

**THE PACE WATER SYSTEM, INC.  
AND  
PACE PROPERTY FINANCE AUTHORITY, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS,  
COMBINED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION  
December 31, 2012 and 2011**

**THE PACE WATER SYSTEM, INC.  
AND  
PACE PROPERTY FINANCE AUTHORITY, INC.**

**MANAGEMENT’S DISCUSSION AND ANALYSIS,  
COMBINED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**DECEMBER 31, 2012 and 2011**

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# Scott & Associates, P.A.

Donn G. Scott, CPA

CERTIFIED PUBLIC ACCOUNTANTS

March 8, 2013

## INDEPENDENT AUDITOR'S REPORT ON COMBINED FINANCIAL STATEMENTS

Board of Directors  
The Pace Water System, Inc.  
and Pace Property Finance Authority, Inc.

We have audited the accompanying financial statements of The Pace Water System, Inc. and Pace Property Finance Authority, Inc. (the System) which comprise the balance sheets as of December 31, 2012 and 2011, and the related combined statements of income and retained earnings and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

**Opinion**

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Pace Water System, Inc. and Pace Property Finance Authority, Inc. as of December 31, 2012 and 2011, and the results of the System's operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

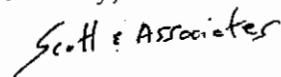
In accordance with **Government Auditing Standards**, we have also issued our report dated March 8, 2012, on our consideration of The Pace Water System, Inc. and Pace Property Finance Authority, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions 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.

**Other Matters**

Management's Discussion and Analysis on pages 5 through 7 is not a required part of the combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements of The Pace Water System, Inc. and Pace Property Finance Authority, Inc. taken as a whole. The accompanying schedule of operating and maintenance expenses on page 26 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined 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 additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the combined financial statements taken as a whole.

Sincerely,



Scott & Associates, P.A.  
Certified Public Accountants



# Scott & Associates, P.A.

Donn G. Scott, CPA

CERTIFIED PUBLIC ACCOUNTANTS

March 8, 2013

Board of Directors  
The Pace Water System, Inc. and  
Pace Property Finance Authority, Inc.

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

We have audited the financial statements of The Pace Water System, Inc. and Pace Property Finance Authority, Inc. as of and for the year ended December 31, 2012, and have issued our report thereon dated March 8, 2013. 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

Management of The Pace Water System, Inc. and Pace Property Finance Authority, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The Pace Water System, Inc. and Pace Property Finance Authority, Inc.'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 The Pace Water System, Inc. and Pace Property Finance Authority, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control 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 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.

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. However, we identified a certain deficiency in internal control over financial reporting, described in the next paragraph that we consider to be a significant deficiency in internal control over financial reporting. 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.

In the previous year's audit, we identified a significant deficiency in internal control over financial reporting related to the System failing to document and approve credit adjustments to customer accounts. In response to these findings, the System implemented auditor recommendations as disclosed in the previous year's auditor report on internal control over financial reporting. Our follow-up tests over these internal control matters disclosed improvements over the approval and documentation of adjustments. However, we noted significant adjustments totaling \$23,854 to one commercial customer's sewer account that was not approved by the General Manager. Because of the magnitude of the adjustment, it appears the adjustment would qualify as a one-time forgiveness adjustment and require the approval of the general manager. Based on this finding, it is our recommendation that (1) all one time forgiveness adjustments be approved by the General Manager regardless of the amount and (2) all other adjustments of \$1,000 or greater include the General Manager's approval.

Management's response to this finding will include the above recommendations to strengthen controls over significant adjustments including one time forgiveness adjustments.

The system's response to the findings identified in our audit is documented above. We did not audit the System's response and, accordingly, we express no opinion on it.

Compliance and Other Matters

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

We noted certain matters that we reported to management of The Pace Water System, Inc. and Pace Property Finance Authority in a separate letter dated March 8, 2013 on pages 27-29.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Scott & Associates*

Scott & Associates, P.A.  
Certified Public Accountant

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**THE PACE WATER SYSTEM, INC.**  
**AND**  
**PACE PROPERTY FINANCE AUTHORITY, INC.**

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This section of the System's annual financial report presents our discussion and analysis of the System's financial performance during the fiscal year ended December 31, 2012.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: Management's Discussion and Analysis, Combined Financial Statements, and Supplemental Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

**REQUIRED FINANCIAL STATEMENTS**

The combined financial statements of the System report information about the System using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Combined Balance Sheets include all of the System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to System creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the System and assessing the liquidity and financial flexibility of the System. All of the current year revenues and expenses are accounted for in the Statement of Income and Retained Earnings. This statement measures the success of the System's operations over the past year and can be used to determine whether the System has successfully recovered all its cost through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the System's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing, and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**FINANCIAL ANALYSIS OF THE BOARD**

The financial statements of the System begin on page 8. The Combined Balance Sheet and the Statement of Income and Retained Earnings report the contributed and proprietary capital of the System and changes in them. The contributed and proprietary capital, the difference between assets and liabilities, is one way to measure the financial health or financial position. Over time, increases or decreases in the System's contributed and proprietary capital are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered such as economic conditions, population growth, and changing government legislation.

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
THE PACE WATER SYSTEM, INC.  
AND  
PACE PROPERTY FINANCE AUTHORITY, INC.**

**ASSETS, LIABILITIES AND PROPRIETARY CAPITAL**

The following table summarizes the Combined Balance Sheet (in thousands):

	2012	2011
Current assets	\$ 4,776,459	\$ 4,769,688
<i>Non-current assets</i>		
Restricted assets	4,498,144	3,899,220
Other assets	733,539	452,863
Utility plant in service, net of accumulated depreciation	<u>76,539,265</u>	<u>76,403,083</u>
Total Assets	\$ <u>86,547,407</u>	\$ <u>85,524,854</u>
Current liabilities (payable from current assets)	\$ 452,576	\$ 422,701
Current liabilities (payable from restricted assets)	1,929,626	1,930,052
Long-term liabilities	<u>21,775,293</u>	<u>22,407,726</u>
Total Liabilities	\$ <u>24,157,495</u>	\$ <u>24,760,479</u>
Contributed capital	\$ 31,113,909	\$ 29,485,981
Membership certificates	33,305	32,747
Contributions in aid of construction, net of accumulated amortization	21,386,878	21,897,063
Unrealized gain (loss) on marketable securities	756	0
Retained earnings	<u>9,855,064</u>	<u>9,348,584</u>
Total Contributed and Proprietary Capital	\$ <u>62,389,912</u>	\$ <u>60,764,375</u>

As can be seen from the above table, total assets increased by approximately \$1,022,553. The increase in total assets and proprietary capital is a result of the overall net operating income during the year and tap fees received during the year. See the discussion below regarding further analysis of the increase as it relates to the Statement of Income and Retained Earnings.

The following table summarizes the System's Statement of Income and Retained Earnings (in thousands):

	2012	2011
Operating revenues	\$ 7,073,353	\$ 7,344,187
Non-operating revenues	<u>137,083</u>	<u>121,293</u>
Total Revenues	<u>7,210,436</u>	<u>7,465,480</u>
Operating expenses	6,078,786	6,061,036
Non-operating expenses	<u>625,170</u>	<u>683,147</u>
Total Expenses	<u>6,703,956</u>	<u>6,744,183</u>
Change in retained earnings	506,480	721,297
Beginning retained earnings	<u>9,348,584</u>	<u>8,627,287</u>
Ending retained earnings	\$ <u>9,855,064</u>	\$ <u>9,348,584</u>



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
THE PACE WATER SYSTEM, INC.  
AND  
PACE PROPERTY FINANCE AUTHORITY, INC.**

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**ASSETS, LIABILITIES AND PROPRIETARY CAPITAL (continued)**

While the Combined Balance Sheets show the change in financial position of Contributed and Proprietary Capital, the Statement of Income and Retained Earnings provides answers as to the nature and source of these changes. As can be seen in the table on page 6, the operating revenues decreased approximately 4%. The total water gallons sold from operations decreased from fiscal year 2011 approximately 100 million gallons which resulted in the year to year operating revenue decrease noted. Operating expenses of the System increased less than 1% from fiscal year 2011 primarily due to an increase in depreciation and amortization costs.

**CAPITAL ASSETS**

Capital assets consist of the following:	<u>Balance</u> <u>1/1/2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/2012</u>
<b>Capital assets, not being depreciated</b>				
Land	\$ 1,837,713			\$ 1,837,713
Construction in progress	<u>2,091,715</u>	<u>1,844,892</u>	<u>2,802,208</u>	<u>1,134,399</u>
	<u>3,929,428</u>	<u>1,844,892</u>	<u>2,802,208</u>	<u>2,972,112</u>
<b>Capital assets, being depreciated</b>				
Buildings and improvements	977,962	139,253	1,954	1,115,261
Vehicles and equipment	89,268,483	3,294,597	191,523	92,371,557
Capitalized interest	1,843,864			1,843,864
Accumulated depreciation	<u>(19,616,654)</u>	<u>( 2,339,160)</u>	<u>192,285</u>	<u>(21,763,529)</u>
Total capital assets, depreciated, net	<u>72,473,655</u>	<u>1,094,690</u>	<u>1,192</u>	<u>73,567,153</u>
Capital assets, net	<u>\$76,403,083</u>	<u>\$ 2,939,582</u>	<u>\$ 2,803,400</u>	<u>\$76,539,265</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Pace Water System, Inc. and Pace Property Finance Authority, Inc. expects tepid growth over the next few years and will continue to explore expansion options to serve its franchise with added customers from water, sewer and reuse. The growth factor has been taken into consideration in developing the fiscal year 2013 budget, with the System anticipating a 2% increase in projected revenues from operations.

In the fourth quarter of the fiscal year the Board develops and annual proposed budget for the subsequent fiscal year. The budget is then approved by the System prior to the beginning of the budgeted fiscal year.

**CONTACTING THE BOARD**

This financial report is designed to provide our members with a general overview of The Pace Water System, Inc. And Pace Property Finance Authority, Inc.'s finances and to demonstrate its accountability for the money it receives. If you have questions about this report and need additional information, contact the General Manager of the System, at 4401 Woodbine Road, Pace, Florida 32571 or telephone number: (850) 994-5129.

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**COMBINED BALANCE SHEETS**

**December 31, 2012 and 2011**

<b>ASSETS</b>		
	<u>2012</u>	<u>2011</u>
<b>UTILITY PLANT IN SERVICE</b>	\$ 76,539,265	\$ 76,403,083
<b>RESTRICTED ASSETS</b>		
Cash and cash equivalents	2,486,983	3,416,148
Investments	2,004,177	482,252
Accrued interest	6,984	820
Total restricted assets	<u>4,498,144</u>	<u>3,899,220</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	2,268,234	1,733,609
Investments	1,204,234	2,001,318
Accrued interest	275	2,142
Accounts receivable, net of allowance for doubtful accounts of \$15,000 and \$15,000, respectively	458,211	410,707
Unbilled accounts receivable	355,938	356,711
Current portion of financed sewer & water tap receivables	19,758	21,087
Inventory	388,347	154,710
Prepaid expenses	81,462	89,404
Total current assets	<u>4,776,459</u>	<u>4,769,688</u>
<b>OTHER ASSETS</b>		
Financed sewer & water tap receivables, less current portion	232,207	269,544
Utility deposits	4,073	4,073
Bond issue costs	23,737	26,704
Loan service costs	473,522	152,542
Total other assets	<u>733,539</u>	<u>452,863</u>
	<u>\$ 86,547,407</u>	<u>\$ 85,524,854</u>

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

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**COMBINED BALANCE SHEETS**

**December 31, 2012 and 2011**

	2012	2011
<b>LIABILITIES AND PROPRIETARY CAPITAL</b>		
<b>CONTRIBUTED AND PROPRIETARY CAPITAL</b>		
Contributed capital	\$ 31,113,909	\$ 29,485,981
Membership certificates	33,305	32,747
Contributions in aid of construction, net of accumulated amortization of \$4,211,919 and \$3,701,734, respectively	21,386,878	21,897,063
Unrealized gain (loss) on marketable securities	756	0
Retained earnings	9,855,064	9,348,584
Total contributed and proprietary capital	62,389,912	60,764,375
<b>LONG-TERM LIABILITIES</b>		
Accrued sick leave	101,163	133,659
Bonds payable, net of discount and current portion	4,353,000	4,353,000
Loans payable, net of current portion	17,321,130	17,921,067
Total long-term liabilities	21,775,293	22,407,726
<b>CURRENT LIABILITIES (Payable from Restricted Assets)</b>		
Bonds and loan payable, current portion	986,633	1,078,880
Customer deposits	885,095	792,435
Accrued interest	57,898	58,737
Total current liabilities (payable from restricted assets)	1,929,626	1,930,052
<b>CURRENT LIABILITIES (Payable from Current Assets)</b>		
Accounts payable	346,996	322,281
Accrued liabilities	105,580	100,420
Total current liabilities (payable from current assets)	452,576	422,701
	\$ 86,547,407	\$ 85,524,854

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

**The Pace Water System, Inc.**  
**and**  
**Pace Property Finance Authority, Inc.**

**COMBINED STATEMENTS OF INCOME AND RETAINED EARNINGS**

**For the years ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>REVENUES FROM OPERATIONS</b>	\$ 7,073,353	\$ 7,344,187
<b>OPERATING EXPENSES</b>		
Operating and maintenance	4,236,489	4,298,490
Depreciation and amortization	1,842,297	1,762,546
	<u>6,078,786</u>	<u>6,061,036</u>
<b>OPERATING INCOME</b>	994,567	1,283,151
<b>OTHER INCOME (EXPENSES)</b>		
Realized gain on sale of intestments	8	0
Gain (loss) on sale or retirement of assets	21,570	20,032
Interest and dividend income	53,422	58,949
Interest expense	( 625,170)	( 676,995)
Other (expenses) income - net	39,451	18,558
Rents	22,632	23,754
	<u>( 488,087)</u>	<u>( 555,702)</u>
<b>NET INCOME BEFORE EXTRAORDINARY ITEM</b>	506,480	727,449
<b>EXTRAORDINARY ITEM</b>		
Loss on early extinguishment of debt -Note G	0	(6,152)
<b>NET INCOME</b>	506,480	721,297
<b>RETAINED EARNINGS, BEGINNING OF YEAR</b>	<u>9,348,584</u>	<u>8,627,287</u>
<b>RETAINED EARNINGS, END OF YEAR</b>	<u><u>\$ 9,855,064</u></u>	<u><u>\$ 9,348,584</u></u>

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

**The Pace Water System, Inc.**  
**and**  
**Pace Property Finance Authority, Inc.**

**COMBINED STATEMENTS OF CASH FLOWS**

**For the years ended December 31, 2012 and 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 506,480	\$ 721,297
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premium	6,525	0
Depreciation and amortization expense	1,842,297	1,762,546
(Gain) loss on sale/retirement of assets	( 21,570)	( 20,032)
(Gain) loss on sale of investments	( 8)	0
Extraordinary loss on debt extinguishment	0	6,152
Bad debt expense	30,381	21,261
Increase (decrease) in:		
Accrued sick leave	(32,496)	14,861
Accrued interest payable	( 839)	1,272
Customer deposits	92,660	79,544
Accounts payable	24,715	85,196
Accrued liabilities	5,160	3,979
Retainage payable	0	( 70,260)
Decrease (increase) in:		
Accounts receivable	( 77,112)	( 41,047)
Accrued rent	0	1,800
Accrued interest	( 4,297)	1,560
Inventory	( 233,637)	( 39,971)
Prepaid expenses	7,942	( 10,815)
Net cash and cash equivalents provided (used) by operating activities	2,146,201	2,517,343
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of assets	22,012	20,987
Additions to utility plant in service	(2,475,777)	(1,905,612)
Proceeds from sales of investments	802,396	2,170,221
Investment purchases	(1,533,006)	(1,005,253)
Net cash and cash equivalents provided (used) by investing activities	(3,184,375)	(719,657)

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

**The Pace Water System, Inc.**  
**and**  
**Pace Property Finance Authority, Inc.**

**COMBINED STATEMENTS OF CASH FLOWS**

**For the years ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan service fees	( 331,335)	0
Payments to retire bonds	( 692,183)	( 1,591,749)
Capital contributions	1,667,152	760,518
Net cash and cash equivalents provided (used) by financing activities	<u>643,634</u>	<u>( 831,231)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	( 394,540)	966,455
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>5,149,757</u>	<u>4,183,302</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 4,755,217</u>	<u>\$ 5,149,757</u>
<b>CASH AND CASH EQUIVALENTS CONSIST OF:</b>		
Restricted	\$ 2,486,983	\$ 3,416,148
Unrestricted	2,268,234	1,733,609
Total	<u>\$ 4,755,217</u>	<u>\$ 5,149,757</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Contributions received from developers	\$ 0	\$ 1,508,882
Land easement by sewer tap		
Retirement of fixed assets	193,477	329,587
Cash paid during the year for interest	626,009	675,723

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

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

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**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Basis of Presentation**

The combined financial statements of The Pace Water System, Inc. and Pace Property Finance Authority, Inc. (the "System") are prepared using the accrual method of accounting in accordance with generally accepted accounting principles. These statements conform to predominate practices within the utilities industry. All material interorganization transactions have been eliminated for the combined financial statement presentation.

**2. Business Activity**

The System is a not-for-profit corporation incorporated under Chapter 617 of the Florida Statutes. The System owns, operates and maintains a water and sewer system for the supply and distribution of water and the collection and disposal of sewage and wastewater within its franchise area granted by Santa Rosa County. The System receives revenues from water, sewer, reuse, and fire hydrant maintenance activities.

**3. Dependent Special Districts**

The Pace Property Finance Authority (Authority) was created in March 1990 by County Resolution No. 90-12 pursuant to Chapter 617 of Florida Statutes. In accordance with Florida Statutes Section 189.403, the Authority qualifies as a dependent special district. The Authority was created for the sole purpose of issuing tax free bonding. Thus, the Authority was created as a conduit debt entity and for financial reporting purposes has no revenues and expenditures. Additionally, based on the criteria of GASB Statement No. 14, the Authority is a component unit of Santa Rosa County. However, the Authority meets the criteria for inclusion in more than one reporting entity - Pace Water System as well as Santa Rosa County. GASB Statement No. 14 indicates that in these cases, judgment must be exercised by management of the reporting entities as to which reporting entity the organization should be included. The Authority has the same elected governing body as the Pace Water System. Additionally, both the Authority and Pace Water System own portions of an interconnected single water/sewer system. Finally, the Authority's debt was issued solely to finance the Pace water/sewer system improvements. Based on these facts, management has decided to include the Authority in the combined financial statements of Pace Water System rather than as a component unit of Santa Rosa County.

**4. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 those estimates.

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

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**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**5. Trade Accounts Receivable**

Trade accounts receivable is recorded net of an allowance for bad debts estimated from historical performance and projections of trends. Trade accounts receivable includes late fees and delinquent charges assessed on terms established in the customer deposit agreement. Late fees are assessed on past due accounts at a rate of 10% of the billed amount. Delinquent charges are assessed after 60 days of nonpayment at a rate of \$50. The System charges off uncollectible trade receivables after attempts of collection have been exhausted by the System and a collection agency. This normally occurs after 120 days of nonpayment. The total amount of accounts receivable past due 90 days or more as of December 31, 2012 and 2011, was \$23,564 and \$15,867, respectively.

**6. Financed Sewer and Water Tap Receivable**

Financed taps are carried at the unpaid principal balance which is equivalent to the net realizable value since uncollected taps create a lien on the property.

**7. Unbilled Accounts Receivable**

Accounts receivable from utility customers and the related revenues reflect an estimated amount based on the number of days of unbilled services at December 31, 2012 and 2011.

**8. Investments**

Investments are composed of certificates of deposits.

Investments are classified as “held to maturity” or “available for sale” securities depending on the intent of management. “Held to maturity” investments are reported in the financial statements at amortized cost. “Available for sale” investments are reported in the financial statements at fair value. Their unrealized gains and losses are reported as a separate component of contributed and proprietary capital. Cost or amortized cost is used to determine realized gains and losses.



**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

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**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**9. Utility Plant in Service**

The System's capitalization policy is to capitalize all costs for items \$500 or more unless the item is a component of a network of assets. Property acquired through purchase or internal construction is stated at cost and includes direct internal labor costs. Engineering labor costs are charged to construction projects using contract percentages established by federal regulations. Property contributed by members and developers is recorded at the estimated fair value at the date received. Depreciation is computed using straight-line methods with assets lives falling into the following ranges:

Buildings and improvements	30 years
Plant and equipment	5 - 50 years
Furniture, fixtures, equipment and software	5 - 10 years
Vehicles	5 years
Capitalized interest	50 years

**10. Restricted Assets**

Restricted assets include amounts restricted in accordance with applicable bond covenants, state revolving loan covenants, customer deposits, construction commitments in progress, assets restricted for purchase of property and equipment from tap fees, and amounts being accumulated by the board for a self-insurance reserve. Separate accounts are maintained for these restricted assets.

**11. Inventory**

Inventories consist of parts to be used in new installations and for repair and maintenance. Inventory is stated at the lower of cost or market with cost being determined by the first-in first-out method of inventory valuation.

**12. Compensated Absences**

The System's policy is to allow unused sick leave to accumulate and vest up to twenty two days per employee. This unused sick leave is recorded as a long-term liability. The System does not allow employees to accumulate unused vacation time.

**13. Contributed Capital**

Tap fees received by the System are recorded as contributed capital to the extent the fees received substantially exceeds the cost to connect. The System has determined that the cost of connection for tap fees to be negligible. Therefore, the System records the entire tap fee to contributed capital. The System's accounting policy of tap fees conforms to generally accepted accounting principles of non-governmental utilities.

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**14. Contributions in Aid of Construction**

Property contributed by members and developers is recorded as contributions in aid of construction at estimated fair value at the date received. The contributions are amortized over the estimated useful lives if the related contributed assets, with such amortization being offset against depreciation charged to operations.

**15. Income Taxes**

The System is exempt from payment of income taxes under Section 501(c)(12) of the Internal Revenue Code.

**16. Advertising**

Advertising costs are expensed as incurred and were \$9,042 and \$6,296 in 2012 and 2011, respectively.

**17. Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash equivalents include all liquid investments with original maturities of three months or less.

**NOTE B: UTILITY PLANT IN SERVICE**

Details of utility plan in service are as follows:

	2012	2011
Land	\$ 1,837,713	\$ 1,837,713
Buildings and improvements	1,115,261	977,962
Plant and equipment	91,059,178	88,061,469
Capitalized interest	1,843,864	1,843,864
Furniture, fixtures, equipment and software	256,398	251,682
Capitalized interest	1,055,981	955,332
	97,168,395	93,928,022
Less: Accumulated depreciation	(21,763,529)	(19,616,654)
	75,404,866	74,311,368
Construction in progress, including capitalized interest	1,134,399	2,091,715
Total utility plant in service	\$76,539,265	\$76,403,083

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

**NOTE B: UTILITY PLANT IN SERVICE -CONTINUED**

Depreciation and amortization expense consists of the following:

	2012	2011
Depreciation:		
Utility plant and equipment	\$2,302,283.00	\$2,204,101.00
Amortization:		
Bond issue and loan service costs	13,321.00	13,552.00
Contributions in aid of construction	(510,185.00)	(491,985.00)
Capitalized interest	36,878.00	36,878.00
	(459,986.00)	(441,555.00)
Total depreciation and amortization, net	\$1,842,297.00	\$1,762,546.00

**NOTE C: INVESTMENTS**

Cost and fair market value of investments at December 31, 2012 and 2011 are as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Gains	Fair Market Value
<u>December 31, 2012</u>				
Restricted:				
Available for Sale:				
Government Bonds	\$1,018,255	--	\$466	\$1,018,721
Held to Maturity:				
Certificates of Deposit	985,456	--	--	985,456
	2,003,711	--	466	2,004,177
Unrestricted:				
Available for Sale:				
Certificates of Deposit	100,000			100,000
US Government Bonds	303,605	--	290	303,895
Held to Maturity				
Certificates of Deposit	800,339			800,339
	1,203,944			1,204,234
Totals	\$3,207,655	--	\$756	3,208,411

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

**NOTE C: INVESTMENTS - CONTINUED**

<u>December 31, 2011</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Market Value</u>
Restricted:				
Available for Sale				
Certificates of Deposit	\$ 200,000	\$ --	\$ --	\$ 200,000
Held to Maturity				
Certificates of Deposit	<u>282,252</u>	<u>--</u>	<u>--</u>	<u>282,252</u>
	482,252	0	0	482,252
Unrestricted:				
Held to Maturity				
Certificates of Deposit	<u>2,001,318</u>	<u>--</u>	<u>--</u>	<u>2,001,318</u>
Totals	\$ <u>2,483,570</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>2,483,570</u>

The government bonds available for sale were adjusted to fair market value at December 31, 2012 by an adjustment to contributed and proprietary capital for the amounts stated above. A realized gain of \$8 occurred during the year from the sale of US government bonds in the amount of \$100,086.

Interest earned on investments for the year ended December 31, 2012 and 2011 was \$26,856 and \$30,216.

**NOTE D: RESTRICTED ASSETS**

Assets have been restricted as follows:

	<u>2012</u>	<u>2011</u>
Restricted for construction in progress	\$ 213,339	\$ 478,996
Restricted for customer deposits	863,095	776,125
Restricted for debt retirement	634,569	646,523
Restricted for self-insurance plan	1,018,720	1,020,938
Restricted for investment in property and equipment	<u>1,761,437</u>	<u>975,818</u>
Total restricted cash and investments	\$ <u>4,491,160</u>	\$ <u>3,898,400</u>

**NOTE E: FINANCED SEWER AND WATER TAP FEES**

The System finances sewer and water tap fees of new customers at 10% for a period of up to 300 months. Each customer is automatically billed each month a portion of principal and interest calculated on the unpaid principal balance as part of the regular billing process. The System financed new sewer and water taps of \$13,000 and \$52,000 for the years ended December 31, 2012 and 2011, respectively.

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

**NOTE F: LONG-TERM DEBT**

At the end of the fiscal year, there was only one outstanding series of bonds secured by the revenues of the System. The 1997 series of bonds was redeemed on November 7, 2011 (see Note G). Bonds payable at December 31, 2012 and 2011 consists of the following:

<b>Bonds Payable:</b>	<u>Interest Rates</u>	<u>2012</u>	<u>2011</u>
\$630,000 Utility System Improvement Revenue Bonds, Series 1997, Maturity date of May 1, 2037	5%	0	0
\$4,353,000 Utility System Refunding Revenue Bonds, Series 2010, Maturity Date of September 1, 2020	2.47%	<u>4,353,000</u>	<u>4,353,000</u>
		4,353,000	4,353,000
Less: Current portion		<u>( 0 )</u>	<u>( 0 )</u>
		<u>4,353,000</u>	<u>4,353,000</u>
<b>Loans Payable:</b>			
\$6,338,379 State Revolving Loan, Project No. WWG12085101P, Original award date March 13, 2003, Maturity date June 15, 2023	2.58%-2.95%	4,265,470	4,574,021
\$10,194,743 State Revolving Loan, Project No. WW851020, Award Date September 14, 2007, Maturity date June 15, 2029	2.65%	8,718,012	8,952,555
\$6,357,405 State Revolving Loan, Project No. WW851021, Award Date January 14, 2009, Maturity date June 15, 2029	2.86%	<u>5,324,281</u>	<u>5,473,371</u>
		18,307,763	18,999,947
Less: Current Portion		<u>( 986,633 )</u>	<u>( 1,078,880 )</u>
		<u>17,321,130</u>	<u>17,921,067</u>
Net Long-Term Debt		<u>\$ 21,674,130</u>	<u>\$ 22,274,067</u>

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

**NOTE F: LONG-TERM DEBT - CONTINUED**

The annual requirements to amortize the long-term debt at December 31, 2012 are as follows:

<u>Year ending December 31,</u>	<u>Loans Payable</u>		<u>Bonds Payable</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	986,633	496,465		107,519	986,633	603,984
2014	1,013,965	469,133		107,519	1,013,965	576,652
2015	1,042,056	441,042	719,000	107,519	1,761,056	548,561
2016	1,070,927	412,172	736,000	89,760	1,806,927	501,932
2017	1,100,599	382,499	750,000	71,581	1,850,599	454,080
Thereafter	<u>13,093,583</u>	<u>2,302,132</u>	<u>2,148,000</u>	<u>101,789</u>	<u>15,241,583</u>	<u>2,403,921</u>
	<u>\$18,307,763</u>	<u>\$ 4,503,443</u>	<u>\$ 4,353,000</u>	<u>\$ 585,687</u>	<u>\$ 22,660,763</u>	<u>\$ 5,089,130</u>

Interest expense on long-term debt for 2012 and 2011 was \$621,639 and \$672,767, respectively. No interest expense was capitalized in the current year and previous year.

The System entered into the Clean Water State Revolving Loan Agreements with the Florida Department of Environmental Protection to finance the planning, design, and construction of wastewater transmission, collection, reuse, and treatment facilities. The loans are secured by the net revenues subordinate to the revenue bonds.

**NOTE G: OPTIONAL REDEMPTION PROVISIONS**

1997 Bonds (2011 Redemption) – Extraordinary Item

On November 7, 2011, the System retired the remaining outstanding 1997 term USDA bonds maturing in the years 2012 – 2037 at a total redemption price of 100% of the principal amount of \$532,000 plus accrued interest of \$14,648. As a result of the debt extinguishment, the System recognized an extraordinary loss of \$6,152 from unamortized bond issue costs.

2010 Bonds

The System issued \$4,353,000 of Utility System Refunding Revenue Bonds, Series 2010 to redeem the outstanding 1997 term bonds. The System incurred \$29,672 of new bond issue costs to be amortized over the life of the new bonds. The annual interest due on these bonds for the next three years is \$107,519. The System's next principal payment of \$719,000 is due on September 1, 2015.

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

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**NOTE H: BOND AND LOAN COVENANTS**

**Bonds:**

The System is required to establish and maintain revenue, sinking fund, and reserve accounts in order to segregate resources for the accumulation of debt service payments. In addition, the system must maintain utility rates that will provide net revenues, excluding tap fees, to pay at least 105% of the annual debt service and to provide revenues, including tap fees, to pay at least 110% of the annual debt service. The System is in compliance with all such covenants.

**Loans:**

Loan covenants require the establishment of a reserve account and a debt service account. The System is required to deposit in the reserve account 3% of the loan amount excluding capitalized interest. Monthly deposits are required in the debt service account equal to one-sixth of the semi-annual loan payment. The System is required to maintain rates and charges sufficient to provide net revenues (excluding tap fees) less annual debt service payments on revenue bonds that are equal to or exceeding 115% of the annual debt service on this loan. The System is in compliance with all the above loan covenants.

**NOTE I: CONTRIBUTED CAPITAL**

Details of contributed capital are as follows:	<u>2012</u>	<u>2011</u>
Balance at December 31, 2011 and 2010	\$ 29,485,981	\$ 28,706,333
Water taps sold less refunds	426,795	186,464
Sewer & reuse taps sold less refunds	<u>1,201,133</u>	<u>593,184</u>
Balance at December 31, 2012 and 2011	\$ <u>31,113,909</u>	\$ <u>29,485,981</u>

**NOTE J: MEMBERSHIP CERTIFICATES**

The System issues membership certificates for \$2.50 each. There were 13,322 and 13,099 membership certificates issued and outstanding at December 31, 2012 and 2011. For those years, membership certificates totaled \$33,305 and \$32,747 respectively.

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

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**NOTE K: RETIREMENT PLAN**

The System sponsors a defined contribution plan covering all employees who have met certain service requirements. It provides for employer contributions of 9% of salaries. The System contributed \$131,677 and \$133,808 in 2012 and 2011, respectively.

**NOTE L: SELF-INSURANCE PLAN**

The System established a self-insurance pollution and redemption legal liability plan in December, 1995. The plan was established to make financial provisions for the possibility of future responsibility of the System's directors, officers and employees for claims and/or remediation expenses resulting from pollution conditions emanating from the System's treatment facilities, infrastructure and equipment. The plan was previously funded in the amount of \$20,000 per year until the total sum of \$250,000 was accumulated. At the beginning of 2009, the System decided to utilize this plan to self-insure the bond and loan reserve requirements as an added protection in the event the System could not meet its debt service requirements and the bond insurer could not meet its financial obligation under the bond surety agreement. The System approved to continue funding the self-insurance plan at a rate of \$25,000 per month until the plan reached \$1,000,000. At the present time, the System has restricted the plan funds for potential environmental liabilities. The balance of the self-insurance plan at December 31, 2012 and 2011 was \$1,018,720 and \$1,020,938 respectively, and is included in restricted cash equivalents and investments.

**NOTE M: COMMITMENTS**

The System is continually upgrading and improving its plant and expanding its service capabilities to its franchise area as needed. At the end of 2012 and 2011, the System had entered into contracts for such capital improvements of approximately \$769,287 and \$840,940 respectively. These construction projects were in various stages of completion. As of December 31, 2012 and 2011, approximately \$213,339 and \$478,996 were outstanding. The System has restricted reserves at the end of the year designated for these commitments equal to 100% of the outstanding construction commitments.

**NOTE N: CONCENTRATIONS OF CREDIT RISK**

The System places its cash accounts and certificates of deposits (classified as investments) with numerous financial institutions to limit the amount of credit exposure to any one financial institution. Furthermore, the System minimizes credit risk due to excess deposits by requiring each financial institution to pledge collateral under State Statutes to secure these funds. At December 31, 2012 and 2011, all of the Systems cash balances were either insured or collateralized.

The System limits the concentration of credit risk with respect to trade receivables with the requirement of customer deposits and turn-off policies. No credit risk is associated with financed tap receivables for the reason discussed in Item 6 of Note A.



**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

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**NOTE N: CONCENTRATIONS OF CREDIT RISK- CONTINUED**

Management believes that losses due to credit risk are within the range of the allowance for bad debts. Trade receivables in the amount of \$23,564 and \$15,867 were past due 90 days or more at December 31, 2012 and 2011.

**NOTE O: PRIOR YEAR RECLASSIFICATION**

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

**NOTE P: RELATED PARTY**

Santa Rosa County is classified as a related party as the sole member of Pace Property Finance Authority, Inc. In the past, the System and the county have participated in cost sharing projects for the mutual benefit of each other. During the current year, no direct or indirect transactions occurred between the System and Santa Rosa County and no amounts were due from or to Santa Rosa County as of December 31, 2012 and 2011.

**NOTE Q: SPRAYFIELD RIGHTS**

The System received 1 million gallons per day of effluent disposal capacity through spray irrigation from Stonebrook Village, Ltd. in 1990 as part of an agreement between the two parties. Management has not recorded this transaction in the financial statements since the fair value of these sprayfield rights has not been reasonably determined.

**NOTE R: WATER TOWER LEASE**

The System entered into lease agreements with two telecommunications' companies to lease 416 square feet of land and space on a water tower and all access and utility easements in connection with the lessees' provision of wireless communication services. The initial term of the lease is for five years at a monthly rental rate of \$1,800. The lease is renewable for five successive five year periods with a rental rate increase of 15% over the rate in effect for the previous term. One of the tower leases terminated at the beginning of the 2011 year and the other tower lease was terminated at the end of 2012.

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

**NOTE 5: FAIR VALUE OF FINANCIAL INSTRUMENTS**

**Financial Instruments**

The following methods and assumptions were used by the System in estimating the fair value disclosures for financial instruments:

- Cash, cash equivalents, certificate of deposits classified as investments: The carrying amounts reported in the combined balance sheet approximate fair values because of the short maturities of those instruments.
- US Government bonds: The carrying amount and fair values reported on the balance sheet are based on quoted market prices in active markets.
- Long-term debt: The fair values of long-term debt are based on quoted prices for similar liabilities in active or inactive markets.

The estimated fair values of the System's financial instruments are as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$4,755,217	\$4,755,217	\$5,149,757	\$5,149,757
Investments				
Certificates of Deposit	1,885,795	1,885,795	2,483,570	2,483,570
US Government Bonds	1,322,616	1,322,616		
Financial liabilities:				
Long-term debt	22,660,763	22,660,763	23,352,947	23,352,947

**Fair Value Measurements**

The following table presents the System's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

<u>Long-term Debt</u>	<u>Fair Value Measurements at Reporting Date Using</u>	
	<u>Fair Value</u>	<u>Quoted Prices in Active or Inactive Markets for Identical Assets (Level 2)</u>
2012	\$ 22,660,763	\$ 22,660,763
2011	23,352,947	23,352,947

**The Pace Water System, Inc.  
and  
Pace Property Finance Authority, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**For the years ended December 31, 2012 and 2011**

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**NOTE T: SUBSEQUENT EVENT**

Management has evaluated subsequent events through March 8, 2013, the date which the financial statements were issued.

**The Pace Water System, Inc.**  
**and**  
**Pace Property Finance Authority, Inc.**

**SCHEDULE OF OPERATING AND MAINTENANCE EXPENSES**

**For the years ended December 31, 2012 and 2011**

	2012	2011
Accounting and auditing	\$ 20,000	\$ 23,250
Advertising	9,042	6,296
Bad debts	30,381	21,261
Bank charges	44,680	21,065
Billing services	77,454	77,009
Computer support and maintenance	22,017	24,265
Education and training	9,307	4,076
Insurance	623,496	625,383
Legal	16,110	9,796
Maintenance and repairs	231,552	326,866
Miscellaneous	371	664
Office expense	13,404	10,909
Other contractual services	34,301	25,679
Postage	4,670	4,568
Retirement cost	131,677	133,808
Salaries	551,325	594,676
Sewer hauling	9,688	47,531
Special events and entertainment	17,737	15,640
Supplies and chemicals	233,083	220,899
Taxes and licenses	151,625	142,610
Telephone	27,102	29,224
Travel	7,057	3,861
Utilities	544,192	553,850
Vehicle	132,918	112,208
Wages	1,142,596	1,111,953
Water testing	100,709	115,143
Disposal	49,995	36,000
Totals	<u>\$ 4,236,489</u>	<u>\$ 4,298,490</u>

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



# Scott & Associates, P.A.

Donn G. Scott, CPA

CERTIFIED PUBLIC ACCOUNTANTS

March 8, 2013

Board of Directors  
The Pace Water System, Inc.  
and Pace Property Finance Authority, Inc.

We have audited the combined financial statements of The Pace Water System, Inc. and Pace Property Finance Authority, Inc. as of and for the year ended December 31, 2012, and have issued our report thereon dated March 8, 2013.

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. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in those reports and schedule, which are dated March 8, 2013, should be considered with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's report or schedule:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, our recommendations are included at the end of this management letter.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, any such findings are included at the end of this management letter.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each such component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The information can be found in Note A.3, of the financial statements.

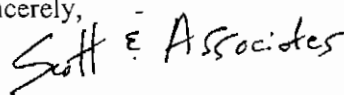
Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Pace Water System, Inc. and Pace Property Finance Authority, Inc. did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

#### Purchase Procedures

The System's policies and procedures over purchases of goods and services require the approval of purchase requisitions by the General Manager or Inventory Custodian depending on the nature of the purchase. We noted on several occasions whereby supervisory personnel authorized their own purchase requisition, which invalidates the segregation of duties with respect to approval and execution of purchasing. While none of these instances resulted in non-authorized purchases due to board approval, dual check signing authority, or the General Manager's approval of invoices, it is recommended that requisitions be approved by an independent party from the party requisitioning the purchase.

We are pleased to have served as your auditors and appreciate the assistance and cooperation extended us during our audit.

Sincerely,  


Scott & Associates, P.A.  
Certified Public Accountants