 7 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Florida Community Services Corporation of Walton County taken as a whole. The Schedules of Operations Expenses on page 30 are presented for the purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of state financial awards on page 31 is presented for purposes of additional analysis as required by Chapter 10.650, Rules of the Auditor General, *Florida Single Audit Act Audits – Nonprofit and For-profit Organizations* and is also not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Carr, Riggs & Ingram, LLC

May 16, 2011
Miramar Beach, Florida

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS
Florida Community Services Corporation of Walton County

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

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

FINANCIAL HIGHLIGHTS

Financial Highlights

- ◆ Total assets decreased \$4,372,974. This is primarily due to an overall decrease in net assets from operations of the Corporation and decreased impact fees and developer capital contributions from year to year, as well as an increase in the allowance for doubtful accounts and bad debt related to developer receivables.
- ◆ Total liabilities decreased \$2,022,604 primarily due to the scheduled repayment of bond issues and the expenditure of grant funds that were recorded as deferred revenue in the prior year.
- ◆ Net assets decreased by \$2,350,370 to a total of \$158,403,507. This decrease is the result of consistent operating revenues combined with consistent operating expenses, increased depreciation expense from year to year, as well as decreased developer contributions from year to year, and continued bad debt expense related to developer receivables.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Florida Community Services Corporation of Walton County

FINANCIAL HIGHLIGHTS (CONTINUED)

Corporation Highlights

During the 2010-2011 fiscal year, the Corporation completed the following water projects: the completion of the 30" subaqueous potable waterline across Choctawhatchee Bay, a 6" waterline extension along Canal Street, a 12" waterline extension along Watersound Parkway, addition of 185 meters, construction of the new Booster Pump Station at the Nokuse Wellfield, constructed a 8" waterline bore beneath McQuage Bayou, and the addition of a chlorine building at the 331 water tank site. The following wastewater projects were also completed: installation of reclaim and wastewater SCADA systems, a sewer force main extension in the Dune Allen area, the completion of the Thompson Road master liftstation, 60 grinder pump installations and the startup of the Sandestin #11 liftstation and force main upgrade. A total of 26 bores were also completed totaling 4,240 feet in sizes ranging from 2" to 12".

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Statement 37.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Corporation's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the Corporation is improving or deteriorating, absent extraordinary events.

The *statement of activities* presents information showing how the Corporation's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. All of the Corporation's activity is reported as one proprietary fund.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Florida Community Services Corporation of Walton County

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Proprietary Fund

The proprietary fund is used to account for the water and sewer services for which the Corporation charges customers. The proprietary fund shows the same type of information as shown in the government-wide financial statements. Because the Corporation utilizes only one proprietary fund, no separate fund financial statements are presented.

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

NET ASSETS

The following table reflects the condensed Statement of Net Assets and is compared to the prior two years.

February 28,	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Current and other assets	\$ 42,634,577	\$ 47,108,131	\$ 50,677,520
Capital assets, net	<u>155,879,316</u>	<u>155,778,736</u>	<u>156,367,449</u>
Total assets	<u>\$ 198,513,893</u>	<u>\$ 202,886,867</u>	<u>\$ 207,044,969</u>
Liabilities			
Current liabilities	\$ 2,646,449	\$ 3,040,554	\$ 3,778,091
Other liabilities	<u>37,463,937</u>	<u>39,092,436</u>	<u>40,032,824</u>
Total liabilities	<u>\$ 40,110,386</u>	<u>\$ 42,132,990</u>	<u>\$ 43,810,915</u>
Net assets			
Invested in capital assets, net of related debt	\$ 119,804,088	\$ 118,557,173	\$ 117,886,310
Restricted for debt service	6,377,000	6,861,867	6,819,273
Unrestricted	<u>32,222,419</u>	<u>35,334,837</u>	<u>38,528,471</u>
Total net assets	<u>158,403,507</u>	<u>160,753,877</u>	<u>163,234,054</u>
Total liabilities and net assets	<u>\$ 198,513,893</u>	<u>\$ 202,886,867</u>	<u>\$ 207,044,969</u>

For more detailed information, see accompanying Statements of Net Assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Florida Community Services Corporation of Walton County

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

NET ASSETS (CONTINUED)

Change in Net Assets

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

Year ended February 28,	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 14,713,925	\$ 14,463,207	\$ 14,357,397
Operating expenses	<u>(17,777,748)</u>	<u>(17,883,133)</u>	<u>(17,217,940)</u>
Operating income (loss)	<u>(3,063,823)</u>	<u>(3,419,926)</u>	<u>(2,860,543)</u>
Non-operating revenues	3,379,148	4,127,321	3,859,848
Non-operating expenses	<u>(3,269,593)</u>	<u>(5,080,894)</u>	<u>(3,365,603)</u>
Non-operating revenues (expenses)	<u>109,555</u>	<u>(953,573)</u>	<u>494,245</u>
Increase (decrease) in net assets before capital contributions	(2,954,268)	(4,373,499)	(2,366,298)
Capital contributions	<u>603,898</u>	<u>1,893,322</u>	<u>2,656,397</u>
Increase (decrease) in net assets	<u>(2,350,370)</u>	<u>(2,480,177)</u>	290,099
Net assets, beginning	<u>160,753,877</u>	<u>163,234,054</u>	<u>162,943,955</u>
Net assets, ending	<u>\$ 158,403,507</u>	<u>\$ 160,753,877</u>	<u>\$ 163,234,054</u>

For more detailed information, see the accompanying Statement of Activities.

Operating revenues increased in fiscal year 2011 by 1.73% or \$250,718 due to slight growth in the system from the previous year. Operating expenses decreased by 1% or \$105,385 from the previous year, as a result of cost saving measures implemented by the Corporation during the year.

Non-operating revenues decreased by \$748,173 from fiscal year 2010 to 2011. This decrease was primarily due to decreased grant income and interest income from year to year. Capital contributions from developers decreased by \$1,289,424.

The overall results were a \$2,350,370 decrease in net assets for fiscal year 2011 compared to a \$2,480,177 decrease in net assets in fiscal year 2010.

FINANCIAL ANALYSIS OF THE CORPORATION'S FUNDS

As mentioned earlier, all of the Corporation's activity is recorded in one proprietary fund. No separate fund financial statements are presented in the basic financial statements; and accordingly no separate financial analysis of the Corporation's funds are presented in this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Florida Community Services Corporation of Walton County

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At February 28, 2011, the Corporation had \$155,879,316 invested in capital assets (net of accumulated depreciation). This amount represents a net increase (including additions and deletions) of \$100,580 or 0.06% from the fiscal year 2010 total.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 9,555,927	\$ 9,079,945	\$ 9,079,945
Construction in progress	5,602,956	4,275,534	4,693,565
Buildings	10,161,045	10,161,045	10,070,349
Utility system	203,473,854	194,426,495	184,481,268
Automobiles and trucks	3,288,008	3,481,879	3,386,984
Furniture and fixtures	612,095	600,210	550,197
Machinery and equipment	10,509,163	11,427,718	11,281,548
	<u>243,203,048</u>	<u>233,452,826</u>	<u>223,543,856</u>
Accumulated depreciation	(87,323,732)	(77,674,090)	(67,176,407)
Net capital assets	<u>\$ 155,879,316</u>	<u>\$ 155,778,736</u>	<u>\$ 156,367,449</u>

More information about the Corporation's capital assets is presented in Note 4 to the financial statements.

Debt Administration

At February 28, 2011, the Corporation had \$36,077,532 in revenue bonds outstanding, net of unamortized issuance costs and discounts, versus \$37,221,563 in the prior year, a decrease of \$1,144,031 as shown below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenue bonds, Series 2001, net	\$ 8,703,567	\$ 9,062,400	\$ 9,406,233
Revenue bonds, Series 2002, net	6,105,000	6,685,000	7,235,000
Revenue bonds, Series 2003, net	7,220,037	7,427,539	7,625,041
Revenue bonds, Series 2006, net	14,048,928	14,046,624	14,044,320
Total	<u>\$ 36,077,532</u>	<u>\$ 37,221,563</u>	<u>\$ 38,310,594</u>

The last payment on the debt is due in fiscal year 2032. The payment of the principal and interest on this debt is payable solely from and secured by a pledge on the assets of the Corporation and future Net Revenues.

For additional information on Debt, see Notes 7 and 8 in the accompanying financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Florida Community Services Corporation of Walton County

FUTURE FINANCIAL FACTORS

Florida Community Services Corporation of Walton County is a Florida non-profit corporation established on August 7, 1985. A seven person Board of Directors governs the Corporation. The Board establishes policy and sets rates. The Corporation has no taxing authority and receives no funds from the State or other source other than certain state grants for the extension of the current system. Revenues are generated by charges to the Corporation's customers for water and wastewater related services. Rates for fiscal year 2011 have been established to provide for the operations of the Corporation, necessary capital requirements, and meet the required covenants of the 2001, 2002, 2003, and 2006 revenue bonds.

REQUESTS FOR INFORMATION

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

Financial Statements

Florida Community Services Corporation of Walton County
STATEMENTS OF NET ASSETS
February 28, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 12,433,746	\$ 24,653,636
Investments	15,520,763	7,343,289
Accounts receivable - trade, net	1,194,688	1,177,215
Accounts receivable - other	482,076	-
Inventory	2,516,144	2,379,786
Prepaid expenses	51,209	51,209
Total current assets	32,198,626	35,605,135
NON-CURRENT ASSETS		
Restricted cash		
Revenue bond - debt service fund	5,653,840	6,143,418
Revenue bond - renewal and replacement fund	723,160	718,449
Customer's deposits	1,245,754	1,176,323
Construction funds - designated	2,010,176	945,322
Accounts receivable - developer's agreements, net of current portion	495,959	2,180,451
Utility deposits	11,330	11,330
Prepaid expenses, net of current portion	295,732	327,703
Property, plant and equipment, net	155,879,316	155,778,736
Total non-current assets	166,315,267	167,281,732
TOTAL ASSETS	\$ 198,513,893	\$ 202,886,867

Continued...

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

Florida Community Services Corporation of Walton County
STATEMENTS OF NET ASSETS
February 28, 2011 and 2010

	2011	2010
LIABILITIES		
CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS		
Accounts payable	\$ 303,278	\$ 178,807
Accrued expenses	189,767	176,507
Deferred grant revenue	-	563,561
Total current liabilities payable from current assets	493,045	918,875
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Revenue bonds, 2001 series	400,000	380,000
Revenue bonds, 2002 series	610,000	580,000
Revenue bonds, 2003 series	235,000	225,000
Accrued interest	908,404	936,679
Total current liabilities payable from restricted assets	2,153,404	2,121,679
NONCURRENT LIABILITIES		
Compensated absences	123,613	141,047
Customer deposits	1,205,584	1,133,615
Obligation for deferred compensation	1,302,208	1,781,211
Revenue bonds, 2001 series, net	8,303,567	8,682,400
Revenue bonds, 2002 series, net	5,495,000	6,105,000
Revenue bonds, 2003 series, net	6,985,037	7,202,539
Revenue bonds, 2006 series, net	14,048,928	14,046,624
Total other liabilities	37,463,937	39,092,436
Total liabilities	40,110,386	42,132,990
NET ASSETS		
Invested in capital assets, net of related debt	119,804,088	118,557,173
Restricted for debt service	6,377,000	6,861,867
Unrestricted	32,222,419	35,334,837
Total net assets	158,403,507	160,753,877
TOTAL LIABILITIES AND NET ASSETS	\$ 198,513,893	\$ 202,886,867

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

Florida Community Services Corporation of Walton County
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended February 28, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Charges for services	\$ 14,713,925	\$ 14,463,207
OPERATING EXPENSES		
Operations	6,863,339	7,289,020
Depreciation and amortization	<u>10,914,409</u>	<u>10,594,113</u>
Total operating expenses	<u>17,777,748</u>	<u>17,883,133</u>
Operating income (loss)	<u>(3,063,823)</u>	<u>(3,419,926)</u>
NON-OPERATING REVENUES (EXPENSES)		
Impact fees	1,257,068	1,135,311
Lease income	256,705	249,400
Interest income	131,099	190,384
Interest expense	(1,857,778)	(1,911,710)
Bad debt expense - developer's agreements	(1,337,802)	(2,647,687)
Grant income	1,063,561	2,198,695
Gain on sales of assets	331,144	35,237
Other expense	(74,013)	(521,497)
Miscellaneous	<u>339,571</u>	<u>318,294</u>
Total non-operating revenues (expenses)	<u>109,555</u>	<u>(953,573)</u>
Increase (decrease) in net assets before capital contributions	(2,954,268)	(4,373,499)
Capital contributions	<u>603,898</u>	<u>1,893,322</u>
Increase (decrease) in net assets	(2,350,370)	(2,480,177)
Net assets, beginning of year	<u>160,753,877</u>	<u>163,234,054</u>
Net assets, end of year	<u>\$ 158,403,507</u>	<u>\$ 160,753,877</u>

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

Florida Community Services Corporation of Walton County
STATEMENTS OF CASH FLOWS
Years Ended February 28, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 14,768,421	\$ 14,626,977
Cash paid for operating expenses	(4,622,124)	(4,948,491)
Cash paid to employees for services	<u>(2,830,955)</u>	<u>(2,477,303)</u>
Net cash flows provided by operating activities	<u>7,315,342</u>	<u>7,201,183</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on revenue bonds	(1,185,000)	(1,130,000)
Interest on revenue bonds	(1,886,053)	(1,941,103)
Payments for the purchase of property	(10,604,476)	(8,153,183)
Proceeds from the sale of property	191,678	35,237
Proceeds from grants	500,000	1,000,000
Proceeds from impact fees	<u>2,144,412</u>	<u>2,162,256</u>
Net cash provided (used) by capital and related financing activities	<u>(10,839,439)</u>	<u>(8,026,793)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(15,625,075)	(177,338)
Investment maturities	7,447,601	-
Interest on investments	<u>131,099</u>	<u>190,384</u>
Net cash provided (used) by investing activities	<u>(8,046,375)</u>	<u>13,046</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,570,472)	(812,564)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>33,637,148</u>	<u>34,449,712</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,066,676</u>	<u>\$ 33,637,148</u>
COMPOSITION OF CASH		
Cash - unrestricted	\$ 14,443,922	\$ 25,598,958
Cash - restricted	<u>7,622,754</u>	<u>8,038,190</u>
Total cash and cash equivalents	<u>\$ 22,066,676</u>	<u>\$ 33,637,148</u>
RECONCILIATION OF NET OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (3,063,823)	\$ (3,419,926)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	10,914,409	10,594,113
Bad debt	34,508	160,545
Changes in operating assets and liabilities:		
Accounts receivable	(51,981)	(11,194)
Inventory	(136,358)	27,467
Other assets	31,971	(359,674)
Accounts payable	4,390	45,504
Customer deposits	71,969	14,419
Accrued expenses	(10,740)	(46,611)
Obligation for deferred compensation	<u>(479,003)</u>	<u>196,540</u>
Net cash provided by operating activities	<u>\$ 7,315,342</u>	<u>\$ 7,201,183</u>
Non-cash capital and related financing transactions		
Non-cash developer contribution	<u>\$ 603,898</u>	<u>\$ 1,893,322</u>

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

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 1 - NATURE OF ORGANIZATION

Florida Community Services Corporation of Walton County (hereinafter referred to as the Corporation) was organized under the laws of the State of Florida on August 7, 1985, as a non-profit corporation. Under a Franchise Agreement with Walton County, the Corporation is authorized to acquire and improve existing water distribution facilities in the Southern part of Walton County, Florida, for incorporation into a county regional utility system. The Corporation is also authorized to construct a regional sewage collection treatment and disposal facility as well as a water transmission, storage and distribution system. To fulfill its purpose, the Corporation has issued revenue bonds pledging its property and revenues to secure the payment of such bonds. After the bonds have been fully paid, the Corporation without consideration will transfer all of its assets to Walton County. Because of the equity interest with Walton County, the financial statements of Florida Community Services Corporation of Walton County are included in the basic financial statements of Walton County, Florida, as a component unit.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Corporation has adopted the provisions of Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*," as amended by Statement No. 37. These Statements established standards for external financial reporting for all state and local government entities in the United States which include a statement of net assets, a statement of activities, and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt, restricted, and unrestricted.

These classifications are defined as follows:

- ◆ *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and is reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Accounting (Continued)

- ◆ *Restricted* - This component of net assets consists of constraints placed on net assets 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 component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The Corporation maintains its records under the accrual method of accounting. Under this method, income is recognized when earned, rather than when received, and expenses are recognized when incurred rather than when paid. The Corporation complies with generally accepted accounting principles (GAAP) and applies all relevant Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

B. Statement of Cash Flows

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

C. Investments

Investments held by the Corporation consist of certificates of deposit. Certificates of deposit held by the Corporation are recorded at cost, which approximates fair value.

D. Restricted Assets

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

E. Allowance for Doubtful Accounts

The Corporation provides for doubtful accounts based on analysis of individual accounts. For customer accounts, an allowance is created for accounts that are 120 days past due. For developer receivables, an allowance is created for amounts more than one year past due.

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Inventory

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

G. Property, Plant, Equipment and Related Depreciation

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

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

H. Bond Premiums, Discounts and Issuance Costs

Bond premiums, discounts and related issuance costs are deferred and amortized as a component of interest expense over the remaining life of the related debt.

I. Customer Deposits

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

J. Compensated Absences

Employees of the Corporation are entitled to accumulate earned, but unused personal leave benefits which are guaranteed to be paid to employees upon separation from service. For the years ended February 28, 2011, and 2010, accumulated and unpaid compensated absence costs were \$123,613, and \$141,047, respectively.

K. Revenues

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

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Contributed Capital

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

M. Impact Fees

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

N. Estimates

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

O. Events Occurring After Reporting Date

The Company has evaluated events and transactions that occurred between February 28, 2011, and May 16, 2011, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

All investments held at February 28, 2011, and 2010, were insured or registered, or are securities held by the Corporation or its agent in the Corporation's name. Investments at February 28, 2011, and 2010, consisted solely of certificates of deposit with financial institutions. Certificates of deposit are reported at cost which approximates fair value. At February 28, 2011, and 2010, investments in certificates of deposit totaled \$15,520,763 and \$7,343,289, respectively. The certificates of deposit bear interest ranging from 0.27% to 1.0% with maturities ranging from August 2011 to December 2011.

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

Risks Associated with Deposits and Investments

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

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Risks Associated with Deposits and Investments (Continued)

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

Money market fund deposits are with Bank of America Treasury Reserves ("BofA") through The Bank of New York Mellon. BofA's investment strategy is to invest in high-quality money market instruments with at least 80% of its net assets in U.S. Treasury obligations and repurchase agreements secured by U.S. Treasury obligations. The average weighted maturity of investments held by the fund is 51 days. The Corporation believes it has mitigated market, interest rate and credit risk by depositing its cash reserves in this conservative fund. BofA Treasury Reserves has a Standard & Poors credit rating of AAAm and a Moody's credit rating of Aaa. At February 28, 2011, money market deposits with The Bank of New York Mellon totaled \$15,753,340.

As of February 28, 2011, all of the Corporation's investments are certificates of deposit. As certificates of deposit are debt instruments, there is credit risk associated with their purchase, however, insurance provided by the Federal Deposit Insurance Corporation protects the first \$250,000 of cash and certificates of deposit at each financial institution. The certificates of deposit held by the Corporation as of February 28, 2011, were entirely covered by federal deposit insurance.

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

Restricted Deposits

The Corporation has restricted certain amounts of deposits as noted in the Statement of Net Assets. These amounts are restricted to remain in compliance with bond covenants and to meet indenture provision requirements. Amounts are also restricted and designated for construction projects, customer deposits, and for other reasons as the Corporation deems necessary.

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

A summary of the changes in property, plant and equipment for the year ended February 28, 2011, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Ending Balance</u>
Assets not being depreciated:				
Land	\$ 9,079,945	\$ 475,982	\$ -	\$ 9,555,927
Construction in progress	4,275,534	5,892,647	(4,565,225)	5,602,956
Total assets not being depreciated	<u>13,355,479</u>	<u>6,368,629</u>	<u>(4,565,225)</u>	<u>15,158,883</u>
Assets being depreciated:				
Buildings	10,161,045	-	-	10,161,045
Utility system	194,426,495	4,497,134	4,550,225	203,473,854
Automobiles and trucks	3,481,879	363,754	(557,625)	3,288,008
Furniture and fixture	600,210	13,465	(1,580)	612,095
Machinery and equipment	<u>11,427,718</u>	<u>53,568</u>	<u>(972,123)</u>	<u>10,509,163</u>
Total assets being depreciated	220,097,347	4,927,921	3,018,897	228,044,165
Less accumulated depreciation	<u>(77,674,090)</u>	<u>(10,914,409)</u>	<u>1,264,767</u>	<u>(87,323,732)</u>
Total assets being depreciated, net	<u>142,423,257</u>	<u>(5,986,488)</u>	<u>4,283,664</u>	<u>140,720,433</u>
Property, plant and equipment, net	<u>\$ 155,778,736</u>	<u>\$ 382,141</u>	<u>\$ (281,561)</u>	<u>\$ 155,879,316</u>

A summary of the changes in property, plant and equipment for the year ended February 28, 2010, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Ending Balance</u>
Assets not being depreciated:				
Land	\$ 9,079,945	\$ -	\$ -	\$ 9,079,945
Construction in progress	<u>4,693,565</u>	<u>5,204,095</u>	<u>(5,622,126)</u>	<u>4,275,534</u>
Total assets not being depreciated	<u>13,773,510</u>	<u>5,204,095</u>	<u>(5,622,126)</u>	<u>13,355,479</u>
Assets being depreciated:				
Buildings	10,070,349	90,696	-	10,161,045
Utility system	184,481,268	4,901,364	5,043,863	194,426,495
Automobiles and trucks	3,386,984	136,379	(41,484)	3,481,879
Furniture and fixture	550,197	50,013	-	600,210
Machinery and equipment	<u>11,281,548</u>	<u>169,869</u>	<u>(23,699)</u>	<u>11,427,718</u>
Total assets being depreciated	209,770,346	5,348,321	4,978,680	220,097,347
Less accumulated depreciation	<u>(67,176,407)</u>	<u>(10,594,113)</u>	<u>96,430</u>	<u>(77,674,090)</u>
Total assets being depreciated, net	<u>142,593,939</u>	<u>(5,245,792)</u>	<u>5,075,110</u>	<u>142,423,257</u>
Property, plant and equipment, net	<u>\$ 156,367,449</u>	<u>\$ (41,697)</u>	<u>\$ (547,016)</u>	<u>\$ 155,778,736</u>

The Corporation capitalizes interest on funds borrowed to construct plant facilities. There was no interest capitalized for the years ended February 28, 2011 and 2010.

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 5- ACCOUNTS RECEIVABLE

Developer's Agreements

As of February 28, 2011, and February 28, 2010, the Corporation had gross balances for accounts receivable related to developer's agreements of \$6,669,334, and \$10,250,708, respectively. These receivables represent amounts owed by developers for water and/or sewer connection fees under the terms of contracts between the parties and the Corporation. As of February 28, 2011, the Corporation had taken legal action related to the collection of the past due amounts by filing liens. However, management believes there is uncertainty regarding the collectability of the past due amounts. Therefore, at February 28, 2011, and February 28, 2010, the Corporation had established an allowance for doubtful accounts of \$6,173,375, and \$8,070,257, respectively.

Other Receivable

At February 28, 2011, the Corporation had an other accounts receivable in the amount of \$482,076 from the sale of equipment at auction during February 2011. All proceeds related to the auction were received by the Corporation in March 2011.

NOTE 6- GRANTS

In July 2006, the Corporation was awarded a grant in the amount of \$4,380,000 from the Northwest Florida Water Management District (NFWFMD). The grant was for the purpose of the area-wide alternative water supply source expansion. Under the terms of the grant agreement, funds obtained through the grant were to provide for up to 40% of the overall project construction costs, with the grantee providing for all non-construction funding and a minimum of 60% of all construction funding. A portion of the grant was originally allocated for construction items related to the City of Freeport. The portion of the grant related to the City of Freeport was \$1,426,500. In December 2008, the grant was amended. Under the terms of the amendment, the grant was extended until December 31, 2009. In addition, the amendment stipulated that project components and grant funding originally specified for the City of Freeport be designated for the Corporation. During the fiscal year ended February 28, 2010, grant proceeds of \$1,342,337 were utilized for the projects. This amount was included in non-operating revenues for the fiscal year ended February 28, 2010. As of February 28, 2010, the entire amount of grant proceeds had been expended.

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 6- GRANTS (CONTINUED)

In November 2008, the Corporation was awarded a grant in the amount of \$1,000,000 from the NFWFMD. The grant is for the purposes of the Walton County Phase II, Regional Water Supply Project to provide for the installation of facility improvements to expand the regional alternative water supply system. In June 2009, the grant was amended to increase the total grant funding to \$1,500,000. In July 2010, the grant was again amended to increase the total grant funding to \$2,000,000. Under the terms of the amended grant agreement, funds obtained through the grant will provide for up to 67% of the overall project. If final project costs are less than originally estimated, a portion of the grant funds may need to be returned. During the fiscal years ended February 28, 2011, and 2010, grant proceeds of \$1,063,561 and \$856,358 were utilized for the projects, respectively. These amounts are included in non-operating revenues for the fiscal year ended February 28, 2011, and 2010, respectively. As of February 28, 2011, the the entire amount of grant proceeds had been expended.

NOTE 7- REVENUE BONDS

Water and Sewer Revenue Refunding Bonds, Series 2001

On May 1, 2001, the Corporation issued Water and Sewer Revenue Refunding Bonds, Series 2001 (the "Series 2001 Bonds"), in a total principal amount of \$12,230,000 for the purposes of advance refunding \$3,190,000 of the Series 1992 Bonds and to provide capital for expansion of the water and sewer transmission systems. The Series 2001 Bonds are comprised of \$6,725,000 of serial bonds maturing through March 1, 2018, \$2,090,000 of term bonds maturing March 1, 2024; and \$3,415,000 of term bonds maturing March 1, 2031. Principal and interest payments are due semi-annually with principal due in increasing amounts and interest rates varying from 4.00% to 5.50 %. The bonds are secured by the assets of the Corporation and by future revenues.

The balance of the Series 2001 Bonds at February 28, 2011, and February 28, 2010, is summarized as follows:

	2011	2010
Bond principal balance	\$ 9,135,000	\$ 9,515,000
Less unamortized bond issuance costs	(431,433)	(452,600)
Net balance, Series 2001 Bonds	<u>\$ 8,703,567</u>	<u>\$ 9,062,400</u>

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 7- REVENUE BONDS (CONTINUED)

Water and Sewer Revenue Refunding Bonds, Series 2001 (Continued)

Presented below is a summary of accumulations of amounts required to pay remaining debt service requirements of the 2001 series to maturity:

Year Ending February 28	Principal	Interest	Total Debt Service
2012	\$ 400,000	\$ 476,811	\$ 876,811
2013	415,000	457,859	872,859
2014	440,000	436,006	876,006
2015	465,000	411,119	876,119
2016	485,000	384,994	869,994
Due in 6 - 10 years	2,050,000	1,544,125	3,594,125
Due in 11-15 years	1,880,000	1,065,309	2,945,309
Due in 16 - 20 years	2,430,000	493,694	2,923,694
Due in 21 - 25 years	570,000	15,319	585,319
	<u>\$ 9,135,000</u>	<u>\$ 5,285,236</u>	<u>\$ 14,420,236</u>

Water and Sewer Revenue Refunding Bonds, Series 2002

On June 6, 2002, the Corporation issued Water and Sewer Revenue Refunding Bonds, Series 2002 (the "Series 2002 Bonds"), in a total principal amount of \$9,725,000 for the purposes of completing the advance refunding of the Series 1992 Bonds. The Series 2002 Bonds are comprised of \$1,475,000 of serial bonds which matured March 1, 2006, \$1,015,000 of term bonds which matured March 1, 2008; \$3,210,000 of term bonds maturing March 1, 2014, and \$3,475,000 of term bonds maturing on March 1, 2018. Principal and interest payments are due semi-annually with principal due in increasing amounts and interest rates varying from 5.00% to 5.874%. The bonds are secured by the assets of the Corporation and by future revenues.

Presented below is a summary of accumulations of amounts required to pay remaining debt service requirements of the 2002 series to maturity:

Year Ending February 28	Principal	Interest	Total Debt Service
2012	\$ 610,000	\$ 332,031	\$ 942,031
2013	640,000	297,656	937,656
2014	670,000	261,631	931,631
2015	710,000	223,681	933,681
2016	755,000	181,978	936,978
Due in 6 - 10 years	2,720,000	256,738	2,976,738
	<u>\$ 6,105,000</u>	<u>\$ 1,553,715</u>	<u>\$ 7,658,715</u>

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 7- REVENUE BONDS (CONTINUED)

Water and Sewer Revenue Refunding Bonds, Series 2003

On December 1, 2003, the Corporation issued Water and Sewer Revenue Bonds, Series 2003 (the "Series 2003 Bonds"), in a total principal amount of \$8,820,000 for the purposes of acquiring and constructing improvements to the combined water and sewer system and to retire the Series 1997 Bonds. The Series 2003 Bonds are comprised of \$5,510,000 of serial bonds maturing through March 1, 2024, \$1,760,000 of term bonds maturing March 1, 2028, and \$1,550,000 of term bonds maturing March 1, 2031. Principal and interest payments are due semi-annually with principal due in increasing amounts and interest rates varying from 2.25% to 4.7%. The bonds are secured by the assets of the Corporation and by future revenues.

The balance of the Series 2003 Bonds at February 28, 2011, and February 28, 2010, is summarized as follows:

	2011	2010
Bond principal balance	\$ 7,570,000	\$ 7,795,000
Less unamortized bond issuance costs	(349,963)	(367,461)
Net balance, Series 2003 Bonds	<u>\$ 7,220,037</u>	<u>\$ 7,427,539</u>

Presented below is a summary of accumulations of amounts required to pay remaining debt service requirements of the 2003 series to maturity:

Year Ending February 28	Principal	Interest	Total Debt Service
2012	\$ 235,000	\$ 327,690	\$ 562,690
2013	245,000	318,703	563,703
2014	250,000	309,885	559,885
2015	260,000	300,153	560,153
2016	270,000	289,553	559,553
Due in 6 - 10 years	1,525,000	1,269,144	2,794,144
Due in 11-15 years	1,885,000	898,232	2,783,232
Due in 16 - 20 years	2,360,000	412,757	2,772,757
Due in 21 - 25 years	540,000	12,690	552,690
	<u>\$ 7,570,000</u>	<u>\$ 4,138,807</u>	<u>\$ 11,708,807</u>

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 7- REVENUE BONDS (CONTINUED)

Water and Sewer Revenue Refunding Bonds, Series 2006

On March 9, 2006, the Corporation issued Water and Sewer Revenue Bonds, Series 2006 (the "Series 2006 Bonds"), in a total principal amount of \$14,095,000 for the purpose of acquiring and constructing improvements to the combined water and sewer system. The Series 2006 Bonds are comprised of \$7,695,000 of serial bonds maturing through March 1, 2026; \$3,655,000 of term bonds maturing March 1, 2029; and \$2,745,000 of term bonds maturing March 1, 2031. Principal and interest payments are due semi-annually with principal due in increasing amounts and interest rates varying from 4.0% to 5.0%. The semi-annual payments are interest-only through 2017, with principal payments beginning in 2018. The bonds are secured by the assets of the Corporation and by future revenues.

The balance of the Series 2006 Bonds at February 28, 2011, and February 28, 2010, is summarized as follows:

	2011	2010
Bond principal balance	\$ 14,095,000	\$ 14,095,000
Less unamortized bond issuance costs	(46,072)	(48,376)
Net balance, Series 2006 Bonds	\$ 14,048,928	\$ 14,046,624

Presented below is a summary of accumulations of amounts required to pay remaining debt service requirements of the 2006 series to maturity:

Year Ending February 28	Principal	Interest	Total Debt Service
2012	\$ -	\$ 649,601	\$ 649,601
2013	-	649,601	649,601
2014	-	649,601	649,601
2015	-	649,601	649,601
2016	-	649,601	649,601
Due in 6 - 10 years	2,590,000	3,147,006	5,737,006
Due in 11-15 years	5,105,000	2,290,313	7,395,313
Due in 16 - 20 years	6,400,000	990,499	7,390,499
	\$ 14,095,000	\$ 9,675,823	\$ 23,770,823

The following is a summary of changes in long-term liabilities during the fiscal year:

	Beginning Balance	Additions	Repayments	Ending Balance	Due Within One Year
Revenue bonds, 2001 series	\$ 9,062,400	\$ 21,167	\$ (380,000)	\$ 8,703,567	\$ 400,000
Revenue bonds, 2002 series	6,685,000	-	(580,000)	6,105,000	610,000
Revenue bonds, 2003 series	7,427,539	17,498	(225,000)	7,220,037	235,000
Revenue bonds, 2006 series	14,046,624	2,304	-	14,048,928	-
TOTAL	\$ 37,221,563	\$ 40,969	\$ (1,185,000)	\$ 36,077,532	\$ 1,245,000

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 8- BOND COVENANTS AND INDENTURE PROVISIONS

Bond Covenants

The 2001, 2002, 2003, and 2006 Series Bond issues require the Corporation to provide in each fiscal year net revenues and water and sewer impact fees that are adequate to pay at least 115% of the annual debt service. Additionally, annual net revenues must be adequate to pay 105% of the Corporation's annual debt service plus any amounts required to be deposited in reserve and certain other accounts. As of February 28, 2011, and February 28, 2010, the Corporation was in compliance with all of its debt covenants.

Indenture Provisions

The 2001, 2002, 2003, and 2006 Series Bond issues require the establishment of a reserve account be maintained in the total amount of \$3,460,804, or the Corporation may elect to obtain a surety bond in place of fully funding the reserve account requirement. At February 28, 2011, and 2010, the Corporation maintained a surety bond in place of fully funding the reserve account. At February 28, 2011, and 2010, the Corporation was in compliance with the reserve requirements of the surety bond.

The 2001, 2002, 2003, and 2006 Series Bond issues require the establishment of a renewal and replacement fund which must maintain a balance equal to 5% of the gross revenues received by the issuer in the immediately preceding fiscal year. The Corporation met this requirement for fiscal years 2011 and 2010. Within the same bank account, the Corporation maintains additional funds which are designated by the Corporation's Board for use in replacements and repairs due to natural disasters, such as hurricanes.

NOTE 9- 401(k) PLAN

The Corporation has established a 401(k), defined contribution retirement plan which is available to all full time employees who have reached age 20 and have a least one year of service with the Corporation. Under this plan, the Corporation matches voluntary employee deferrals dollar for dollar up to a total employer contribution of 6% of total employee compensation. The plan is administered by ING. The Board of Directors of the Corporation has the authority to establish or amend the plan's provisions and contribution requirements. Contributions made by the Corporation for the year ended February 28, 2011, and 2010, were \$136,579, and \$143,051, respectively.

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 10- RELATED PARTIES

Bay Crossing Pipeline Lease

In the fiscal year ending February 28, 2001, the Corporation entered into an agreement with South Walton Utility Company to lease 60% of its water line capacity beginning June 1, 2001, and continuing for 20 years. The agreement calls for a standard monthly payment of \$15,085 per month, plus operating and maintenance charges. The cost basis of the transmission lines under the operating lease is \$11,174,488, with approximately \$5,447,563 in accumulated depreciation, resulting in a carrying value of \$5,726,925 at February 28, 2011.

Minimum Future Lease Revenue:

<u>Year Ending February 28</u>	<u>Amount</u>
2012	\$ 181,020
2013	181,020
2014	181,020
2014	181,020
2015	181,020
Remainder of lease	950,355
Total	<u>\$ 1,855,455</u>

Wellfield Operations Facilities Agreement

During 2001, the Corporation entered into a Wellfield Operations Facilities Lease with South Walton Utility Company, Inc. Rental payments under the lease consist of a capital charge which includes a portion of the debt related to the Phase 1 Water Supply Project, as well as operating charges. During the year ending February 28, 2003, the Phase 1, Water Supply Project was completed by South Walton Utility Company, Inc. Under the terms of the agreement, the Corporation and Destin Water Users, Inc. are paying 54% of the cost of this project, which includes the debt acquired by South Walton Utility Company. As such, the Corporation pays a set monthly charge to South Walton Utility Company for their portion of the debt, as part of the monthly rental payments. In February 2010, the Corporation made payment in the amount of \$362,338 to South Walton Utility Company to fully pay off its portion of the debt. This payment is considered to be a prepayment of the annual minimum lease payments required under the operating lease, and accordingly has been recorded as a prepaid expense on the balance sheet, and is being amortized over the remaining term of the lease through June 2021. For the years ended February 28, 2011 and 2010, the Corporation recorded expenses for monthly capital charges to South Walton Utility Company, Inc. related to the Phase 1 Water Supply Project in accordance with the Wellfield Operations Facilities Lease totaling \$31,971 and \$62,878, respectively. During the year ended February 28, 2011, South Walton Utility Company ceased billing the Corporation for monthly operating charges, as the Corporation is no longer utilizing the facilities. The Corporation paid a total of \$20,000 and \$52,201 in operating charges to South Walton Utility Company, Inc. for the years ended February 28, 2011 and 2010, respectively,

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 10- RELATED PARTIES (CONTINUED)

Wellfield Operations Facilities Agreement

under the terms of the Wellfield Operations Facilities Lease Agreement. In addition, the Corporation received a payment of \$78,000 from South Walton Utility Company, Inc. during the year ended February 28, 2011, as a result of the true-up of the operating charges under the terms of the Wellfield Operations Facilities Lease Agreement.

NOTE 11- COMMITMENTS, CONTINGENCIES, AND UNCERTAINTIES

Employment Agreements

Chief Executive Officer

The Corporation has entered into an employment agreement with Dewey C. Wilson, Chief Executive Officer (currently Chairman of the Board of Directors). The original term of the agreement is ten years, and unless notice is given, the agreement automatically renews annually for an additional ten-year period on the same terms. For the term of the agreement, he will receive a minimum annual salary, various insurance benefits, a death benefit, and the use of a vehicle as well as maintenance and insurance on that vehicle.

In the event of a change in control of the Corporation, which means a change in ownership or a change of more than 40% of the Board of Directors, either party, within three months after the change, has the right to terminate the agreement. In the event of termination under this provision, the employee will have no further job duties with the Corporation, but the Corporation will continue to pay the employee compensation for the ten years following such termination at a stated rate of pay. In lieu of such continued compensation and provision of benefits, the employee, at his sole discretion, may elect to receive a lump-sum buy-out in an amount equal to the total of all sums to be paid per the Agreement discounted by 10%. In the event of voluntary termination by the employee (retirement), the employee will be retained as an independent contractor, and will be paid a base salary of consisting of 60% of the employee's compensation at the time of retirement and benefits for 10 years after retirement. Accordingly, the Corporation has recorded a liability for its estimated obligation for deferred compensation under the terms of the agreement in the amount of \$1,302,208 and \$1,340,941, at February 28, 2011, and February 29, 2010, respectively. The obligation for deferred compensation represents the discounted present value of the expected future payments to Mr. Wilson for base compensation and benefits under the terms of the agreement, assuming a discount rate of 0.289% and 2.29% at February 28, 2011, and 2010, respectively. The discount rate used in the present value calculation was determined using the estimated yield on the investments that are expected to be used to finance the payment of obligation as of February 28, 2011, and 2010.

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 11- COMMITMENTS, CONTINGENCIES, AND UNCERTAINTIES (CONTINUED)

Employment Agreements (Continued)

Chief Executive Officer (Continued)

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

General Manager/President

The Corporation also entered into an employment agreement with Michael G. Standley, General Manager/President. In the event of a change in control of the Corporation, either party, within three months after the change, has the right to terminate the agreement. Under the terms of the agreement, in the event of voluntary termination by the employee (retirement), the employee would be retained as an independent contractor, and will be paid 25% of the employee's compensation at the time of retirement and benefits with yearly 3% increases for up to 10 years after retirement. In lieu of such continued compensation and provision of benefits, the employee, at his sole discretion, could elect to receive a lump-sum buy-out in an amount equal to the total of all sums to be paid per the Agreement discounted by 10%. Accordingly, the Corporation recorded a liability for its estimated obligation for deferred compensation under the terms of the agreement in the amount of \$440,270 at February 28, 2010. The obligation for deferred compensation represents the discounted present value of the expected future payments to Mr. Standley for base compensation and benefits under the terms of the agreement, assuming a discount rate of 2.29% at February 28, 2010. The discount rate used in the present value calculation was determined using the estimated yield on the investments that are expected to be used to finance the payment of the obligation as of February 28, 2010. During July 2010, Mr. Standley voluntarily terminated his employment with the Corporation and received a lump sum payment in full of \$395,977 under the terms of the agreement.

Secretary/Treasurer

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

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 11- COMMITMENTS, CONTINGENCIES, AND UNCERTAINTIES (CONTINUED)

Employment Agreements (Continued)

Secretary/Treasurer (Continued)

In the event of a change in control of the Corporation, which means a change in ownership or a change of more than 40% of the Board of Directors, either party, within three months after the change, has the right to terminate the agreement. In the event of termination under this provision, the employee will have no further job duties with the Corporation, but the Corporation will continue to pay the employee compensation for the ten years following such termination at a stated rate of pay. In lieu of such continued compensation and provision of benefits, the employee, at her sole discretion, may elect to receive a lump-sum buy-out in an amount equal to the total of all sums to be paid per the Agreement discounted by 10%. In the event of voluntary termination by the employee (retirement), the employee will be retained as an independent contractor, and will be paid 25% of the employee's compensation at the time of retirement and benefits for ten years after retirement. Beginning January 2006, Melissa Pilcher elected to exercise the option for voluntary termination, and has been retained as an independent contractor.

Under the terms of the agreement, in her duties as an independent contractor following voluntary termination, the employee works a minimum of eight hours per week, and performs specific tasks for the Corporation in return for the base pay and benefits specified. Accordingly, no liability for deferred compensation has been recorded for this employment agreement.

In addition, for each day of consultation, or part thereof the employee receives 1/240th of the total sum of salary and benefits the employee received for the year immediately preceding retirement.

Upon the voluntary termination of Mr. Standley, former General Manager/President, in July 2010, Melissa Pilcher took over as General Manager/President for the Corporation. Upon taking over the duties of General Manager/President her voluntary termination and related independent contractor duties under the terms of her employment agreement are considered to be on hold.

Purchase of Water

The Corporation has an agreement with the City of Freeport, Florida regarding the purchase of water. Pursuant to this agreement, the Corporation is obligated to annually purchase a minimum of 1.1 million gallons of water.

Florida Community Services Corporation of Walton County
NOTES TO FINANCIAL STATEMENTS
February 28, 2011 and 2010

NOTE 11- COMMITMENTS, CONTINGENCIES, AND UNCERTAINTIES (CONTINUED)

Water and Sewer Connection Fees

As discussed in Note 5, at February 28, 2011, the Corporation had a balance of \$6,669,334 for accounts receivable related to developer's agreements. This amount represents payments owed by developers for water and/or sewer connection fees under the terms of contracts between the parties and the Corporation. Included in the receivable balance is \$6,188,613 of past due amounts owed by developers. As of February 28, 2011, the Corporation had taken legal action related to the collection of the past due amounts by filing liens. However, management believes there is some uncertainty regarding the collectability of the past due amounts. Therefore, as discussed in Note 5, the Corporation established an allowance for doubtful accounts of \$6,173,375 at February 28, 2011. As such, the Corporation's net balance for accounts receivable related to developer's agreements at February 28, 2011, was \$495,959.

BP Claim

In March 2011, the Corporation filed an interim BP claim totaling \$174,106 with the Gulf Coast Claims Facility (GCCF) seeking reimbursement of lost profits as a result of the impact of oil discharges from the April 20, 2010, Deepwater Horizon Incident in the Gulf of Mexico (oil spill) on water and sewer sales. As of the date of the report, the Corporation is awaiting the GCCF's review and approval of the interim claim and the Corporation is in the process of assessing the continued impact of the oil spill and evaluating its options for filing additional interim and final BP claims with the GCCF. Accordingly, the Corporation is unable to estimate the potential final recovery of lost income resulting from the March 2011 claim and future claims at this time.

NOTE 12- RISK MANAGEMENT

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

After the past hurricane seasons, the Corporation opted to self-insure for wind damage to equipment items due to the relatively large deductible and premium costs related to the extent of possible damage. The Corporation does maintain insurance for wind damage on the buildings. The board has made a designation of funds that are held with the renewal and replacement funds in the amount of \$3,000,000 at February 28, 2011.

Supplementary Information

Florida Community Services Corporation of Walton County
SCHEDULES OF OPERATIONS
EXPENSES
Years Ended February 28, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Accounting and legal	\$ 97,574	\$ 70,946
Advertising	13,552	9,712
Auto and truck expense	232,961	175,087
Bad debt	34,508	160,545
Bank charges	33,268	31,833
Baycrossing water maintenance	44,579	71,650
Consulting fees	8,523	5,796
Damage claims	7,024	13,328
Dues and subscriptions	9,829	37,271
Engineering expenses	31,623	-
Entertainment	4,598	8,300
Insurance	777,239	798,035
Licenses and taxes	32,791	36,350
Miscellaneous	35,339	36,377
Office maintenance	168,639	187,281
Officer compensation	36,500	33,000
Payroll taxes	231,084	191,727
Pension expense	101,448	88,412
Postage and billing	104,480	102,798
Purchased water	256,994	432,247
Repairs and maintenance	828,167	745,163
Salaries	1,974,694	2,266,249
Sewer chemicals	366,124	356,475
Telephone	97,414	88,036
Travel	2,441	1,423
Utilities	1,212,852	1,229,015
Water testing expense	112,006	111,964
Warehouse expense	7,088	-
Total operations	<u>\$ 6,863,339</u>	<u>\$ 7,289,020</u>

Florida Community Services Corporation of Walton County
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL AWARDS
Year Ended February 28, 2011

Grantor/Program Title	CSFA Number	Grantor's Agreement Number	Amount of Expenditures
Department of Environmental Protection:			
Indirect:			
Northwest Florida Water Management District:			
Statewide Surface Water Restoration and Wastewater Projects	37.039	09-024	\$ 1,063,561

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of state financial awards includes the state grant activity of Florida Community Services Corporation of Walton County, and is presented on the accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of Chapter 10.650, Rules of the Auditor General, *Florida Single Audit Act Audits-Nonprofit and For-Profit Organizations*.

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

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

We have audited the financial statements of Florida Community Services Corporation of Walton County (the "Corporation"), a component unit of Walton County, Florida, as of and for the year ended February 28, 2011, and have issued our report thereon dated May 16, 2011. 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.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Florida Community Services Corporation of Walton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, awarding agencies and pass-through entities, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Caru, Riggs & Ingram, L.L.C.

May 16, 2011
Miramar Beach, Florida

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR STATE PROJECT AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH CHAPTER 10.650, RULES OF THE AUDITOR
GENERAL**

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

Compliance

We have audited the compliance of Florida Community Services Corporation of Walton County ("the Corporation"), a component unit of Walton County, Florida, with the types of compliance requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that are applicable to each of its State projects for the year ended February 28, 2011. The Corporation's major State projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State projects is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

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 10.650, Rules of the Auditor General, *Florida Single Audit Act Audits – Nonprofit and For-Profit Organizations*. Those standards and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State project occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, Florida Community Services Corporation of Walton County, a component unit of Walton County, Florida; complied, in all material respects, with the requirements referred to above that are applicable to each of its major State projects for the year ended February 28, 2011.

Internal Control Over Compliance

Management of Florida Community Services Corporation of Walton County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to State projects. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on a major State project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a State project on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State project will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the board of directors, management, others within the organization, State awarding agencies and pass-through entities, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Carly Riggs & Ingram, L.L.C.

May 16, 2011
Miramar Beach, Florida

Florida Community Services Corporation of Walton County
Schedule Of Findings And Questioned Costs – State Projects
For The Year Ended February 28, 2011

Summary of Auditor's Results

As required by Chapter 10.650, Rules of the Auditor General, *Florida Single Audit Act Audits – Nonprofit and For-profit Organizations*, the following is a summary of the results of the audit of the Florida Community Services Corporation of Walton County for the fiscal year ended February 28, 2011:

- The auditor's report expresses an unqualified opinion on the Florida Community Services Corporation of Walton County basic financial statements.
- No significant deficiencies are reported in the 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.
- No instances of noncompliance material to the financial statements of the Florida Community Services Corporation of Walton County were disclosed during the audit.
- No significant deficiencies relating to the audit of the major State projects are reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major State Project and on Internal Control Over Compliance in Accordance with Chapter 10.650, Rules of the Auditor General.
- The auditor's report on compliance with requirements applicable to the major State projects for the Florida Community Services Corporation of Walton County expresses an unqualified opinion.
- Our audit disclosed no findings required to be reported related to State projects required to be disclosed under Chapter 10.656 for Florida Community Services Corporation of Walton County.
- The programs tested as major projects for the year ended February 28, 2011 included the Statewide Surface Water Restoration and Wastewater Projects (CSFA 37.039).
- The threshold for distinguishing Type A and B projects was \$300,000 for major State projects.

Florida Community Services Corporation of Walton County
Schedule Of Findings And Questioned Costs – State Projects
For The Year Ended February 28, 2011

Findings – Financial Statements

- The results of our audit of the Florida Community Services Corporation of Walton County did not disclose any findings required to be reported in accordance with GAGAS.

Findings and Questioned Costs – Major State Projects

- The results of our audit of the Florida Community Services Corporation of Walton County did not disclose any findings or questioned costs required to be reported under the provision of Chapter 10.650, Rules of the Auditor General, *Florida Single Audit Act Audits – Nonprofit and For-profit Organizations*.

Other Issues

- No corrective action plan is required because there were no findings required to be reported under the State Single Audit Act. Accordingly, no management letter pursuant to Florida Statutes Sections 10.656(3)(e) is required.
- No Summary Schedule of Prior Audit Findings pursuant to 10.557(3)(d)(5) and 10.656(3)(d)(6) is required because there were no prior audit findings related to State projects.