

HOMOSASSA SPECIAL WATER DISTRICT
FINANCIAL REPORT
For The Year Ended September 30, 2014

Prepared by: Finance Department

INTRODUCTORY SECTION

HOMOSASSA SPECIAL WATER DISTRICT

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FINANCIAL SECTION

This section contains the following subsections:

- . Independent Auditor's Report
- . Management's Discussion and Analysis
- . Basic Financial Statements
- . Required Supplementary Information

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Homosassa Special Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the *Homosassa Special Water District*, (the District), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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 opinions.

MCDIRMIT DAVIS & COMPANY, LLC

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of September 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other post employment disclosures on pages 3-6 and 29, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement 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 inquires 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 statement, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued a report dated February 12, 2015 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

McDiernit Davis & Company, LLC

Orlando, Florida
February 12, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Homosassa Special Water District we offer readers of the Homosassa Special Water District's financial statements this narrative overview and analysis of the financial activities of the Homosassa Special Water District (the District) for the fiscal year ended September 30, 2014. We encourage readers to consider the information presented here in conjunction with the District's financial statements (beginning on page 7).

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,978,851 (net position). Of this amount, \$1,197,859 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position decreased by \$21,284.
- As of the close of the current fiscal year, the Homosassa Special Water District's governmental funds reported combined ending fund balances of \$1,237,375, an increase of \$291,921 in comparison with the prior year. Unassigned fund balance for the General Fund was \$1,237,375 or thirteen times the amount of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Homosassa Special Water District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's financial position, in a manner similar to a private-sector business. They include a *Statement of Net Position* and a *Statement of Activities*.

The *Statement of Net Position* presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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 (e.g., uncollected taxes and earned but unused vacation leave).

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Fund Financial Statements

Our analysis of the District's major funds begins on page 9. The fund financial statements begin on page 9 and provide detailed information about the funds. Some funds are required to be established by State law. However, the Board of Commissioners established another fund to help control and manage money for particular purposes. The District has a governmental fund and a proprietary fund.

Governmental Fund - The District's services are reported in the governmental fund, which focus on how money flows into and out of the fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's programs. There is one reconciling items between the governmental fund statements and the government-wide statements, for long term postemployment benefits not reported in the General fund.

Proprietary Fund - Operations that are financed and operated similar to private businesses are reported in the proprietary fund. This fund is reported using the accrual basis of accounting.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to financial statements can be found on pages 15 - 28 of this report.

Government-Wide Financial Analysis

The District's net position for the year ending 2014 and 2013 were \$3,978,851 and \$4,000,135 respectively, a decrease of \$21,284. A large portion of the District's net position (35%) reflects its investment in capital assets, less any debt used to acquire those assets that is still outstanding. Restricted net position increased \$1,375,340, and the net investment in capital assets decreased the same amount due to placing funds for the Highway 19 construction project in an escrow account with the state.

Homosassa Special Water District Statement of Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	\$ 1,237,375	\$ 946,136	\$ 2,008,598	\$ 2,424,003	\$ 3,245,973	\$ 3,370,139
Capital assets	-	-	3,406,450	3,433,936	3,406,450	3,433,936
Total Assets	1,237,375	946,136	5,415,048	5,857,939	6,652,423	6,804,075
Liabilities:						
Current liabilities	-	682	40,540	45,424	40,540	46,106
Noncurrent liabilities	48,303	42,131	2,584,729	2,715,703	2,633,032	2,757,834
Total Liabilities	48,303	42,813	2,625,269	2,761,127	2,673,572	2,803,940
Net Position:						
Net investment in capital assets	-	-	1,405,652	2,663,182	1,405,652	2,663,182
Restricted	-	-	1,375,340	-	1,375,340	-
Unrestricted	1,189,072	903,323	8,787	433,630	1,197,859	1,336,953
Total Net Position	\$ 1,189,072	\$ 903,323	\$ 2,789,779	\$ 3,096,812	\$ 3,978,851	\$ 4,000,135

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

**Homosassa Special Water District
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues-						
Charges for services	\$ -	\$ -	\$ 1,036,452	\$ 907,330	\$ 1,036,452	\$ 907,330
General Revenues-						
Ad valorem taxes	384,832	386,309	-	-	384,832	386,309
Investment income and miscellaneous	2,852	2,949	(417)	7,188	2,435	10,137
Total Revenues	<u>387,684</u>	<u>389,258</u>	<u>1,036,035</u>	<u>914,518</u>	<u>1,423,719</u>	<u>1,303,776</u>
Expenses:						
General government	101,935	89,802	-	-	101,935	89,802
Water system	-	-	1,343,068	1,305,310	1,343,068	1,305,310
Total Expenses	<u>101,935</u>	<u>89,802</u>	<u>1,343,068</u>	<u>1,305,310</u>	<u>1,445,003</u>	<u>1,395,112</u>
Increase (Decrease) in Net Position Before Transfers	285,749	299,456	(307,033)	(390,792)	(21,284)	(91,336)
Transfers	-	-	-	-	-	-
Increase (Decrease) in Net Position	285,749	299,456	(307,033)	(390,792)	(21,284)	(91,336)
Net Position - beginning	903,323	603,867	1,721,472	3,487,604	2,624,795	4,091,471
Net Position - ending	<u>\$ 1,189,072</u>	<u>\$ 903,323</u>	<u>\$ 1,414,439</u>	<u>\$ 3,096,812</u>	<u>\$ 2,603,511</u>	<u>\$ 4,000,135</u>

Governmental Activities

Charges for services for business-type activities increased 14% from 2013 to 2014. Total business-type expenses increased 3% from 2013 to 2014. Total governmental activities expenses increased \$12,133 (14%).

Final Budget versus Actual Results - General Fund

Total revenues for the year ending 2014 came in \$1,852 greater than what was budgeted. This is mainly due to investment income exceeding the budget.

Total expenditures for the year ending 2014 came in \$543,069 less than budgeted, due to budgeting for capital outlay, which was not expended in the General Fund.

Capital Assets

At September 30, 2014, the District's investment in capital assets amounts to \$3,406,450 (net of accumulated depreciation). This amount represents a decrease of \$27,486 from the year ending September 30, 2013. This decrease is due to depreciation exceeding current year additions.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Economic Factors

In 1995 the District began a new water conservation rate structure. This rate structure was a revenue neutral change designed to give lower bills for customers that conserved and higher bills for customers that did not. Due to rising costs the District implemented its first increase to the water rates and charges since December 1995. The increase was effective June 23, 2006.

In 2010 the base rate increased \$1 and the block rate increased in .05 increments.

Requests for Information

This financial report is designed to provide a general overview of the Homosassa Special Water District's finances for all those with an interest in the District's finances. Questions concerning any of the information should be addressed to the office of the Homosassa Special Water District, P.O. 195, Homosassa, Florida 34487.

BASIC FINANCIAL STATEMENTS

HOMOSASSA SPECIAL WATER DISTRICT

STATEMENT OF NET POSITION

September 30, 2014

	Primary Government		
	Governmental Activities (General Fund)	Business-Type Activities (Water System Revenue Fund)	Total
Assets:			
Cash and cash equivalents	\$ 1,044,028	\$ 81,260	\$ 1,125,288
Receivables (net of allowance)	-	78,774	78,774
Internal balances	193,347	(193,347)	-
Prepays	-	1,375,340	1,375,340
Restricted cash and cash equivalents	-	432,584	432,584
Inventory-field supplies	-	233,987	233,987
Capital assets not being depreciated:			
Land	-	216,239	216,239
Construction in progress	-	404,445	404,445
Capital assets being depreciated, net of accumulated depreciation	-	2,785,766	2,785,766
Total capital assets	-	3,406,450	3,406,450
Total assets	<u>1,237,375</u>	<u>5,415,048</u>	<u>6,652,423</u>
Liabilities:			
Accounts payable	-	9,056	9,056
Customer deposits	-	31,484	31,484
Noncurrent liabilities:			
Due within one year	-	158,980	158,980
Due in more than one year	48,303	2,425,749	2,474,052
Total liabilities	<u>48,303</u>	<u>2,625,269</u>	<u>2,673,572</u>
Net Position:			
Net investment in capital assets	-	1,405,652	1,405,652
Restricted for highway 19 project	-	1,375,340	1,375,340
Unrestricted	1,189,072	8,787	1,197,859
Total net position	<u>\$ 1,189,072</u>	<u>\$ 2,789,779</u>	<u>\$ 3,978,851</u>

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

HOMOSASSA SPECIAL WATER DISTRICT

STATEMENT OF ACTIVITIES

Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenue	Net (Expense) Revenue and Changes in Position		
		Charges for Services	Governmental Activities	Business-type Activities	Total
Governmental Activities -					
General government	\$ 101,935	\$ -	\$ (101,935)	\$ -	\$ (101,935)
Total governmental activities	101,935	-	(101,935)	-	(101,935)
Business-type activities -					
Water	1,343,068	1,036,452	-	(306,616)	(306,616)
Total business-type activities	1,343,068	1,036,452	-	(306,616)	(306,616)
Total primary government	<u>\$ 1,445,003</u>	<u>\$ 1,036,452</u>	<u>(101,935)</u>	<u>(306,616)</u>	<u>(408,551)</u>
General revenues:					
Property taxes			384,832	-	384,832
Investment income and miscellaneous			2,852	(417)	2,435
Total general revenues and transfers			387,684	(417)	387,267
Change in net position			285,749	(307,033)	(21,284)
Net Position - beginning			903,323	3,096,812	4,000,135
Net Position - ending			<u>\$ 1,189,072</u>	<u>\$ 2,789,779</u>	<u>\$ 3,978,851</u>

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

HOMOSASSA SPECIAL WATER DISTRICT

BALANCE SHEET
GOVERNMENTAL FUND

September 30, 2014

	<u>General Fund</u>
Assets:	
Cash and cash equivalents	\$ 1,044,028
Due from other funds	<u>193,347</u>
Total assets	<u><u>\$ 1,237,375</u></u>
Liabilities and Fund Balance:	
Liabilities:	
Accounts payable	<u>\$ -</u>
Total liabilities	<u>-</u>
Fund Balance:	
Unassigned	<u>1,237,375</u>
Total fund balance	<u><u>1,237,375</u></u>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(48,303)</u>
Net position of governmental activities	<u><u>\$ 1,189,072</u></u>

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

HOMOSASSA SPECIAL WATER DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUND**

Year Ended September 30, 2014

	<u>General Fund</u>
Revenues:	
Property taxes	\$ 384,832
Investment earnings	2,852
Total revenues	<u>387,684</u>
Expenditures:	
Current:	
General government	<u>95,763</u>
Total expenditures	<u>95,763</u>
Excess of Revenues Over Expenditures	<u>291,921</u>
Net Change in Fund Balance	291,921
Fund Balance -beginning of year	<u>945,454</u>
Fund Balance - end of year	<u>\$ 1,237,375</u>

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities:

Net change in fund balances, governmental funds	\$ 291,921
Amounts reported for governmental activities in the Statement of Activities are different because:	
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	<u>(6,172)</u>
Change in net position of governmental activities	<u>\$ 285,749</u>

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

HOMOSASSA SPECIAL WATER DISTRICT

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 380,039	\$ 384,832	\$ 384,832	\$ -
Investment income	1,000	1,000	2,852	1,852
Total revenues	381,039	385,832	387,684	1,852
Expenditures:				
General Government:				
Tax collection and assessment fee	16,000	19,361	19,360	1
Salaries, wages and benefits	51,539	53,526	53,525	1
Audit and accounting fees	21,500	20,828	15,778	5,050
Legal fees	8,000	8,117	5,300	2,817
Engineers	2,000	2,000	1,800	200
Capital Outlay	535,000	535,000	-	535,000
Total general government	634,039	638,832	95,763	543,069
Total expenditures	634,039	638,832	95,763	543,069
Excess of Revenues Over Expenditures	(253,000)	(253,000)	291,921	544,921
Other Financing Sources (Uses)				
Transfers out	(224,000)	(224,000)	-	224,000
Total other financing sources (uses)	(224,000)	(224,000)	-	224,000
Net Change in Fund Balance	(477,000)	(477,000)	291,921	768,921
Fund Balance - beginning of year	945,454	945,454	945,454	-
Fund Balance - end of year	\$ 468,454	\$ 468,454	\$ 1,237,375	\$ 768,921

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

HOMOSASSA SPECIAL WATER DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUND

September 30, 2014

	<u>Enterprise Fund</u> <u>Water System</u> <u>Revenue Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 81,260
Accounts receivable, net	78,774
Prepaid expenses	1,375,340
Restricted cash and cash equivalents	432,584
Inventories	233,987
Total current assets	<u>2,201,945</u>
Noncurrent assets:	
Capital Assets:	
Land	216,239
Construction in progress	404,445
Buildings	422,699
Water distribution system	5,181,034
Improvements	880,411
Machinery and equipment	887,906
Software	32,539
Less accumulated depreciation	<u>(4,618,823)</u>
Total noncurrent assets	<u>3,406,450</u>
Total assets	<u>5,608,395</u>
Liabilities:	
Current liabilities:	
Accounts payable	9,056
Due to other funds	193,347
Customer deposits payable	31,484
Notes payable-current	148,032
Compensated absences-current	10,948
Total current liabilities	<u>392,867</u>
Noncurrent liabilities:	
OPEB Obligation	96,605
Compensated absences	43,794
Notes payable	2,285,350
Total noncurrent liabilities	<u>2,425,749</u>
Total liabilities	<u>2,818,616</u>
Net Position:	
Net investment in capital assets	1,405,652
Restricted for highway 19 project	1,375,340
Unrestricted	8,787
Total net position	<u>\$ 2,789,779</u>

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

HOMOSASSA SPECIAL WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND

Year Ended September 30, 2014

	<u>Water System Revenue Fund</u>
Operating Revenues:	
Charges for services	\$ 1,036,452
Operating Expenses:	
Personal services	642,741
Utilities	47,105
Materials and supplies	92,299
Repairs and maintenance	55,339
Depreciation and amortization	280,840
Insurance	64,501
Other expenses	94,049
Total operating expenses	<u>1,276,874</u>
Operating loss	<u>(240,422)</u>
Nonoperating Revenue (Expenses):	
Investment income (loss)	(417)
Interest expense	(66,194)
Total nonoperating revenue (expenses)	<u>(66,611)</u>
Change in net position	(307,033)
Total Net Position - beginning	<u>3,096,812</u>
Total Net Position - ending	<u>\$ 2,789,779</u>

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

HOMOSASSA SPECIAL WATER DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

Year Ended September 30, 2014

	<u>Water System Revenue Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 1,040,130
Cash paid to employees	(630,399)
Cash paid to suppliers	(1,764,965)
Net cash used by operating activities	<u>(1,355,234)</u>
Cash Flows from Investing Activities:	
Investment income (loss)	(417)
Sale of investments	1,725
Net cash provided by investing activities	<u>1,308</u>
Cash Flows from Non-Capital Financing Activities:	
Increase in due to other funds	179,397
Net cash provided by noncapital financing activities	<u>179,397</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisitions and construction of capital assets	(253,354)
Payments on notes payable	(143,316)
Interest paid on notes payable	(66,194)
Net cash used by capital and related financing activities	<u>(462,864)</u>
Net Decrease in Cash	(1,637,393)
Cash and Cash Equivalents - beginning	2,151,237
Cash and Cash Equivalents - ending	<u>\$ 513,844</u>
Classified as:	
Cash	\$ 81,260
Restricted cash and cash equivalents	432,584
Total cash and cash equivalents	<u>\$ 513,844</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating loss	(240,422)
Adjustments Not Affecting Cash:	
Depreciation	280,840
Change in Assets and Liabilities	
Decrease in accounts and unbilled revenue receivable	1,893
Increase in prepaid expenses	(1,375,340)
Decrease in accounts payable	(6,669)
Increase in OPEB obligation	12,342
Increase in inventory	(29,663)
Increase in customers' deposits	1,785
Total adjustments	<u>(1,114,812)</u>
Net Cash Used by Operating Activities	<u>\$ (1,355,234)</u>

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

NOTES TO FINANCIAL STATEMENTS

HOMOSASSA SPECIAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended September 30, 2014

Note 1 - Summary of Significant Accounting Policies:

A. Reporting Entity - The *Homosassa Special Water District* (the District) was created pursuant to an act (Chapter 59-1177) passed by the Florida House and Senate in June 1959, establishing a public body corporate and political subdivision in Citrus County, Florida.

The Board of Commissioners of Homosassa Special Water District, a five-member group, is the level of government, which has governance responsibilities over all activities, related to supplying water to customers within the boundaries of the District.

In evaluating how to define the government, for financial reporting purposes, the District has considered all potential component units. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organizations' governing body, and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organizations' resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. In applying the above criteria, there are no potential component units or related organizations of the District.

B. Government-Wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 1 - Summary of Significant Accounting Policies - (Continued):

B. Government-Wide and Fund Financial Statements - (Continued):

Separate financial statements are provided for; (1) the governmental fund (general fund), statement of revenue, expenditures and changes in fund balance- Budget and Actual; (2) proprietary fund (water system revenue fund), statements of revenue, expenses and changes in fund net position and cash flows.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Ad valorem taxes attach, as an enforceable lien, on property as of February 1. Taxes are levied on November 1 and are due and payable at that time. All unpaid taxes levied November 1 become delinquent March 1 of the following year. Ad valorem tax revenues are recognized when they become available. Available includes those ad valorem tax receivables expected to be collected within sixty days after year-end. Delinquent taxes are considered fully collectible; therefore, no allowance for uncollectible taxes is provided. Expenditures generally are recorded when a liability is incurred as under accrual accounting.

Interest associated with the current fiscal period is considered susceptible to accrual and so has been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the District receives cash.

Fund Accounting - The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. The funds used by the District are as follows:

The *General Fund* - is the major governmental fund of the District. It accounts for all financial resources, except those required to be accounted for in another fund.

The *Proprietary Fund - Water System Revenue Fund* - A proprietary fund is distinguished from a governmental fund in that proprietary funds report on the determination of net income, financial position, and cash flows. Activities reported in this fund generally include those services that are funded by user fees (or other income sources) that are structured to recover the costs of providing those specific services.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - (Continued):

The Water System Revenue Fund is the proprietary fund used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of this fund is that the costs, including depreciation, of supplying water to customers within the District boundaries be financed or recovered primarily through user charges. The Water System Revenue Fund is also used to report all of the transactions and balances of special assessment projects.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contribution, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's water system revenue fund are charges to customers for sales and services. The District also recognizes as operating revenue the meter fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Cash Equivalents - For purposes of the statement of cash flows, the water system revenue fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, including deposits with the local government surplus trust funds investment pool.

Inventory - Field Supplies - Inventories are stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

Receivables and Payables - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

HOMOSASSA SPECIAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

D. Assets, Liabilities and Net Position or Equity

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for uncollectible accounts. The District reserved \$9,365 for uncollectible accounts in the Water System Revenue Fund.

Capital Assets - Capital assets of the Water System Revenue Fund are recorded as expenditures at the time of purchase to satisfy budgetary requirements. At year-end, these assets are capitalized at cost for financial statement presentation. Cost includes capitalized interest on long-term obligations and overhead costs during the construction period of capital assets, when material. The District has adopted the accounting policy of capitalizing "infrastructure" capital assets (water lines and improvements, wells and similar assets) that are immovable and of value only to the District. Depreciation is calculated under the straight-line method and is charged to operations. The estimated lives of the assets, for determining depreciation charges are as follows:

<u>Assets</u>	<u>Years</u>
Water Distribution System, Water Tank and Water Treatment Plant	20-40
Office Buildings	30-40
Trucks, Equipment and Office Equipment	5-10
Software	3-5

Capital asset additions contributed to the Water System Revenue Fund are recorded as invested in capital assets at their estimated fair values at time of acquisition.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2014.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any item that qualifies for reporting in this category for the year ended September 30, 2014.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

D. Assets, Liabilities and Net Position or Equity - (Continued):

Net Position Flow Assumption - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted- net position and unrestricted- net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted-net position is applied.

Fund Balance Flow Assumptions - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies - Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes fund balance amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Commissioners is the highest level of decision-making authority for the government that can, by adoption of an ordinance or resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance or resolution remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Commissioners is authorized to assign amounts for specific purposes. The Board of Commissioners may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above and additional action is essential to either remove or revise a commitment.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

D. Assets, Liabilities and Net Position or Equity - (Continued):

Net position in the government-wide statements are categorized as investment in capital assets, net, restricted or unrestricted. Investment in capital assets, net represents net position related to infrastructure and property, plant and equipment, net of any related debt.

Budgets and Budgetary Accounting - The District is required by state law to adopt an annual budget for each fund. Each budget is adopted on the cash basis. This basis is not consistent with accounting principles generally accepted in the United States of America (GAAP). Budgetary comparisons presented in this report, for the General Fund, are on this non-GAAP budgetary basis; however, there were no items at September 30, 2014 which would require conversion to GAAP budgetary basis. The budget is used as a management tool that assists its users in analyzing financial activity for its fiscal year ending September 30. The Board of Commissioners amends the budget as activities occur that warrant such changes. The level of budgetary control is at the object level for the District. Any budgetary modifications at this level may only be made by resolution of the Board of Commissioners.

Budgets and Budgetary Accounting - (Continued):

The District's procedures in establishing budgetary data reflected in the financial statements are as follows:

- a) In August, the Board of Commissioners meets and develops a budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures, revenues and intergovernmental transfers.
- b) Prior to October 1, the Board of Commissioners holds a public hearing, then formally approves the budget.

Appropriations for the general fund lapse at the end of the fiscal year.

Encumbrance accounting is not used by the District.

Estimates - The Board uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates that were used.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued):

D. Assets, Liabilities and Net Position or Equity - (Continued):

New GASB Statements Implemented

GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The District has implemented the disclosure requirements in Note 5.

Note 2 - Cash and Investments:

Cash Equivalents - At year-end, the carrying amount of the District's deposits was \$39,104 and the bank balance was \$42,520. All bank deposits were fully covered by federal depository insurance or by collateral held in banks that are members of the State of Florida's Collateral Pool as specified under Florida law. Florida Statutes provide for collateral pooling by banks and savings and loans. This limits local government deposits to "authorized depositories".

Investments - Investments in all fund types are stated at fair value, which is the amount for which an investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Fair value is based on quoted market prices. Changes in the fair value of investments are recognized as revenue and included in investment income. Investment income is recognized as earned and is allocated to the participating funds based on their equity participation.

The District's investment policies are governed by State Statutes which allow the following investments:

1. The Local Government Surplus Funds Trust (SBA);
2. SEC registered money market funds;
3. Interest bearing time deposits or savings accounts in qualified public depositories.
4. Direct obligations of the U.S. Government and its agencies;
5. Fixed interest mutual funds.

HOMOSASSA SPECIAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 2 - Cash and Investments:

Investments - (Continued)

The SBA is not a registrant with the Securities and Exchange Commission (SEC); however the State of Florida does provide regulatory oversight. The Board has adopted operating procedures consistent with the requirements for a 2a-7 fund for the Florida Prime Fund, therefore, the pool account balance can be used as fair value for the financial reporting.

At September 30, 2014, the District had the following investments:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
Florida PRIME	\$ 1,518,768	AAAm	39 days
	<u>\$ 1,518,768</u>		

The District does not have an investment policy that addresses credit risk, concentration of credit risk, custodial credit risk, or interest rate risk. However, all deposits are potentially subject to custodial credit risk. The District policy requires that bank deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida, and creates the Public Deposit Trust Fund, a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a default or insolvency has occurred. At September 30, 2014, all of the District's bank deposits were in qualified public depositories.

HOMOSASSA SPECIAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 3 - Capital Assets:

Capital asset activity for the year ended September 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type activities:</u>				
Capital Assets, not being depreciated:				
Land	\$ 216,239	\$ -	\$ -	\$ 216,239
Construction in progress	282,493	121,952	-	404,445
Total Capital Assets, not being depreciated	<u>498,732</u>	<u>121,952</u>	<u>-</u>	<u>620,684</u>
Capital Assets, being depreciated:				
Buildings	422,699	-	-	422,699
Water distribution system	5,072,632	108,402	-	5,181,034
Improvements/infrastructure	880,411	-	-	880,411
Machinery and equipment	877,968	23,000	(13,062)	887,906
Intangibles	32,539	-	-	32,539
Total Capital Assets Being Depreciated	<u>7,286,249</u>	<u>131,402</u>	<u>(13,062)</u>	<u>7,404,589</u>
Less Accumulated Depreciation for:				
Buildings	(115,581)	(12,117)	-	(127,698)
Water distribution system	(2,656,485)	(179,387)	-	(2,835,872)
Improvements/infrastructure	(787,721)	(14,128)	-	(801,849)
Machinery and equipment	(758,719)	(75,208)	13,062	(820,865)
Intangibles	(32,539)	-	-	(32,539)
Total Accumulated Depreciation	<u>(4,351,045)</u>	<u>(280,840)</u>	<u>13,062</u>	<u>(4,618,823)</u>
Total Capital Assets Being Depreciated, net	<u>2,935,204</u>	<u>(149,438)</u>	<u>-</u>	<u>2,785,766</u>
Business-type Activities Capital Assets, net	<u>\$ 3,433,936</u>	<u>\$ (27,486)</u>	<u>\$ -</u>	<u>\$ 3,406,450</u>

Depreciation expense was \$280,840 and was charged to water activities for the year ended September 30, 2014.

HOMOSASSA SPECIAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 4 - Long-Term Liabilities:

On July 25, 2013, the District signed a promissory note for \$2,600,000 to finance the costs of certain capital improvements consisting of water line replacement and expansion of the water utility system and pay off the Series 2006 Note. The note requires monthly principal and interest payments beginning August 25, 2013 and carries a fixed interest rate of 2.60%. The maturity date is July 25, 2028 and is secured by a pledge of water system revenue.

Total principal and interest remaining on the Series 2013 Note as of September 30, 2014 is \$2,899,519. For the year ended September 30, 2014, principal and interest paid was \$209,510 and total water system revenue pledged for the year was \$1,036,035.

A summary of long-term liability activity for the year ended September 30, 2014 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Other Post Employment Benefits	\$ 42,131	\$ 6,172		\$ 48,303	\$ -
Governmental Activities long-term liabilities	<u>\$ 42,131</u>	<u>\$ 6,172</u>	<u>\$ -</u>	<u>\$ 48,303</u>	<u>\$ -</u>
Business-type Activities					
Notes Payable:					
Series 2013 Note	\$ 2,576,698	\$ -	\$ (143,316)	\$ 2,433,382	\$ 148,032
Compensated Absences	54,742	-	-	54,742	10,948
Other Post Employment Benefits	84,263	12,342	-	96,605	-
Business-type Activities long-term liabilities	<u>\$ 2,715,703</u>	<u>\$ 12,342</u>	<u>\$ (143,316)</u>	<u>\$ 2,584,729</u>	<u>\$ 158,980</u>

A schedule of debt maturities for notes payable is as follows:

Year Ending September 30,	<u>Principal</u>	<u>Interest</u>
2015	\$ 148,032	\$ 61,478
2016	151,927	57,583
2017	155,924	53,586
2018	160,027	49,483
2019	164,238	45,273
2020-2024	888,329	159,222
2025-2028	764,905	39,512
	<u>\$ 2,433,382</u>	<u>\$ 466,137</u>

HOMOSASSA SPECIAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 5 - Retirement Plans:

Florida Retirement System Retirement Plan - The District's employees participate in the Florida System Retirement Plan (the Plan), which is a conditionally qualified plan under Section 401(a) of the Internal Revenue Code. The Plan is a cost sharing public employee retirement system with one exception: All risks and costs are not shared by the District, but are the liability of the State of Florida. The Plan is funded through contributions by the District and the District has no legal obligation for paying benefits.

Generally, membership is mandatory for all employees. The District is required to contribute 7.37% for employees, 21.14% for senior management and 43.24% for commissioners (percentage in effect at September 30, 2014) of the employees'/commissioners' gross earnings, less merit pay and bonuses. Effective July 1, 2011, employees are required to contribute 3% of gross earnings. The District made the required contribution, amounting to \$43,874.

Generally, once 10 years of creditable service and age 62 have been reached or 30 years of creditable service regardless of age, retirement is possible. The monthly benefit a member will receive is calculated based on years of creditable service, percent value for each year of creditable service and average final compensation. There are several options available for the form of payout.

Additional information and ten-year historical trend information can be obtained from the separately issued Florida Retirement System Comprehensive Annual Financial Report.

Section 457 Deferred Compensation Plan - Effective October 15, 2002, the Board adopted a Section 457 Deferred Compensation Plan for the benefit of all employees and commissioners. Employees and commissioners may defer up to Internal Revenue Code limits. There were no costs incurred by the District for the Plan and no employer contributions were made to the Plan for the year ended September 30, 2014.

Note 6 - Risk Management:

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; and natural disasters. Risk of loss from the above is transferred by the District to various commercial insurers through the purchase of insurance. There has been no significant reduction in insurance coverage from the previous year. There have been no settlements in excess of insurance coverage in any of the prior three fiscal years.

Note 7 - Interfund Receivables, Payables, and Transfers:

As of September 30, 2014, the Water Fund owed the General Fund \$193,347 as a working capital loan that that is expected to be repaid in the following year.

HOMOSASSA SPECIAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 8 - Contingencies:

During the ordinary course of its operations, the District is a party to various claims, legal actions, and complaints. In addition, although the outcome of these lawsuits is not presently determinable, in opinion of the District's management and legal counsel, these matters are not anticipated to have a material financial impact on the District.

Note 9 - Evaluation of Subsequent Events:

The District has evaluated subsequent events through the date of the Independent Auditor's Report, the date which the financial statements were available to be issued.

Note 10 - Other Post-Employment Benefits:

In accordance with Florida Statutes Section 112.0801, the District makes continued group health insurance through the District's current provider available to retirees and eligible dependents provided certain service requirements and normal age retirement requirements have been met. This benefit has no cost to the District, other than the implicit cost of including retirees in the group calculation. All premiums are paid by the retiree. The District has one retiree currently receiving benefits. The District has chosen pay-as-you-go funding, but is recording the liability in the government wide financial statements. This plan does not issue stand-alone financial statements.

The most recent actuarial report for the District's Retiree Continuation Insurance plan was prepared as of September 30, 2014. The annual required contribution and Net OPEB Obligation for the fiscal year ended September 30, 2014 is as follows:

Annual Required Contribution	\$	21,066
Interest on Net OPEB Obligation		3,792
Adjustment to Annual Required Contribution		<u>(6,089)</u>
Annual OPEB Cost		18,769
Employer Contributions		<u>(255)</u>
Increase in Net OPEB Obligation		18,514
Net OPEB Obligation (beginning of year)		<u>126,394</u>
Net OPEB Obligation (end of year)	\$	<u><u>144,908</u></u>

HOMOSASSA SPECIAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 10 - Other Post-Employment Benefits (Continued):

Three Year Trend Information-

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
9/30/2012	\$ 20,857	3.9%	\$ 108,203
9/30/2013	21,066	4.3%	126,394
9/30/2014	21,066	1.2%	144,908

Summary of Actuarial Methods & Assumptions:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, normally presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The schedule of funding progress includes only one year so multi-year comparison is not available for this period.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

HOMOSASSA SPECIAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year Ended September 30, 2014

Note 10 - Other Post-Employment Benefits (Continued):

Summary of Actuarial Methods & Assumptions (Continued):

The District qualifies to use the alternative measurement method, and has elected to do so. The following are significant assumptions used.

Actuarial Cost Method - The entry age method actuarial cost method was used to determine all liabilities, with the liability for each active employee assumed to accrue over his working lifetime based on elapsed time from his date of hire until retirement.

Amortization Method - The level percentage of payroll amortization method was used, amortization payments or charges are calculated so that they represent a constant percentage of the projected covered payroll over 30 years.

Mortality- Rates in the RP2000 Mortality Table for Males and Females Projected 10 years.

Retirement- Retirement was assumed to occur as at age 65 for all employees.

Health care Costs Trend Rates- The cost of covered medical services has been assumed to increase in accordance with the following rates, compounded annually:

<u>Year</u>	<u>Increase</u>	<u>Year</u>	<u>Increase</u>	<u>Year</u>	<u>Increase</u>
2014	7.00%	2018	5.20%	2022	4.70%
2015	6.00%	2019	5.20%	and later	
2016	5.50%	2020	5.20%		
2017	5.30%	2021	5.20%		

Retiree contributions - Retirees electing post-employment healthcare coverage have been assumed to make monthly contributions equal to the premium charged to the active employees and retiree contributions are assumed to increase in accordance with the healthcare cost trend assumption.

Summary of Benefits

Other Post-Employment Benefits (OPEBs) - The District provides optional post-employment healthcare and life insurance coverage to eligible individuals.

Eligible Individuals - Eligible individuals include all regular employees of the District who retire from active service and are eligible for retirement or disability benefits. Under certain conditions, eligible individuals for healthcare coverage also include spouses and dependent children.

Required Monthly Premium for Post-Employment Healthcare Coverage - Retirees must pay a monthly premium as determined by the insurance carrier. The premium varies depending on the plan selected and whether the retiree elects single, single plus spouse, single plus children or family coverage.

HOMOSASSA SPECIAL WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended September 30, 2014

Retiree Continuation Insurance Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a) / c
9/30/2012	\$ -	\$ 197,529	\$ 197,529	0.0%	\$ 473,001	41.76%
9/30/2010**	\$ -	\$ 436,764	\$ 436,764	0.0%	\$ 426,612	102.38%

** initial valuation date

**Schedule of Contributions from Employers and Other Contributing
Entities**

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
9/30/2010	\$ 47,656	7.0%	\$ 44,320
9/30/2011	49,086	7.1%	89,792
9/30/2012	40,486	0.0%	129,646
9/30/2013	21,066	4.3%	126,394
9/30/2014	21,066	1.2%	144,908

INTERNAL CONTROL AND COMPLIANCE SECTION

**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**

Board of Commissioners
Homosassa Special Water District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Homosassa Special Water District as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Homosassa Special Water District's basic financial statements, and have issued our report thereon dated February 12, 2015.

Internal Control over Financial Reporting

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

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

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

MCDIRMIT DAVIS & COMPANY, LLC

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McDiernit Davis & Company, LLC

Orlando, Florida
February 12, 2014

MANAGEMENT COMMENTS

Board of Commissioners
Homosassa Special Water District
Homosassa, Florida

Report on the Financial Statements

We have audited the financial statements of *Homosassa Special Water District* (the “District”), as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated February 12, 2015.

Auditor’s Responsibility

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

Other Reports and Schedule

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Auditor’s Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated February 12, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, require 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

Official Title and Legal Authority

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

Financial Condition

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the District 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 District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District'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.

Annual Financial Report

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2014, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2014. In connection with our audit, we determined that these two reports were in agreement.

Other Matters

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. See Appendix A for current year comments and recommendations.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

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

McDiernit Davis & Company, LLC

February 12, 2014

HOMOSASSA SPECIAL WATER DISTRICT

APPENDIX A - CURRENT YEAR RECOMMENDATIONS TO
IMPROVE THE DISTRICT'S FINANCIAL MANAGEMENT, ACCOUNTING
PROCEDURES AND INTERNAL CONTROLS

Year Ended September 30, 2014

ML 14-1- Inventory Management

Criteria - Inventory should be accurately tracked and secured.

Condition - No formal inventory management system is maintained, and inventory items are kept in an unlocked garage during business hours.

Cause - During our audit, we noted several adjustments had to be made to the manual inventory counts maintained, as well as prices of inventory items that were not consistent from year to year. Inventory items are also kept in an unlocked garage.

Effect - Inventory values may be inaccurate due to manual nature of inventory listing and price tracking. Also, inventory is susceptible to theft due to the inventory being unsecured during business hours.

Recommendation - We recommend that the District consider purchasing and implementing a formal inventory management system or software due to the large volume of inventory products on hand, as well as take steps to ensure the inventory is secure.

To the Board of Directors
Homosassa Special Water District
Homosassa, Florida

We have audited the financial statements of Homosassa Special Water District as of and for the year ended September 30, 2014, and have issued our report thereon dated February 12, 2014. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated August 25, 2014, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Homosassa Special Water District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated February 12, 2014.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.

MCDIRMIT DAVIS & COMPANY, LLC

934 NORTH MAGNOLIA AVENUE, SUITE 100 ORLANDO, FLORIDA 32803
TELEPHONE: 407-843-5406 FAX: 407-649-9339 EMAIL: INFO@MCDIRMITDAVIS.COM

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Homosassa Special Water District is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, during the year, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 67. The implementation of this standard had no effect on the District's net position. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

Management's estimate of the allowance for depreciation is based on the estimated useful lives of the capital assets. We evaluated the reasonableness of the useful lives as well as the depreciation methods in determining that it is reasonable in relation to the basic financial statements taken as a whole.

Management's estimate of the allowance for uncollectible accounts is based on historical collection rates and analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the basic financial statements taken as a whole.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached schedule summarizes the misstatements that we identified as a result of our audit procedures and were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Homosassa Special Water District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated February 12, 2014.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Homosassa Special Water District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Homosassa Special Water District's auditors.

This report is intended solely for the information and use of the Board of Commissioners and management of Homosassa Special Water District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

McDiernit Davis & Company, LLC

February 12, 2014

HOMOSASSA SPECIAL WATER DISTRICT

Journal Entry Listing

Year Ended September 30, 2014

Adjusting Journal Entries JE # 1

To correct coding of radio read meters paid out of general fund

10.205000.000	Accounts Payable-S.A.	33,804.00	
52.177220.000	Radio Read Program	33,804.00	
10.177220.000	Radio Read Program		33,804.00
52.207000.000	Due to Water Fund		33,804.00
Total		<u>67,608.00</u>	<u>67,608.00</u>

Adjusting Journal Entries JE # 2

To correct coding of principal expense, and record current portion of NP

52.251000.000	Loan Payable - Regions Bank	143,316.00	
52.520000.510	Debt Service Principal		143,316.00
Total		<u>143,316.00</u>	<u>143,316.00</u>

Adjusting Journal Entries JE # 3

To adjust inventory to actual

52.150010.000	Inventory-Field Supplies	29,663.00	
52.177220.000	Radio Read Program		18,381.00
52.520000.480	Field Supplies		11,282.00
Total		<u>29,663.00</u>	<u>29,663.00</u>

Adjusting Journal Entries JE # 4

To adjust Unbilled Revenue to reflect proper amount of days

52.401000.000	Water Sales	4,000.00	
52.124000.000	Unbilled Revenue Receivable		4,000.00
Total		<u>4,000.00</u>	<u>4,000.00</u>

Adjusting Journal Entries JE # 5

To record vehicle disposal

52.164000.000	Accumulated Depreciation	13,062.00	
52.166000.000	Vehicles & Vehicle Equipment		13,062.00
Total		<u>13,062.00</u>	<u>13,062.00</u>

Adjusting Journal Entries JE # 6

To record depreciation expense

52.520000.900	Deprec Exp-Buildings	12,117.00	
52.520000.901	Deprec Exp-Water Dist. System	179,387.00	
52.520000.902	Deprec Exp-Improvements	14,128.00	
52.520000.903	Deprec Exp-Equipment	75,208.00	
52.164000.000	Accumulated Depreciation		280,840.00
Total		<u>280,840.00</u>	<u>280,840.00</u>

Adjusting Journal Entries JE # 7

To correct entry for closing of Regions account

52.410000.000	Miscellaneous Income	27,605.00	
52.101050.000	Cash in Bank Operating Account Superior		27,605.00
Total		<u>27,605.00</u>	<u>27,605.00</u>

HOMOSASSA SPECIAL WATER DISTRICT

Journal Entry Listing (Continued)

Year Ended September 30, 2014

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 8			
adjust for meter deposit transfers posted backwards, and through misc income			
52.410000.000	Miscellaneous Income	6,045.00	
52.204000.000	Refunds Payable		6,045.00
Total		<u>6,045.00</u>	<u>6,045.00</u>
Adjusting Journal Entries JE # 9			
To post AP per client's invoices			
52.520000.351	Utilities	99.00	
52.520000.351	Utilities	111.00	
52.520000.410	Gas & Oil	2,846.00	
52.520000.420	Repairs & Maintenance	85.00	
52.520000.450	Miscellaneous Expense	37.00	
52.520000.450	Miscellaneous Expense	850.00	
52.520000.470	Office Supplies & Expense	5.00	
52.520000.470	Office Supplies & Expense	350.00	
52.520000.470	Office Supplies & Expense	997.00	
52.520000.480	Field Supplies	58.00	
52.202000.000	Accounts Payable		5,438.00
Total		<u>5,438.00</u>	<u>5,438.00</u>
Adjusting Journal Entries JE # 10			
To post AJE's to correct cash accounts reconciliations per post audit TB			
10.101025.000	Regions Bank General Fund	16,808.00	
52.101050.000	Cash in Bank Operating Account Superior	27,605.00	
52.209000.000	Accrued Interest Payable	1,966.00	
52.520000.420	Repairs & Maintenance	300.00	
52.520000.450	Miscellaneous Expense	966.00	
52.520000.491	Bank Charges	935.00	
71.201000.000	Warrants(Checks) Payable	3,273.00	
71.217225.000	Section 125	3,117.00	
73.201000.000	Warrants(Checks) Payable	692,606.00	
10.207000.000	Due to Water Fund		16,808.00
52.101020.000	Regions Bank Operating Account		3,867.00
52.202000.000	Accounts Payable		300.00
52.520000.820	Transfers to Other Funds		27,605.00
71.101020.000	Regions Bank Operating Account		6,390.00
73.101020.000	Regions Bank Operating Account		662,528.00
73.101050.000	Cash in Bank Operating Account Superior		29,728.00
73.178950.000	Halls River Rd Bridge Culver Project		350.00
Total		<u>747,576.00</u>	<u>747,576.00</u>

HOMOSASSA SPECIAL WATER DISTRICT

Journal Entry Listing (Continued)

Year Ended September 30, 2014

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 11			
To zero out superior account, and record as due to/from balances			
10.207000.000	Due to Water Fund	162,401.00	
52.101020.000	Regions Bank Operating Account	2,140.00	
52.101050.000	Cash in Bank Operating Account Superior	143,453.00	
10.101050.000	Cash in Bank Operating Account Superior		162,401.00
52.207000.000	Due to Water Fund		2,140.00
52.207000.000	Due to Water Fund		143,453.00
Total		<u>307,994.00</u>	<u>307,994.00</u>
Adjusting Journal Entries JE # 12			
To correct beginning balance of net assets			
10.303000.000	Unappropriated Surplus-General Fund	1,407.00	
52.520000.450	Miscellaneous Expense	2,587.00	
10.510000.450	Miscellaneous Expense		1,407.00
52.304000.000	Unappropriated Surplus-Water		2,587.00
Total		<u>3,994.00</u>	<u>3,994.00</u>
Adjusting Journal Entries JE # 13			
To record change in OPEB liability			
52.520000.144	Group Insurance	12,342.00	
52.237000.000	OPEB Obligation		12,342.00
Total		<u>12,342.00</u>	<u>12,342.00</u>
Adjusting Journal Entries JE # 14			
To correct for closed accounts			
52.409900.000	Unrealized Gain/Loss	2,472.00	
52.520000.450	Miscellaneous Expense	1,725.00	
52.101090.000	Mercantile Bank CD		1,725.00
52.102025.000	Government Pool Water Rev Fund B		2,472.00
Total		<u>4,197.00</u>	<u>4,197.00</u>
Adjusting Journal Entries JE # 15			
expense riverhaven tank addition per Client			
52.520000.420	Repairs & Maintenance	882.00	
52.178400.000	Riverhaven Tank Project		882.00
Total		<u>882.00</u>	<u>882.00</u>
Adjusting Journal Entries JE # 16			
eliminate accrued interest debit balance created by AJE10			
52.520000.450	Miscellaneous Expense	1,966.00	
52.209000.000	Accrued Interest Payable		1,966.00
Total		<u>1,966.00</u>	<u>1,966.00</u>

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
THE REQUIREMENTS OF SECTION 218.415, FLORIDA STATUTES**

Board of Commissioners
Homosassa Special Water District

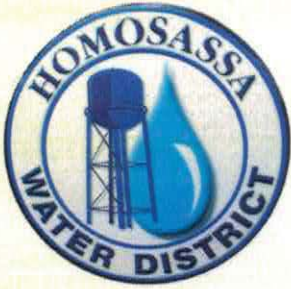
We have examined Homosassa Special Water District's (the District) compliance with the requirements of Section 218.415, Florida Statutes, during the year ended September 30, 2014. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, Homosassa Special Water District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.

McDirmit Davis & Company, LLC

Orlando, Florida
February 12, 2015



Homosassa Special Water District

PO Box 195
Homosassa, FL 34487

Business Hours: 7:00 AM - 5:30 PM, Monday - Thursday
Excepting Holidays
Phone (352) 628-3740 hswd@tampabay.rr.com Fax (352) 628-4865

February 17, 2015

Auditor General's Office
Local Government Audits/342
Claude Pepper Building, Room 401
111 W Madison St
Tallahassee, FL 32399-1450

Dear Sirs,

At a regular meeting of the Board of Commissioners of the Homosassa Special Water District held on Monday, February 16, 2015 the following decision was made concerning the recommendation on Inventory Management under the Current Year recommendations YE 2014.

1) Inventory Management:

Staff is looking into the purchase of a BarCode system for the tracking of the Homosassa Special Water District's Inventory. The Inventory is kept in the District's garage and the bay door to this portion of the garage is always kept shut unless staff is stocking their vehicles. The District office has a video surveillance system currently installed.

Please contact the office if you should have any further questions.

Sincerely,

Teresa Olds
Office Manager
Homosassa Special Water District

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